# EASTERN UNIVERSITY, SRI LANKA

## Faculty of Commerce and Management

**THIRD YEAR – SECOND SEMESTER EXAMINATION IN**
**BACHELOR OF BUSINESS ADMINSTRATION - 2011/2012**
**[SPECIALIZATION IN HUMAN RESOURCES MANAGEMENT/**
**MARKETING MANAGEMENT]**
**(AUGUST/SEPTEMBER, 2014)**
**(PROPER)**

## MOC 3052 – BANKING AND FINANCE

***Answer all questions*** ***Time: Two hours***

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**Q1. Read the Case Study and answer the questions given below.**

***Innovations in Financial Services Delivery: Branchless Banking***

**The Eko Business**

Eko Lanka Financial Services Private Ltd. is a small start-up company established in mid-2007 with the goal of bringing financial support to the middle - and low-income population in Sri Lanka. Eko is a technology provider. In February 2009, the Technological Business Innovative Program was provided by the $1.78-million ADB grant fund to Eko to support the creation of an agent network to deliver savings and remittance services to new customers. Establishing agent networks is an active partner in acquiring clients and marketing products. The vision of Eko's founders is to build a low-cost financial services infrastructure, powered by innovation and technology, to increase the reach of financial institutions to the unbanked. In 2008, Eko was appointed as the country's largest public-sector lender. Through this partnership, Eko appointed airtime sellers, grocers, and pharmacists as sub-agents. At these Eko customer service points (CSPs), a customer could walk in and set up a bank account using his/her mobile phone. Because Eko did not want clients or the CSP to make an additional investment for a smart card or a point of sale (POS) device. The service works on all handsets using an unstructured supplementary service data (USSD) connection, so there is no need to download or install an application. Confirmation of transactions occurs via SMS.

Originally, Eko partnered with Dialog for USSD connectivity and to leverage Dialog's network of 1.2 million outlets. Eko train the staff and provide the back-end technology and support. Eko later decided to set up its own network of sub-agents or CSPs for two reasons. First, Dialog outlets received a higher commission for its connection and airtime-selling business than Eko provided, so agents had less incentive to promote the Eko product. Second, Dialog was not legally allowed to issue a mobile wallet or put their branding on a financial product. Therefore the agents did not have a sense of ownership for the product. However, though establishing a CSP network would be cheaper than setting up a branch, it continues variable cost, not a fixed cost.

Eko offers the Mini Savings Bank Account, which has no account opening fee or minimum balance, though CSPs encourage customers to open accounts with 100 rupees. Once the account is set up, customers could perform all conventional financial transactions, including deposits and withdrawals, remittances, bill payment, and insurance payments. There have been little cross-selling and development of new products. This is due to Eko's focus on expanding the agent network. Consequently, CSPs are not generating significant revenues. Eko estimates that only 30 percent of customers using its service are unbanked and the majority of their current users are under-banked. Because their locations and operating hours are more accessible, convenience appears to be one of the key benefits of the Eko CSPs. Recognizing the importance of financial literacy, Eko has also developed its own materials to advertise clients about the Eko product and service, and has used folk plays in urban and rural areas to raise awareness and communicated the importance of opening a bank account. Meanwhile, Eko expanded to the South. It plans to expand to the North-East in 2015. The company selects site and bases its expansion on factors such as penetration of banking, income levels, and the level of domestic remittances. Eko has 50,000 clients and 2.5 million accounts. Eko reports that 10 percent of its users conduct one transaction every day; 85 percent are "active" (*i.e.,* they conduct a financial transaction every 90 days). Deposits and withdrawals are the most common transactions, with some customers conducting money transfers. However, Eko is operating at a loss and uses ADB Fund money to cover its expenses and bears the bulk of the operational costs. And also, Eko is not allowed to charge customers a fee for transactions. The grants ended in May 2013, and the company is actively seeking institutional investments to finance operations and future growth. But no institutional investor had been found, and Eko's long-term sustainability remains unclear.

a) What are the **problems** in Eko Lanka Financial Services Private Ltd? (05 Marks)

b) Why does Eko's long-term sustainability remain **unclear**? (07 Marks)

c) Why do customer service points (CSPs) **fail** to increase profits? (09 Marks)

d) Assume that you are the manager of Eko Lanka Financial Services Private Ltd. How can you **help** Eko? (07 Marks)

**(Total 28 Marks)**

Q2.

a) Why do you think the bank **lending** should be safe? (03 Marks)

b) How does the **assessment** of borrowers on the basis of character, capacity and collateral help a banker to identify genuine borrowers? (07 Marks)

c) What are the **steps** in analysing a new loan proposal? Explain. (08 Marks)

**(Total 18 Marks)**

Q3.

a) How do we use **external** indicators to measure bank performance? (04 Marks)

b) Why do **credit** ratings not directly address any other risk? Illustrate. (08 Marks)

c) Are there **links** between credit ratings and share prices? Explain with a Sri Lankan example. (06 Marks)

**(Total 18 Marks)**

Q4.

a) Can we mitigate **risk**? Discuss. (03 Marks)

b) Suppose that you decide to **invest** in two securities. You put 30% of your money in share A which has an expected return of 15%. 70% of your money is put in share B which offers 12%. Shares A and B have returns of 15% and 12%, respectively and standard deviations of shares A and B are 20% and 14%, respectively.

You are required to calculate the followings:

(01) What is the expected return of the portfolio?

(02) What is the correlation coefficient between the two shares?

(03) What is the standard deviation of the portfolio given the same proportions?

(04) Which investment is more risky? Why?

(04 × 02 = 08 Marks)

c) "Many Sri Lankan **bank failures** are the result of serious credit risk". Comment.

(07 Marks)

**(Total 18 Marks)**

**Q5.**

a) Define **collection float.**

(05 Marks)

b) "A company should be more concerned with net float and bank cash than with book cash". Do you **agree** with this statement? Explain.

(07 Marks)

c) The Edhirisinghe Company disburses cheques every two weeks that average Rs. 200,000 in total and takes three days to clear. How much cash can the Edhirisinghe Company save annually **if** it delays the transfer of funds from an interest-bearing account that pays 0.04 percent per day for these three days?

(06 Marks)

**(Total 18 Marks)**