

**DP08**

# **Retail Financial Services**

**9 APRIL 2003**

1. Time allowed : Three (3) hours
2. Total number of questions : Six (6) questions
3. Number of questions to be answered : Five (5) questions  
Part A : Three (3) questions [20 marks each]  
Part B : Two (2) questions [20 marks each]
4. Show details of workings, 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**.
7. Blank pages are provided at the end of the question paper for rough work.

## PART A

### ANSWER ALL THREE (3) QUESTIONS

1. In relation to repossession under the Hire-Purchase Act 1967, answer the following questions:
- (a) According to section 16(1) of the Hire-Purchase Act 1967, under what circumstances can an owner repossess the goods under hire-purchase due to the breach of the agreement relating to the payment of instalments? [11]
  - (b) When would the owner be exempted from complying with section 16(1)? [3]
  - (c) If the owner's agent is carrying out the repossession, what documents must the reposessor show to the hirer? [2]
  - (d) Upon taking possession of the goods, the owner must deliver personally or send to the hirer a receipt in respect of the goods.  
What must the receipt contain? [4]
- (Total:20 marks)

2. In relation to financial information analysis of Small and Medium-sized Enterprises (SMEs), answer the following questions:
- (a) What does a working capital show? [3]
  - (b) How is the amount of working capital calculated? [1]
  - (c) What can be deduced from a high working capital figure? Explain with an example. [3]
  - (d) If the value of the current assets just covers current liabilities, the business might not have sufficient funds to pay for its liabilities. Why is that so? [1]
  - (e) Give examples of "permanent current assets". [4]
  - (f) List the usual items that make up the networth of a business. [4]
  - (g) What are financiers trying to determine when analysing the owner's equity? [4]
- (Total:20 marks)

3. Bintang Hypermart Bhd ("BHB") wanted to purchase display equipment for a new hypermarket in Seremban and was granted a leasing facility by your finance company with the following terms:

Cost of display equipment	RM800,000
Lease period	5 years
Interest rate on residual value	11% per annum
Interest rate on amount financed less residual value	10% per annum

BHB is required to pay security deposit amounting to 10% of the equipment cost at the commencement of the lease period.

As your finance company no longer offers pure leases, you need to work out the residual value of the display equipment.

- (a) Residual value may be defined as the agreed estimated fair market value of the equipment at the end of the primary period.  
What is a "fair market value"? [3]

- (b) Residual value may also be based on the book value of the equipment at the end of the lease period or a percentage thereof.

What factors will determine whether the percentage applied in the book value is high or low? [4]

- (c) (i) Assuming that the prescribed rate of initial capital allowance is 20% and the rate of annual capital allowance is 10%, calculate the book value of the display equipment at the end of the 5th year. Show your workings. [4]
- (ii) Calculate the monthly lease rental. [5]
- (d) If a full-payout lease facility is available, calculate the monthly lease rental. [4]

(Total:20 marks)

## PART B

### ANSWER TWO (2) QUESTIONS ONLY

4. Automated Teller Machines (ATMs) are one of the most evident uses of technology for retail banking.
- (a) List the objectives of providing ATMs and explain how ATMs meet each of these objectives. [9]
- (b) Discuss **two** issues usually associated with ATMs. [6]
- (c) What is the role of Malaysian Electronic Payment System (MEPS)? [3]
- (d) What are the differences when a customer performs transactions at another bank's ATM with MEPS compared to his/her own bank's ATM? [2]

(Total:20 marks)

5. Aqua Farm Sdn Bhd ("Aqua Farm") is a Malaysian-owned company based in Sarawak that has been involved in fresh-water fish farming for the past six years. Aqua Farm now plans to set up a new fish farm in Selangor to cater to the increasing demand for fresh-water fish in the Klang Valley. Aqua Farm's managing director, Mr Markus, has applied to your bank for financing to set up the fresh-water fish farm.

- (a) As risks in agricultural lending cannot be totally eliminated, you need to mitigate the damages should the risks materialise.

Other than taking collateral and imposing a premium for the risks, what are the other risk mitigation measures that you can propose to Mr Markus? [13]

- (b) Is the proposed fresh-water fish farm project eligible for Bank Negara Malaysia's Fund for Food (3F)? Support your answer with the eligibility criteria for 3F. [7]

(Total:20 marks)

6. Madam Wong opened a margin account with the following terms:

Market value of securities	RM250,000
Agreed value of financing (65%)	RM162,500
Margin of finance	2 times
Pre-set line of credit	RM325,000

Based on the above information, answer the following questions:

- (a) What is a "margin account"? [2]
- (b) What are the types of security that may be accepted for a margin account? [4]

- (c) How does Madam Wong pledge shares in her Central Depository System account as security? [2]
- (d) Your bank requires a legal mortgage of the shares.  
How is a legal mortgage created? [5]
- (e) What is the maximum amount of funds from the margin account that Madam Wong may use to buy and sell shares? [1]
- (f) What happens to the profit Madam Wong makes from her share transactions? [2]
- (g) In the event that share price fluctuations result in the security margin exceeding the approved limit, the financier will make a margin call.  
If so, what are Madam Wong's options? [3]
- (h) What would the financier do if Madam Wong fails to answer the margin call within the stipulated period? [1]
- (Total:20 marks)

## **OUTLINE ANSWERS**

### **PART A**

#### **Question 1**

- Although repossession under the Hire-Purchase Act 1967 is a commonly examined concept, the majority of the candidates fared poorly.
- Candidates were unable to fully explain and correctly the repossession notices, and did not know the circumstances under which owners are exempted from complying with section 16(1).

1. (a) The owner can only repossess the goods under hire purchase due to the breach of the agreement relating to the payment of instalments when:
  - The hirer has defaulted in two successive payments or defaulted in respect of the last payment. In cases where the hirer is deceased, there must be four successive defaults.
  - The owner has served on the hirer a notice in the form set out in the Fourth Schedule and the period fixed by the notice, which must not be less than 21 days after the service of the notice, has expired.
  - The owner has served a notice by registered post to the hirer, not earlier than 14 days after the service of the Fourth Schedule, informing the hirer that the owner intends to proceed with the physical repossession of the goods comprised in the hire purchase agreement. A copy of the notice has to be sent to the Controller of Hire Purchase.
- (b) The owner need not comply with section 16(1) when there are reasonable grounds for believing that the goods will be removed or concealed by the hirer contrary with the provisions of the agreement. The onus of proving the existence of those grounds lies with the owner.
- (c) His identity card and an authority card.
- (d) A short description of the goods, the date, time and place the owner took possession of the goods.

#### **Question 2**

- Most candidates were not able to answer the financial analysis question which was introduced for the first time in the examination although it was covered in the study manual.
- Candidates generally believed that high working capital is good although it may mean that the business is not growing. There is also a lack of understanding of the “permanent current assets”, “networth of a business”, and the meaning of “owner’s equity”.

2. (a) Liquidity position of the company, i.e. whether the company’s short-term funds are sufficient to accommodate its short-term liabilities.
- (b) Working capital = Current Assets – Current Liabilities
- (c) Could be a sign that the business is not growing. A large amount of inventory might mean that the inventory turnover days are longer, which could mean that the company’s inventory is building up due to a decrease in sales.
- (d) Not all current assets can be converted to cash instantly.
- (e) The minimum level of cash, account receivables and inventory that a business will always have regardless of its sales and production levels.
- (f) Paid-up capital, capital reserves, general reserves and the retained profits or loss of the business at that point in time.

- (g) The extent to which the book value of the company's assets represents their market value, as a going concern and in liquidation. The residual value of assets would be of concern to financiers as they ultimately depend on it for repayment.

**Question 3**

Candidates performed poorly in this question mainly due to mistakes made when calculating the monthly lease rental. Most candidates did not take into account the residual value in their calculations. Many candidates were unable to calculate the book value of the items.

3. (a) Fair market value is the price at which the equipment may be transacted between a willing seller and a willing buyer at arm's length.
- (b) Type of equipment, marketability, flexibility of use of the equipment and its working condition.
- (c) (i) RM240,000

Year	Cost of equipment	Initial allowance	Annual allowance	Total depreciation	Book value
1	800,000	160,000	80,000	240,000	560,000
2			80,000	320,000	480,000
3			80,000	400,000	400,000
4			80,000	480,000	320,000
5			80,000	560,000	240,000

(ii) 
$$R = \frac{P + (P \times I \times N)}{N \times 12}$$

$$R = \frac{RM720,000 + (RM240,000 \times 11\% \times 5) + (480,000 \times 10\% \times 5)}{60}$$

$$= RM18,200$$

(d) 
$$R = \frac{RM800,000 + (RM240,000 \times 11\% \times 5) + (560,000 \times 10\% \times 5)}{60}$$

$$= RM20,200$$

**PART B**

**Question 4**

Although the majority of the candidates gave long answers to this question, much of the answers were irrelevant. Candidates were not sure of the objectives and issues associated with ATMs.

4. (a) Objectives:
- Reduce queues – ATMs are efficient in dispensing controlled amounts of cash rapidly and accurately.
  - Move customers to more efficient delivery channels – ATMs can handle simple transactions that are often of low value to the bank, yet incur high costs.
  - Offer extended hours/24-hour banking facilities – by locating ATMs outside the branch premises, customers are able to conduct banking transactions after normal office hours.
- (b) Issues:
- People have been victimised by criminals who have managed to clone their cards or even used false ATMs to capture their ATM card and PIN. ATMs can become locations for robberies or thefts.

- The ATMs themselves are also subject to abuse. As the machines must be located in public areas, they may be subjected to acts of vandalism. The problem is compounded by the high capital cost of each machine.
- (c) MEPS provide switching and clearing facilities in order for interbank ATM transactions to occur.
- (d) Fewer functions and there is a surcharge.

**Question 5**

This was another poorly answered question. Many candidates could not state the eligibility criteria for 3F.

5. (a) Risk mitigation measures:
- Insurance to cover production failure due to
    - fire, windstorm, drought, etc.
    - accidents or damage caused by livestock
    - key man life
  - Storage plan against price fluctuations.
  - Price forecasts – research by certain bodies or government agencies can provide much insight to the lender in estimating the farmer’s income.
  - Hedging and forward allows buyers and sellers to fix prices long before the actual transactions, thus reducing the risks caused by uncertainty of price movements.
  - Diversification – Simultaneous cultivation of different crops or livestock that are not affected by the same kind of hazards or placing projects at distant locations.
  - Flexibility in the production methods should allow farmers to make changes quickly.
- (b) Yes. Eligible projects:
- Primary food production, i.e. fisheries, vegetables, fruits, animal husbandry
  - Processing and preservation of primary food products, provided raw materials are sourced from domestic sources
  - Distribution of eligible products within Malaysia
  - Export oriented projects, provided at least one-half of total production is sold in the domestic market

**Question 6**

This was the best-answered question. However, some candidates still do not understand how a legal mortgage is created under the Central Depository System environment.

6. (a) A line of credit of between 1.5 to 3 times will be extended to the borrower by the financier based on the value of the security pledged with the financier.
- (b) Landed properties, fixed deposit, unit trust and quoted shares.
- (c) Request her broker to transfer the relevant shares to the Central Depository System (CDS) account of the financier (traditionally, the financier’s nominees).

- (d) The borrower:
- Executes a Memorandum of Deposit containing the terms and conditions of the loan, the purpose of the deposit of the shares and the conditions under which the financier may exercise its power of sale
  - Opens a Pledged Securities Account (PSA) with the financier's nominees to facilitate the pledging of CDS shares
  - Opens a 'mirror' CDS Trading Account to effect the sales of pledged shares/securities for redemption purpose
  - Transfers the shares from his existing CDS account to the PSA by executing a Security Transfer Request Form
- (e) RM325,000
- (f) Profits may be withdrawn in cash provided the prescribed security margin is maintained at all times.
- (g) Borrower's options:
- Top up the shortfall (put in cash)
  - Put in additional securities acceptable to the financier
  - Sell some of this share holding to reduce the excess to its limit
- (h) The financier will execute a sales order.