



**UNIVERSITY EXAMINATIONS: 2013/2014**

**EXAMINATION FOR THE MASTER OF BUSINESS ADMINISTRATION**

**(MBA) CORPORATE MANAGEMENT**

**MGT 5015 BANKING MANAGEMENT (WEEKEND)**

**DATE: APRIL, 2014**

**TIME: 3 HOURS**

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**INSTRUCTIONS: Answer Question One and Any Other Three Questions**

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## **QUESTION ONE**

### **Key Trends in Financial System**

The multi- billion life insurance market faces declining demand for life insurance products along with an increasing lapse rate as personal disposable income comes under pressure. An aging population and regulatory pressure are among the drivers of change in the industry.

In a new report, Key Trends in the Life Insurance Market, an expert discusses the changes in the life insurance market and poses some considerations for IT strategists. Impending regulation is likely to alter the number of players in each distribution channel, but the overall map of players is likely to remain the same.

There are four key areas of change in the market that will impact the nature of the market in the future. The issues are around the proposed Financial Services Authority's Retail Distribution Review, the would be needs of an ageing population, and the desire for consumers to buy insurance online. Each of these issues raises questions about the agility and flexibility of the IT operation's response. The continued fragmentation of the insurance value chain also raises questions for insurers as to how much of the distribution they would want to own or control.

"CIOs are battling with legacy systems, constraints on accessing customer data, and integration issues," says a senior analyst with Insurance Regulatory Authority and author of the report. "As they look to unravel these, they should keep a eye on business trends and know how they might impact their business."

This report looks at the drivers in some detail, and explores the considerations for CIOs. At the heart of all the trends is the CIO's ability to respond quickly and appropriately. In order to do so, a flexible architecture must be in place. Few have this in place today, but most are somewhere on the long journey towards this goal.

**Required: (Use the Case)**

- a) Describe what could have been done to the financial Architecture if the situation discussed in the case was to be kept under control. (16 Marks)
- b) IT has become an important tool in the financial sector. Describe what you think would increase the agility and flexibility in this industry. (15 Marks)

**QUESTION TWO**

- a) The "Five C's" of credit are the basic components of any credit assessment that give an insight into what a lender is thinking and what the key issues that will be assessed. Explain. (10 Marks)
- b) Loan write-down can occasionally be used to resurrect an otherwise sound project experiencing financial difficulties beyond its control to continue operating as a program property. Discuss the process giving reasons why the government permission must be obtained before the write-down can be effected. (08 Marks)
- c) Briefly explain the cost and transactional efficiencies accruing from e-banking. (05 Marks)

**QUESTION THREE**

- a) The following is a balance sheet for Bridgetech Bank Ltd:

**Bridgetech Bank Ltd**  
**Balance Sheet**

Assets		Liabilities	
Rate – sensitive assets Variable – rate loans Short-term securities Federal funds	Kshs 20m	Rate sensitive liabilities Money market deposit accounts	Ksh.50m
Fixed – rate assets Reserves Long-term loans Long-term securities	Kshs 80m	Fixed-rate liabilities Checkable deposits Savings deposit Equity capital	Ksh.50m

Suppose that the average duration of payments is three years, while the average duration of its liabilities is two years. In addition, the bank has Kshs 100 million of assets and Kshs 90 million of liabilities, so its bank capital is 10% of assets.

Determine what will happen to asset values with;

- i) a 5% increase in interest rates
  - ii) a 5% decline in interest rates (12 Marks)
- b) Explain the general idea of deposit insurance arguing for its strengths and its weaknesses (11 Marks)

#### **QUESTION FOUR**

- a) One way to regulate banks is to have risk-weighted capital requirements. Explain the basic idea of such a regulation and discuss the problems that may occur. (08 Marks)
- b) Explain the characteristics of bubbles highlighting when bubbles can be considered a menace for the financial system (08 Marks)
- c) Discuss the concept of correspondence banking as a pivot around which international payments through banks revolve. (07 Marks)

#### **QUESTION FIVE**

- a) During the latter stage of the banking history the way of funding its business have changed dramatically. First, describe the balance sheet (BS) for the first banks and compare this to our modern banks' BS. (08 Marks)
- b) What are the primary and secondary markets and why is the secondary market important even though it does not raise new capital? (07 Marks)
- c) The management of customer information at the point of interaction is about service, keeping the customer happy, and, keeping the customer. Using the CRM theories, explain how you would achieve these. (08 Marks)

## QUESTION SIX

- a) Islamic Banking as interest-free system of banking is based on the concept of profit and loss sharing which is theoretically superior to conventional banking. It is however not free from weaknesses which are both systematic and non-systematic. Explain some of these shortcomings proposing the possible remedial measures. (10 Marks)
- b) International Monetary Fund (IMF), was set up after WW II, plays an important role in the global monetary system. What does the fund do? What are the unpopular measures and critiques to IMF? (08 Marks)
- c) Describe the concept of shadow banking and how it helps or hampers the growth of Banking industry. (05 Marks)