



STRATHMORE BUSINESS SCHOOL
MASTER OF SCIENCE IN DEVELOPMENT FINANCE
END OF SEMESTER EXAMINATION
MDF 8204: FINANCIAL SERVICES REGULATION

Date: Tuesday 11th April 2023

Time: 3 Hours

Instructions

- 1.** Answer **QUESTION ONE AND ANY OTHER TWO QUESTIONS** in the answer booklet provided.
- 2.** Marks will be awarded based on clarity, clear exposition of ideas and logical reasoning. Where applicable, show **ALL** your workings.

Question 1 (Compulsory) (30 marks)

- (a) Study the following summary financial information of Masaku Savings and Credit Co-operative Society and answer the question that follows:

		2021	2020
Membership	Active	979	998
	Dormant	462	415
Total		1,441	1,413
Financial		Kshs.	Kshs.
Total assets		325,355,449	289,730,502
Members' deposits		288,729,040	256,403,713
External borrowing		-	-
Loans and advances to members		265,558,765	201,992,839
Investments		24,878,093	16,803,757
Core capital		18,057,212	16,414,060
Share capital		6,251,900	5,933,400
Institutional capital		11,805,312	10,480,660
Total revenue (income)		28,730,034	21,805,189
Total interest income		27,198,935	21,196,247
Total expenses		10,055,381	5,991,995
Employees of the Sacco (2 female, 1 male)		3	3
Key ratios:			
Capital Adequacy Ratios	Minimum		
Core capital/Total assets	8%	5.55%	5.67%
Core capital/Total deposits	5%	6.25%	6.40%
Institutional capital/Total assets		3.63%	3.62%
Retained earnings and disclosed reserves/Core capital	50%	65.38%	63.85%
Liquidity Ratio (15%)			
Liquid assets/Total deposits & long-term liabilities	10%	10.01%	22.41%
Operating Efficiency/Loan quality ratios			
Total expenses/Total revenue		35.00%	27.48%
Interest on member deposits/Total revenue		55.69%	66.04%
Interest rate on members' deposits		6.90%	7.50%
Dividend rate on members share capital		13.50%	11.00%
Total delinquent loans/Gross loan portfolio		5.93%	-
	Maximum		
Financial investments/Total deposits	30%	8.62%	6.55%

Required: Highlight any FIVE areas of regulatory consideration with regard to Masaku SACCO. (10 marks)

- (b) In April 2020, The Central Bank of Kenya (CBK) has imposed sanctions on a newly rebranded bank in Kenya, among them a one-week suspension as an authorised foreign exchange dealer for failing to ensure standard checks on some trades in March 2020. The

bank regulator indicated that the lender failed to ensure standard checks on anti-money laundering and combating the financing of terrorism (AML/CFT) and know-your-customer (KYC) requirements on the unspecified transactions. *-Source: Business Daily, April 2020*

Required:

- (a) Highlight the elements that should be considered when instituting a robust framework for AML and CFT in a banking institution. **(10 marks)**
- (b) Highlight FIVE reasons that would make established banks be culpable to AML and/or CFT violations. **(10 marks)**

Question 2 (20 marks)

- (a) The larger the economy, the less sophisticated the structure of financial service regulation. Required: In light of a developed economy like the United Kingdom, discuss this proposition. **(10 marks)**
- (b) The global financial crisis unravelled many upheavals in the financial markets. Among the measures undertaken in more developed economies was the institution of the Dodd Frank Act and the Volcker Rule in the United States.

Required: Highlight the objectives of the Dodd Frank Act and the Volcker Rule. **(10 marks)**

Question 3 (20 marks)

- (a) Discuss any FOUR regulatory approaches financial services. **(10 marks)**
- (b) Write short notes on the following:
 - (i) Functional regulation. **(3 marks)**
 - (ii) Institutional regulation. **(3 marks)**
 - (iii) Systemic vs non systemic risks. **(4 marks)**

Question 4 (20 marks)

- (a) Despite the banking sector being an over-regulated sector, banking failures still happen. When that happens, there have been remarkable attempts to “resuscitate” the failed banks by their peers especially, whether locally or globally.

Required: Discuss this phenomenon and its role towards achieving global stability in banking. **(10 marks)**

- (b) The regulation of microfinance is becoming increasingly topical and significant to microfinance institutions (MFIs). Regulators around the world seem to be increasingly aware of the necessity of implementing legislative and regulatory frameworks allowing the microfinance industry enough flexibility to innovate and grow, whilst maintaining rules and restrictions to protect low income and often vulnerable microfinance clients (Chance, 2011).

Required: Giving relevant examples, discuss THREE regulatory issues of concern in MFIs. **(10 marks)**

Question 5 (20 marks)

- (a) With regard to Sharia’h law, describe the two types of *haram* activities. **(2 marks)**
- (b) Write short notes on the following terms as used in Sharia’h law:
 - (i) *Musharakah* **(2 marks)**

- (ii) *Mudarabah*. (2 marks)
(iii) *Ijarah*. (2 marks)
(iv) *Tawarruq*. (2 marks)
- (c) Present FIVE differences between Islamic finance and conventional finance. (5 marks)
(d) Present a case for consumer protection in financial services. (5 marks)

----- *End of the Question Paper*-----