The Management University of Africa

Sponsored by the Kenya Institute of Management

POSTGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF MASTER OF BUSINESS ADMINSTRATION

BFO 506: BANKING AND DEVELOPMENT

DATE: 31ST March 2022

DURATION: 3 HOURS

MAXIMUM MARKS: 60

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **FOUR (4)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **TW0** questions.
6. Question **ONE** carries **30 MARKS** and the rest carry **15 MARKS** each.
7. **Write all your answers in the Examination answer booklet provided.**

QUESTION ONE

Read the following case study and answer the questions that follow

BANK REGULATION AND SUPERVISION

Central Bank of Kenya (CBK) last year reprimanded 11 lenders for various breaches of the law or rules largely due to failure by owners to raise more capital amid depleted cash reserves. The number of errant lenders has, however, fallen from 15 in 2017, with the banking regulator singling out reduced core capital as the main driver of violations. "Most of the violations (in 2018) were mainly in respect to non-compliance with single borrower limit, this was attributed to decline in core capital in some banks that have continued to report losses," the CBK, which does not name non-compliant banks, says in the Bank Supervision Annual Report 2018.Six banks were found to have lent cash equivalent of more than 25 percent of core capital to a single borrower in breach of Section 10(1) of the Banking Act in December 2018, down from eight the year before.

Smaller banks have struggled to attract fresh capital since the failure of Dubai Bank (August 2015), Imperial Bank (October 2015) and Chase Bank (April 2016) resulting in the considerable flight of deposits to larger lenders. This was exacerbated by September 2016 legal ceiling on interest charges (that was scrapped last week) which cut profit margins and increased loan loss provisions from January 2018 biting into cash reserves. Shareholders' funds and cash reserves in four banks fell below eight percent of customer deposits in breach of prudential guidelines compared with two in 2017.Four others fell short of the minimum core capital to total risk-weighted assets ratio of 10.5 per cent and total capital to total risk-weighted assets ratio of 14.5 per cent. Three banks also violated the restrictions on insider loans.

Source (Businessdaily)

Required

a) Define the term insider loans. **(2 Marks)**

b) Based on the above case, discuss four reasons why bank regulatory efforts are sometimes unable to control the failure of banking institutions. **(10 Marks)**

c) Discuss the negative implications of regulation of the banking sector in Kenya **(10 Marks)**

d) Analyze any Four challenges facing commercial banks in Kenya **(8 Marks)**

QUESTION TWO

a) Developing countries do not have well organized money and capital markets making central bank key in the development of these countries' banking and financial system. Examine six roles of central bank in the economy of a developing country. **(12 Marks)**

b) Analyze any three reasons why banks may resolve to lend money to the government rather than other small borrowers in an economy. **(3 Marks)**

QUESTION THREE

a) Deposit insurance is a measure taken by banks in many countries to protect their clients' savings, either fully or in part, against any possible situation that would prevent the bank from returning said savings. Discuss any five Benefits of Deposit Insurance. **(5 Marks)**

b) Using appropriate illustrations for the local economy, discuss five ways in which Commercial banks can contribute to Kenya 's economic development **(10 Marks)**

QUESTION FOUR

a) There is a rise in popularity of commercial Paper as a money market instrument in Kenya. Examine any five merits of commercial paper. **(5Marks)**

c) The experience of underdeveloped countries reveals that monetary policy plays a limited role in such countries: Examine any five reasons for this. **(10 Marks)**