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Comprehension Questions for IBPS RRB Office Asst. Mains Exams.

Passage No 178

Directions: Kindly read the passage carefully and answer the questions given beside.

It is imperative for banks to proactively raise capital as the compression in economic growth may lead to increase in non-performing assets for banks and consequently erode their capital. To counter the increasing vulnerabilities, banks have to focus on improving their governance and risk management and build capital buffers. The pandemic is the biggest test of the robustness and resilience of the economic and financial system.

The economic impact of the pandemic — due to lock-down and anticipated post lock-down compression in economic growth — may result in higher non-performing assets (NPAs) and capital erosion of banks. A recapitalization plan for PSBs (public sector banks) and private banks (PVBs) has, therefore, become necessary.

While the multi-pronged approach adopted by the central bank has provided a cushion from the immediate impact of the pandemic, the medium-term outlook remains uncertain and depends on the Covid-19 curve. Policy action for the medium-term would require a careful assessment of how the crisis unfolds. Building buffers and raising capital will be crucial not only to ensure credit flow but also to build resilience in the financial system.

The RBI has asked banks and non-banking finance companies to conduct Covid stress tests to gauge the impact of the pandemic on asset quality, profitability and capital adequacy. This will help banks in identifying their vulnerabilities and raise capital beforehand.

The minimum capital requirements as prescribed by the regulator may not be sufficient to absorb the losses on account of the pandemic. Minimum capital requirements of banks, which are calibrated based on historical loss events, may no longer be considered sufficient enough to absorb the losses. Meeting the minimum capital requirement is necessary, but not a sufficient condition for financial stability.

The Indian economy has started showing signs of coming back to normalcy after gradual easing of lockdown but it remains to be seen when supply chains will be restored fully and how long it will take for demand conditions to come back to normal or what will the durable effects the pandemic will leave behind on growth.

The need of the hour is to restore confidence, preserve financial stability, revive growth and recover stronger. The orderly unwinding of the measures announced by the central bank to help different sectors of the economy _____ (A) _____ are helpful. Post containment of Covid-19, a very careful trajectory has to be followed in orderly unwinding of counter-cyclical regulatory measures and the financial sector should return to normal functioning without relying on the regulatory relaxations as the new norm.

RBI is also using new tools and databases to strengthen its offsite supervision of banks as the pandemic has disrupted the central bank's onsite supervision, which included visiting banks offices and branches. RBI is according equal priority to growth and financial stability.

1. Which of the following is the most suitable to fill the blank (A) mentioned in the passage?

- A. To promote the effects of the pandemic
- B. To flatten the curve
- C. To mitigate the effects of the pandemic
- D. To combat the pandemic
- E. None of the above

2. Why do banks need to keep an eye on risk management and raise capital in the current scenario?

- A. As the capital requirements of the banks will not be fulfilled
- B. As financial stability will be hindered
- C. As due to pandemic NPA can increase which will adversely impact the economy
- D. As the foreign trade will suffer due to the pandemic
- E. All of the above

3. Why according to the passage a proper evaluation is necessary in medium term to build resilience in the financial system?

- A. As the medium term is totally dependent on crisis which is unpredictable.
- B. As a long term approach is required to combat the rise in NPA.
- C. As the RBI guidelines are not adequate to shield the economy.
- D. As the crisis will cause a great deal of unemployment.
- E. As short termed measures aren't capable to fight the impacts of the pandemic.



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4. **Why the Banks and NBFCs are compelled to conduct Covid Stress tests by the central bank?**

- A. To recognize their uncertainty involved
- B. To measure the effects on asset quality
- C. To measure the effects on their capital adequacy
- D. To raise capital beforehand to minimize the risks
- E. All of the above

5. **Which of the following can be inferred from the passage?**

- I. Financial stability solely depends on meeting the minimum capital requirement.
- II. RBI is putting efforts to bring back the economy on track.
- III. Improving governance will not at all result in improvement in these times of uncertainty.

- A. Only II B. II and III C. I and III D. Only III E. None of I, II and III

6. **Which of the following is not true with respect to the passage?**

- I. Only credit flow will improve by building buffer capital.
- II. It will take a considerable amount of time for the economic activities to be back on track.
- III. The RBI has only compelled public sector banks to carry out Covid stress tests.

- A. Only II B. Both II and III C. Only I D. Both I and III E. None of I, II and III is true



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Correct Answers:

1	2	3	4	5	6
C	C	A	E	A	D

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Explanation:

1. Refer to:

"The need of the hour is to restore confidence, preserve financial stability, revive growth and recover stronger. The orderly unwinding of the measures announced by the central bank to help different sectors of the economy _____ (A) _____ are helpful."

Option B and D are irrelevant as the passage mentions the economic health of the country due to pandemic and not the ways to fight the pandemic itself.

Option A would be totally incorrect as it contradicts the idea of the passage whereas only option C will be the most relevant option as the measures by the RBI will help combating the effects of the pandemic.

Option C is hence the correct answer.

2. Refer to:

"It is imperative for banks to proactively raise capital as the compression in economic growth may lead to increase in non-performing assets for banks and consequently erode their capital. To counter the increasing vulnerabilities, banks have to focus on improving their governance and risk management and build capital buffers. The pandemic is the biggest test of the robustness and resilience of the economic and financial system."

After reading the above segment it can be clearly deduced that option C is the most relevant option.

Option D is totally irrelevant whereas options A and B are weak choices since they do not precisely answers the given question.

Option C is hence the correct answer.



3. Refer to:

"While the multi-pronged approach adopted by the central bank has provided a cushion from the immediate impact of the pandemic, the medium-term outlook remains uncertain and depends on the Covid-19 curve. Policy action for the medium-term would require a careful assessment of how the crisis unfolds. Building buffers and raising capital will be crucial not only to ensure credit flow but also to build resilience in the financial system."

After reading the above segment it can be clearly deduced that option A is the most relevant answer while the rest of the options are absurd to what is asked in the given question.

Option A is hence the correct answer.

4. Refer to:

"The RBI has asked banks and non-banking finance companies to conduct Covid stress tests to gauge the impact of the pandemic on asset quality, profitability and capital adequacy. This will help banks in identifying their vulnerabilities and raise capital beforehand".

After reading the above segment it can be clearly deduced that all the options given are the reasons why RBI has asked the banks to conduct Stress tests of Covid.

Option E is hence the correct answer.

5. Statement I:

Financial stability solely depends on meeting the minimum capital requirement.

Refer to:

"Meeting the minimum capital requirement is necessary, but not a sufficient condition for financial stability."



The above segment clearly indicates the contradiction of the statement given. Thus, **statement I cannot be inferred** from the passage.

Statement II:

RBI is putting efforts to bring back the economy on track.

Refer to:

"RBI is also using new tools and databases to strengthen its offsite supervision of banks as the pandemic has disrupted the central bank's onsite supervision, which included visiting banks offices and branches. RBI is according equal priority to growth and financial stability."

This segment depicts all the measures taken by the RBI, **thus Statement II can be inferred.**

Statement III:

Improving governance will not at all result in improvement in these times of uncertainty

Refer to:

"To counter the increasing vulnerabilities, banks have to focus on improving their governance and risk management and build capital buffers.'

This segment contradicts the statement III, **thus statement III cannot be inferred.**

Option A is hence the correct answer.



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6. Statement I:

Only credit flow will be improved by building buffer capital.

Refer to:

"Building buffers and raising capital will be crucial not only to ensure credit flow but also to build resilience in the financial system."

Evidently, **statement I is false**

Statement II:

It will take a considerable amount of time for the economic activities to be back on track.

Refer to:

"The Indian economy has started showing signs of coming back to normalcy after gradual easing of lockdown but it remains to be seen when supply chains will be restored fully and how long it will take for demand conditions to come back to normal or what will the durable effects the pandemic will leave behind on growth."

The above fragment confirms that **the statement II is true.**

Statement III:The RBI has only compelled public sector banks to carry out Covid stress tests.

Refer to:

"The RBI has asked banks and non-banking finance companies to conduct Covid stress tests to gauge the impact of the pandemic on asset quality, profitability and capital adequacy."

The above fragment suggests that **the statement III is false.**

Option D is hence the correct answer.

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