



SOUTH EASTERN KENYA UNIVERSITY

UNIVERSITY EXAMINATIONS 2015/2016

MAY-AUGUST 2016 (PRACTICUM) SEMESTER EXAMINATION FOR THE DEGREE OF MASTERS OF BUSINESS ADMINISTRATION

DFI 503: FINANCIAL INSTITUTIONS AND MARKETS

(Machakos Campus)

DATE: 5TH AUGUST, 2016

TIME: 2.00 – 5.00 P.M

INSTRUCTIONS TO CANDIDATES

1. Answer question one and any other two
2. Marks for each question are indicated after the question

Question One

Equity Bank Group's focus on enhancing affordability, accessibility and convenience has seen its growth momentum maintained for the period ended 30th September, 2013.

The group has posted a 17% growth in customer deposits, a growth of Ksh 28 billion to Ksh 190 Billion up from Ksh 162 billion reported in a similar period last year. The impressive growth has been enabled by massive investment in agency banking facilitating easy accessibility, convenience and affordability. Customer numbers have now grown to 8.5 million signifying an achievement in pursuit of inclusive banking.

Bolstered by a 30% reduction in interest rate and a focus on the SME segment, the group's loan book registered a 21% growth to Ksh 159 billion up from Ksh 136 billion posted in September 2012.

Other income ,transactions and commission grew by 12% to Ksh 10.6 billion up from Ksh 9.4billion on the back of increased number of customers due to greater affordability ,accessibility and convenience delivered through sustained innovation, agency banking ,mobile banking ,payment connectivity and investment in ICT solutions.

The number of customers using mobile banking has increased to 2.7million up from 2million as at 30th September,2012 while the number of operational agents has grown to over 9000.

ICT costs have increased significantly as the group upgraded its system and data centre, trained staff in simulating the change of its core banking software from Finacle version 7 to Finacle version 10.

“With the fundamentals strengthened ,massive investment made and improving macro-economic environment creating huge opportunities , the outlook for 2014 looks promising, ” said Equity Bank CEO Dr. James Mwangi while releasing the results.

Equity Group in the last one year has invested massively in creating infrastructure for merchant business, diaspora remmitances and banking and transaction processing by connecting to all global payment systems,American Express (AMEX), Diners Club, Visa Personal Payments,Mastercard,JCB of Japan ,Union Pay of China and digital payments offered by Google and Paypal.Equity Group has also invested in a 300 seat contact centre to handle customer enquiries through calls and social media platform such as Facebook and Twitter.

Using the case study , answer the questions below

- a) Discuss three types of financial innovation that Equity bank has undertaken. **(6 marks)**
- b) Discuss three functions of Financial Innovation to Equity bank. **(6 marks)**
- c) Discuss three macro-environmental factors influencing financial innovation in the banking sector in Kenya.**(6 marks)**
- d) Discuss three micro-environmental factors influencing financial innovation in the banking sector in Kenya. **(6 marks)**
- e) Discuss three dangers of financial innovation in any financial system.**(6 marks)**

Question Two

Capital markets and Money markets have been vital in increasing capital accumulation and thus ensuring direct financing or indirect financing is facilitated. Discuss such issues that influence the functioning of such markets. (15 marks)

Question Three

Most Governments all over the world undertake regulation of the various participants in their financial systems to ensure that the economy is stable. Kenya has separated the regulation of the various sectors to ensure efficiency.eg Pension Schemes are regulated by Retirement Benefit Authority; Commercial Banks are regulated by Central Bank while Insurance sector is regulated by Insurance Regulatory Authority. Despite this effort, regulation of such financial institutions is still faced with many challenges. Discuss such challenges.(15 marks)

Question Four

Financial institutions carry out screening, monitoring and establishing sound relationships with their clients especially borrowers to reduce on chances of adverse selection and moral hazard. Despite this ,they are faced with quite a number of risks in undertaking their operations. Discuss such risks. (15 marks).

Question Five

In Africa, Kenya's financial system can only be compared to the Nigerian and South African Financial systems given the large number of financial institutions, many financial products and many other financial participants. Despite this big capacity, Kenya's financial system is faced with many challenges. Discuss. (15 marks)