



## CCP PART III SECTION 6

### CREDIT PRACTICE

**FRIDAY: 30 November 2018.**

**Time Allowed: 3 hours.**

**Answer ALL questions. Marks allocated to each question are shown at the end of the question.**

#### QUESTION ONE

##### AA MICROFINANCE BANK LTD.

AA Microfinance Bank Ltd. was the first of its kind in the Middle East and North Africa region. Founded in the year 2008, AA Ltd. was created based on the principle of financial inclusion for all, particularly for the region's unbanked population (including young people and women). As part of its institutional charter, AA Ltd. specifically targets the youth and women market segments.

AA Ltd. entered into a partnership with Sila Technology (Sila-Tech), an institution that devices solutions for youth employment in the Northern region. Together, the two institutions created a youth fund which aims to provide the youth, aged between 18 years and 30 years with sustainable financial services. In addition to the fund, Sila-Tech also provides entrepreneurship training to these youth.

Initially, AA Ltd. aimed to reach 800 youth within the first year of the project. However, less than a year later, AA Ltd. had already disbursed 5,200 loans through the youth fund, 63% of which went to women. By the end of 2010, AA Ltd. had 6,317 youth loan clients, which accounted for 43% of AA Ltd.'s total loan client base, with a youth loan portfolio of US \$ 1.3 million.

In addition to youth friendly savings and insurance products, AA Ltd. has four distinct loan product offerings for its young clients.

All four of AA Ltd. youth loans, carry same terms as those of its other loan products. The primary differences in product design for youth credit products include among others; start up funding, fewer collateral requirements, special staff training and unique delivery.

Recognising that youth are a unique market segment that requires additional support in starting and growing business, AA Ltd. has adapted its lending requirements to make loans more accessible to start up entrepreneurs. Through partnerships with Sila-Tech and other external organisations, AA Ltd. offers its youth clients, supplemental non-financial services through training courses such as: Entrepreneurship Education - Know Your Business for the region and Financial Education Program - designed specifically for female clients in preparation for running a business of their own. Existing youth clients are also given opportunity to participate in training courses on financial management, marketing and sales.

Since its inception in 2008, AA Ltd. has been challenged for distinguishing itself from traditional banks because its target clientele, youth and women, traditionally have been excluded from the financial services sector. AA Ltd. has focused on finding new ways to communicate its message of financial inclusion of these groups. As a result, AA Ltd. coined its slogan "The bank for the unbanked". Another marketing challenge AA Ltd. is facing is low levels of literacy in the region. This has made it difficult to use conventional print marketing materials. AA Ltd. uses word-of-mouth as its most effective tool of marketing, with loan officers focusing efforts on door-to-door promotion.

In order to effectively reach the youth, AA Ltd. also targets its marketing campaigns to young people's interests, while adapting its services to meet the needs of the population. For example, AA Ltd. reaches out to youth at universities and colleges where young people often spend time and has partnered with vocational training institutions, television networks, radio stations and lottery campaigns.

Despite perceived risk in lending to the youth, AA Ltd. reported a minimal 0.03% portfolio at risk >30 days. The bank attributes this success to a few key factors including tailoring financial services to suit the youth and women, marketing and delivery mechanisms according to needs of the youth market and training staff on how to effectively serve young clients and manage risks.

AA Ltd. continues to explore a number of additional methodologies to increase their youth special products and services including the use of technology such as mobile banking and short message service (SMS), partnerships with higher education institutes and focusing on significantly disadvantaged groups including persons living with disabilities and orphans.

In spite of the above effort by AA Ltd. to empower the youth, a spot check in some areas shows a low uptake of the fund.

**Required:**

(a) AA Ltd. was created based on the principle of financial inclusion for all.

With reference to the above statement, propose three benefits that could accrue to the unbanked population as a result of financial inclusion. (6 marks)

(b) Analyse six credit monitoring procedures that AA Ltd. could adopt to assist in effectively managing its portfolio risk. (6 marks)

(c) Discuss five factors that might have contributed to the slow uptake of the fund by the youth in some areas. (10 marks)

(d) Explain five benefits that could accrue to AA Ltd. as a result of the introduction of mobile banking. (10 marks)

(e) Describe four categories of services provided by AA Ltd. (8 marks)

**(Total: 40 marks)**

**QUESTION TWO**

(a) In relation to Fair Credit Billing Regulations and Fair Debt Collection Practices Act:

(i) Explain the term “vulnerable person”. (2 marks)

(ii) Describe six categories of persons who could be considered vulnerable in enforcement of debt collection action. (6 marks)

(b) With reference to microfinance loans and delinquency management, describe four ways in which a pipeline report is used to monitor loans. (4 marks)

(c) Highlight three items to be included in the SACCO by-laws in regard to loans and advances. (3 marks)

**(Total: 15 marks)**

**QUESTION THREE**

(a) Examine four key ratios that are used in the assessment of creditworthiness by credit analysts. (4 marks)

(b) Identify three objectives of a credit audit. (3 marks)

(c) Propose four drawbacks of mortgage loan modification. (8 marks)

**(Total: 15 marks)**

**QUESTION FOUR**

(a) Discuss the early signs of a company’s financial warning under the following headings:

(i) Income statement. (3 marks)

(ii) Receivables aging. (3 marks)

(b) (i) Explain the term “credit concentration risk”. (2 marks)

(ii) Analyse seven methods of managing credit concentration risk. (7 marks)

**(Total: 15 marks)**

**QUESTION FIVE**

(a) Discuss four objectives of the Basel proposal. (8 marks)

(b) Explain seven benefits of sound management of working capital in an organisation. (7 marks)

**(Total: 15 marks)**

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