KCA UNIVERSITY

END OF SEMESTER OPEN BOOK EXAMINATION

INSURANCE AND RISK MANAGEMENT

FIN 2101/CMS 200

Date: **Time:**

INSTRUCTIONS: Answer **ALL**

QUESTION ONE

Loan Delinquency Challenge

The consumer-finance division of a leading Kenyan bank had seen the number of delinquent loans rise substantially—at a rate of more than 30 percent every 3 months—since the beginning of the adverse economic conditions in Kenya. The division's risk and collections team was struggling to manage the rapid increase; the profitability of the division was falling dramatically, with severe losses forecasted for the year. The CEO of the division engaged McKinsey to help the management team transform the risk and collections unit, with a focus on improving performance to mitigate expected losses.

Discovery

The 9-month project began with an in-depth analysis of the division's collections strategy and operations. Based on this analysis and its proprietary bench marking data on collections, the McKinsey team collaborated with the client to identify improvement levers across various functions of the business, including marketing, operations, and organization. The team then helped design and launch 22 initiatives—in areas such as customer segmentation, product portfolio, call-center operations, team performance, and risk modeling—each containing specific improvement levers.

Of the 22, the highest-priority initiative involved redesigning the division's customer segmentation. The McKinsey team, drawing on the expertise of its India-based analytics group, developed advanced models for estimating the probability that a customer would default and for segmenting delinquent customers based on their behavior (such as payment and spending patterns). The models, which incorporate detailed analysis of the delinquent-loan portfolio based on statistical regressions, have been approved as internal-ratings-based models under Basel II standards. The team then helped the client develop customized collection strategies for each customer segment. For example, the client now offers different restructuring solutions, uses different collection channels, and creates different call-center scripts for each segment.

Impact

The risk and collections unit showed a dramatic improvement in performance. Delinquency rates, which had been rising by 30 percent every quarter, fell by 13 percent in the 3 months immediately after the project—and they continued to decline in subsequent quarters. Moreover, the project had remarkable financial impact: the consumer-finance division was able to offset the previous two years' losses, and the current year became the division's most profitable year ever.

With McKinsey's continued support, the bank has expanded most of the improvement initiatives to its other divisions, boosting the performance of its collections operations in businesses beyond consumer finance.

Required

a) Critique the McKinsey team's solution plan of the design initiatives they developed for the client. **[12 Marks]**

b) What is the benefit to the bank of tackling the challenge of delinquent loans in the manner in which they did it? **[4 Marks]**

QUESTION TWO

The current Covid-19 pandemic has seen both the private sector and the government come together to offer tangible goods and services in Kind, ideas, facilities, financial resources and human capital to deal with the effect of the pandemic, There are concerns from the Public on the usage and accountability of resources. The scrutiny by the public through the social media is painting both the Government and private sector CEOs in bad light. This is coming in the backdrop of the CEOs being called upon to leverage on the goodwill and networks they have build with the members of the public to mobilize funds. The executives are also seen as the face of resource mobilization of this initiative and any bad publicity ruin not only their personal character but also their businesses which they have built over a long period of time.

On the other hand the government, which is regarded as a bureaucracy is believed to have systems and structure that ensure that the mobilized resources reach the common Mwananchi its territorial Jurisdictions. The fairest thing is for government to use the trust relationship between them and the private sector to ensure resources and help are equitably and fairly distributed. This is rarely the case and this is where the problem lies. Cases such as the misuse of resources or issues of conflict of interest have always been cited to bedevil the smooth working between the two. According the private sector players if they had there way they would prefer Government to allow them mobilize resources and deploy the same resources in managing the whole situation and account to the Government to the last cent, However a government has political concerns and will not allow them with their ‘effective and efficient private sector response frameworks’ to call the shots. That would in essence means they have failed in their governance role.

a) In view of the passage above document other factors that have historically blocked close partnerships between government and private sector in responding to pandemics and crises in Kenya?

[12 Marks]

b) Apart from the response the private sector has provided in the passage above, What other roles can the private sector play in the National Response Framework in Kenya?

[12 Marks]

QUESTION THREE

Insurance penetration has remained dismally low in the country where there is a robust financial system through the mobile telephone money transfer services and the traditional banking system.As a result of this a bulk of Kenyans transact in the financial system. However this is not the case with insurance products where a paltry 2-4% of Kenyans have insurance covers.

Question

Document reasons that has led to this low insurance product penetration in the country in the last 30 years. **[10 Marks]**