

**INSTITUTE OF BANKERS IN MALAWI**

**CERTIFICATE IN BANKING EXAMINATION**

**SUBJECT: INTRODUCTION TO BANKING (IOBM – C104)**

**Date: Thursday, 18th May 2017**

**Time Allocated: 3 hours (08:00 – 11:00 Hours)**

**INSTRUCTIONS TO CANDIDATES**

1 This paper consists of **TWO** Sections, A and B.

2 Section A consists of 20 multiple questions, each question carries 2 marks.

Answer **ALL** questions.

3 Section B consists of 5 questions, each question carries 20 marks. Answer **ANY THREE** questions.

4 You will be allowed **10 minutes** to go through the paper before the start of the examination when you may write on this paper but not in the answer book.

5 Begin each answer on a new page.

6 **Please write your examination number on each answer book used. All answer books without examination number will not be marked.**

7 All persons writing examinations without payment will risk expulsion from the Institute.

8 If you are caught cheating, you will be automatically disqualified in all subjects seated this semester

9 DO NOT open this question paper until instructed to do so.

**SECTION A (40 MARKS)**

Answer **ALL** questions from this section by circling the right answers in the answer sheet provided.

1. Identify a statement which directly relates to special clearance.
   1. The cheque is sent to another bank as a special presentation for immediate payment.
   2. The 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 –
   1. improving trade relations between the bank and other merchants
   2. Assuring merchants those cheques 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?
   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)
4. Mention one common guiding principle that a banker observes when assessing a loan application from a customer.
   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
   1. The drawer, Payee or any subsequent holder
   2. The drawer or payee
   3. The drawer, Payee, any holder or the banker.
   4. The payee and endorsee only
6. Why do people endorse cheques?
   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?
   1. It provides a mechanism for channeling foreign currency in the mainstream economy
   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 ----
   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?
   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.
    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
    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
    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?
    1. Special
    2. Restrictive
    3. Qualified
    4. Blank or simple
14. Which of the following conditions would you associate with barter trade?
    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?
    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?
    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?
    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
    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.
    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
    1. Treasury Bills
    2. Bonds
    3. Guarantees
    4. Letter of Undertaking

**SECTION B (60 MARKS)**

Answer **ANY THREE** questions from this section

**QUESTION 2**

1. Define a cheque *(2 marks)*
2. Mention the **two** types of crossings and the circumstances in which a holder of a cheque can put such a crossing. *(6 marks)*
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)* **(Total 20 marks)**

**QUESTION 3**

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

*(10 marks)*

**(Total 20 marks)**

**QUESTION 4**

* 1. When considering lending 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. Explain what this mnemonic CAMPARI stands for and what **each** word means to the lending banker. *(14 marks)*

* 1. Explain any **three** disadvantages associated with cheques.  *(6 marks)*

**(Total 20 marks)**

**QUESTION 5**

1. Explain any **four** risks likely to be faced by a financial institution that does not follow proper Know Your Customer (KYC) procedures? *(12 marks)*
2. Discuss **four** reasons why barter trade failed to meet the demands of trade growth. *(8 marks)*

**(Total 20 marks)**

**QUESTION 6**

1. Mention **five** general functions of a commercial bank and explain what is involved under each function.  *(10 marks)*
2. What are the **five** obligations customers have towards the bank? Clearly explain what each obligation involves to demonstrate your understanding.

*(10 marks)*

**(Total 20 marks)**

**END OF THE EXAMINATION PAPER**