

ADMISSION NUMBER											

## School of Business

Master of Business Administration MBA Dual Specialization  
Mid Term Examination - Mar 2024

Duration : 90 Minutes  
Max Marks : 50

### Sem IV - MBFI6015 - Managing Banks and Financial Institutions

General Instructions

Answer to the specific question asked

Draw neat, labelled diagrams wherever necessary

Approved data hand books are allowed subject to verification by the Invigilator

- 1) Comment on the state of Indian financial system vis a vis its international counterparts. K5 (5)
- 2) Identify, how does the financial system facilitate economic growth? K3 (6)
- 3) Analyse the trends in saving and investment in India during the post-independence period. K4 (8)
- 4) Imagine you are the ALM manager of a bank. The bank's loan portfolio consists mainly of long-term fixed-rate mortgages, while its deposit base primarily comprises short-term certificates of deposit (CDs). How would you address the potential interest rate risk arising from this asset-liability mismatch? Outline specific strategies you would employ to manage this risk effectively while maximizing profitability for the bank. K3 (9)
- 5) In an increasingly digital world, how should traditional brick-and-mortar banks adapt their organizational structure and service delivery channels to compete with fintech startups and online banking platforms? Criticize K5 (10)

## 6) VRS Troubles

K6 (12)

In February 2001, India's largest public sector bank (PSB), the State Bank of India (SBI) faced severe opposition from its employees over a Voluntary Retirement Scheme (VRS). The VRS, which was approved by SBI board in December 2000, was in response to Federation of Indian Chambers of Commerce and Industry's (FICCI) report on the banking industry. The report stated that the Indian banking industry was overstaffed by 35%. In order to trim the workforce and reduce staff cost, the Government announced that it would be reducing its manpower. Following this, the Indian Banks Association (IBA) formulated a VRS package for the PSBs, which was approved by the Finance ministry.

Though SBI promoted the VRS as a 'Golden Handshake,' its employee unions perceived it to be a retrenchment scheme. They said that the VRS was completely unnecessary, and that the real problem, which plagued the bank were NPAs. The unions argued that the VRS might force the closure of rural branches due to acute manpower shortage.

This was expected to affect SBI's aim to improve economic conditions by providing necessary financial assistance to rural areas. The unions also alleged that the VRS decision was taken without proper manpower planning. In February 2001, the SBI issued a directive altering the eligibility criteria for VRS for the officers by stating that only those officers who had crossed the age of 55 would be granted VRS. Consequently, applications of around 12,000 officers were rejected. The officers who were denied the chance to opt for the VRS formed

an association - SBIVRS optee Officers' Association to oppose this SBI directive. The association claimed that the management was adopting discriminatory policies in granting the VRS. The average estimated cost per head for implementation of VRS for SBI and its seven associated banks worked out to Rs. 0.65 million and Rs 0.57 million respectively. As a result of the VRS, SBI's net profit decreased from Rs 25 billion in 1999-00 to Rs 16 billion in 2000-01.

1. The Federation of Indian Chambers of Commerce and Industry (FICCI) was founded in 1927. It is an apex business organization in India, with a membership of several thousand chambers of commerce, trade associations and industry bodies spread across the country. It represents over 2,50,000 business units.

2. Indian Banks Association is an apex body, of a voluntary nature for banks in India. It was started in 1926 and its members include Public Sector Banks, Private sector banks, Foreign banks having offices in India, Urban Cooperative banks, Developmental Financial Institutions, etc. The main goal of IBA is to see implementation of efficient and progressive banking principles in the country.

3. Non performing Assets (NPAs) are loans on which interest payments have been due for more than one quarter (3 months) and in the case of monthly instalments have been due for more than 3 instalments.

Questions for Discussion:

1. How did the employees' unions perceive the VRS, and why did they oppose it? Do you think their concerns about the potential closure of rural branches were valid?
2. Evaluate the decision by SBI to alter the eligibility criteria for the VRS, particularly for officers aged 55 and above. What impact did this decision have on the employees and their perception of the scheme?
3. Reflecting on the definition provided, how do Non-Performing Assets (NPAs) relate to the challenges faced by SBI and the broader banking industry in India? Were NPAs a more pressing issue than workforce optimization during the time of the VRS implementation?
4. What were the financial implications of the VRS for SBI, as evidenced by the decrease in net profit from 1999-00 to 2000-01? Was the cost of implementation justified by the benefits, such as workforce optimization and cost reduction?