**INSTITUTE OF BANKERS IN MALAWI**

**BANKING CERTIFICATE**

**INTRODUCTION TO BANKING – 2017 EXAMINATION PAPER**

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| --- | --- | --- | --- |
| 1, a | 9, a | 17, b | 25, c |
| 2, b | 10, c | 18, a | 26, c |
| 3, d | 11, b | 19, c | 27, d |
| 4, d | 12, b | 20, d | 28, d |
| 5, a | 13, c | 21, a | 29,a |
| 6, c | 14, d | 22, a | 30, a |
| 7, b | 15, d | 23, b |  |
| 8, a | 16, c | 24, b |  |

1. Special clearance is a process undertaken by banks to obtain same-day value on a cheque. Identify a statement which directly relates to special clearance. P28
   1. **The cheque is sent to another bank as a special presentation for immediate payment.**
   2. **T**he amount on such cheque must be above a certain agreed limit
   3. Cheques sent for special clearance are from well-known organizations
   4. Cheques sent for special clearance are from high net worth customers.
2. A cheque guarantee card is a card that is issued by a bank to its customers with the aim of – (P25)
   1. improving trade relations between the bank and other merchants
   2. **Assuring merchants that cheques accepted under guarantee card will be paid regardless of whether customers account has funds or not.**
   3. Warning merchants to confirm with the bank if customer issues a cheque supported by cheque guarantee card.
   4. Alerting merchants to be more vigilant when accepting cheques.
3. Why do banks ask for status reports from their fellow banks? P24
   1. To comply with International standards
   2. To prevent customers from maintaining too many accounts within the country
   3. To establish if customer is credit worthy
   4. **To seek general financial information on credit standing and respectability of the concerned person(s)**
   5. **Businesses and individuals would find it very difficult to find a place where to borrow or lend money**
4. Mention one common guiding principle that a banker observes when assessing a loan application from a customer. P21
   1. **Purpose of the facility**
   2. Level of inflation in the economy
   3. Number of competitors in the industry
   4. Level of financial literacy of the client
5. Identity the correct set of holders of a cheque who are authorized to cross a cheque P50
   1. The drawer, Payee or any subsequent holder
   2. The drawer or payee only
   3. **The drawer, Payee, any holder or the banker**.
   4. The payee and endorsee only
6. Why do people endorse cheques? P50
   1. To prevent the holder of the cheque from cashing over the counter
   2. **To transfer title in the underlying negotiable instrument**
   3. To prevent frauds and forgeries
   4. To guard against money laundering.
7. Which of the following advantages truly reflects one of the advantages of an FCDA? P23
   1. **It provides a mechanism for channeling foreign currency in the mainstream econom**y
   2. It earns high interest rate than most other demand deposits
   3. Accessibility of funds is easy as cash can be drawn from ATMs
   4. Holders are able to settle debts by way of cheques
8. Frequent changes in the value of money is dangerous to an economy because ---- P57
   1. **It undermines the very foundation of business decisions on which business contracts are expressed.**
   2. It promotes frauds and forgeries
   3. It damages the reputation of banks and financial institutions.
   4. It promotes careless borrowing of money for unwanted projects
9. What do you call the motive which drives people to hold money with the aim of cushioning themselves against unforeseen eventualities? P58
   1. Transaction motive
   2. Speculative motive
   3. **Precautionary motive**
   4. Liquidity motive
10. Mention one advantage which an investor enjoys for borrowing money through money markets. P63
    1. The asset is short term though interest rate can be high to compensate for the short duration of the loan
    2. **The interest rate on money market is lower than on capital markets**
    3. Money market investments are for affluent businessmen who understand the market better
    4. Lenders on money market are dealing in risk free assets
11. Select a statement which contains one of the true attributes of a negotiable instrument P45
    1. The holder has an insurable interest
    2. The instrument has a restriction preventing minors from abusing the document
    3. **The holder can sue in his own name**
    4. The instrument is supported by valid identity documents
12. What do you call the process in which money launderers separate illicit proceeds from their source with the intention of disguising the audit trail and therefore provide anonymity P128
    1. Placement
    2. Integration
    3. Segmentation
    4. **Layering**
13. What type of endorsement has the effect of converting an order cheque to become a bearer cheque? P51
    1. Special
    2. Restrictive
    3. Qualified
    4. **Blank or simple**
14. Which of the following conditions would you associate with barter trade? P 35
    1. Easily divisible
    2. Universal acceptance as a medium of exchange
    3. **Double coincidence of wants**
    4. Simple to determine relative values of commodities
15. Which of the following would you say is a benefit for borrowing using commercial paper? P116
    1. It is good for long term financing
    2. **Issuer can access more competitively priced financing**
    3. No credit rating required
    4. No need to worry with general money market rates
16. How does uncontrolled credit creation affect the economy of a country? P76
    1. **It brings about inflation**
    2. It reduces cash in circulation
    3. It brings about deflation
    4. It promotes money laundering
17. Which of the following statements best describe the definition of a customer? P11
    1. A person who regularly visits the bank
    2. **A person who conducts an account of some sort**
    3. A person who has borrowed funds even if for a very short period
    4. A person who receives his/her salary from the bank
18. Mention one of the approaches you can take if faced with a customer complaint (P146)
    1. Listen carefully and make sure to defend your position decisively
    2. **Listen, show interest and empathy**
    3. Listen and attentively to identify where the customer has erred.
    4. Listen and refer customer to the appropriate session or department
19. This is the action taken by the Central Bank when it chooses to influence banks without issuing circulars or directives. P90
    1. Monetary Policy
    2. Exchange rate stabilization
    3. Direct supervision
    4. **Moral Suasion**
20. What type of security would you provide to Reserve Bank of Malawi if you borrowed from it as Lender of Last Resort P101
    1. **Treasury Bills**
    2. Bonds
    3. Guarantees
    4. Letter of Undertaking

SECTION B

QUESTION TWO

1. Define a cheque 2 marks P 46
2. Mention the two types of crossings and the circumstances in which a holder of a cheque can put such a crossing. 6 marks (P47 & P49)
3. What are the four types of endorsements you know and explain the reasons why a holder of a cheque may decide to endorse it in such a manner? 12 marks (P51)

Recommended answer

1. A cheque is a Bill of Exchange drawn on a banker payable on demand
2. Two types of crossing –
   * General Crossing and Special crossing 2 marks
   * General crossing is to prevent cheque from being encashed over the counter. Special crossing takes the form of a bank date stamp so it’s a message to the paying bank that value should be given to the bank that has crossed ie stamped the cheque. 4 marks
3. The four types of endorsements
   * Simple or blank endorsement – when acknowledging receipt of funds over the counter

4 marks

* + Special endorsement – when negotiating the cheque to another party by way of mentioning the name of the endorsee 4 marks
  + Restrictive party – negotiating a cheque to another party with a restriction for further transfer 4marks

QUESTION THREE

1. Internal Customer Care is important because it helps an organization to serve its customers better in providing superior service. Mention at least **five** important aspects that come to mind as advantages of good internal customer care. 10 marks (P148)
2. State any **five** important steps to observe when dealing with an angry customer. 10 marks (P147)

TOTAL 20 MARKS

Recommended answer

1. Any of the following points should carry 2 marks each as important aspects on internal customer care

* Enhancing the organization’s image
* Ensuring efficient working of the organisations systems and procedures
* Reducing bottlenecks and frustrations
* Eliminating wastage and downtime
* Improving quality and throughput
* Increasing Job satisfaction
* Making everyone work more easy and pleasant

1. Each point carries 2 marks on the steps to follow when handling an angry customer

* Let customer blow off, do not interrupt
* Do not take criticism personally and become angry yourself, remain calm and helpful
* Try to remove customer from the crowd of customers to avoid a scene
* Do not argue even if customer is 100% wrong
* Do not pass customer to someone else
* Do not make false promises

QUESTION FOUR

* 1. When considering to lend money to customers, bankers go through a structured process in order to determine the suitability of the applicants. One of such guiding principal for personal lending is CAMPARI. You are requiring to explain what this mnemonic CAMPARI stands for and what each word means to the lending banker. 14 marks (P21)
  2. State any three disadvantages associated with cheques on a current account 6 marks (P20)

TOTAL 20 MARKS

Recommended answer

The mnemonic CAMPARI stands for Character, Ability, Margin, Purpose, Amount, Repayment and Insurance. The meanings are as outlined below:

* **Character** of the customer. Customer must be honest, reliable and be a person of integrity.
* **Ability** to borrow and repay. Past track record will give guidance on customers ability.
* **Margin** of profit. Always remember that you want to lend money to make money.
* **Purpose** of the loan. The banker must always establish what the customer wants the money for. Money should not be lent for illegal or illegitimate purposes
* **Amount** of the loan. The amount sought must be sufficient to meet the intended purpose. The bank should not suggest the amount for the customer to borrow.
* **Repayment** terms – source of repayment need to be established at the outset ie trading profits turned into cash flow, asset disposal, trade sales etc. The source must be identifiable and not a mere promise.
* I**nsurance**/ **security** - against the possibility of non-repayment in case something goes wrong.

The disadvantages associated with a cheque on a current account are as follows:

* Cheques are prone to fraud and individuals and organizations can therefore lose goods or services that have been paid for by cheques.
* They take some days to clear before one can have access to the money.
* In some countries, they are not generally accepted as a means of payment especially where there are no laws for dishonoured cheques.

QUESTION FIVE

Mention and explain clearly all the five steps that should be observed when opening an account in order to comply with the elements of Know Your Customer (KYC) standards 20 marks (P128)

Recommended answer

* **Customer identification** – To obtain valid IDs depending on whether it’s a natural person or legal entity. For natural persons acceptable IDs include Driving licence, Passport, National IDs, letter of introduction from DC or employers. For a legal entity, proof of legal existence such as registration certificate, memorandum and articles etc.
* **Customer information verification** – This is the step where the IDs provided are diligently verified. This involves contacting the issuing authorities of the given IDs. For individuals, this should include obtaining physical address and availability of utility bills. For a legal entity, verification should include legal existence and structure, legal form whether limited company, private company, partnership etc. Postal and physical addresses of directors and owners
* **Customer profiling** – Banks are required to monitor customers’ accounts closely from the moment the relationship starts. In order to effectively manage this responsibility, It is necessary that the bank obtains relevant information regarding source of funds or type of business which the customer is engaged in. From this information it is easy in future to decipher where the level of activity on a particular account should be normal or not
* **Customer Screening –** Customer screening goes beyond simple account opening procedures and record keeping requirements. If certain customers are considered to fall within the category of Higher Risk Customers, then extensive investigations should be instituted to ensure that the bank is not necessarily exposed.
* **Record keeping –** Banks are required by law to maintain all necessary records concerning customer transactions and accounts for at least 7 years following the completion of a transaction regardless of whether the account is existing of closed.

Question 6

1. Mention **five** general functions of a commercial bank and explain what is involved under each function? 10 marks
   1. *Payment services e.g. issuance of cheques, cheque clearing etc*
   2. *Providing opportunities for savings. Examples include Savings Accounts, Fixed Deposit accounts, Call Accounts etc*
   3. *Providing advances i.e. loans and overdrafts*
   4. *Facilitating international trade – Payments for imports and exports, including foreign travel*
   5. *Other related services such as status reports, guarantees, safe custody, etc*
2. What are the **five** obligations customers have towards the bank? Clearly explain what each obligation involves to demonstrate your understanding. 10 marks
3. *To honour customer’s properly drawn requests for withdrawals whether by cheques, withdrawal slips or other written orders.*
4. *To give reasonable notice to the customer prior to closing his or her account.*
5. *To preserve secrecy (confidentiality) concerning the customers financial affairs.*
6. *To provide statements / information regarding the customers financial details on the account.*
7. *To collect the proceeds of cheques and other items paid in to the customer’s account. In this case the bank now acts as an agent on behalf of the principal who is the customer.*

TOTAL 20 MARKS