

CF02

# Operations Of Financial Institutions

12 OCTOBER 1999

1. Time allowed : Three (3) hours
2. Total number of questions : Five (5) questions on 2 pages
3. Number of questions to be answered : Four (4) questions  
Part A: Compulsory question [40 marks]  
Part B: Three (3) questions [20 marks each]
4. Show details of working, where appropriate. Silent, non-programmable calculators may be used.
5. Begin each answer to a new question on a fresh page.
6. Answer **all** questions in **English**.

**PART A****COMPULSORY QUESTION**

1. (a) Character is said to be the most important factor among the 5Cs in credit evaluation.
- (i) What is character? [2]
- (ii) State **12** factors that are considered when assessing the character of a customer. [6]
- (b) (i) Name any **three** identification papers which are accepted by the banks for the opening of an individual savings account. [3]
- (ii) Puan Khamisah Kamaruddin brought her 10-year old son, Ahmad Aziz to the bank and wanted to open a savings account for him.
- How would you open a savings account for Ahmad? [3]
- (c) Trust receipts have been the traditional mode of financing imports. An importer has to execute the trust receipt form before the goods are released to him by the bank.
- Describe **five** items stated in a trust receipt form. [10]
- (d) (i) Name any **four** activities that employees of financial institutions must not engage in to avoid being in a situation where there might be a conflict of interest. [4]
- (ii) Employees of financial institutions must observe a strict duty of confidentiality about their customers' personal affairs. However, the law allows disclosure of information under **four** circumstances.
- Describe these **four** circumstances. [4]
- (e) (i) Unit trust managers are required to maintain certain liquidity requirements at all times. Name **four** assets that qualify to be liquid assets. [4]
- (ii) State any **four** advantages of unit trusts. [4]

(Total:40 marks)

**PART B****ANSWER THREE (3) QUESTIONS ONLY**

2. Today is Monday, 4 October 1999. You are manning a teller counter at your bank, Bank Rama Berhad, when the following people came in to do various transactions. Assuming that everything else is in order, what would you do in each of the following cases (give reasons for your answers):
- (a) Mr Perumal wants to deposit a cheque for RM300 into his account. The cheque is dated 5 March 1999. Mr Perumal explains that his son had sent him the cheque in March 1999 but he had misplaced the cheque. He only found the cheque last weekend. [4]
- (b) Mr Tan wants to deposit a cheque for RM1,000 into his sole proprietorship account. Upon checking, you find that the cheque is dated 6 October 1999. [4]
- (c) Julie wants to cash a cheque for RM500. You notice that the cheque had been crossed with the words "ACCOUNT PAYEE ONLY". [4]
- (d) Norlia wants to cash a cheque for RM1,700. Upon checking, you notice that the amount in words read as "One Thousand and Seven Only". [4]

- (e) A man wants to cash a cheque for RM10,000. When you examine the cheque, you note that the payee's name is Ramlee bin Ahmad and the words "or bearer" have been crossed out. However, when you ask for identification, the man produces his identity card (IC) and you notice that his name on the IC is spelt as Ramli bin Ahmat. [4]  
(Total:20 marks)
3. (a) In a banker-customer relationship, what are the bankers' rights and duties? [15]
- (b) Do you think a bank has the right to set-off Account 1 and Account 2 in each of the following cases? Give reasons for your answers.
- (i) Puan Faridah maintains **two** accounts, of which she is the sole signatory, with your bank. Account 1 is in the name of Faridah Enterprise while Account 2 is in the name of Faridah Trading Sdn Bhd. Account 1 is overdrawn by RM1,000 while Account 2 has a credit balance of RM5,000. Both Account 1 and Account 2 are maintained with your branch in Kuala Lumpur. [2.5]
- (ii) Elaine Services maintains **two** accounts with your bank. Account 1 is with your branch in Kuala Lumpur while Account 2 is with your branch in Kuching. Account 1 is overdrawn by RM5,000 while Account 2 has a credit balance of RM50,000. [2.5]  
(Total:20 marks)
4. (a) (i) Describe the following foreign exchange terms:
- call option [3]
  - put option [3]
- (ii) What are **four** advantages of options? [8]
- (b) En Roslan bought a car under a hire-purchase agreement. Given the following information, calculate the monthly instalment that En Roslan has to pay:
- |               |                |
|---------------|----------------|
| Cost of car   | RM60,000       |
| Deposit paid  | RM10,000       |
| Interest paid | 6.0% per annum |
| Hiring period | 4 years        |
- [6]  
(Total:20 marks)
5. (a) Name and briefly describe the parties to a letter of credit. [14]
- (b) Briefly describe the general features of a bank guarantee. [6]  
(Total:20 marks)

## OUTLINE ANSWERS

### PART A

#### Question 1

**Performance was average in the compulsory part of the paper. Although candidates were able to provide answers on basic principles and concepts of general topics such as the 5Cs in Credit Evaluation, Savings Account Deposits, Trade Financing, Banking Ethics and Unit Trust, many did not expand on their points and failed to illustrate further.**

- (a) (i) Character is that quality in a borrower that makes him want to pay or intend to pay when a debt is due.
- (ii) Factors that are considered when assessing the character of an applicant:
- Honesty
  - Acumen
  - Reasonableness
  - Humbleness
  - Fairness
  - Correct attitude
  - Responsible
  - Industrious
  - Capability
  - Patience
  - Temperance
  - Health
- (b) (i) Any three of the following :
- Malaysian Driving Licence
  - Royal Malaysian Police Warrant
  - Army Identification Card
  - Kad Pengenalan (IC)
  - Passport
- (ii) Puan Khamisah can open the account for Ahmad. The account will have to be opened and operated by Puan Khamisah as Ahmad is a minor. The account can be in the name of “Puan Khamisah Kamaruddin on behalf of Ahmad Aziz”.
- (c) The TR form will state that:
- (i) The customer acknowledges receipt of the documents of title to the goods mentioned in the schedule.
  - (ii) The customer holds the goods as trustee for the bank.
  - (iii) The customer undertakes to pay the proceeds of sales to the bank.
  - (iv) The customer undertakes to insure the goods.
  - (v) The period within which the customer will repay the bank.
- (d) (i) Any four of the following:
- Outside financial interest
  - Other business interest
  - Other employment
  - Entertainment and gifts
  - Corporate directorship
  - Appointment as executors, administrators or trustees of customers’ estate.
- (ii) 4 circumstances under which bank staff can disclose information:
- Bank is legally compelled to do so
  - Where there is a duty to the public to do so
  - Where it is the interest of the bank to do so
  - Where disclosure is made at the request of the customer

- (e) (i) Liquid assets:
- Cash
  - Deposits with commercial banks, finance companies, merchants banks, discount houses and Bank Islam
  - Malaysian Government Securities, Treasury Bills, Bank Negara Malaysia (BNM) Certificates and Malaysian Government Investment Certificates
  - Cagamas Bonds
  - Bankers' Acceptances and Negotiable Certificate of Deposits
- (ii) Advantages of Unit Trust:
- Better spread of risk
  - Managed by professionals who are knowledgeable in investment matters
  - Only need to make one investment instead of many. This will save on administrative work and time to monitor investments
  - Cost of managers' fees are chargeable and allowed for tax exemption
  - Individually, unit holders may not be able to afford the services of a professional
  - Easily liquidated
  - Can offer holdings as security for loan facilities

## PART B

### Question 2

**Most candidates could “handle” the different day-to-day operation scenarios faced by a bank teller of a commercial bank. However, many failed to elaborate on their reasoning when required to do so and thus lost marks.**

As a teller, I will explain the following:

- (a) The cheque is more than six months old. En Perumal cannot bank-in the cheque as the drawee bank will not honour it anymore.
- (b) This cheque is postdated. Mr Tan can only bank-in the cheque on or after the date stated, i.e. 6 October 1999.
- (c) Julie's cheque is an account payee cheque and cannot be cashed. It must be banked into Julie's account.
- (d) The amount in words and figures do not tally. Norlia will have to return this cheque to the drawer and ask for a new cheque.
- (e) As the identification paper of the man says that his name is Ramli bin Ahmat but the payee on the cheque is Ramlee bin Ahmad, I will not cash the cheque. En Ramli will have to return the cheque to the drawer and ask for a new cheque with his name correctly spelt.

### Question 3

**Although candidates were able to describe banker's rights and duties, they are expected to further illustrate their answers with examples, given the allowance of marks.**

- (a) Bankers' rights:
  - (i) To charge commission
  - (ii) To charge interest
  - (iii) Of set-off
  - (iv) To repayment on demand
  - (v) To be indemnified

Bankers' duties:

- (i) To receive money for the customer's account
  - (ii) To honour his customer's cheques
  - (iii) Duty of secrecy
  - (iv) To render statement of account
  - (v) To abide by any mandate given by the customer
- (b) With regard to the right of set-off:
- (i) As Account 1 is in the name of Faridah Enterprise and Account 2 is in the name of Faridah Trading Sdn Bhd, the bank cannot set-off the overdrawn balance of Account 1 with the credit balance of Account 2.
  - (ii) Although the two accounts are in two different branches, they belong to the same entity. The bank can set-off the overdrawn balance in Account 1 with the credit balance in Account 2.

#### Question 4

**Most candidates performed well in the calculation of monthly instalments of a hire-purchase loan, but could not provide satisfactory answers to the first part of the question on options.**

- (a) (i) Call option – option that gives the owner the right to buy a particular currency at a specified price during a fixed period of time.

Put option – option that gives the owner the right to sell a particular currency at a specified price during a fixed period of time.

- (ii) Four advantages of options:

- The owner does not need to know exactly when he needs to make his payment or when his payment will be received. All he needs to know is the approximate period that he needs to make his payment or when his payment will be received.
- By buying a call option, he is able to buy his currency at the lower of market price or the strike price.
- By buying a put option, he is able to sell his currency at the higher of market price or the strike price.
- The option right can be sold.

(b) Cost of car	RM60,000
Deposit	RM10,000
Amount of loan	RM50,000
Interest rate	6% p.a.
Period of hire	4 years
Monthly instalment	$\frac{\text{RM}50,000 + (\text{RM}50,000 \times 4 \times 6\%)}{4 \times 12}$
	= RM1,291.67

## Question 5

**The topic on trade finance instruments was clearly a weak area for most of the candidates. Thus, it is not surprising the question on letter of credit and bank guarantee was the least popular one, and those who attempted it, did not fare well.**

- (a) Parties to an LC:
- (i) Applicant – The buyer who requests/applies to the bank to issue the LC.
  - (ii) Issuing Bank – The bank that issues the LC upon the request of the applicant. Also referred to as the opening bank.
  - (iii) Advising Bank – The bank that advises the LC to the beneficiary. This may be the branch of the issuing bank or the correspondent bank of the issuing bank.
  - (iv) Beneficiary – The party in whose favour the LC is issued.
  - (v) Confirming Bank – When an LC is required to be confirmed, the issuing bank will request another bank to add its confirmation to the LC. The confirming bank in so doing, undertakes to pay the beneficiary against the stipulated documents.
  - (vi) Negotiating Bank – The bank that negotiates the draft presented under the LC and pays the beneficiary. The issuing bank may nominate a bank to be the negotiating bank, in which case the LC is restricted for negotiation with the nominated bank only.
  - (vii) Reimbursing Bank – This is the bank nominated by the issuing bank from whom the negotiating bank will claim payment under the LC.
- (b) General features of a Bank Guarantee:
- (i) The sum guaranteed – All guarantees must state the amount of the guarantee.
  - (ii) The period guaranteed – Its commencement date and its expiry date.
  - (iii) The beneficiary – The name of the beneficiary.