REPUBLIC OF KENYA

LEARNING GUIDE

FOR

BANKING AND FINANCE

LEVEL 6

TVET CDACC
P.O BOX 15745-00100
NAIROBI

First published 2020

Council Secretary/CEO
TVET Curriculum Development, Assessment and Certification Council
P.O. Box, 15745–00100,
Nairobi, Kenya.
Email: cdacc.tvet@gmail.com

FOREWORD

The provision of quality education and training is fundamental to the Government's overall strategy for social economic development. Quality education and training will contribute to achievement of Kenya's development blueprint and sustainable development goals (SDGs). This can only be addressed if the current skill gap in the world of work is critically taken into consideration.

Reforms in the education sector are necessary for the achievement of Kenya Vision 2030 and meeting the provisions of the Constitution of Kenya 2010. The education sector has to be aligned to the Constitution and this has triggered the formulation of the Policy Framework for Reforming Education and Training (Sessional Paper No. 4 of 2016). A key provision of this policy is the radical change in the design and delivery of the TVET training which is the key to unlocking the country's potential in industrialization. This policy document requires that training in TVET be Competency Based, Curriculum development be industry led, certification be based on demonstration and mastery of competence and mode of delivery that allows for multiple entries and exit in TVET programs.

These reforms demand that industry takes a leading role in TVET curriculum development to ensure that the curriculum addresses and responds to its competence needs. The learning guide in banking and finance enhances a harmonized delivery of the competency-based curriculum for banking and finance Level 6. It is my conviction that this learning guide will play a critical role towards supporting the development of competent human resource for the banking and finance sector's growth and sustainable development.

PRINCIPAL SECRETARY, VOCATIONAL AND TECHNICAL TRAINING
MINISTRY OF EDUCATION

PREFACE

Kenya Vision 2030 is anticipated to transform the country into a newly industrializing; “middle-income country providing a high-quality life to all its citizens by the year 2030”. The Sustainable Development Goals (SDGs) further affirm that the manufacturing sector is an important driver to economic development. The SDGs number 9, which focuses on Building resilient infrastructures, promoting sustainable industrialization and innovation can only be attained if the curriculum focuses on skill acquisition and mastery. Kenya intends to create a globally competitive and adaptive human resource base to meet the requirements of a rapidly industrializing economy through life-long education and training.

TVET has a responsibility of facilitating the process of inculcating knowledge, skills and attitudes necessary for catapulting the nation to a globally competitive country, hence the paradigm shift to embrace Competency Based Education and Training (CBET). The Technical and Vocational Education and Training Act No. 29 of 2013 and the Sessional Paper No. 4 of 2016 on Reforming Education and Training in Kenya, emphasized the need to reform curriculum development, assessment and certification to respond to the unique needs of the industry. This called for shift to CBET to address the mismatch between skills acquired through training and skills needed by the industry as well as to increase the global competitiveness of Kenyan labor force.

The TVET Curriculum Development, Assessment and Certification Council (TVET CDACC), in conjunction with industry/sector developed the Occupational Standards which was the basis of developing competency-based curriculum and assessment of an individual for competence certification for banking and finance level 6. The learning guide is geared towards promoting efficiency in delivery of curriculum.

The learning guide is designed and organized with clear and interactive learning activities for each learning outcome of a unit of competency. The guide further provides information sheet, self-assessment tools, equipment, supplies, materials and references. I am grateful to the Council Members, Council Secretariat, banking and finance experts and all those who participated in the development of this learning guide.

Prof. CHARLES M. M. ONDIEKI, PhD, FIET (K), Con. Eng Tech.
CHAIRMAN, TVET CDACC

ACKNOWLEDGEMENT

This learning guide has been designed to support and enhance uniformity, standardization and coherence in implementing TVET Competency Based Education and training in Kenya. In developing the learning guide, significant involvement and support was received from various organizations.

I recognize with appreciation the critical role of the participants drawn from technical training institutes, universities, private sector and consultants in ensuring that this learning guide is in-line with the competencies required by the industry as stipulated in the occupational standards and curriculum. I also thank all stakeholders in the banking and finance sector for their valuable input and all those who participated in the process of developing this learning guide.

I am convinced that this learning guide will go a long way in ensuring that workers in banking and finance sector acquire competencies that will enable them to perform their work more efficiently and make them enjoy competitive advantage in the world of work.

DR. LAWRENCE GUANTAI M'ITONGA, PhD
COUNCIL SECRETARY/CEO
TVET CDACC

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

ACRONYMS

AML	Anti-Money Laundry
APR	Annual Percentage Rate
ARM	Adjustable Rate Mortgages
BC	Banking and finance
BG	Background
CBET	Competency Based Education and Training
CDACC	Curriculum Development, Assessment and Certification Council
CDD	Customer Due Diligence
CFO	Chief Financial Officer
CIP	Customer Identification Program
CPA	Canadian Payment Association
CR	Core Unit
CRB	Credit Reference Bureau
CU	Curriculum
DACUM	Developing a Curriculum
FIU	Finance Intelligence Units
KRA	Kenya Revenue Authority
KYC	Know Your Customer
LEBR	London Euro Bond Rate
LER	London Euro rate
LIBOR	London Interbank Offered Rate
LLBR	London Long-term Bond Rate
MOU	Memorandum of Understanding
NOPAT	Net Operating Profit after Taxes
NPS	Net promoter score
NSF	Not Sufficient Fund
OS	Occupational Standards
OSHA	Occupation Safety and Health Act
OSHS	Occupation Safety and Health Standards
POS	Point of Sale
PRC	Proceeds Realization Certificate
SLA	Service Level Agreement
SOPs	Standard Operating Procedures
SWOT	Strengths, Weaknesses, Opportunities and Threats
TVET	Technical and Vocational Education and Training
WACC	Weighted Average Cost of Capital
ZBA	Zero Balance Account
CAR	Capital Adequacy Ratio
SAP	Systems Applications and Products

CHAPTER 1: INTRODUCTION

1.1. Background Information

This learning guide has been developed in line with the functions of TVET CDACC as stipulated in Article 45 (1a) of the Technical and Vocational Education and Training (TVET) Act No. 29 of 2013 and the Sessional Paper No. 2 of 2015 that embraces Competency Based Education and Training (CBET) system. It is, therefore, the sole intent of this document to provide guidelines for a Competency-Based banking and finance curriculum for level 6.

Banking and finance Level 6 qualification consists of competencies that an individual must achieve to enable him/her to manage cash, balance cash drawers, keep detailed records oversee daily cash deposits and verify amounts to maintain accurate records of reserves and cash deposits. It also ameliorate the information problems between investors and borrowers by monitoring the latter and ensure a proper use of the depositors' funds, provide intertemporal smoothing of risk that cannot be diversified at a given point in time as well as insurance to depositors against unexpected consumption shocks, contribute to the growth of the economy, and perform an important role in corporate governance. This learning guide consists of interactive learning activities, content, further reading, self assessment, relevant and related references that enhance implemention of banking and finance Level 6 qualification. It enables the trainee to acquire the competencies that enables him/her to undertake the various processes in banking and finance. The Guide further provides illustrations, web links, case studies, examples and resources on how to implement all the learning outcomes/elements described in the Curriculum and Occupational Standards with a particular focus on the trainee.

1.2. The Purpose of Developing the Learning Guide

Banking and finance Level 6 curriculum development process was initiated using the DACUM methodology where jobs/occupations were identified. Further, job analysis charts and occupational standards were generated in collaboration with the industry players under the guidance of TVET CDACC (Curriculum Development Assessment and Certification Council). The result of the process was banking and finance Level 6 Occupational Standard (OS) and Curriculum. The Curriculum was further broken down into units of learning. To effectively implement banking and finance Level 6 Occupational standard and Curriculum, learning guides are required to provide training content, guide the learners and trainers on the learning process aimed at imparting the relevant knowledge, requisite skills and the right work behaviour/attitude to the industry. Learning guides are part of the training materials.

1.3. Layout of the Learning Guide

The learning guide is organized as per chapters. Chapter one presents the background information and purpose of developing the learninga guide. Each of the units of learning/unit of competency is presented as a chapter on its own. Each chapter presents the introduction of the unit of learning/unit of competency, performance standard and list of the learning outcome/elements in the occupational standards.

1.4. Learning Activities

For each learning outcome, the learning activities are presented by covering the performance criteria statements and trainee's demonstration of knowledge in relation to the range in the occupational standard and content in the curriculum.

1.5. Information Sheet

The information sheet is a section under each learning outcome that provides the subject matter in relation to definition of key terms, methods, processes/procedures/guidelines, content, illustrations (photographs, pictures, video, charts, plans, digital content, and simulation) and case studies.

1.6. Self-Assessment

Self-assessment is linked to the performance criteria, required knowledge, skills and the range as stated in the occupational standards. This section further provides questions and assignments in which trainees demonstrate that they have acquired the required competences and an opportunity to reflect on what they have acquired. It is expected that the trainer keeps a record of their plans, their progress and the problems they encountered which will go in trainee's portfolio. A portfolio assessment consists of a selection of evidence that meets the pre-defined requirements of complexity, authenticity and reliability. The portfolio starts at the beginning of the training and will be the evidence for the development and acquisition of the competence (summative and formative) by the trainee. It is important to note that Portfolio assessment is highly emphasized in the learning guide.

Finally, the guide presents tools, equipment, supplies and materials for each learning outcome as guided by the performance criteria in the occupational standards and content in the curriculum. References, relevant links and addendums are provided for further study. The units of competency comprising this qualification include the following common and core units of learning:

1.7. Core Units of Learning

Summary of Core Units of Competencies

Table 1: Summary of Core Units of Competencies

Unit of Learning Code	Unit of Learning Title
BUS/CU/BF/CR/01/6/A	Credit Facilities
BUS/CU/BF/CR/02/6/A	Bank Products
BUS/CU/BF/CR/03/6/A	Credit Administration
BUS/CU/BF/CR/04/6/A	Credit Collateralization
BUS/CU/BF/CR/05/6/A	Customer Relationship
BUS/CU/BF/CR/06/6/A	Customer Service
BUS/CU/BF/CR/07/6/A	Tellering Service
BUS/CU/BF/CR/08/6/A	Back Office Management
BUS/CU/BF/CR/09/6/A	Electronic Banking
BUS/CU/BF/CR/10/6/A	Bank Compliance

CHAPTER 2: CREDIT FACILITIES

2.1 Introduction of the Unit of Learning/Unit of Competency

Credit facilities is a unit of competency covered in TVET level 6 banking and finance course qualification. This unit specifies the competencies required to process credit facilities. It involves conducting customer screening, advising client on credit, conducting security perfection, conducting credit appraisal, facilitating valuation of security and communicating credit decision. The significance of credit facilities to TVET level 6 banking and finance curriculum is to equip the learner with knowledge and skills to demonstrate accuracy, numeracy and communication skills, teamwork and self-management so as to fit well in the world of work.

The critical aspect of competency to be covered include: demonstrated ability to conduct customer screening and customer search, obtain consent of using security and credit administartion approval, value the credit security, carry out joint registration and obtain approval to disburse. Basic resources required include; scanners, computers credit application forms, stationery, printer, internet connectivity, furniture and electricity.

The unit of competency covers 6 learning outcomes. Each of the learning outcome presents; learning activities that covers performance criteria statements creating trainees an opportunity to demonstrate competecies stipulated in the occupational standards and content in curriculum. Information sheet provides; definition of key terms, content and illustration to guide in training. The competency may be assessed through written test, demonstration, practical assignment, interview/oral questioning and case study. Self assessment is provided at the end of each learning outcome. Holistic assessment with other units relevant to the industry sector workplace and job role is recommended.

2.2 Performance Standard

Conduct customer screening, credits, valuation of security, credit appraisal and credit decision as per the KYC policy and customers need.

2.3 Learning Outcomes

2.3.1 List of Learning Outcomes

a) Conduct customer screening
b) Advise client on credit
c) Conduct security/collateral perfection
d) Facilitate valuation of security
e) Conduct credit appraisal
f) Communicate credit decision

2.3.2 Learning Outcome No 1: Conduct Customer Screening

2.3.2.1 Learning Activities

Learning Outcome No 1: Conduct Customer Screening	
Learning Activities	**Special Instructions**
1.1 Obtain ***customer details*** **(**name, age, marital status, physical address, contact, nature of work) as per KYC policy 1.2 Identify purpose of the credit as per the customer needs 1.3 Request amount of credit is established as per customer needs	Written assessment Group discussion

2.3.2.2 Information Sheet No2 /LO1: Conduct Customer Needs

Introduction

This learning outcome covers: customer screening, KYC process, importance of KYC, customer needs, purpose of credit, classifications of credit, steps in customer screening and identification of customer needs.

Definition of key terms

Customer screening: It is the process of performing a search to get information on certain clients due to diligence.

KYC: It is the process of searching information. This is mostly done by banks.

Customer needs: These are the things a customer wants or expects in a product or service.

Content/Procedures/Methods/Illustrations

1.1 Customer details are obtained as per KYC policy

Customer details are information's about customers usually including their names, contact details and buying habits. The following is a process carried out by credit facilities to know their customers;

Customer Identification Program (CIP). The CIP requires that any individual conducting financial transactions needs to have their identity verified. The following are the minimum requirements needed to open an individual financial account:

a) Name
b) Date of birth
c) Address
d) Identification number
e) Signature

Customer Due Diligence (CDD): This ensures that an organization is protected from terrorists, criminals who might bring about risk. CDD has three levels. They include:

- Simplified Due Diligence. These are situations where there is risk of money laundering and a full CDD is not necessary.
- Basic Customer Due Diligence. Information obtained for all customers to verify the identity of a customer.
- Enhanced Due Diligence. It is information collected for higher risk customers to mitigate associated risks. These are the details that tend to identify and know potential customers. They include:
  - a) Name
  - b) Age
  - c) Marital status
  - d) Physical address
  - e) Contact
  - f) Nature of work
  - g) Sex

Importance of KYC screening

The core purpose of customer screening is to add to the risk picture of your customer and specifically to identify if they:

- Understand nature of customers activities
- Subject to international sanctions
- Politically exposed persons
- Convicted or suspected criminals
- Reputational risk to the business

Other importance includes:

- The ultimate aim is to find out whether your customers are or could be linked to money laundering, bribery and corruption, terrorist financing. If they are to protect your business by taking erasure action or appropriate follow up action.
- Helps to know who to and not to give credit
- Minimizes risks of loss of money
- Establishes customer identity

KYC screening verification checks

- **Address:** This is the current location of a customer.
- **Identity:** This is the name, id, sex and customers identification.
- **Document:** These are the legal documents e.g. contacts, id, good conduct and other legal documents.

Elements/components of KYC screening

- Customer identification program
- Ongoing monitoring
- Mobile KYC
- Customer due diligence
- Corporate KYC
- E-KYC
- Global KYC compliance

Steps in customer screening

i. **Concentrate on data quality**

This step is concerned with clean customer records. It begins with accurate client's data. If it is inaccurate or incomplete, it could lead to poor name matching and high rates of false positive results. Proper client data such as date of birth, location, information to a standard first name/last name record. Make sure you screen against data that is up to date from reputable sources and curated for easy retrieval and filtering.

ii. **Do not rely on search engines**

Internet search is fast and free which is why many companies employ compliance analysts to screen prospects and partners using well known search engines. The problem with internet

- Results vary dramatically.
- No track records.
- It is difficult to filter results based on risk policy, customer segmentation.
- Irrelevant results lead to false positive rates of 95% or higher.

iii. **Look beyond sanction**

Well documented and publicly available. These lists are designed to restrict commerce with targeted foreign countries and regimes, terrorists, narcotics, traffickers, people engaged in activities related to weapons of mass destruction and other threats to national security.

iv. **Keep monitoring post-boarding**

Due diligence does not end. When business relationship begin, continuous monitoring is important in order to reduce risks.

v. **Control scale and costs**

Many organizations struggle with the cost compliance, both from financial and operational efficiency perspective.

Classification of credit

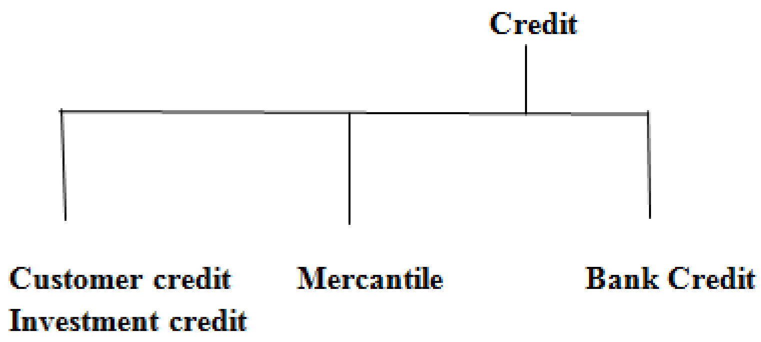


Figure 1: Classification of credit

Credit classification is discussed as follows:

- **Customer credit**

It is the kind of credit extended to consumers in order to facilitate the process of consumption.

- **Mercantile credit**

Also called commercial credit. It is a type of credit which one business may extend to another when selling goods on time for resale of commercial use.

- **Bank credit**

Refers to solely to the credit given by commercial banks to businessmen instead, to assist them in the operation of the business.

Table 2: Differences between mercantile and bank credit

Mercantile	Bank credit
It is an everyday occurrence for both small and large companies.	It is periodical by borrowers, at times annually.
Merely allows the buyer to have possession falls due and may or may not require security.	Banks lend money either on promissory note/ collateral.
It is extended only in connection with purchase of a definite bill of goods.	It is a standard practice extended in order to enable borrower to secure funds.
Does not consider greater precaution.	Takes a greater precaution before it extends credit.
Competition is stiff in mercantile.	It does not have a lot of competition.

1.2 Purpose of the credit is identified as per the customer needs

The ultimate purpose of credit entirely depends on the customer's need for the credit. The following are some of the purposes of credits:

Purpose of financial credit

- Surplus funds with some individuals and institutions are made available to the deficit spenders through the means of credit.
- A well-managed credit prevents inflation, recession and un-employment in the economy.
- Relieves the constraints improved by balanced budgets on economic agents so as to meet the financial requirements of investors.

Credit is used for the purpose of:

- Buying
- Carrying or trading insecurities

Money that an investor may borrow from a broker so as to buy securities. Purpose credit is secured by cash or securities in a margin account. An investor who buys with purpose credit, realizes huge profit if the price of the security is favorable. He/she also takes a great risk because it may not bring any gains. Purpose credit is also called margin loan. Being able to borrow money, allows you to obtain all the available resources that they may need to earn more money for the person who provided the credit. Purpose of credit ultimately depends on the customer needs and how much he/she needs the money for.

1.3 Amount of credit requested is established as per customer needs

The amount of credit given to customer as per their request depends on the capability of that client to repay the credit and all other factors that a bank consider while giving credit to their clients. The following are factors to be considered while giving credits

Factors to consider while giving credit request

- **Credit history:** This is the credit worthiness of a client. The past experience of credits. Their repayment history and the general history in terms of loans.
- **Customer legal documents:** These are the legal documents e.g. identification card, name, address and all the legal details that must be considered while giving credit.
- **Collaterals:** These are the securities that must be obtained in a situation where a large amount is requested by a customer. In situation where a large number amount is requested, then the value of customer loan/ request must be relatively same.
- **Customer background:** These are details where a bank may need to check where the customer will get money to repay the loan.
- **Customer guarantor:** This is a person who acts as an assurance that the loan will be paid. He/ she signs the customer request after it is authorized by the bank.
- **Statements and account balances:** This is the background check on the customer account balances and that of guarantors in order to solve the request by taking a loan.

Identification of customer needs

There are crucial things a customer need. They include:

- Fair price
- Good services. Good customer service has been proved time and time again to allow business too change more.
- Good product. Creating a solid product is obviously a major need for customer and you. Be confident about your products, be open to improvement suggestions and always aim to give the customer exactly what they need.
- Meet customer expectations. How much your customer feels valued by a company is often overlooked. Customer value is the one need we think most e-commerce stores overlook.
- Convenience. Your product or service needs to be a convenient solution to the function your customers are trying to meet.
- Experience. Using your product for needs to be easy.
- Design. The product needs to have a sleek design to make it relatively easy and intuitive to use.
- Reliability
- Performance
- Efficiency
- Empathy
- Compatibility

Conclusion

This learning outcome covered: customer screening, importance of KYC, steps in customer screening and identification of customer needs.

Further Reading

Read on customer screening by Richard North Peterson.

2.3.2.3 Self-Assessment

Written Assessment

1. Which one of the following is not an element of KYC screening?
    a) Ongoing monitoring
    b) Costing
    c) Mobile KYC
    d) E-KYC

2. Which one of the following is not true about KYC?
   a) It is known as Know Your Customer
   b) Its importance is to reduce business risks
   c) It is a control scale
   d) All of the above
   e) None of the above
3. Customer need is the process of screening.
   a) True
   b) False
   c) Not sure
4. Which of the following is a verification check?
   a) Address
   b) Identity
   c) All of the above
5. Which of the following is not a customer need?
   a) Fair prices
   b) Good services
   c) Good life
6. Classify the different categories of customer needs.
7. Analyse five customer needs.
8. Evaluate the steps used for customer screening.
9. Identify five elements of KYC screening.
10. Highlight and examine importance of KYC screening.

Oral Assessment

1. What does KYC stand for?
2. What is a customer want?

Practical Assessment

In a group of five students, select a bank of choice in your area or school, learn on how the customer screening is done and get to elaborate all the importance of customer screening.

2.3.2.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip chart/white board

2.3.2.5 References

Dehoitte & Touché. (2001*). Twelve White Paper on Issues in Education Finance*

Gauthier, S. J. (2001). *Government Accounting, Authority & Financial Reporting. Government Finance Officer Association.* ISBN – 0 – 89125 – 2193

Smith, T. (2002). *Accounting for Growth.* UK: Century Business

2.3.3 Learning Outcome No 2: Advise Client on Credit

2.3.3.1 Learning Activities

Learning Outcome No 2: Advise Client on Credit	
 **Learning Activities**	**Special Instructions**
2.1 Inform customers on the repercussion of non-disclosure of information as per credit policy 2.2 Inform customers on credit repayment amount as per credit policy 2.3 Inform customers on credit repayment period as per credit policy 2.4 Inform customers on credit repayment date as per credit policy 2.5 Inform customers on interest rates and other costs as per credit policy	Oral assessment Lectures Presentation

2.3.3.2 Information Sheet No2/LO2: Advise Client on Credit

Introduction

This learning outcome covers: Categories of bank customer credit, types of credits offered by financial institutions, requirements for credit application, process of credit application, pros and cons and terms and conditions of credit.

Definition of Key Terms

Credit application: This is a contract between a customer/client and a bank for a request extension of credit. This request can be done orally or in a written form.

Credit: This is a contractual agreement in which a borrower receives something of value now and agrees to repay the lender at a later date with interest.

Interest rate: It is the amount of interest due per period. It is the rate at which the bank or other financial institutions charges their clients to take its credit.

Credit Policy: It is the set of principles on the basis of which it determines who it will lend money to or give its credit.

Content/Procedures/Methods/Illustrations

2.1 Customers are informed on the repercussion of non-disclosure of information as per credit policy

Bank customer is a person who buys goods or services from a bank. They can be categorized as follows;

Categories of bank customers

- **Individual customer.** This is an account opened in an individual's name. For example, on account opened in the name of 'A'.
- **Joint customer.** This is an account opened in joint names. For example, an account in the name of A and B. NB: A maximum of 4 individuals can jointly open an account.
- **Proprietorship firms.** This is a business done by one single individual. These firms can open current account and all types of term deposits with the bank but are not permitted to open savings deposit account.
- **Partnership firms.** This is one where more than one individual join together for a common business purpose. In the partnership firm, there can be minimum of two partners and maximum of twenty partners. However, when the partnership firm is engaged in doing banking business, there can be maximum of ten partners only. At the time of opening an account in the name of partnership firm, the copy of partnership deed has to be produced to the bankers. The partnership deed can be either registered or not registered. It has to be with the Registrar of Firms. Bankers do not demand registration of the partnership deed at the time of opening a deposit account. However, at the time of availing loan facilities with the banks, the deed has to be registered.
- **Companies.** Companies are perpetual bodies. They exist by means of collective efforts of different individuals called shareholders. Companies are classified into private limited company and public limited company. In the case of Private limited company and Public limited company. In the case of private limited the minimum members permitted is 2 and the maximum is 50.

At the time of opening an account, they have to produce the following copies: Articles of Association, Memorandum of Association, Certificate of Incorporation, Certificate of Commencement of Business and Board resolution.

Types of credit

- **Short term loan:** These are given against some security as personal loans to finance working capital or as priority sector advances. The entire amount is repaid either in one installment or in a number of installments over a period of time.
- **Demand loan:** This is a loan recalled on demand. It has no stated maturity. The entire loan amount is paid in huge sum by crediting it to the loan account of the lender.

- **Cash credit.** A client is first placed under a credit limit and allowed to withdraw within the limit on a given security. The withdrawing capability depends on the client's current assets, the stock statement of which is submitted to the bank as the basis of security. Interest is charged by the bank on the loan taken.

Terms and Conditions of Credit

- Include information about use of information provided on credit application. Make sure that the potential credit customer provides the complete and correct information on the application and is made aware of how the information provided will be used. The application certifies that the information contained is complete and accurate and understand that it is used to determine the amount and conditions of the credit to be extended.
- Include terms of payment and credit extension on credit application. This provides clear receipt of the terms by the customer and requires the customer to agree to your terms of payment.
- Get security for the credit applications. Security has to be provided for the loans offered. The inclusion of a personal guarantee as part of the credit application and a grant of a security interest. One can secure your extension of credit. If there is a security agreement or personal guarantees each document must be signed individually.

Repercussion is the bad effect that an action, event or decision has on the person or something. The customer /client should be made aware of the consequences they will face once they do not disclose information that is required for their credit application processing. Informing customers on the repercussion of non-disclosure of information is a process of educating the customers on the consequences of failing to disclose important information that could be used by the credit facilities to make credit decisions.

Process of credit registration

Credit application is a request for an extension. It can be done either orally or in written form usually through an electronic system. The application must legally contain all pertinent information relating to the cost of the credit for the borrower. Individuals have number of providers to choose from many emerging credit companies offering varying types of loans:

The following steps should be followed;

i. The client will apply for credit from a credit provider
ii. The credit provider will begin to process the consumer's application which will be sending enquiries to various credit bureaus.
iii. The credit bureau will respond to the enquiry and will issue a report to the credit provider.

iv. The credit provider will assess the report and decide whether the application is risk free and if it should be accepted or declined.
v. When the provider decides to grant the client credit, the credit provider will be used in order to determine the interest rate the consumer qualifies for and the deposit that needs to be put down in order to borrow the credit.
vi. The credit provider will notify the consumer of the terms of business.

Importance of informing customer on repercussions of non-disclosure of information

- It helps to build and develop trust
- It potentially allows free flow of information between the client and institution.
- It helps the customer be aware of the consequences to face if he does not disclose full information

For credit application based on the credit policy one should disclose the following information; their full names, national identification document or passport number, account number in which they hold in that bank, their occupation, monthly income, Phone number and a legal address, their location, name of a few known guarantors, or providence of a title deed or logbook under the name of the client. The consequences of a client not disclosing the above information may lead to the Financial Institution not processing the credit applied for. It may cause the customer to face a costly lawsuit and may face a criminal penalty for providing false documentation.

2.2 Customers are informed on credit repayment amount as per credit policy

The credit repayment amount is determined by how long the customer wants to pay the credit (the credit repayment period). There are various ways of informing customers about their credit repayment amount, they include; making calls, in person meetings (calling the client to the office to disclose on their credit repayment amount), writing official letters explaining the repayment amount to be paid and forwarding emails to the clients.

For example Ochieng requires a credit of Ksh 1,000,000 and the bank is offering the loan interest at the rate of 4% p/m and paying for 12 months

$$FV = 1{,}000{,}000\,(1 + 0.04)^{12} = 1{,}000{,}000\,(1.601) = 1{,}601{,}000$$

$FV = 1{,}601{,}000$ For a period of 12 months

The customer is expected to pay Ksh 200 for the loan acquired and the interest is shared equally among the 4 months. Credit payments refers to the amount of money that a customer ought to pay for his/her bank’s obligations. In Kenya different banks have different ways by which a customer can pay their debts this includes;

a) Equity gold card

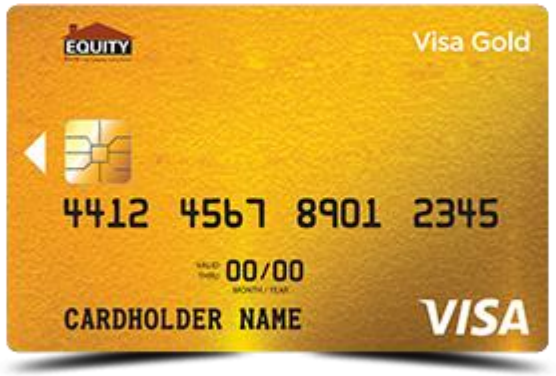


Figure 2: Equity Bank gold card
Source: businessdailyafrica.com

b) KCB platinum visa card

Figure 3: Platinum visa card. Ke
Source: kcbgroup.com

c) Standard chartered platinum card

Figure 4: Credit card.
Source: standard chartered. Sc.com

d) I &M visa infinite

Figure 5: I & M Bank
Source: imbank.com

e) Family bank visa card

Figure 6: Family bank credit card
Source: familybank.co.ke

f) Barclays signature visa card

Figure 7: Barclaycards credit card
Source: barclays.co.ke

g) **National bank visa card**

Figure 8: Visa classic national bank
Source: nationalbank.co.ke

h) **MPESA cards**

Figure 9: Mpesa visa card
Source: jamiiforums

2.3 Customers are informed on credit repayment period as per credit policy

Credit policy: It is a set of principles on the basis of each as it determines who it will lend money. The credit repayment period is determined by the customers but the bank itself has also limitations to time but depends on which type of credit one has taken. Monthly payments are often calculated based on the length duration your loan and the interest rate e.g. A credit given of Ksh. 100,000 paid with 10% interest rate for 1 year will have different monthly payments from one given Ksh. 100,000 12% interest rate for 2 years.

Information is passed to the client through Emails, phone calls, in person meetings and official letters.

Credit repayment period

$$Interest\ (I)\ \times\ Principal\ (P)\ \times\ Rate\ (R)\ \times Time$$

$$Time = \frac{Interest}{Principal \times Rate}$$

$$Time = \frac{200}{5{,}000 \times \frac{12}{100}}$$

2.4 Customers are informed on credit repayment date as per credit policy

Repayment period refers to the time between the first payment on a loan and its maturity. The customers should be well informed about their credit repayment period and should be in agreement whether payments should be monthly, quarterly, semiannually or annually according to the customers capability. They should also be made aware of when they should start paying the installments and the finishing time. Normally, the repayment date falls on the date which the credit was forwarded to them, for example if the client acquired the credit on the 23rd of November 2019 and is paying back on monthly basis, then he is expected to payback on the 23rd of every month till the last installment. This information is forwarded to the client by the bank through notifications on text messages, calls, letters or emails.

2.5 Customers are informed on interest rates and other costs as per credit policy

Interest rate is the amount interest due per period. It is the rate at which the bank lender or other financial institutions charge their clients to take up the loans.

A sample interest is computed only on the amount borrowed without compounding. The method of calculating interest assumes one payment at the end of the loan period. The cost is based on three elements; principle, rate and time.

$$Interest(I) = Principal\ (P) \times Rate\ (R) \times Time\ (T)$$

For example:

$Principle\ =\ Ksh. 5,000$

$Rate\ =\ 12\%$

$Time\ =\ 4moths$

$5{,}000\ \times 12\% \times 4 = 200$

The Interest is 200

Conclusion

This learning outcome covered the categories of bank customers, types of credit offered by financial institutions, the required documents necessary for credit application, pros and cons, terms and conditions. It further states the consequences an applicant faces when they lack to give the required documents or they fail to produce legal details. It also demonstrates how interest rate is determined and how it is calculated and distributed. It explains how a bank settles on the repayment period and repayment date.

Further Reading

1. Read more on credit facility from Consumer credit Act 2006

2.3.3.3 Self-Assessment

Written Assessment

1. A loan backed by collateral is called a?
   a) Line of credit
   b) Dividend
   c) Secured loan
   d) Trade credit
2. Under COD terms the seller?
   a) Extends credit to the buyer on open account
   b) Extends credit to the buyer subject to bank approval
   c) Requires the buyer to make partial payment at fixed intervals
   d) Bears the risk of the buyers refusing the goods shipped
3. The government requires that the lender provide you with information on this rate
   a) The prime rate
   b) The national contract rates
   c) The discount rates
   d) The annual percentage rates
4. Which one of the following was not added as a category of exempt agreement by the Consumer Credit Act 2006?
   a) Business
   b) Charities
   c) High net worth debtors and hirers
   d) Investment properties
5. What is the interest rate that world class banks in London pay each other for Euro dollars?
   a) London Interbank offered rate (LIBOR)
   b) London Long-term bond rate (LLBR)
   c) London Euro rate (LER)
   d) London Euro bond rate (LEBR)

6. The interest rate used as an index in calculating rate changes to adjustable rate mortgages (ARM) and other variables rate short term loans is known as the
    a) Federal Fund rates
    b) Index Rate
    c) Margin Rate
    d) Prime Rate
7. Which of the following terms best applies to the short-term interest rate charged by banks to large credit worth customers?
    a) Discount basis interest rate
    b) Long term bond rate
    c) Prime rate
    d) Fed funds rate
8. Interpret credit policy
9. Classify and analyse five collaterals that are acceptable by a bank.
10. Discuss on non-disclosure agreement and evaluate its importance.
11. Classify ways in which a bank informs or communicates to a customer.
12. Elaborate the key factors that determines a customer's credit worthiness.

Oral Assessment
1. State the credit application process
2. What are the consequences of Non-disclosure?

Practical Assessment
In a group of 5 students perform the following task:
Mr. Kamau visits Equity bank and wants a loan amounting to Ksh. 100,000. Using the simple interest method, solve
  a. Principal 100,000 rate 12% within 12 months calculate the interest
  b. Principal 18,000 interest 1080 time and month calculate the rate
  c. Interest 2600 Rate 18% Time 12 months calculate the Principal

2.3.3.4 Tools, Equipment, Supplies and Materials
- Writing materials
- Calculator
- Projector
- Computer
- Flip Chart/white board

2.3.3.5 References

Agarwal. S, Charm, sengpel. S.S & Wang. S.Q (2016) is secured Lending Secure? Evidence from small businesses

Ducla, A. D (2017). Mortgage as a collateral of bank claims. Doctoral dissertation, Zaarkled Prawa

Knight, l. G., & Knight, R, A. (2000). Counselling clients on credit. Journal of Accountancy, 189(2), 61.

2.3.4 Learning Outcome No 3: Conduct security/collateral perfection.

2.3.4.1 Learning Activities

Learning Outcome No 3: Conduct security/collateral perfection	
Learning Activities	**Special Instructions**
3.1 Identify security as per bank policy 3.2 Ascertain acceptability of the security as per bank policy 3.3 Establish sufficiency of the security as per bank policy 3.4 Create legal documentation on the security as per bank policy 3.5 Conduct security visit as per bank policy 3.6 Verify ownership of the security as per bank policy Existence of *encumbrances* (Caveat Joint ownership) 3.7 Establish legality of ownership as per bank policy	Oral assessment Written assessment

2.3.4.2 Information Sheet No2/LO3: Conduct security/collateral perfection

Introduction

This learning outcome covers; collateral, acceptability of security, sufficiency of security, legal documentation, security visit, ownership of the security and legality of ownership.

Definition of key terms

Collateral: This is pledge of the borrower on a particular property to the lending firm in securing loan repayment. It effectively serves as a protection for the loan thus in case of default, the property is liquidated to repay the loan.

Legal: In relation to the collateral, legal implies that property that can be permitted by law to pledge on a loan repayment.

Collateral perfection: It relates to an agreement between the lender and the borrower that lets the borrower possess the pledged property at the same time ensuring that no enforceable security interest that can arise regarding the property.

Content/Procedures/Methods/Illustrations

3.1 Security are identified as per bank policy

With the revised loaning policies by the Central Bank of Kenya, any loan taken from a bank must have collateral to it. This is to ensure that the loan is secured to avoid high chances of non-performing loans in banks. Therefore, collaterals should be identified and attached on the loan applied for to complete loan application and issuance as per the bank policy.

Methods of valuing a security

- **Cost approach:** The property or asset value of the security is determined by the replacement or reproduction cost of the property. The valuers or the appraisers of the property consider the obsolescence and functional aspects of the security.

- **Market approach**: This method is applied to determine the property worth through the prevailing market prices. The adjustments and transactions in the market place determine the property value by the forces of demand and supply.

- **Income approach**: The expected cash generation from the asset is used to determine the asset value under this method. The investors therefore pay the amounts they expect to get from the asset annually.

Features of a security

- Durability a good collateral/security should be able to withstand adversities of wearing out such that it stays longer across the loan period.
- Identification: Good security should be readily identifiable to the class of properties it belongs to in order to make valuation easy.
- Value stability: Good security should maintain it price to avoid loan losses in case the asset was to be liquidated.
- Standardization: This is the ability of the security to be graded and meet the basic market standards of properties falling in its class.

3.2 Acceptability of the security is ascertained as per bank policy

Security acceptability by the bank should follow due process and should meet the required legal and physical standards. Therefore, ascertainment of the security acceptance should be from both the bank (loan issuer) and the loanee. The bank policy in regard to security check and acceptance carries the permanent importance to ensure that security interest does not conflict in the future.

Procedures for acceptability

i. **Pledging of the property:** When and individual wants a loan from the bank, they state the property to be used in securing that loan in the whole repayment period.

ii. **Securing valuation:** When the property meets the required features that a security should have, valuers do their noble thing of determining the property worth.

iii. **Comparison of details:** Once the property worth has been ascertained the details are compared with the loan details to determine whether the property is worth securing the loan.

iv. **Security acceptance:** When all the conditions have been met the property is approved with the loan details to determine whether the property is worth securing the loan.

Types of collateral

- **Real estate:** They are the most common types such as a home or a parcel of land for an individual.
- **Cash collateral:** It is a simple type of collateral where the loanee maintains active accounts with the loaning bank such that in the event of default, the bank liquidates the accounts to recover the loan.
- **Inventory collateral:** This type of collateral uses organizational stock as loan security where the inventory can be liquidated in the event of default.
- **Invoice collateral:** This type of collateral uses the sale bill or note showing future payment to secure a loan with the bank.
- **Blanket liens:** These are assets of a business and can be used in the acquisition and securing of a loan.

3.3 Sufficiency of the security is established as per bank policy

A security that is sufficient is an asset or property which meets all the requirements needed in securing a loan. Therefore, establishing the efficiency of a security is what will determine whether the loan to be issued will be fully covered or not. The security is thus important in the whole loaning process especially when it is sufficient as per the stipulated bank policy.

Importance of collateral

- High probability of repayment when borrowers have pledged their property, they do not feel good to lose such property thus will do all it takes to repay the loan.
- Profits in the event of loan default, the pledged property is liquidated and is usually disposed at an amount higher than the loan thus profit to the bank.
- Increase of bank assets; other pledged properties such as real estate can become part of the bank’s assets in case the loanee defaults the loan.

3.4 Legal documentation on the security is created as per bank policy

Security documentation deals with capturing of security details in a manner permitted by the law to avoid any issues of interest conflict. Legal documentation follows due process of validation and capturing of details as they are regarding the security.

Legal aspects of collateral

- **Financial solvency:** A property pledged as collateral must have the ability to be converted to cash to repay the loan in event of default.
- **Financial legislation:** The property pledged as collateral must be able to be governed and regulated in the financial market.
- **Legal classification:** The property pledged as collateral must be among the properties permitted to be possessed by the law of the land.
- **Monetary value:** The pledged property must be having a financial worth than the conceptual worth attached to other properties.
- **Registration:** A pledged property must be registered under the provisions of the law and be possessed by the individual or the organization in need of a loan.

3.5 Security visit is conducted as per bank policy

A loan security can be movable or immovable. When a security cannot be carried and be brought to the bank, it is said to be immovable. This therefore requires that the bank has to visit the area where the property is situated to conduct necessary procedures such as valuation for purposes of better security perfection.

Methods of perfecting different types of collaterals

- Value exchange method: The contractual agreement between the two parties should show an exchange consideration for the loan offered by the bank.
- Debtor's rights method: This method requires that the individual or party taking a loan must possess the rights to own and transfer the property to the lender.
- Security agreement method: This, method requires that the bank (loan issuer) and the loanee, have a contractual document that can authenticate the property for attachment purposes.

Ways of perfecting a security

- Filing a financial statement with a relevant public office
- Possession of the collateral while the loanee retains its ownership
- By controlling the security
- Attachment of interest on the security

3.6 Ownership of the security is verified as per bank policy

Verification of ownership of a security is very important as it helps the bank to ascertain that the security belongs to the party seeking a loan. Therefore, the verification process is very simple as it requires presentation of proof of ownership examples being logbooks for cars, title deeds for land, receipts for items purchased. This ownership is verified by checking the originality of the documents presented and then approval of the documents.

3.7 Legality of ownership is established as per bank policy

Legality of ownership is centered on whether the property to be pledged is rightly acquired by loanee and can be used by the loanee as a security. To show legal ownership, the loanee must present proof of ownership and also ensure that the property is constitutionally permitted to be owned. The legality of ownership should also be shown by showing that the right process was followed in acquiring the property and that the property is directly ascribed to the party intending to request for a loan.

Conclusion

This learning outcome covered; collateral, acceptability of security, sufficiency of security, legal documentation, security visit, ownership of the security and legality of ownership.

Further Reading

1. Read on Legality of ownership contained in the following article: Steinberg, A. B. (2008). For sale-One level 5 barbarian for 94, 800 Won: The International effects of virtual property and the legality of its ownership. Ga. J Int’l & Comp. L., 37,381
2. Read on supply of bank credit contained in the following publication: Accornero, M, Alessandri, P, Carpinelli, & Sorrentino, A.M. (2017). Non-performing and the supply of the bank credit: evidence from Italy. Bank of Italy occasional paper, (374).

2.3.4.3 Self-Assessment

Written Assessment

1. Which of the following is not a method of valuing a security?
   a) 1st approach
   b) Income approach
   c) Consultation approach
   d) Market approach

2. Which of the following is not a feature for security?
    a) Identification
    b) Value stability
    c) Durability
    d) Tangibility
3. Which of the following is not a type of collateral?
    a) Cash collateral
    b) Real estate
    c) Copyright collateral
    d) Inventory collateral
4. Which of the following is not an importance of collateral?
    a) Collateral owners can sell
    b) High payment profitability
    c) Increase of bank assets
    d) Profits for the bank
5. Which one is not a legal aspect of collateral?
    a) Financial legislation
    b) Form of the property
    c) Financial solvency
    d) Monetary value
6. Which one is not a method of perfecting various types of collaterals?
    a) Market value method
    b) Value exchange method
    c) Security agreement method
    d) Debtors rights method
7. Analyse the word collateral.
8. Classify procedure for collateral acceptability.
9. Elaborate on invoice collateral.
10. Demonstrate the importance of collateral to the borrower.
11. Plan ways of perfecting collateral.

Oral Assessment

1. Name the examples of documents that show legal ownership of a collateral.
2. Name examples of illegal collaterals.

Practical Assessment

In a group of five students visit a local lending firm and examine some loan collaterals in possession with the firm. Learn and compose a report on the features of such collaterals.

2.3.4.4 Tools, Equipment, Supplies and Materials

- Transport
- Writing materials
- Computer and projector
- White board and marker pens
- Sample collaterals like invoices and title deeds

2.3.4.5 References

Accornero, M, Alessandri, P, Carpinelli, & Sorrentino, A.M. (2017). Non-performing and the supply of the bank credit: evidence from Italy. Bank of Italy occasional paper, (374).

Agarwal, S, Chomsisengphet, S, &Wang, S.Q. (2016). Is secured lending secure? Evidence from small businesses

Duda, A.D. (2017). Mortgage as a collateral of bank claims. Doctoral dissertation, Zaklad Prawa

Liu, Z, Shang, J, Wu, S.Y., &Chen, P.Y. (2020). Social collateral, soft information and online peer-to –peer lending. A theoretical model. European journal of operational research, 281(2), 428-438.

Steinberg, A. B. (2008). For sale-One level 5 barbarian for 94, 800 Won: The International effects of virtual property and the legality of its ownership. Ga. J Int’l & Comp. L., 37,381

2.3.5 Learning Outcome No 4: Conduct Credit Appraisal

2.3.5.1 Learning Activities

Learning Outcome No 4: Conduct credit appraisal.	
 **Learning Activities**	**Special Instructions**
4.1 Ascertain customer ability to pay as per bank policy 4.2 Ascertain customer risk profile as per bank credit policy 4.3 Establish purpose of credit facility as per bank policy	Written assessment Illustration

2.3.5.2 Information Sheet No2/LO4: Conduct Credit Appraisal

Introduction

This learning outcome covers: Principles of lending, preparation of financial position, income statement, cash flow statement, cash flow projection, ratio analysis.

Definition of key terms

Financial statements: They are also known as financial records. They provide a clear picture of financial activities and performance of business.

Ratio analysis: It is a calculation done using financial statements items to establish financial performance of a business. It can be profitability analysis, liquidity analysis and debt analysis.

Bank policy: These are the procedures established by individual banks which are part of central bank regulation, aimed at protecting customer's assets.

Credit policy: These are the procedures that provide guidelines on how banks issue credits to their customers/customers.

Content/ Procedure/ Methods/ Illustrations

4.1 Customer ability to pay is ascertained as per the bank policy

Bank policies in Kenya are developed by individual banks; however, the policies should be in accordance to Central Bank of Kenya regulations. Bank's lending policy is a part of general bank policies. It provides guidelines to banks on whether to give or not a loan to a customer. Customers' ability to pay is defined as the capacity of the customer to pay back money owed to the bank.

Procedure of ascertaining customer ability to pay as per bank policy

i. Bank will establish current income of the customer. This can be done by requesting current pay slip for the employees' customer or financial statements for the corporate customers.

ii. Bank should establish the existing debt level of the customer which may also include the customer listing their current liabilities.
iii. Bank should proceed to request the credit history of the customer from the Credit Reference Bureau (CRB).
iv. Bank should carry out a debt to income ratio where the debt to income ratio is high, then the customer has a high possibility of default.
v. Bank should also consider the value of collateral that the customer is willing to provide as security for the loan. If the asset is of high value; then the customer will ensure a repayment to avoid auctioning his/her asset.
vi. The bank should also establish the importance/purpose of the loan. This should answer the question such as why is the customer requesting a loan.
vii. The bank should finally follow up to ensure that the customer uses the loan for the reasons the customer stated on loan application form.

Based on the procedures above, the bank will make a reasonable decision whether the customer has the ability to pay.

The bank must also put into consideration the principles of lending

The main business of a bank rather than taking deposits is issuance of loans. The following principles of lending are applied by banks to ensure that its operations remain afloat.

- Identification of the borrower: This entails application of Know Your Customers (KYC); where through application of these principles the loan/ amount lent is given to the right customer thus preventing fraud.
- The purpose of the loan: The bank should carry out an analysis on why the customer is requesting a loan. This will ensure that the bank is cautious on issuance of large amounts to new ventures.
- Amount of loan: The bank should exercise due diligence to ensure the amount given to the customer is neither under or over financed. Limited finance would lead to failure of the project to be financed whereas excess funds would result to diversion of the extra funds to other activities which may be a risk during repayment.
- Repayment period: The periods for repayment should be organized such that the bank is liquid enough to meet the demand of the depositors.
- Source of amount to be repaid: This entails clear details of the source/ plan of how the customer intends to repay the amount requested.

4.2 Customer risk profile is ascertained as per bank credit policy

Customers risk profile; this is an uncertainty of outcome associated with a particular customer. A customer with a high-risk profile means that the probability of default by such customer is high.

Procedure of ascertaining customer risk profile

i. **Establish risk categories:** The bank should come up with different categories of risk. This may be variant from different bank but should be within the CBK regulation e.g. standard/ normal risk and higher risk.
ii. **Establish high risk indicators:** These are factors that the bank will use as bases to determine a high-risk customer profile. For business, the bank should analyze the financial statements e.g. nature of business.
iii. **Relevance:** Ensure that the risk indicators are relevant to the bank clientele.

Analysis of customer risk profile

The bank should use various financial statements to analyze the risk level of a customer/ business.

Preparation of statement of financial position

The bank can use various financial statements to analyze the risk level of a customer/ business. In such cases, the bank can analyze to see the source of financing the business uses. If it has a high long-term debt financing then it can be categorized as high risk.

Table 3: Sample of financial statements

ABC Ltd Statement of financial position As at 31st Dec 2019		
Fixed Assets	Sh	
Property, plant and equipment	XXX	
Premises	XXX	
Vehicles	XXX	XXX
Current Assets		
Inventory	XXX	
Trade receivables	XXX	XXX
Total assets		XXX
Non- current liabilities		
Bank loan (5 years)		XXX
Current liabilities		
Trade payable		
Accruals	XXX	
Financed by	XXX	XXX
Common stock		XXX
Total liabilities and equity		XXX

a) Income statement

Through the analysis of the income statement, the bank can establish the sources of revenue and carry out different analysis e.g. profitability analysis to see a trend of performance of the organization over time. If by comparing income statements of different periods the organizations profits have declined substantially, then it will be a red flag on issuance of another loan.

Table 4: Statement of comprehensive income

XYZ Ltd Income statement For the year ended 31st December		
Revenue	**Ksh**	**Ksh**
Sales		XXX
Less: Expenses		
Cost of goods sold	XXX	
Depreciation expense	XXX	
Wage expense	XXX	
Interest expense	XXX	
Net income (profit)	XXX	XXX

b) Cash flow statement

This is also known as statement of cash flows. It shows how any change in items of the statement of financial position and income statement affect cash and cash equivalents. Cash flow statement shows effect on cash flow from operation, cash flow from financing and cash flow from investment. Net cash flow results from deducting cash flow financing and investment cash flow from operations. If the net cash flow is negative then it means that the company is not well financing its operations.

Table 5: Statement of the cash flows

ABC Ltd Cash flow statement For the year ended 31st Dec 2019		
Operating activities	**Ksh**	**Ksh**
Sales receipts		
Less: **Payment for products**	XXX	
Payment for operation	XXX	
Taxes	XXX	
Net cash flows from operating activities		XXX
Investing activities		
Purchase of machinery	XXX	
Interest received	XXX	
Net cash flow from investing activities		XXX
Financing activities		
Short term debt		
Long term debt		
Net cash flow from financing activities		
Net increase (decrease) in cash		XXX
Cash at the beginning of the year		XXX
Cash at the year end of the year		XXX

Cash flow projection

Procedure of preparing cash flow projection

i. Prepare sales forecast for the business.
ii. Add any other estimated cash inflow.
iii. Less any estimated cash outflow as expense.
iv. Result is the cash flow projection for the projection.

4.3 Purpose of credit facility is established as per bank policy credit facility

It is an agreement between the bank and the customer to allow the customer to borrow specific amount for different purpose for a particular period of time.

Purpose of credit facility:

Bank credit enables large scale production of goods and services because the corporate has enough funds to facilitate its business.

- Credit facility is essential to new ventures which may have difficulty rising initial capital.
- Credit facility is essential to business to finance its daily operations to avoid bankruptcy.
- Good repayment done regularly improves the credit scores of the company.

Ratio Analysis

This is an analysis done to establish operational efficiency, liquidity and profitability of a company by using details provided in the financial statement. Ratio analyses are used to establish a trend for the company by using information from financial statements from different periods.

Liquidity ratios: Are ratios used to show whether the company has the ability to pay its obligation when they fall due e.g.

$$Current\ ratio = \frac{Current\ assets}{Current\ liabilities}$$

$$Quick\ ratio = \frac{Current\ assets - Inventory}{Current\ liabilities}$$

Profitability ratios: Measures the ability of the company to generate profits from operations.

$$\text{Gross profit margin} = \frac{\text{Gross profit}}{\text{Sales}}$$

$$\text{Net profit margin} = \frac{\text{Net profit}}{\text{Sales}}$$

$$\text{Return of equity} = \frac{\text{Total asset}}{\text{Equity}}$$

Efficiency ratios: Measures how well a company puts its assets into use.

For example:

$$\text{Asset turn over} = \frac{\text{Sales}}{\text{Assets}}$$

$$\text{Inventory Turnover} = \frac{\text{Credit sales}}{\text{Cost of goods sold}}$$

Conclusion

This learning outcome covered: Principles of lending, preparation of statement of financial position, income statement, cash flow statement, cash flow projection, ratio analysis.

Further reading

1. Read on ratio analysis contained in the publication by Nassim,D., & Penman, S. H. (2001). Ratio analysis and equity valuation: From research to practice. *Review of accounting studies*, 6(1), 109-154.
2. Read more on cash flow projection based on the publication by Friend, E.H., & McCroy, R. T (1998). US. Patent No. 5,774,881. Washington, DC: U.S. Patent and Trademark office.

2.3.5.3 Self-Assessment

Written Assessment

1. Which one of the following is not a profitability ratio?
    a) Gross profit margin
    b) Net profit margin
    c) Quick ratio
    d) Return on equity ratio
2. Which among the following is not a financial statement?
    a) Changes in equity
    b) Cash flow projection
    c) Statement of financial position
    d) Statement of comprehensive income
3. Which among the following is an efficiency ratio?
    a) Quick ratio
    b) Asset turnover
    c) Current ratio
    d) Cash ratio
4. Which among the following is not true among importance of credit facility?
    a) For financing new ventures
    b) For financing old business operations
    c) For production in large scale
    d) None of the above
5. What is the correct answer among the following principles of lending?
    a) Repayment period
    b) Risk categories
    c) High risk indicators
    d) Relevance

6. Which among the following is not part of financial position statement items?
    a) Profit
    b) Capital
    c) Asset
    d) Creditors
7. Which among the following statement is not true?
    a) Bank will establish current income of the customer during establishing ability to pay
    b) Bank should not consider the value of collateral during lending
    c) Bank should follow up on the way the loan is being used
    d) Bank should carry out debt to income analysis during lending
8. Prepare the producers of ascertaining customer ability to pay.
9. Categorize the different principles of lending.
10. Analyse the procedure of ascertaining customer risk profile.
11. Compose the importance of liquidity ratios.
12. Demonstrate why a company should conduct ratio analysis during credit appraisal.

Oral Assessment

1. What is bank policy
2. Why is bank policy important?

Practical Assessment

In a group of at least three; predict the financial performance of the XYZ Company from the statement of financial position provided below: Concentrate on liquidity, profitability and efficiency ratios.

Table 6. Statement of financial position

XYZ Ltd **Statement of financial position** As at 31st December			
	2013	**2014**	**2015**
Fixed assets	Kshs ‘000’	Kshs ‘000’	Kshs ‘000’
Land and building	11,460	12,121	11081
Plant and machinery	8,896	9020	9130
	20,356	21141	20211
Current assets			
Stock	1775	2663	3995
Trade debtors	1440	2260	3164
Cash	50	53	55
	3265	4976	7214
Current liabilities			
Trade creditors	390	388	446
Bank overdraft	1300	2300	3400
Taxation	899	1420	1195
Proposed dividends	1600	1696	1800
	4189	5804	6841
Net current assets	922	828	373
12% debentures	5000	5000	5000
	14434	15313	15584
Share capital	8000	8000	8000
Retained earning	6434	7313	7584
	14434	15313	15584

2.3.5.4 Tools, Equipment, Supplies and materials

- Writing material
- Projector
- Computer

2.3.5.5 References

Arnold Z. (2014). Fundamental of credit analysis. Carlifornia Create space Independent publishing platform.

Friend, E.H., & McCroy, R. T (1998). US. Patent No. 5,774,881. Washington, DC: U.S. Patent and Trademark office.

Gerald L. (1997). The analysis and use of financial statements. Newyork. Wiley.

Leopold A, Bernstein and John J. (1999) Analysis of financial statements. 5th edition. New York. McGraw Hill Education.

Nassim,D., & Penman, S. H. (2001). Ratio analysis and equity valuation: From research to practice. *Review of accounting studies*, 6(1), 109-154.

2.3.6 Learning Outcome No 5: Facilitate Valuation of Security

2.3.6.1 Learning Activities

Learning Outcome No 5: Facilitate valuation of security	
Learning Activities	**Special Instructions**
5.1 Appoint security valuer as per bank requirements 5.2 Obtain details of the security as per the location of the security 5.3 Prepare valuation report as per valuer information 5.4 Filed valuation report as per banking procedures 5.5 Make amendments on credit as per the valuation report	Group discussions Case study

2.3.6.2 Information Sheet No2 /LO5: Facilitate Valuation of Security

Introduction

This learning outcome covers: Valuations, types of valuation, categories of valuation, requirement for valuation, importance of valuation, and role of valuer, valuation report, and parties involved in valuation of a collateral, various methods/approaches of valuation.

Definition of key terms

Valuation: This is the process of establishing the market value of a company or asset.

Valuer: Refers to an individual who has been professionally trained and qualified to help establishing the worth/value of something (property).

Asset: This refers to a valuable item that is passed by an individual or an entity and is considered to hold economic value that would be beneficial in the future.

Content/Procedures/Methods/Illustrations

5.1 Security valuer is appointed as per bank requirements

Banks looks for experts experienced and qualified and registered valuers and property consultants e.g. Amazon valuers limited member whose role is similar code of have training and practiced monitoring processes equal to valuation, banks employees or use them as external property valuers.

- The person complies with regulatory requirements governing registration or licensing.
- The person complies with yearly mandatory training requirements.
- The person complies with rules of conduct and code of ethics of their respective organization.

Ways of appointing

The valuer is considered experts in the specific property asset class or location (rural, industrial, retail and commercial) and be qualified appropriately. This step ensures that valuations are given by experienced valuers with no influence from banks. They are appointed for example through a meeting. A security is a financial instrument that is suitable to be bought or sold. A security valuer is termed as an individual that will help in determining the benefits and uncertainties that are associated with a security. The following are some of the importance of appointing security valuers.

Importance of appointing security valuers

- For initial funding process they are used to determine the value of the property.
- To determine variances in loan arrangements, for example an increase in the credit limit, when a variation in the loan facility is needed.
- To ensure current regulations are met during the course of a review of existing facilities for example agreed credit valuation valid and security position.
- During the course of the sale of assets subject to the bank's security, Valuers are needed.

Roles of a valuer

- Valuers help in offering advice and giving their opinion in relation to the security involved.
- A valuer helps in analyzing the market and generate a valuation report in relation to the security in question.
- A valuer will help in identifying and analyzing features that reflect the market value of the security
- A valuer should be up to date with the current affairs in order to sustain their knowledge.
- A valuer collects data that will in return help in making informed judgment. This will in return help in providing quality/reliable information to their client.

Parties involved in valuation of a collateral

A collateral is a property that a borrower uses to act as a guarantee while securing a loan. The parties involved during collateral valuation include;

- Borrower: This refers to the individual that is in need of a loan.
- Giver: This refers to the institution that is giving out/lending the money.
- Valuer: This refers to an individual that helps in establishing the value of a collateral and whether or not the collateral is fit to be used as security

Types of collateral

There are various types of collateral that an individual can use while borrowing, these are;

- **Real estate.** In this type of a collateral an individual may decide to use their house or title deed to act as a collateral, the items or properties used in this type should be of high value and do not depreciate in value.
- **Cash secured loan.** In this type of a collateral an individual may get a loan but still he/she maintains an active account e.g. in the non-deposit taking savings and credit cooperatives, an individual will deposit money in a fixed account then this money will act as a collateral when it comes to determining the amount of money they should get.
- **Inventory financing.** In inventory financing, the inventory will act as collateral in that if the individual fails to meet their obligation/ default the inventory used will be sold.

5.2 Details of the security are obtained as per the location of the security

Financial institutions always pay special attention to protect the personal details for trust. This is to ensure your information is fully protected. Banks have developed a protection procedure for clients' details. Details of security show the type of a security, date of purchase and the market value. They are explained as follows:

- **Types of the security:** The details of what type of a security are put into consideration alongside the location in which the security is located. Here the valuer considers whether the security depreciates or appreciates in value.
- **Date of purchase:** The valuer also captures the date of purchase of the security. This will help in determining the fair market value of the security in question.
- **The market value:** Details capturing the market value should also be presented. This will help in making informed judgment when it comes to decision making.

5.3 Valuation report is prepared as per valuer information

Valuation report refers to a report writing that captures the descriptions and the details of the security in question. It captures the risks and benefits that are associated with the security.

Methods of valuation

There are several methods that are used in valuation, this method includes;

- **Comparable analysis.** In this method of valuation, the valuer compares the current value of the business to the value of other businesses in the similar industry by looking at several ratios e.g. P/E ratio
- **Precedent transactions.** In this method the valuer will compare the business in question to other businesses that have previously been sold but are in the same industry.

- **Discounted cash flow analysis**. The valuer discounts the future cash flow back to the firms Weighted Average Cost of Capital. (WACC)

Categories of valuation

- Relative valuation models. In this model, the fundamentals are used to determine the intrinsic value of a business.
- Relative valuation models. This done by comparing the company in question to other similar companies.

Types of valuation

Valuation can be of two types. These are;

- Pre-money valuation
- Post-money valuation

- **Pre-money evaluation**

This type of valuation refers to the loan of a company before it receives their next financing. This will help determine the equity share that investors are entitled to

- **Post money valuation**

In this type of valuation, it is considered to be the value of a company after it has received financing.

Importance of valuation report

- It assists banks and customers to know the value of the property to enable banks measure the loan available or that can be lend out.
- Valuation report is used by insures to determine the level of risks.
- To enable mortgaging of a property. Property valuation report is important when clients want to request loan against the security of valuated property which is also accomplished when a loan for construction of a building is needed.
- For the purpose of tax. Property valuation is significant when determining the tax on property. Taxes covers: Municipal tax, wealth tax, property tax, vacant land tax and more others which the person has to pay to various department of government.
- When transferring property, the stamp duty is calculated on the ground of the value of the property.
- Important to value the property when buying or selling of property.

5.4 Valuation report is filed as per banking procedures

Valuation report is a type of report writing detailing the inspection and market value of the assisted survey. This can be made for physical property, for marketable securities and for liabilities.

Process of filing valuation report

i. **Step 1:** First determine the purpose of the appraisal. Usually entails estimating of market value of the property such as other types of value including use value, value in use investment value, value in use, investment value, going concern, insurable value, assed value and failure.
ii. **Step 2:** Secondly, should know the function of appraisal, is the client looking to buy property or mortgage, do you need to file insurance claim for damages, and will you appeal for property taxes? By knowing the purpose and function of appraisal will ensure correct interpreted results and complete picture to whomever is receiving the valuation report when complete.
iii. **Step 3:** Thirdly, significant factor is the purpose of the property currently.

The steps of valuation process

i. Understand the purpose and function of your appraisal
ii. Comprehensive onsite inspection at your property.
iii. Collect data on your property
iv. Compose and submit your valuation report.

5.5 Amendments are made on credit as per the valuation report

The amendment proposes that the claims that the value adopted should not exceed the fair market value of the property as of the date of transfer. It is important to estimate the value of the asset planned to be invested upon, hence preparing valuation report includes;

- **Valuation purpose:** It is significant to identify the purpose of the valuation of the asset.
- **Date of valuation and issuance:** State the date the valuation is to be done and the date report is submitted. It serves as basis for the duration the asset is to be valued.
- **Asset description:** Present in details information on the asset undergoing valuation.
- **Data analysis:** Analysis that is vital in valuation comes from business reports and financial reports.

Importance of valuation

- Valuation helps one in acquiring knowledge when it comes to a company's assets.
- It helps to understand the value of the company putting into consideration the time value of money.
- It helps in making decisions in cases where mergers and acquisition could consider.
- It helps in knowing the true value of the company.

Table 7. Sample of valuation report

Valuation and appraisal report

Property: CLINIC HOSPITAL

Tenure: freehold, held as an investment

Net internal area: 640 sqm

Gross external area: 740 sqm

User area: apartment

Tenancy: duke on assignment from g.k.c for a term of 10 years from 16 September 2010 on internal and external lease as 100,000 plus VAT at year monthly in advance on the 5th day of the month.

Rent reviews: ever quarter year the rent is updated to 50% of the install price variation index

Estimated market rent: 115,000 on similar terms

Estimated yields: initial yield 3.1 % (2010) ROA 3.4%. Annual debt service 8.5% equated yield 12 % (2014)

Valuation: 3, 400, 00(three million and four hundred thousand.

Ways of doing amendments

Where valuation roll has changed e.g. name has changed or changing of email address or where any error has been detected on notice printed from valuation roll information. National land agency must be advised. When claimed that name is incorrect on roll is incorrectly spelt national identification should be presented to prove claim and establish amendment. Request to change mailing address do not require supporting documents. The following are the main issues which will require changes to the valuation roll:

- Changes of ownership or possession.
- Subdivision of land
- Death of owner
- Change of postal address

Conclusion

This learning outcome covered: Valuations, types of valuation, categories of valuation, requirement for valuation, importance of valuation, and role of valuer, valuation report, and parties involved in valuation of collateral, various methods/approaches of valuation.

Further Reading

1. Read on factors to consider during security valuation and collateral management

2.3.6.3 Self-Assessment

Written Assessment

1. What are roles of a valuer?
    a) To state the number of assets in a company
    b) To establish the true of a company
    c) To provide underwriting services
    d) To offer advice on investment matters
2. Which among the following is not a method of valuation?
    a) Comparable analysis
    b) Ratio analysis
    c) Precedent transaction.
    d) Discounted cash-flows
3. Who among the following is NOT a party collateral valuation?
    a) Borrowers
    b) Giver
    c) Valuer
    d) Underwriter
4. Which among the following are types of valuation?
    a) Pre-money valuation
    b) Post money collateral
    c) Post money valuation
    d) None of the above
5. Which of the following explains comparable analysis?
    a) Compare the value of the current and already sold out businesses
    b) Compare the business value to valuation report
    c) Compares the current value of business to other related business
    d) Establishes the true value of the asset
6. Which of the following terms explains the term valuation?
    a) Helps the company establish what to sell out
    b) Establish the true value of the asset
    c) Determine what to consider valuable in the company
    d) None of the above
7. Which among the following are categories of valuation?
    a) Absolute valuation
    b) Pre money valuation
    c) Post money valuation
    d) All the above
8. Elaborate the term valuation and discuss its importance.
9. Demonstrate the roles of a valuer.
10. Categorize valuation.

11. Differentiate five reasons why valuation is important.
12. Analyse the methods of valuation?

Oral Assessment

1. State the categories of valuation.
2. Identify the issues which will require changes to the valuation roll.

Case Study Assessment

In 2007 after general elections Kenya had economic crisis, which led to financial aid and control by World Bank, China and International Monetary Fund. The companies and stock exchange were generally affected leading to economic problems in the country. During this special period in history companies were analysed and compared on how they were evaluated in the market, to their fair value. The Kenyan company e.g. Jane Ngigi, director of the Kenya Flower Council announced less of 10 billion Kenya Shillings. Many companies made losses e.g. Standard, Business Sunday Nation, the East African Limited, among others. During that period, PTs valuation and its fair value found to be close to market price quoted. Hence recommendation to investors was to hold.

2.3.6.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flipchart/white board

2.3.6.5 References

Anderson, Rodger (2000) "*rewards for the way you run your accou*nt: Chicago: new statement.

Boochun Jung, Kevin jialin son (2012) "*do financial analysts add value by facilitating more effective more effective monitoring of firms activities*. Japan. Scholar|crosser|isi

Bowen, R, Chen, X: cheng, Q (2008). *Analyst coverage and the cost of raising equity capital: evidence from the underpricing of seasonal equity offerings. Contemporary accounting research (fall*), google search|crosser|isi

Martin Brown (2007*) money credit and banking*. New York. Ithaka

2.3.7 Learning Outcome No 6: Communicate Credit Decision

2.3.7.1 Learning Activities

Learning Outcome No 6: Communicate credit decision.	
Learning Activities	**Special Instructions**
6.1 Receive credit decision from approval authority as per standard operating procedure 6.2 Interpret credit decision as per standard operating procedure 6.3 Take ***action*** *(a*pproval, decline, security addition) as per standard operating procedure	Oral Assessments Group discussions

2.3.7.2 Information Sheet No2 /LO6: Communicate Credit Decision

Introduction

This learning outcome covers; types of credit decisions, channels of communication, importance of communicating credit decision.

Definition of key terms

Credit decisions: It is an expression of future payment for property transferred or of fulfillment or promises given.

Channel of communication: It refers to a physical transmission medium such as wire or logical connection over a channel.

Content/Procedures/Methods/Illustrations

6.1 Credit decision is received from approval authority as per standard operating procedure

Approval authority is the means an authority, government or otherwise that regulates credit decision. The following are some of the credit authority credit decisions.

Types of credit decisions

a) **Revolving credit:** You are given a maximum borrowing limit and you can make charges up to that limit. You have to make a minimum payment each month, but the amount you pay can be any portion of your outstanding charges up to the full amount.
b) **Charge credit:** It is commonly used by retailers for use exclusively in their establishment, charge cards are rare these days but they don't permit you to carry a permit a balance you must pay all charges in full every month.

c) **Service credit:** Your contracts with service provider such as gas & electric utilities, cable etc. all are credit agreement. The companies provide their services to you each month with the understanding that you will pay for them after the fact.

d) **Installment credits:** It is a loan for a specific sum of money you agree to repay plus interest and fees in a series of equal monthly installments over a set period of time.

6.2 Credit decision is interpreted as per standard operating procedure

Credit decision interpretation**:** It is referring to the process of understanding of the future payment for properties of promises given. These are commitments by someone or an organization to do or not do something with a fulfillment of not exposing.

Properties of the promises given

- It must between two people or firms
- Must be a genuine agreement in relation to SOPs
- Must be mutual

Process of credit decision interpretation

i. Understanding the customers operating environment or the business they are engaged in.
ii. Interpreting quality of financial reports and accounts.
    This is an indication of someone's capability to pay the loan given.
iii. Analyzing the company's financial performance and condition: this is done through the spreading financial statements, balance sheet, income statement etc.
iv. The cash cycle, seasonality & discovering borrowing causes and repayments source. This also helps to determine the ability of the lender to repay the money owed.
v. Lastly, decision on credit is done after projecting financials of the business\one in question to fine tune the credit analysis.

6c's in credit business

- **Character:** Leaders have to know that business owner is a reliable individual who can be depended on to repay the loan. These characteristics are; credit history, education and work.
- **Capacity:** This is an evaluation of the company's ability to repay the loan. The bank needs to know how you will repay the funds before it approves the loan.
- **Capital:** A company's owner must have his own funds invested in the company before a financial institution will be willing to risk their investment.
- **Collateral:** Machinery, accounts receivables, inventory & other business assets that can be sold if a borrower fails to repay the loan are considered collateral.
- **Conditions:** This is an overall evaluation of the general economic climate and the purpose of the loan.

- **Confidence:** A successful borrower instills confidence in the lender by addressing all of the lenders concern on the other 5c's.

Process of credit decision strategy

A credit decision strategy is a sequential process followed by successful lenders both on the client-facing side and the credit approval risk side, to ensure they capture all the required information to assess the opportunity and the risk in lending to a particular borrower. The best practice is to have an elaborate and timely conversation between credits and sales. The process will continue. If critical hurdles are cleared until the most appropriate loan structure is determined, approved, accepted by client and booked. The final process is continuous monitoring of the relationship which is usually done to identify further cross-sell opportunities and monitor any changes in the risk profile. The loan/credit decision process is different and ranges from one company's policy to the other.

6.3 Action is taken as per standard operating procedure

Channel of communication action on credit decision is the act of finalizing the process by fulfilling the lenders' request. Before this is process is done, thorough check is done on the client's details to make sure that they fit to be given a loan.

Reasons for credit decision decline, approval or security addition

There are reasons that could result to credit decision, approval or decline. Approval of credit decision depends on the following factors:

- Credit worthiness
- Background information
- Customer history
- Financial capability
- Payment period

Credit decisions can be declined based on the following factors:

- Financial incapability
- Non-disclosure of customers' information
- Lack of capacity
- Poor customer credit history

Importance of credit decision action

- The bank lending the money is able to generate revenues
- For growth both the creditor and the debtor are able to grow their businesses.
- The creditors are able to gain interest rates from the credits given
- Some credits can benefit the debtor on cash flow to be able to start and run a new business.

Channel of credit communication

- **Face to face or personal communication:** Physical presence, the tone of the voice and facial expression helps the recipients of the message interpret that message as the speaker intends.
- **Mobile Communication channel:** A mobile communication should be used when a private or more complex message needs to be relayed to an individual or small group. This channel allows an interaction exchange & gives the recipient the added benefit of interpreting the speakers tone along with the message.
- **Electronic Communications channel:** Encompasses emails, internet, and social media platforms. It can be used as one-on-one, group or mass communication.
- **Written Method of communication**: Should be used when a message that does not require interaction needs to be communicated to an employee or a group.

Functions of communicating credit decision

- Control behavior
- Motivation
- Emotional expression
- Information

Importance of communication channels

- **Communication breakdown:** For effective communication channels must be clear and convey the correct message communication internally such as misunderstood directives between management & associate level employees can lead to breakdown of business bottom line.
- **Body language:** Communications must express their own words and body language in the same manner.
- **Clouding the message:** External communication should be as clear and concise as possible and not clouded with ambiguity
- **Cultural considerations:** What means nothing to one culture speaks volumes in another.

Conclusion

This learning outcome covered; types of credit decisions, channels of communication, importance of communicating credit decision.

Further Reading

1. Study more on banking beyond books by Waman Gokhale
2. Read more on law of banking by Dr. S.R. Myneni

2.3.7.3 Self-Assessment

Written Assessment

1. Credit decision is the expectation of future payment for property transferred.
    a) False
    b) True
    c) Not sure
2. Which one of the following is a type of credit decisions?
    a) Service credit
    b) Charge credit
    c) Revolving credit
    d) ALL of the above
3. Which one of the following is not a 6c’s in credit business?
    a) Capital
    b) Capacity
    c) None of the above
    d) All of the above
4. Channels of communication is a medium at which message is communicated. Is it true or false?
    a) False
    b) True
    c) Not sure
5. Which one of the following is not a function of communicating credit decision?
    a) Control behavior
    b) Motivation
    c) Educating
6. Categorize the channels of communication.
7. Evaluate the 6’c of credit.
8. Outline 6c’s of credit decisions.
9. Discuss the types of credit decision.
10. Summarize the importance of giving credits.

Oral Assessment

1. What is channel of communication?
2. What does financial credit mean?

Project Assessment

Perform a research on credit decision done by a Lending institution. Indicate all the relevant details to be entailed for a credit decision to be made.

2.3.7.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip Chart/white board

2.3.7.5 References

McClean's.(2005). The basics of Interpersonal communication.Boston, MA;Allyn& Bacon.

McClean's. (2003).The basics of speech communication. Boston, MA; Allyn Bacon.

Pearson, J.,&Nelson,P.(2000).An Introduction to human communication understanding & sharing (p.6)Boston,MA:McGraw.Hill

CHAPTER 3: BANK PRODUCTS

3.1 Introduction of the Unit of Learning/Unit of Competency

Bank products is a unit of competency offered in TVET level 6 banking and finance course qualification. This unit specifies the competencies required to market bank products. It involves identifying potential customer, identifying customer need and closing the sale. The significance of market bank product marketing to TVET level 6 banking and finance curriculum is to equip learner with knowledge and skills to demonstrate cash handling, bank product, market niche, business competitors, critical thinking, communication, negotiation, persuading and selling so as to fit well in the world of work.

The critical aspects of competency to be covered include demonstrated ability to identify potential customer, need and close the sale. The basic resources required include: stationery, internet connectivity, transport facility, communication gadget and computers.

The unit of competency covers 3 learning outcomes. Each of the learning outcome presents learning activities that covers performance criteria statements creating trainees an opportunity to demonstrate competecies stipulated in the occupational standards and content in curriculum. Information sheet provides; definition of key terms, content and illustration to guide in training. The competency may be assessed through written test, demonstration, practical assignment, interview/oral questioning and case study. Self assessment is provided at the end of each learning outcome. Holistic assessment with other units relevant to the industry sector workplace and job role is recommended.

3.2 Performance Standard

Potential customer need and close sale as per the bank policy and the organizational procedures.

3.3 Learning Outcomes

3.3.1 List of Learning Outcomes

a) Identify potential customer
b) Identify customer need
c) Close the sale

3.3.2 Learning Outcome No 1: Identify potential customer

3.3.2.1 Learning Activities

Learning Outcome No 1: Identify potential customer	
Learning Activities	**Special Instructions**
1.1 Perform data mining as per bank details 1.2 Identify referrals as per organizational procedures 1.3 Visit new customer as per banking policy 1.4 Conduct cold calls as per banking policy	Project Practice by trainee Direct instruction Discussions On job training

3.3.2.2 Information Sheet No3/LO1: Identify potential customer

Introduction

This learning outcome covers; the grooming etiquette, the nature and the type of customer, market niche, selling techniques, referral actualization and cross selling.

Definition of key terms

Grooming etiquette: This refers to the proper code to dressing and the general appearance in reference to the social settings

Customers: This refers to any person who is willing and is able to purchase a given product /service at a given stipulated period of time.

Cold calls: These are methods in which organizations contact individuals who have expressed no interest in a given commodity/service to enlighten them on existence of such.

Content/Procedures/Methods/Illustrations

1.1 Data mining is performed as per bank details

Data mining is the process of extracting information from large sets of any raw data. The banks will adopt this method to gather information and use it to identify the patterns and association in order to identify the potential customers, fraud activities and the trends.

The data mining process

i. **Data selection:** Data is identified from various data sources such as historical database, data warehouse. The data is then read for analysis
ii. **Data pre-processing:** This process involves data cleaning and integration
iii. **Data cleaning:** Under this stage, all the irrelevant data and the data that is not consistent is removed from the selected data.

iv. **Data mining:** In this stage various data mining techniques are derived in order to extract the data patterns
v. **Patterns evaluation:** The patterns that were identified in (iv) above are evaluated and meaning is derived from them
vi. **Knowledge presentation:** The presentation techniques are employed to present the mined information to users

Data mining techniques

The data mining techniques could be divided to the various means:

- **Association**

This technique is used to identify products and commodities that could be related/associated in given manners i.e. customer enquiring saving account will enquire of fixed deposit account. This information is important and could aid in making decisions.

Types of association method

- **Classification and prediction**

This method applies where classes of data in the population is known. They are used to extract models and predict the future. These techniques could be used to classify customer as a loan defaulter/loyal customer depending on the transactions.

Types of association

- Multilevel association rule
- Multidimensional association rule
- Quantitative association rule
- Direct association rule

Types of classification

- **Cluster Analysis and Concept Formation.**

Cluster is used to generate the class labels. It is a method used to define the classes and put the various objects in them. Cluster analysis helps an organization in cross selling their products and will also help to achieve the 80/20 principal of marketing

Types of classification models

- Classification by decision free induction
- Bayesian classification
- Neural networks
- Support vector machine
- Classification based on association

Types of clustering methods

- Partitioning methods
- Density based methods
- Grid based methods
- Model based methods
- Divisive methods

Importance of data mining in banking

- **Marketing:** The bank's marketing department uses the data mining to analyse the customers' behavior in reference to the products price and the distribution channel. The bank analyst can also use the post trends to determine the current demand and predict the customers' behavior in various products. Data mining techniques can distinguish between profitable customers and non-profitable customers. The data mining in relation to marketing can be used to predict the reactions of customers during an implementation of change, i.e. interest rates.
- **Risk management:** Banks can use the data mining to identify loan defaulters during issuing of loans**.** Banks will manage the risk they are exposed to, of lending substantial amounts of money to lenders without the proper knowledge of their credit scoring as per data mining.
- **Fraud detection:** Data mining helps an organization to focus on means to analyze the customer information and discovering the patterns that could lead to fraud activities.
- **Solving money laundering:** Money laundering is the failure to reveal the source money obtained illegally by passing it through a sequence of bank transfer to accept legitimacy.

Data mining has been adopted to detect such activities in the banks and failure to this would lead to negative impact on banks.

1.2 Referrals are identified as per organizational procedures

Referrals are a promotion method a bank uses where its customer refers friends to board as new customers to the bank. This is mostly done by word of mouth. The banks would also digitalize the process through allowing the sending of data through the world web.

The banks will identify referrals through;

i. Identifying the nature of customers, they want to attract. They should clearly choose the type of clients they want to serve i.e. teachers, farmers (common field).
ii. Clearly elaborate the kind of products/services they are selling. Here specify on the kind of product/service you are dealing with such (milk, technology processes and deliverables).
iii. Through social media interactions. By monitoring the social media interactions, the referrals are likely to increase if the response and audience is positive.

iv. Client satisfaction surveys. Adopting the formal means of customers' satisfaction surveys will gauge the client's encounter with your firm.
v. Providing an open feedback. To identify referrals, you will be required to provide a means where the customer can air their views, give feedback or comment on given services through your website

Importance of a referral

- Information passed through friends is much trusted.
- Social media provides an easy promotion opportunity
- Referrals is a clear indication of a good progress of your business/organization
- There is the increased return on investment
- There is an increased customer engagement and the customer feels as part of the company.
- There is an increased awareness on social media

1.3 New customer are visited as per banking policy

Banks have many means in which they can meet their customers. They can adopt various ways such as:

- **Organizing of road shows:** The banks will meet and recruit new customers through performing of the road shows. This activity is both an advertisement method and interactive method that could be used to recruit new members to it.
- **Through online process:** New digital methods of interaction have aided organizations to meet their new customers. Customers can nowadays upload their information through website and online forms and get registered as per organization policies.
- **Through the referral process:** This method is where the existing customers bring on board new customers to the organization as a result of satisfaction derived from being a member or good reputation of the organization

Treatment of new member

Upon meeting a new member, customer identification is an essential element thus he/she will be required to provide the following information for the registration process;

- Legal name and any other name used.
- Correct full address should be obtained
- Telephone number, email address
- Date and place of birth
- Nationality
- Occupation, public position held
- Any official person identification number (passport/ID)
- Type of account ,and nature of banking relationship
- Signature

The bank should then verify this information through;

- Confirming the date from official documents (birth certificate, ID, passport)
- Contacting the customer telephone, email address
- Confirming validity of official documentation provided
- Confirming the permanent address (tax assessment ,bank statement)

Once the documents are confirmed and verified to be correct the new customer can now be registered as a member and a copy of his details should be kept as he is provided with a copy.

Reasons to visit a new customer

- **Creating awareness to the existence of commodity/service.** An organization will visit to enlighten him/her on the existence of a given commodity/service, advantages derived from the consumption of the service.
- **Boosting and reinforcing the brand.** The new customer will be enlightened about the brand in the market in order to boost the sales of the given product.
- **Advertisement of the product/Marketing.** The customer will be met during the marketing and advertisement of the product by the organization's marketing department/sales man and this help the organization increase the sales of product.
- **Recruit new members.** A company may purpose to visit new customers with an aim of recruiting new members to the organization and enjoy the benefits of being a member.
- **To gain a competitive advantage.** Meet new customer and recruiting them to be members of a given organization gives a competitive advantage against their competitors due to the good customer relation created.

1.5 Cold calls are conducted as per banking policy

Cold calls are methods where organization contacts individuals who have expressed no interest in a given commodity/service and giving the awareness to the existence of such a service and the benefits derived from acquiring such a service. The sales representatives who are required to perform the cold calling should ensure;

- To identify persons that have the highest possibility of showing interest in the service they are selling.
- To possess good communication skills and adopt proper response as the results and the reaction of the other parties is unknown
- To utilize the cold banking scripts which will be entitled to guide him through the process as it contains questions and the information that needs to be crossed to the other end.

How to increase your results with cold calling

- Have a reason to call before you sell
- Dedicate sometime every day to prospect
- Leave short voice messages
- Be confident and competent during the call

- Believe in yourself and your professionalism
- Make a call at any time
- Make a goal to earn right and to talk to a person
- Have faith in the commodity that you are selling and the benefit the customer will receive from product and services

Conclusion

This learning outcome covered; grooming etiquette of a customer, the nature and the types of customers, the process of identifying potential customers and conducting cold calling.

Further Reading

1. Banking beyond books by Waman Gokhale

3.3.2.3 Self-Assessment

Written Assessment

1. What is undifferentiated marketing?
    a) Classless marketing
    b) Niche marketing
    c) Target marketing
    d) Mass marketing
    e) Custom marketing
2. An altitude describes the way people behave when faced with difficult decision. True or False
    a) True
    b) False
3. The following are customer driven strategies. Which one is it?
    a) Provision of real value of money
    b) Responsiveness to customer needs
    c) Understanding the customer
    d) An obsession with efficiency
4. What is customer profile?
    a) A description of the main characteristics of the customer and how they may make the purchase decision
    b) A database record detailing the main characteristics of a customer
    c) A database containing information about which customer bought which goods

5. Why would an organization communicate to their customer?
    a) To ensure customer needs have been met
    b) To gather information and identify new product opportunities
    c) To give them information and convince them to buy and establish a competitive advantage in relation to products and services
    d) To collect detailed information as basis for upgrading and developing product and services.
6. The following are considerations for internal customer analysis. Which one is not?
    a) Assumptions of the customer needs and a careful validation
    b) The importance to communicate with customers in order to inform them of the kinds of product and services
    c) The need to be sensitive to important national differences
    d) Needs to identify the similarity other than the differences between nations
7. What happens when customer needs are met?
    a) Relationships are built
    b) A rapport is established
    c) Loyal customers are created
    d) All of the above
8. Examine the different data mining techniques.
9. Discuss the following terms:
    a) Cold calls
    b) Data mining
    c) Consumers
10. Categorise the areas a banker would employ the data mining techniques.
11. Highlight and explain the importance of data mining.
12. Elaborate the process bankers would use to register new customers.

Oral Assessment

1. How would you identify a potential customer?
2. How would an organization gain new entry to the market?

Practical Assessment

You are a sales manager at a firm and you have decided to use the cold calls method to promote your products and services. Perform cold call questions that could be used during this process.

3.3.2.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Good/services/products
- Communication gadgets
- Classroom setting
- Projectors

3.3.2.5 References

Dallimore, E. J., Hertenstein, J. H., & Platt, M. B. (2006). Nonvoluntary class participation in graduate discussion courses: Effects of grading and cold calling. Journal of Management Education, 30(2), 354-377

Karen E. Flaherly&James M Pappas (2013) Role of Sales Persons

Maguad, Ben A (2007) Identifying the need of customers in higher education.

Venice (2006) E. Promotion, a platform for tourist product development

3.3.3 Learning Outcome No 2: Identify customer needs

3.3.3.1 Learning Activities

Learning Outcome No 2: Identify customer needs	
Learning Activities	**Special Instructions**
2.1 Identify customer banking products as per customer details 2.2 Establish customer business industry as per customer details 2.3 Establish *Customer social status* as per banking policy 2.4 Identify customer product gap as per customer details	Illustrations Written Assessments

3.3.3.2 Information Sheet No3/LO2: Identify customer needs

Introduction

This learning outcome covers; bank service delivery by offering products that address customer needs after identification of customer needs, bank products both funded and non-funded, types of customer needs, the importance of identifying customer needs, pros and cons of different products and matching customer needs with the products that the bank offers.

Definition of key terms

Customer business industry: Business customers refer to the individuals that purchase goods and services from an organization or business entity. Customer business industry therefore denotes to the field of business which is focused to offering majorly services to the consumers (customers) at a fee.

Customer social status: Society attaches value to people. Therefore customer social status refers to the relative value or rank that has been attached to an individual who is an organizational buyer.

Customer product gap: This is the deviation between the actual service of a banks' product and the expected service of that particular product. It is always that the service offered by the product is lesser than the expected thus a gap arises.

Content/Procedures/Methods/Illustrations

2.1 Customer banking products are identified as per customer details

Banking products are the facilities and services that banks offer to the general public/customers in relation to the management of their cash and other cash arrangements. Such products include transactions and saving accounts, debit and credit cards, cheques, loans, mortgages among other products. There are two types of bank products which involve funded and non-funded bank products. Funded bank products are those facilities and services offered but the banks where real cash is provided to a bank customer such as a loan advancement. Non funded products on the other hand are facilities and services offered by the bank where there is only a commitment to pay the customer in the event of stated conditions such as bank guarantees or letters of credit.

Procedures

Identifying customer banking products is the preliminary and basic step towards identifying customer needs and meeting them. The following standard procedures apply:

i. **Conceptualizing of the products**

This involves having an idea of the facility o service that can be provided to the bank customer. Such an idea can stem from the customer demand, the banks internal sales forces or recommendation from third parties such as consultancy firms. The underlying bottom-line must be that the features of such a product must appeal to not only customers but also to the investors.

ii. **Checking on the regulatory and legal requirements**

In identifying products to offer to the customers, compliance to the set rules and regulations of the land must be considered and adhered to. This will ensure that facilities and services that can be approved by the authorities are produced and sold.

iii. **Checking on the organizational operations**

Key details in offering the products are considered at this stage to determine whether the bank as an organization has what it will require offering the product.

iv. **Product organization**

When the product has been identified, it is not complete until it is registered by the required legal bodies and given a patent to ensure that another bank or financial institution has no such product or will not start selling such a product in due process. Through checking with the registration, a bank can identify a product that is not in registration and the customers need such a product.

Methods

- **Customer engagement:** An engaged customer is free to talk to the organization of any challenges and even recommend to the organization regarding their need and when they are engaged, they speak out the need and the organization can thus meet the need.
- **Recommendation from third parties:** Third parties such as consultancy firms dealing with quality auditing and assurance can recommend amazing banking products which they are aware of and they have worked well in the market.

- **Internal drive of the organization:** The sales and marketing team has the drive to consistently come up with products and services that can work for the bank's customers in every category and level.
- **Research and development:** Inventions and innovations through thorough research and development by the bank will help the bank to manufacture new facilities and services that can be offered to the customer to complement the existing products, meet the required needs and satisfy the customer as per their requirements.

2.2 Customer business industry is established as per customer details

Customer business industry is focused on offering majorly services to the consumers. Such an industry majorly lies in the financial services field where mostly intangible services are offered. The industry firms usually have a customer share whereby each firm has its own customer who they frequently serve. Therefore, such a share of industry is acquired by offering products which meet the financial needs of a particular group of people thus forming the market share. A good example is the current practice of Kenya Commercial Bank offering Sahl Bank which meets the needs of Muslim customer in the industry.

Procedures and methods

i. **Market screening:** Establishing a customer business industry requires an organization to comprehensively scan the market to determine the gap (availability of customer) and then venture into filling the gap which will entail offering service to the available customers.

ii. **Market segmentation:** This entails dividing the market into categorizes and pursing to serve each category as per their distinct needs. When every marked segment (division) is served distinctively, a good and working customer business industry is established where customer needs can be identified and effectively made.

iii. **Product offering by the bank:** Whichever product or service that an organization offers determines the customer business industry that it will serve. Banking lies in the financial services industry thus serves the customer business industry in the financial sector.

2.3 Customer social status is established as per banking policy

Far from the society attributing relative value to individuals, the banking industry also attributes relative value to the customer in regards to the banking patterns. Customer social status is determined to ease service delivery to the customer through reduction of required bureaucracies of offering service and treatment. A customer's social status as per the bank can be different from the value that same individual has been attributed to in the society. This is because the parameters used by the bank in determining an individual's social status are different from the parameters that the society uses.

Procedures of establishing customer social status

i. **Background check of the customer:** Conducting a background check of the customer is important in helping to determine the net worth of the customer thus attribute him/her the appropriate social status as per the banking policy. Such kind of background check helps to determine the kind of business the customer does and the position they hold in the society which are important factors in determining their social status.
ii. **Analysis of the customer banking patterns:** The banking patterns of a customer refer to the deposits and withdrawals made by the customer across the customer accounts. When an analysis shows a consistent and bulk banking pattern as well as a bulky bank account balance, such a customer can be attributed to a high customer social status as per the banking policy which then calls for special handling of this customer.
iii. **Conduct KYC (Know Your Customer):** KYC covers the above procedures but other details such as education and occupation might not be revealed in the above procedures. KYC therefore will help capture the finer details of the customer such that an appropriate social status is attributed to them.

Methods of establishing customer social status

i. Subjective measurements methods

This method entails subjecting the customer to the basic standards to determining social status such as the amount of bank balances they have. When the details of the customer perfectly fit to the basic standards the appropriate corresponding status is attributed to that customer.

ii. Reputational measurements method

Despite the fact that reputation is largely applied in attributing social status in the society, banking also applies the method in attributing social status to customers such that we have VIP customers for appropriate handling and service.

iii. Objective measurement method

This refers to the unit measurement of the customer parameters in sizes but within an allowable margin of error. Therefore, the social status of the customer is attributed with assumptions and projections of the parameters considered.

2.4 Customer product gap is identified as per customer details

Customer products gap generally shows a dissatisfied customer due to un-met needs. When there is a gap it implies that the actual needs and expectations for the customer are higher than the needs met by the product. The customer is therefore left wanting more utility from the product.

Procedures of identifying customer product gap

i. **Comparison of current target state and actual achievement:** Organization use comparison to analyze the gap of a product by checking whether the actual target state for the product has been met. When there are deviations between the two states of product achievement then a gap is said to exist.

ii. **Conducting product reviews:** The customer can review and rate the banks product which will help the bank to have knowledge that the product has a problem and help the bank to address such a gap.

iii. **Continuous product evaluation:** Evaluating the product periodically will help to determine the finer gaps of the product that even the customers might not have noticed but if worked on will enhance the product quality. This assessment is done within the organization thus a self-assessment procedure.

iv. **Evaluating sales performance of the product:** A good product that effectively meets the customer needs is likely to sell greatly. Therefore evaluating the sales of the product will help to determine whether the product has a gap since low sales performance shows that a gap exists by the product not attracting customers to make high sales.

Methods of identifying customer product gap

- **Monitoring:** This entails the consistent checks on the product sales and performance trends which will help identify the gaps for rectification. Monitoring is effective in silently determining the product gaps without interference with the sales of the products or worth the customers.
- **Feedback method:** What the consumers say about the product after consumption can effectively help in determining the product gap since negative feedback shows a gap.
- **Competitor versus yourself evaluation method:** The competitor is likely to offer similar products as yourself. If their customers are happy about the product, then eventually the competitor versus yourself will help to determine if there is a product gap that is making your customers dissatisfied.

Conclusion

This learning outcome covers; bank service delivery by offering products that address customer needs after identification of customer needs, bank products both funded and non-funded, types of customer needs, the importance of identifying customer needs, pros and cons of different products and matching customer needs with the products that the bank offers.

Further Reading

1. Study more on customer relationship by: Raui, A.K.(2012). Customer relationship management: concepts and cases. PHI Learning Pvt. Ltd.

3.3.3.3 Self-Assessment

Written Assessment

1. Which of the following is not a funded bank product?
    a) Loan from bank
    b) Bank overdraft
    c) Insurance policy
    d) Assets financing
2. Which of the following is not a non-funded bank product?
    a) Letter of credit
    b) Insurance policy
    c) Bank guarantee
    d) Bank loan
3. Which of the following is not a bank product?
    a) ATM card
    b) Debit card
    c) Bank Account
    d) Life Insurance policy
4. Which of the below parameters cannot be used to determine customers social status?
    a) Customer age
    b) Customer occupation
    c) Wealth of the customer
    d) Life assurance policy
5. Which of the following best explains customer products gap?
    a) Product gap is when needs of the customer have not been met
    b) It is when the product is not in the market
    c) It is when the product is in less quantities in the market
    d) It is when the product is in its middle phase of production
6. Which of the following is not a customer need?
    a) Getting a bank loan
    b) Accessing their bank account conveniently
    c) Getting the depositing services
    d) Opening a bank account for a third party
7. Interpret the importance of determining customer social status to banking.
8. Elaborate the importance of knowing your customer and his needs? Explain
9. Can customer needs be translated to bank products? Analyze
10. Investigate how customer society occupation affects customer status determination.

Oral Assessment

1. Are all customer needs measurable?
2. What happens when a product is not able to meet all the customer needs?

Practical Assessment

Identify one of the local banks near you and carry out a visit to that bank to determine the various needs of the customers, the various facilities and products they offer, how they perform customer social status and also determine the banks best-selling products. Create a report stating why such services market best for the local bank.

3.3.3.4 Tools, Equipment, Supplies and Materials

- Projector
- Computer
- Flip chart
- Writing material
- Communication gadget (speaker (loud incase the class is large)).
- Sample bank products (tangible ones)
- Sample current case studies of knowing customer needs
- White board and maker pens

3.3.3.5 References

Berry,M.A, & Lineff , G.S (2000). Mastering data mining: The art and science of customer relationship management. Industrial management and data systems jpournals

Chapman, S. (2013). The rise of merchant banking. Rouledge

Chu,X., Zhoung , J., Dixit, U.S & Gu ,P. (2019). A precise identification and matching methods for customer needs based on sales data . In international conference on mechanical Design (pp102-112). Singapore, Springer.

King ,B. (2018). Bank 4.0: Banking everywhere , never at a bank. JohnWiley &sons

Raui, A.K.(2012). Customer relationship management : concepts and cases . PHI Learning Pvt. Ltd.

3.3.4 Learning Outcome No 3: Close to Sale

3.3.4.1 Learning Activities

Learning Outcome No 3: Close to Sale	
Learning Activities	**Special Instructions**
3.1 Match customer need with product as per banking procedures	Oral assessment
3.2 Inform customer are informed on product options as per banking procedures	Discussions
3.3 Advise customer on product needs as per banking procedures	Written assessments
3.4 Document *sale* as per banking policy (account opening, credit application, debit cards, credit cards and mobile banking)	

3.3.4.2 Information Sheet No3/LO3: Close to Sale

Introduction

This learning outcome covers; negotiation, customer needs, bank products and service, persuasions and methods of persuasion, sale documentation process and negotiation skills.

Definition of key terms

Negotiation: It is the process by which an agreement is reached based on trade.

Persuasion: It is the process of convincing or being convinced by someone to agree or believe something.

Sale: It is the process of exchange of a commodity for money or the action of selling something.

Content/Procedures/Methods/Illustrations

3.1 Customer need are matched with product as per banking procedures

Banking procedure are guidelines that are used by banks to ensure that everything is done according to the policies. Customer needs are usually matched according to the bank product and services that a bank is capable of giving. For a credit facility to match customer need, there must be thorough background investigations and checks to verify whether that customer fits to be given credit or not.

Importance of matching customer need

- It acts as a motivating factor. Once a customer need is met, they are motivated to work in accordance to the agreed terms and condition without breaching them and bank.
- Customer trust. Customers are able to earn and create trust amongst the customer to bank relationship.
- New clients. A credit facility is able to gain new referrals from the happy clients.
- Interest. The bank is able to raise more revenue from the earned interest from the given loan.

Banking products have to be matched with the customer needs. Customer needs are the wants and desires of a customer and they are to be considered by bank when fulfilling his/her request.

Bank product: This means any service or facility extended to the borrower or any subsidiary by bank or any affiliate of the book.

Stages of negotiation of credit

i. Preparation and planning. At this stage both parties will organize and accumulate information necessary for effective negotiation.
ii. Definition of ground rules. Rules and procedures are to be followed.
iii. Clarification and justification. At this stage both parties will get a chance to explain, justify and support their original request.
iv. Bargaining and problem solving
v. Closure and implementation

Types of Negotiation

- **Distributive negotiations:** Meaning giving out or scattering of value. There is limited amount of what is being divided.
- **Integrative negotiations:** Meaning joining or cooperation's of forces to achieve an objective.

Negotiation skills

- Get clear on your negotiation skills
- Determine your core negotiation strategy
- Understand your negotiation signature
- Build motivation
- Play the reluctant part
- Interpersonal skills
- Preparation before meeting
- Active listening skills
- Good communication skills
- Collaboration

Benefits of negotiation skills

- Professional development and career advancement
- Conflict resolution & problem solving
- Problem solving
- Persuasion & certainty
- Communication & achievement of organizational goal

3.2 Customer are informed on product options as per banking procedures

Bank products means any facilities or services related to cash management, including treasury, depository, credit/debit card, overdraft, electronic funds transfer and other cash management arrangements.

Bank services

- ATM cards
- Mortgages
- Home equity loans
- Foreign currency exchange
- Bank guarantee
- Advancing loans

Types of banks

- Central banks
- Retail banks]
- Shadow banks
- Cooperative banks
- Credit unions
- Commercial banks

Functions of banking services

- Accepting deposits
- Granting loans
- Advance to customers
- Giving cash to clients
- Discounting bills

Features of banks

- Money dealing
- Accepting of deposit
- Grant of loan and advances
- Transfer of funds
- Portfolio management
- Foreign exchange dealing

Some basic bank products include;

- **Current accounts**

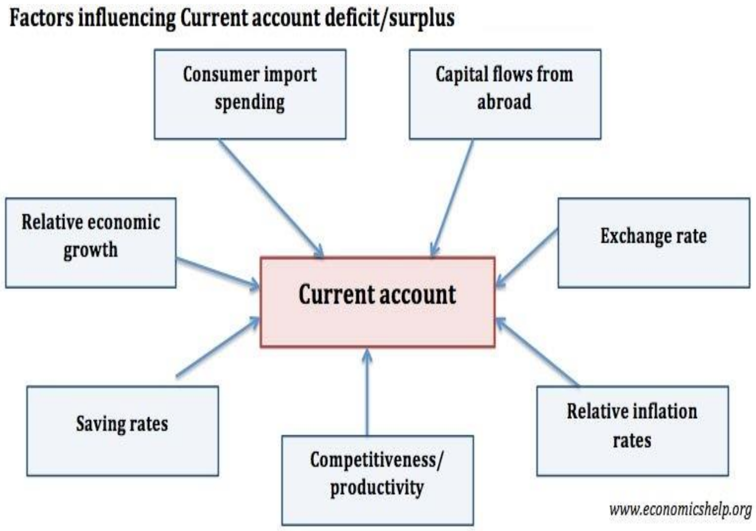


Figure 10: Current account factors
Source: economichelps.com

- **Savings accounts**

Figure 11: Savings account
Source: ubakenya.com

- **Credit accounts**
- **Debit accounts**

Figure 12: Credit and debit cards
Source: dignated.com

- **Cheque**

Figure 13: Equity bank cheque
Source: freechequewriter.com

Overdraft: Is an extension of credit from a lending institution that is granted when an account reaches zero. The overdraft allows the account holder to continue withdrawing money even when the account has no funds in it or has insufficient funds to cover the amount of the withdrawal.

3.3 Customer are advised on product needs as per banking procedures
Methods of persuasion/advising
Product needs are the wants and desires of a product or an item. According to banking procedures, customers are advised on their product needs according to the banker policy and decision.

- Be-mind full of sequence. This phase is all about gathering information and building a relationship. It revolves around establishing an understanding and earning your counterpart’s trust.
- Gather information and build trust. As a rule, people are not inclined to trust when they are being talked at. Build trust with the other party to ease communication.
- Understand and manage loss. To influence negotiation, you need to know what loss looks like for your counterpart. Customers are advised according to their product needs. The above are methods/ways of advising them on bank product.
- Address fairness. Our perception of fairness directly influences our ability to trust someone and hear them out.
- Tackle implementation. You should spend the final phase of your negotiation addressing implementation and encouraging your counterpart to engage with the solution.

3.4 Sale is documented as per banking policy
According to banking policy, sale is the exchange of a commodity for money while documentation is the process by which documents are classified, collected and monitored.

Importance of documenting sales

- No operational ambiguity. This is a way of reducing confusion regarding on what are tasks or documents that were processed for certain trade.
- Training material. Also acts as a training material to help new resources move up the learning curve faster
- Marketing use. Documentation also help used by marketing and sales department to truly understand which the capabilities of the organization are. This knowledge helps them to determine what to offer the customer and what can be fulfilled.
- Accuracy and easy to user
- Improves productivity of the work
- Improve the quantity of work
- Improves customers' perception of your product and company.

Types of documentation

- Computer software. It is a user manual that consumers read to understand the requirements and operations of a software system so that they can download it, install it and use it.
- Requirements documentation
- Source code documentation
- Quality assurance documentation

Process of documentation

i. Define the scope. It is important to start determining what the scope of the project is, which processes will be covered
ii. Define the inputs and outputs. Make sure to clear what will be included in the information being gathered for the documentation and what format the outputs from the project will take
iii. Be aware of the audience. Documentation is useful if it is understood by the people who are doing it.
iv. Gather the information. It is a form of the team brainstorming the steps required to complete the process being documented
v. Organize. You will need to organize it in sequential list, ensuring that it accurately reflects how the work is done
vi. Visualize. Making it easier for everyone involved to see how the process works in order to ensure clarity and practicality.
vii. Share and get feedback. This is done to correct errors that might have occurred in the process.
viii. Monitor

Methods of closing sale

The close sale should be based on what you know about the prospect and the type of close you believe they will be most open to. The following are methods of closing sale:

- The assumptive close. This technique involves using a phrase or language that assumes the close is a done deal
- The option close. Ask the prospects which option they prefer
- The suggestion close. This is done when you have a good rapport with the prospect and they view you as a trusted expert a suggestion close is a good approach
- The urgency close. Creating a sense of urgency places pressure on the prospect to make a decision, especially if you have identified that the clients' needs to make a decision quickly and working on a short timeline.

Conclusion

This learning outcome covered; negotiation, customer needs, bank products and service, persuasions and methods of persuasion, sale documentation process and negotiation skills.

Further Reading

1. Read on accounting principles and standards from IAS

3.3.4.3 Self-Assessment

Written Assessment

1. Sale is a process of exchange of a commodity for money. Is it true or false?
   a) True
   b) False
   c) Not sure
2. Which one of the following is a stage of negotiation?
   a) Banking products
   b) Closing sale
   c) Planning
   d) None of the above
3. Which one of the following is not a bank product?
   a) Communication
   b) Cheque
   c) Overdraft
   d) Savings account

4. Which of the following is not a type of negotiation?
    a) Intersection
    b) Cheque
    c) All of the above
    d) None of the above
5. Which of the following is not a documentation stage?
    a) Monitor
    b) Gather information
    c) All of the above
    d) None of the above
6. Which one of the following is a method of closing sale?
    a) Option case
    b) Suggestion case
    c) Urgency close
    d) All of the above.
7. Classify five negotiation skills.
8. What are the meaning of the following terms;
    a) Sale
    b) Bank product
9. Predict ways on how negotiation should be done?
10. Analyse three methods of closing sale.

Oral Assessment

1. What is the meaning of the term closing sale?
2. What is a savings account?

Practical Assessment

In a group of five students, apply the types of bank products and visit a nearby bank and take a look on how credit cards and ATMs look like; and how they are used and study the policies set when one uses another persons' credit card or ATM.

3.3.4.4 Tools, Equipment, Supplies and Materials

- Projector
- Computer
- Flip chart
- Writing material
- Communication gadget

3.3.4.5 References

Adeoti, J.O. (2011). Automated teller machine (ATM) frauds in Nigeria: The way out. Journal of Social Sciences, 27(1), 53-58

Adepoju, A. S., & Alhassan, M. E. (1970). Challenges of Automated Teller Machine (ATM) Usage and Fraud Occurences in Nigeria. A Case Study of Selected Banks in Minna Metropolis. The Journal of Internet Banking and Commerce, 15(2), 1-10

Prof.Assankutty, Jojo Mon.NA (2007): Financial Services, Calicut University, Calicut Kevala

CHAPTER 4: CREDIT ADMINISTRATION

4.1 Introduction of the Unit of Learning/Unit of Competency

Credit administration is a unit of competency offered in TVET level 6 banking and finance course qualification. This unit specifies the competencies required to perform credit administration. It involves monitoring the credit repayment, analyzing periodic financials, conducting customer visit, preparing call report, collecting credit arrears, issuing demand letter and performing credit restructuring. The significance of perform credit adminitsration to TVET level 6 banking and finance curriculum, is to equip learners with knowledge and skills to demonstrate communicate, problem solving, dispute resolution organizational, self-management, analytical, interpersonal self-management organizational, credit policy, risk assessment, credit management sector, organizational policy, procedures and systems and norms and culture of different customers so as to fit well in the job place.

The Critical aspect of competency to be covered includes; demonstrated ability to monitor the credit repayment, financial analyses parameters, conducting customer visits, visit reports preparation, collecting credit arrears, issuance of demand letter and credit restructure captured in the system as per standard operating procedure. The Basic resources required include: computers, stationery, scanners, phones, internet connection and transportation.

The unit of competency cover seven learning outcomes. Each of the learning outcomes presents; learning activities that covers performance criteria statements, thus creating trainee's an opportunity to demonstrate competencies stipulated in the occupational standards and content in curriculum.The information sheet provides definition of key terms, content and illustrations to guide in training. The competency may be assessed through written tests, demonstration, practical assignments, interview/oral questioning and case studies. Self assessment is provided at the end of each learning outcome. Holistic assessment with other units relevant to the industry sector, workplace and job role is recommended.

4.2 Performance Standard

Credit repayment, periodic financials, customer visit, call report, credit arrears and demand letter as per credit policy and credit repayment report.

4.3 Learning Outcomes

4.3.1 List of Learning Outcomes

a) Monitor the credit repayment
b) Analyse periodic financials
c) Conduct customer visit
d) Prepare call report
e) Collect credit arrears
f) Issue demand letter
g) Perform credit facility restructuring

4.3.2 Learning Outcome No 1: Monitor the Credit Repayment

4.3.2.1 Learning Activities

Learning Outcome No 1: Monitor the Credit Repayment	
Learning Activities	**Special Instructions**
1.1. Retrieve credit repayment report as per credit policy 1.2. Review credit repayment report as per credit policy 1.3. Take action as per credit repayment	Group discussions Written assessments

4.3.2.2 Information Sheet No4/LO1: Monitor the Credit Repayment

Introduction

This learning outcome covers; credits, credit monitoring, importance of credit monitoring, methods of monitoring credit repayments and warning signs. It will also cover the impact of technology on credit systems. Understanding these impacts will greatly improve on evaluating and identifying potential customers or borrowers of credit, thus giving banks the guidelines rendered, and on loans to be amounts to various individuals and companies.

Definition of key terms

Demand letter: A request for money or resources owed through a letter stating a loyal claim which is allegedly due or in default.

Credit administrator: An individual responsible for analysing credit data and financial statements of potential customers or firms to determine the ability to pay back the principle and interest within the current laws in the industry.

Interest rate: It is the percentage of principle charged by the bank or other financial companies; or lender to a borrower for the use of its money whereby principle is the money given lent.

Credit standards: The guideline provided by company/ lender on how to determine if a potential customer is credit worthy.

Content/Procedures/Methods/Illustrations

1.1 Credit repayment report is retrieved as per credit policy

Usually credit report entails personal identifying information, a list of credit accounts such as credit limit, type of account for example credit card, mortgage, car/ vehicle loan and customers' history on payment of those accounts.

How to retrieve credit repayment report

i. Determine the individual whose report is to be retrieved
ii. Determine the periods of repayment for which the report is needed
iii. Key in the details completely and pull the comprehensive report
iv. Confirm the last repayment to ensure that the report pulled is the true and actual report
v. Confirm the details that is, whether they have been captured well in the pulled out report
vi. Print the report and have it in hard copy ready for use.

Basic categories of a credit report

Identity: Clients are identified by name; date of birth, social security number, current and past addresses, telephone numbers and employment.

Existing credit information: It entails detailed information about any credit accounts such as credit cards, mortgages and loans that the customer has, for example:

- When each account was opened
- Your credit limit at loan total
- Co-signer information
- Recent account balance
- Highest account balance
- Monthly payment
- Recent payment
- All of your account numbers

a) **Credit accounts:** Credit details of closed accounts remain on customer credit reports for 10 years. An exception is negative accounts which are removed after 7 years.
b) **Payment history:** The most vital information is the payment history which determines 36% of a FICO score.
c) **Public records:** It is details obtained from transactions recorded by state and county governments. It can include property purchases, loans, bankruptcies, foreclosure, court judgments and divorces.
d) **Credit inquiries:** This is a list of companies or firms or individual, who requested a copy of the report in the past two or one year. For example, an involuntary inquiry would be if a lender pre-approved you for a credit.

e) Credit report should be requested any time clients are considering a major purchase that will require a loan, such as car loan, mortgage or home improving projects.

Credit control of both pre and post-sale of income is to ensure that it is timely recovered. It also entails the return of funds/ money through a given period of time which includes both principal and interests. Loans can be fully paid in lump sum at any time, but for some contracts, an early repayment fee may apply. Credit is the trust which enables lenders to facilitate access to money or resource to borrowers who do not pay back immediately to the lenders hence generating a debt, but agree to commit either to repay or return those resources. The resources provided may be financial e.g. receiving a loan or they may consist of goods or services e.g. consumer credit. Credit entails any deferred form of payment. (Graham 87 Feb 2005. Credit Dubai Museum). The account with details of a borrowing customer with all current credit providers and their performances, is retrieved. The credit repayment reports list all the repayment history and credit accounts of every account. The credit report is applied by all creditors to determine the approval of credit facilities.

Grantinty credit approval to borrowers is likely to be provided by firms/ banks, be it individual borrowers or other businesses. This process of granting credits is governed by a series of laws administered by the Federal Trade Commissions, guaranteeing non-discrimination. The laws entail equal credit, fair and accurate credit transaction Act, fair credit reporting Act, truth in lending, and fair debt collection practices. Professionals recommend that lenders develop credit policies that are consistent with company goals; so when credit policies are developed, lenders must consider the cost incurred in granting credit.

Importance of credit repayment report

- It helps to show the actual balances of the loanee
- It can help to clear out misunderstanding between the loan granter and the loanee about repayment
- Details of the credit can be confirmed and changed if they were not well captured
- Actual transactions can be confirmed from the report thus a good print or references

4.1 Credit repayment report is reviewed as per credit policy

It is the monitoring of borrowers' credit history to enable lender to detect any changes. Credit repayment monitoring helps in detecting credit related identity theft and credit related fraud. Banks and firms offer services on alerts of critical changes to ones' credit history, typically granting access to borrower's credit history and subscription basis. Firms issuing credit monitoring will usually alert the customers to significant activities e.g. public records, credit inquiries, negative information, delinquencies, new accounts, employment changes and other changes. A large number of customers gets little benefits from paying for regular credit reporting.

Using the latest credit monitoring system, can assist to prevent identify theft in its early stages, before further damages is acquired to your financial reputation and your finances.

How to report review credit repayment report

i. Check on the principal and credit balance. By examining the principal amount and the balance remaining the bank can tell the progress of the credit.
ii. Check on the capacity of the creditor. Examining whether the creditor still has the capacity to repay the credit is an effective review of the credit.
iii. Check on the collateral. Examining whether the collateral still exists in the form it was pledged, is also another way to review credit repayment report.
iv. Check on the repayment history. Reviewing credit repayment heavily capitalizes on historical payments to determine the efficiency of repayment.
v. Check on the credit conditions. The terms and conditions stipulated during credit can help to review the credit the credit repayment.

The importance of credit monitoring includes;

- Checking for inaccuracies and amending them immediately. Mistakes may happen on anyone's credit report; hence, have the mistake corrected before finding out about it, when applying for a loan. With credit monitoring your report will be updated hence you can contact the creditor, and have the variances cleared up early enough than later which is very important in protecting you from increasing your interest rates, on any loans you might apply for.
- Protect against identity theft. Applying updated credit monitoring systems can assist in preventing identity theft at its conception period.
- Monitoring credit score changes. Anticipation on your credit score varies from month to month when applying for a loan. Know who is looking into your credit history. Using credit monitoring, one can identify the number of hard inquiries made, and who made them.

Importance of action taking

- It helps to receive the credit advanced out
- It helps to be in compliance with the details on the credit repayment report
- The report can be used to clear individuals from CRB who had been there due to credit non-repayment.
- A good credit standing is created for the customer through the credit report
- Good relations are maintained with good actions on the credit report

4.2 Action is taken as per credit repayment report

When firms/ companies create new loans, they evaluate using a detailed credit assessment on the customer, including the customer's ability to return or refinance the loan at the period, at maturity. The companies expect the customer's credit profile to be constant, or to improve at the period the loan will extend.

Ensures covenants and other requirements are in place for a minimum set of standards for the customer's future conduct and financial performance. Technology has a valuable impact on loan portfolio monitoring, particularly by identifying early warnings of risk deterioration. It has transformed monitoring with the use of integrated systems.

Technology has improved in monitoring customers and collate the information related to their financial status in accordance with loan agreement. An integrated system can alert the firm when it is due from customers, or certain activities needs completion internally, such as, regular review or a customer's due diligence visit. Advancement can readily be achieved with the use of automated system reports and notifications to track deteriorating financial status. "Shadow financial covenants" or internal triggers can be created in most covenant systems, such that, when reaching these limits, alerts can be sent to credit analysts or officers, informing them of an impending breach. This capability is especially important when dealing with covenant life transactions where the loan agreement contains limited covenant protection for the lender. (2020, Moody's Analytics).

Monitoring of loan portfolio can now be conducted based on assessed loan level risks, rather than against inflexible portfolio policies. It can be simplified and streamlined, with borrowers experiencing credit deterioration receiving the most attention. It has led to greater efficiency and reduced administration. (2020. Moody's Analytics).

Conclusion

This learning outcome covered credits, credit monitoring, importance of credit monitoring, methods of monitoring credit repayments and warning signs.

Further Reading

1. Read on advanced financial management from Donald R. Van Deventer Kenji Imai. Mark Mesler

4.3.2.3 Self-Assessment

Written Assessment

1. What is the role a of credit administrator?
    a) Analysing credit data and financial statements of potential customers
    b) Request money owed through letter stated
    c) Establishing the truth of a firm
    d) Investment advisor

2. Which of the following is not a bank's significant activity on credit monitoring alert to customers?
    a) Public records
    b) Credit inquiries
    c) Employment change
    d) Integrated system management
3. Which among the following are not the importance of credit monitoring?
    a) Checking for inaccuracies and amending them immediately
    b) Protect against identity theft
    c) Monitoring credit score changes
    d) Financial reputation
4. Which of the following has been impacted positively by technology?
    a) Machine learning and automated monitoring
    b) Lending out finances
    c) Build trust
    d) Deterred form of payment
5. Which of the following contains parties involved in credit repayment monitoring?
    a) Borrower and lender
    b) Underwriter
    c) Valuer
    d) Technology
6. __________ is the return of funds through a given period of time, which includes both principle and interests.
    a) Credit payment
    b) Valuation
    c) Credit
    d) Borrower
7. Which is the correct name of the following explanation "the guidelines provided by company/ lender on how to determine if a potential customer is credit worthy"?
8. Demonstrate the role of a credit administrator.
9. Summarize the procedure of getting a demand letter.
10. Evaluate the technology significance on credit monitoring.
11. Demonstrate the importance of credit monitoring.
12. State the methods of monitoring credit repayment.

Oral Assessment

1. What do you understand by the term interest?
2. Illustrate what an income statement entails.

Case Study Assessment

CRB is an online based subscription service company providing online credit monitoring services to its customers located in Kenya. It was implemented due to increased unregulated credit service providers within the country. The credit monitoring has greatly improved and interest rates regulated between the minimum requirements. Customers/ borrowers have been monitored on their behaviour of credit payments. What is the process of CRB clearance?

4.3.2.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip Chart/white board

4.3.2.5 References

Graham87. (2005). Credit. Roman. Grahans Timen

Martin Brown (2007). Money, credit and Banking

Ron Lieter. (2009). A free credit score followed by a monthly bill/. New York, New York Times.

4.3.3 Learning Outcome No 2: Analyse Periodic Financials

4.3.3.1 Learning Activities

Learning Outcome No 2: Analyse periodic financials	
Learning Activities	**Special Instructions**
2.1 Identify financials are as per credit policy 2.2 Determine parameter of financial analysis as per standard operating procedures 2.3 Measure financial analysis parameter as per standard operating procedures 2.4 Qualify financial analysis parameter as per standard operating procedures	Oral assessments Group discussions Projection

4.3.3.2 Information Sheet NO4/ LO2: Analyse Periodic Financial

Introduction

This learning outcome covers introduction of basic accounting, principle of accounting, financial statement (types, preparation, usage, analysis and interpretation) and ratios.

Definition of key terms

Financial analysis: Refers to the assessment of the viability, stability and profitability of a business, firm or either project.

Credit arrears: It is a financial legal term used to refer to the status of payments in relation to deadlines.

Accounting: This is the process of summarizing recording, analysing and reporting financial transaction of a firm to oversight tax collectors, agencies and regulations**.**

Accounting Principle: These are the essential rules and concepts that governs the field of accounting.

Content/Procedures/Methods/Illustrations

2.1 Financials are identified as per credit policy

Credit policy is a set of principles that an organization uses in deciding who it will loan money or give credit.

Process of credit policy

i. Establishing a credit department mission. Requires support from the high level management so as to develop the mission statement. The statement should conform fully with the corporate (organizational mission).

ii. Setting credit department goals. These goals should be set as per the firms' cash flow requirements. Possible goals set may include:
    - A target for the percentage of bad debts to sale
    - To open new accounts during the present goals
iii. Setting rules and regulations. Ensuring each department member have their roles and responsibilities as per the level of management.
iv. Stipulating procedures. It is important that the rules apply to all customers, with very few exceptions. The procedures should be flexible. To take advantage of technology and best practices, procedure should update periodically.
v. Measuring results. After the credit policy is in place, its effectiveness/ impact is measured.

Principles of Financial accounting

- **Revenue recognition-principle:** This principle is concerned with revenue being realized from an income statement of an enterprise.
- **Historical cost principle:** According to this principle, an asset is ordinarily recorded in the accounting records at the price paid to acquire it at its time of acquisition, and the cost becomes the basis of accounts during the period.
- **Matching Principle:** This principle states that expenses incurred in an accounting period should be matched with the revenues recognized in the same period.
- **Full disclosure principle:** This principle states that financial statement should disclose all the relevant and reliable information which they purport to present so that the information may be useful for the users.
- **Going concern principle:** This statement indicates that a business should continue to be in existence until it accomplishes its agendas.

Importance of identifying financials

- It aids on making decisions.
- The balance sheet shows the company's assets, liabilities and equity that helps to identify the financial position of a company.
- It is used to access the total value of a company thus guiding investors whether to invest or not.
- Financial information helps in prediction of a company about future performance.
- Identification of financial helps a firm know the financial value.

2.2 Parameters of financial analysis is determined as per standard operating procedure

Standard Operating Procedures (SOPs) is documented process that a company has in place to ensure services/ and products are delivered. A parameter is a constant in an equation. In business parameters are defined and measured as constant dimensions or values that are selected from a set of data, considered essential to understanding a situation or solving a problem.

Key Elements of financial Analysis

These are the calculations you should use to conduct a proper financial analysis of your businesses operation. They include:

- Revenues
- Profits (operating, Gross and net profit margin)
- Operational efficiency

$$Accounts\ receivable\ turnover = \frac{net\ \ credit\ sales}{average\ accounts\ receivable}$$

$$Inventory\ Turnover = \frac{cost\ of\ goods\ \ sold}{average\ inventory}$$

Capital Efficiency& solvency

$$Return\ on\ Equity = \frac{Net\ Income}{Shareholders\ Equity}$$

Debt to Equity

$$Debt\ to\ Equity = \frac{debt}{Equity}$$

Liquidity

This is the capability to generate sufficient cash to, cover cash expenses

- Current ratio
- Interest Coverage

Types of financial Analysis

- Vertical
- Horizontal
- Leverage
- Growth
- Profitability
- Liquidity
- Cash flow
- Efficiency

Significance of determining financial parameter

- Assessing the operational efficiency and management performance
- They are able to analyse the financial strengths & weaknesses and credit worthiness of the company
- Analysing current positions of financial analysis
- Assessing the types of assets owned by the business and liabilities which are due
- It provides information on the cash position of the company and how much debt they have in relation to equity
- Ascertaining the profitability of the company over a period of time

- To assess financial statements which contains information on past performances and interpret them as a basis for forecasting future rates of return and assessing risks.
- To assess the relationship between various sources of funds

Importance of financial statements

- Financial statements are basis of understanding of financial positions of a firm.
- Provides information regarding the financial policies and strategies and insight into future performance.
- Financial statement can be used for various purposes:
    a) Analytical tools
    b) Management report card
    c) Basis of prediction
    d) Measures accountability
- Statement of change of equity

Financial statement

Financial statements are written records that convey the business activities and the financial performance of a company.

Types of financial statement

- **Balance sheet**

This provides the overview of a company's assets, liabilities and stockholders' equity at a given period of time.

Table 8: Example of a Balance sheet

Balance sheet			
Fixed assets		**Equity**	
Land	1800	Farms claire	65,000
Barn	22,000		
shares	2,000		
Dairy cows	18,000	Liabilities	
Production lights	2,000	Loan agribank	33,0000
assets	15,000	Accounts payable	2,000
Current assets			
stocks	5,000		
Accounts receivable	8,000		
Bank accounts	10,000		
Total	100,000	Total	100,000

- **Income Statement**

This covers annual financial statements and providers an overview of revenues, expenses, net income and earnings per share.

$$Net\ Income = (Revenue - Expenses)$$

Table 9: Income Statement

Revenues		
Milk	86,000	
Livestock sales	5,000	
Livestock inventory increase	3,000	
		89,000
Variable cost		
Feed	12,000	
Livestock cost	3000	
Expenses of fertilizer and crop protection	2000	
		17,000
Margin		72,000
Fixed cost expenses		
Machinery expenses	2500	
Building expenses	3500	
Building maintenance gas and water	1500	
Rent	500	
Interest rates	5000	
Depreciation on building	3000	
fuel	6000	
		22,000
Profit/Earnings		50,000

- **Cash flow statement**

It presents the movement of cash & bank balances over a period.

Cash flow statement for year ended December 31, 2019

Cash flow from operation

Net earnings

Table 10: Cash flow statement

Cash flow statement **For year ended December 31,2019** **Cash flow from operation**	
Net earnings	25,000
Additional to cash	
Depreciation	1, 000
Decrease in Accounts payable	250
Increase in accounts payable	1, 000
Subtractions from cash	
Increase in inventory	(5, 000)
New cash operations	22,250
Cash flow from inventory	
equipment	
Cash flow from financing	
Notes payable	1, 000
Cash flow financial year 2019	15,750

2.3 Financial analysis parameter are measured as per standard operating procedures

Financial statement analysis

It is the process of receiving and analysing a company's financial statements to make better economic decisions to earn income in future. They are techniques used for financial statement analysis.

Horizontal analysis

It compares data by analysing values of line items across two or more years.

Vertical analysis

Looks at the vertical effects line item have on other parts of the business and also the business's proportions.

Ratio analysis

It uses important ratio metrics to calculate statistical relationships.

Tools of financial analysis

- Profits
- Net profit margin
- Gross profit margin
- Operating profit
- Liquidity
- Current ratio
- Working capital
- Financial leverage
- Debt-to-equity ratio
- Inventory turnover

2.4 Financial analysis parameter qualified as per standard operating procedure

According to SOPs, a financial analysis parameter is an assessment of the viability, stability and profitability of a business, firm or a project. It is performed by professionals who prepare reports using ratios that makes use of information taken from financial statements.

Qualifications of financial analysis

- It must show profits delivered by either a project or a business or firm.
- There must be all the reports that show how and when a financial activity took place.
- Must indicate the ratios in the business/project of all the profits and losses acquired.
- Must not fail to disclose any financial information that could be used to qualify the financial analysis.
- The financial analyst must provide the financial report.

Financial statements interpretation

It is an important management tool as it identifies trends of unusual or unexpected abnormalities. They attempt to determine the significance and meaning of the financial statement data so that a forecast may be made of the prospects for future earnings, ability to pay interest, debt maturities, (both current and long term) and profitability.

Ratio

Financial ratio is a relative magnitude of two selected numerical values taken from an enterprises financial statement

Types of ratios

Liquidity ratios

$$Current\ ratio = \frac{current\ assets}{current\ liabilities}$$

Asset turnover ratios

$$Inventory\ turnover = \frac{cost\ of\ good\ sold}{average\ inventory}$$

$$Receivable\ turnover = \frac{Annual\ credit\ sales}{Accounts\ receivables}$$

Financial leverage ratio

$$Debt\ ratio = \frac{total\ debt}{total\ assets}$$

$$Debt - to - equity\ ratio = \frac{Tatal\ Debt}{Total\ Asset}$$

Profitability ratios

$$Return\ on\ Assets = \frac{Net\ income}{Total\ Assets}$$

$$Gross\ profit\ Margin = \frac{sales - cost\ of\ goods\ sold}{sales}$$

Conclusion

This learning outcome covered introduction of basic accounting, principle of accounting, financial statement (types, preparation, usage, analysis and interpretation) and ratios.

Further Reading

1. Read on accounting principles from GAAP

4.3.3.3 Self-Assessment

Written Assessment

1. Which one of the following is not a principle of accounting?
    a) Revenue recognition
    b) Going concern
    c) Analysis principle
2. Which one of the following is a type of financial statement?
    a) Analysis
    b) Statement of financial statement
    c) Going concern
    d) Liquidity ratio
3. Which one of the following is not type of ratio?
    a) Net income
    b) Profitability ratio
    c) Asset turnover ratio
    d) Liquidity ratio
4. Cash flow statement present the movement in cash and bank balances over a period. Is it true or false?
    a) True
    b) False
5. Which of the following is a type of ratio?
    a) Return on asset ratio
    b) Current ration
    c) Debt ratio
    d) All of above
6. Identify from the following which one is not a principle of financial accounting.
    a) Revenue recognition principles
    b) Historical cost principle
    c) Matching principles
    d) Current ratio

7. Evaluate the principle of financial accounting.
8. State and analyse types of financial statement.
9. Identify and explain 5 types of financial ratio.
10. Elaborate on financial parameter.
9. Demonstrate significance of determining financial parameter.

Oral Assessment

1. Discuss the term finances.
2. What does income statement entails?

Practical Assessment

Organize a group of students in your class, using relevant tools and equipment, demonstrate to them and illustrate how to prepare statement of financial position trade account and statement of cash flows.

4.3.3.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip Chart/white board
- Group discussion
- Geometric set
- Written assessment
- Oral questions

4.3.3.5 References

Elliott, B. and Elliott, T (2009) Financial Accounting and Reporting (15th Edn), Harlow, Essex, Pearson Education limited

Halder,Z(2015).IBS World Industry Report 52211, Commercial Banking in the US.Retrieved February 23,2015 from IBISWorld database

IA513(2010) conceptual framework for financial reporting,London,1ASB

4.3.4 Learning Outcome No 3: Conduct Customer Visit

4.3.4.1 Learning Activities

Learning Outcome No 3: Conduct Customer Visit	
Learning Activities	**Special Instructions**
3.1 Identify customers as per standard operating procedures 3.2 Establish purpose of customer visit as per standard operating procedures 3.3 Establish customer physical location as per standard operating procedures 3.4 Verify Customer physical address as banking policy 3.5 Notify customer of the visit as per standard operating procedure	Discussion Oral Assessments

4.3.4.2 Information Sheet NO4/LO3: Conduct customer visit

Introduction

This learning outcome covers; customers identification, customer visit, preparation of customer visit, what to observe and inquire when visiting a customer, customer verification, ways of handling difficult customers, importance of a customer visit, follow-up after visit and its importance.

Definition of key terms

Customer: Refers to a particular individual or a business entity who/which receives of either a good or a service or both that is from a seller/vendor.

Customer identification: It refers to a process which a bank or a financial institution engages in activities aimed at forming a reasonable belief concerning the identity of a customer.

Customer visit: An arrangement between an employee of a firm and a customer to meet and deliberate on an issue or a number of issues.

Content/Procedures/Methods/Illustrations

3.1 Customers are identified as per SOPs

SOPS refer to stipulated step by step procedure set by the bank that ensures the employer undertake their duties diligently in a bid to attain quality output, efficiency and uniformity of performance.

Importance of identifying customers

- Customer identification aids in determining the level of production
- It ensures that the company can modify its production process to suit the needs of the customer
- Helps in projection of costs and possible benefits
- It is a basis for future decisions such as inventory and expansion policies

The customer identification procedure ensures that organizations are able to verify the underlying identities of the individuals that they wish to engage with in financial transactions or activities. Customer identification involves collecting and verifying a potential customer's information before according to any service or product in exchange for monetary consideration. For example, banks identify its customers based on the needs of the potential customers, age, financial status, economic activity among others. While gathering information about a customer, financial institutions engage in verification procedure. The verification procedure entails confirming the customers; name, date of birth, physical address and the identification number and/or birth certificate/passport number.

The procedure for identity verification can depict either the documents or the non-documentary method. The document approach involves counter- checking the potential customer's ID, birth certificate etc. the non-documentary method may include comparing information given by a customer with the information held by consumer reporting agencies, public databases etc. In the case of banks and other financial institutions, the policies adopted with regards to customer identification may vary depending on the policies such as risk-based approaches embraced by the organization.

The approaches may depend on factors such as:

- The type of customer accounts that a given bank offers.
- The bank's underlined method of opening customer accounts.
- The size of the bank, customer base and location; this may include customer's preferential products and services in diverse locations.
- The available types of identification information present.

Customers form the basis of an organization's existence and therefore its future. Customers can be identified based on their needs and expectations. Customers to an organization can either be:

- Other businesses
- Individuals

Business Customers

In this relationship, other businesses become the customer to the business. Business becomes customers to the organization's products if and only if it uses the products of the company as it is inputs. On the other hand, customers can be identified depending on several factors such as:

- Age of the customers
- Gender and education
- Geographic location

Customers can also be identified based on psychographic variables which include; the beliefs held by a person, buying patterns, lifestyle, hobbies and even perceptions.

3.2 Purpose of customer visit is established as per standard operating procedures

Customer visits provide a basis for deepening the relationships between a financial institution and a customer. Customer visits may range from a full day visit to taking a customer out for lunch. Customer visits help to effectively understand the concerns of the customers to provide a framework for attending to their needs and in return create a loyal customer base.

The Objectives of customer visits include:

- Building relationships with customers/clients.
- Discussing and reviewing a customer's financial information.
- Observing a customer's resources or facilities.
- Customer education and providing adequate suggestions, sharing what may work well for a customer etc.
- Setting the tone for business activities

Thus, an employee of a given financial institution should prepare adequately for a customer visit. Adequate preparation entails determining the agenda for the visit, identifying participants, highlighting a list of questions for the customer and stipulating suitable timeframes for both the employee and the customer. The purpose of the visit also ensures that an employee is able to ask questions and make observations.

Table 11: Do's and Don'ts in customer visit

	Dos	Don'ts
i	Discover the customer's unmet needs.	Forecasting the potential sales in a new market segment.
ii	Discover the day to day use of products and services by the customers.	Close deals relating to sales.
iii	Discover the suitability of product to a customer's eco-system.	Make a conclusion regarding the right product if the customer has to choose from several options.
iv	Acknowledge and appreciate the customer's acceptance to be visited.	Judge which customer to visit and what you aim to learn or discover about a specific customer.
v	Preparation checklists e.g. confirm the visit 1 week before.	Assume what works for one customer may work for another.

The customer visitation may face several challenges such as; un-favourable weather changes, geographical barriers such as unsuitable terrain leading to a customer's premises, a difficult customer, communication barrier among others.

Dealing with difficult customers

Dealing with a difficult customer may prompt or trigger a fight or even high instincts. To deal with a difficult customer, one may:

- Listen: Let the customer articulate his or her issues precisely.
- Build a rapport through empathy: Embrace the customer's frustrations by reflecting the customer's position.
- Be calm and use a lower tone: A calm demeanor will prompt the customer to settle down
- Do not get angry
- Know when to give up
- Fulfill promises, i.e. if you promise to call back, always call back

3.3 Customer physical location is established as per standard operating procedures

Physical location of the customer entails identifying the needs of the customers in a given area against the products and services provided by a given firm. The customer's physical location is determined during the customer visit process. The financial institutions determine a location where its services or products are not utilized effectively and efficiently.

A customers' physical location can be established through:

- Enquiring from the customer about his or her residence
- Using addresses
- Referrals by friends
- Information from credit rating agencies

3.4 Customer physical address is verified as banking policy

During the customer visit, an employee can determine or verify the address of customer based on his or her details. The sources of verification of the customer's physical address details may include information from other credit agencies, use of the customer's details such as pay slips, bills etc.

3.5 Customer are notified of the visit as per standard operating procedure

Once the customer visit plan is outlined, the customer ought to be notified to determine his or her availability on the agreed date. Also, the notification helps to prepare the customer psychologically for the interview. Follow-up after visit involves keeping in touch with the customers after first visit.

Importance of follow-up after visitation

- An institution is able to make the customer feel special and appreciated.
- Follow-up encourages the customer to try new products and services provided by the firm.
- Follow-up ensures the firm can determine the customer needs.
- It ensures that customers are heard and engaged to a great extent.
- It is a form of marketing, hence vital for building customer loyalty.

Conclusion

This learning outcome covered customers identification, customer visit, preparation of customer visit, what to observe and inquire when visiting a customer, customer verification, ways of handling difficult customers, importance of customer visit, follow-up after visit and its importance.

Further Reading

1. Read on forms of customer follow-up from customer visit book by Edward F. McQuarrie

4.3.4.3 Self-Assessment

Written Assessment

1. Why do firms need to identify their customers?
    a) To improve security
    b) Fulfill customer needs
    c) Increase employment opportunities
    d) None of the above
2. The following are factors to consider when preparing for a customer visit, except?
    a) Determining location of the customer
    b) Notifying a customer of a visit date
    c) Assessing availability of financial resources suitable for the visit
    d) Interviewing the customer
3. A customer visit might include:
    a) Giving a discount to a customer
    b) Making delivery to a customer
    c) Meeting for dinner to have a dialogue on political issues
    d) Meeting to discuss business issues with a customer
4. What is the role of a firm in creating a sound business environment for customers?
    a) Price discrimination
    b) Employee pay rise
    c) Customer segregation
    d) Provision of quality products
5. The following are importance of customer visits, except?
    a) Building sound relationships with clients
    b) Observing customers' resources effectively
    c) Expanding the business entity
    d) Setting the tone for the business
6. What would you do during a customer visitation?
    a) Close deals relating to sales
    b) Forecast political sales
    c) Discover the unmet needs
    d) Assume what works for one customer, works for all of them
7. The following are ways of dealing with difficult customers, except?
    a) Be empathetic
    b) Do not get angry
    c) Interject the customer when he is talking
    d) Build a rapport
8. Highlight two reasons for customer visitation.
9. Explain three challenges that can be experienced during customer visitation.

10. Giving examples, differentiate between customer verification and customer identification.
11. Enumerate ways one overcome geographical barrier in customer verification.
12. Enumerate five instances where non-documentary verification may be appropriate.

Oral Assessment

1. Interpret customer visitation and elaborate its importance.
2. Outline factors to consider when planning for a customer visitation.

Case Study Assessment

John Omollo, an employee of Cytonn Investments has been given the task of determining why there is little investment by the people of Kahawa Sukari in the products and services of the firm. Cytonn Investment Company is contemplating having more residents of Kahawa investing in the firm. Besides, some of the old investors in the firm have opted to withdraw their funds from the firm, hence terminating their business association with the firm. Salim, a businessman who resides in Kahawa has been identified as one of the former investors who opted to withdraw funds from the firm while Karimi is hesitant in investing in the firm.

i. What should Omollo take into consideration in preparing to visit Salim over his decision against investing in the firm?
ii. What are the probable challenges Omollo can face in his visitation to Salim and how can he overcome them?
iii. Which strategies can Omollo embrace to convince Karimi into investing in the firm?
iv. Should Omollo engage in follow-up after the visitation? What should he do if Salim declines his request for a visitation?

4.3.4.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip Chart/white board

4.3.4.5 References

Fader, P. (2012). Customer Centricity: Focus on the strategic advantage. United States: Wharton School Press

Hill, N; & Alexander, J.(2017). The Handbook of Customers Satisfaction and Loyalty Measurement. London . Rutledge.

McQuarrie, E. F. (2014). Customer Visits: Building a Better Market Focus. London: Routledge

4.3.5 Learning Outcome No 4: Prepare call report

4.3.5.1 Learning Activities

Learning Outcome No 4: Prepare call report	
Learning Activities	**Special Instructions**
4.1 Obtain details of customer to be visited as per standard operating procedure 4.2 Capture visit details as per standard operating procedure 4.3 Prepare visit report as per standard operating procedure 4.4 Take action on visit report as per organizational policy	Oral assessment

4.3.5.2 Information Sheet No4/LO4: Prepare Call Report

Introduction

This learning outcome covers: Call report, purpose of call reports, content of call reports, schedules of call reports discussed in details, the ways of delivering the report to client, customer visit that is details of the customer. The method of preparing visit report is also outlined that is how easy is being written concerning call report that is format and a simple structure of a call report in an organization.

Definition of key terms

Call report: This is a document that contains detailed account of all the calls made during the day and the information is presented in an organized format for a specific purpose.

Format: This is arrangement of an information in a particular set standard for example how the spacing between the lines should be, where titles, dates and names appeared.

Essay: A piece of information written in a particular format purporting some information in a particular way to be presented information is presented by certain structure have been followed.

Schedule: Step or plan of carrying out some process for example steps of writing a call report. That is putting information in column and tables.

Standard: These are rules and regulation followed in order to attain quality in some information. Rules help to avoid misinterpretation of information to certain party.

Content/Procedures/Methods/Illustrations

4.1 Details of customer to be visited are obtained as per standard operating procedure

Procedures are formulated by the firm according to types of customer visits. We have three types of customer visits as illustrated below:

- **On site customer visit:** This means that the bank institution may sometimes visit its customer so that it can obtain the information required as per standard operating procedures this enhances customer awareness as well as increasing the credit value of the firm.

- **Trade show Visit:** This happens whenever the firm is showcasing its product in the market by interacting with the customer, details of customers will be obtained from them directly because this type of customer visit is more social interaction. The firm should understand the market structure this might brought a lot of profit in the firm.

- **Customer comes to the firm:** The customers will visit the organization to see or to buy the goods/ services. This will help organization since it is able to understand the customer details better since it is usually planned earlier. Therefore different banks should set out the procedure of handling the call report in order to save time while dealing with different client in the organization. The format of call report, that is structure and types of customer visit should be set by the department in the organization which deal with customer visits in order to enhance quality services in the organization. The procedure set should be brief, easy to understand and the steps to be followed should be written in a 'precisely manner'.

The importance of customer details who visited the firm include:

- Building relationship: A customer visit includes representatives from both credit and sales department and it may also include any staff in the company assigned in offering any services of serving the customer.
- It helps in discussing and review financial statements; some companies allows the customer to check the financial statements in the company, such information are included in the procedures which are guiding the company daily operation.

4.2 Visit details are captured as per standard operating procedure

Visitors details ensure clients are served in a fast and within short time. The following method may be used to capture the visit details as illustrated below:

- **Use of forms**

The organisation can print out the forms which have brief information covering the details of the customer visit in form of questions, whenever the customer visit the firm he/she is required to write down his/her detail as per the question on the paper.

- **Warranty cards**

The firm may issue the warranty card to the customer so that whenever he/she will visit to claim warranty due to product deficiency they will be able to capture details of the customer on the warranty card

Warranty cards

Just Build It

WARRANTY CARD : WAR-0002

Product :		Quantity :	1.0 lb(s)
Customer :		Sale Order:	SO26162
Warranty Type :	Free Warranty	Warranty Period :	2
		Warranty Cost :	
Start Date :	08/01/2018	End Date :	08/01/2020

Signature:____________________

Date:____________________

Figure 14: Warranty cards

Source: planet-odoo.com

- **Requesting information over the phone for convenience**

An organization may use the phone call to capture the customer visit, a customer may visit the firm and then later the company realizes that on information was collected from the customer and thus direct call may be used to get information from the customer.

- **A company may develop a rewards program**

When a customer visits the company ad he/she is given a reward. This will motivate the customer to come back and they enjoy it. A firm can make a requirement of the programmer to collect information from the customer.

Importance of capturing customer details

- Details of visiting customers are captured to improve the business such that it helps to isolate client who currently yield high profitability or have capability of doing so. The detailed information obtained from the visit should precise free form errors that are grammatically correct thus enhancing accuracy.
- Details of visit customers are captured in order to identify and understand customer demographic and use this awareness to inform promotional and business campaigns order to make it easy for customers to input their data. Data captures forms should be easy to navigate ad have a logical flow so that it is quick, simple ad stress free for customers to enter their information.

- The organization will also dig deep into their own customer service records to see how customers have interacted with their sales and supports departments in the past, here they are capturing information y use of direct feedback about what worked and what did not, what a customer liked and disliked on a grade scale.

4.3 Visit report is prepared as per standard operating procedure

Visit report may be prepared using different methods. For example we may have a checklist for onsite visits. This report is prepared after the customer visit the sites. The report include the importance of the visit, whom the customer met, items for follow up and who is responsible for what steps. Second example we have internal overview method, the management prepare calls report by determining or examining how the customer should place their orders, how the time between placing and delivering the order correlates and knowing whether the customers made delays while paying their dues. The third example is SWOT analysis method that is; strength and weaknesses, opportunity and threat, analysing that the organization is able to know how to prepare the visit as per standard because some customers have a weakness in time management and some delay in the payment agreed date. Some customers might be a threat to the organization so the company needs to set the procedure of maintaining them in the firm.

SWOT analysis

Figure 15: SWOT analysis
Source: corporatefinanceinstitute.com

Format of a customer visit report

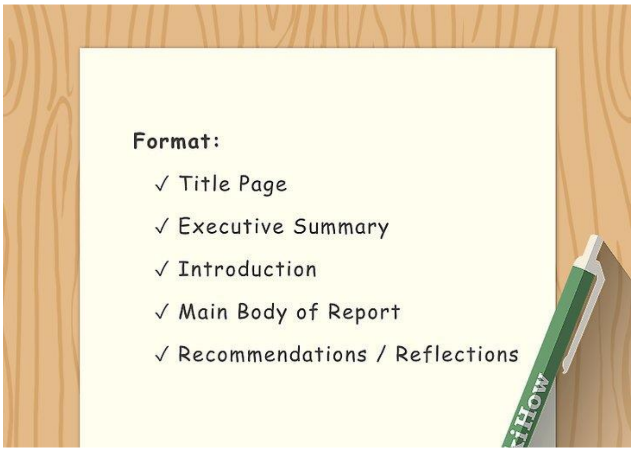


Figure 16: Customer visit report template
Source: wikihow.net

The following procedures pertains the preparation of visit report;

i. The firm should check the requirement of customer visit report, that is the importance of customer in visiting the business, the need of the customer visit,
ii. General information about the visit should be outlined for example; the customer details, the format used might include row and columns whereby the customer would enter his/her details such as dates, names, mobile phone numbers and signatures.
iii. Define the importance of visit to the customer for example the customer is able to negotiate about the company products or even to claim for some compensation, easy format rules should be made brief so that when a customer is writing to the format will be easier for him/her.
iv. The firm should explain what happened during each visits in an orderly manner to avoid confusions. Language used should e simple so that it can understandable.
v. The firm should summarize the operations at the work station for example where to find the customer care desk, where the visitor make registration whenever they visit.

Visit report can be prepared often by the management of the firm, for example call report can be made even on a daily basis in order to enhance good image of the firm, since the customer can be available at any time a call report can be made by use of telephone.

Importance of a visit report

- Visit report helps the firm to record the actual number of customer who report in a certain period of time.
- Visit report helps the firm to make a decision concerning the customer complaints.
- Visit report helps the firm to improve its service since the organization tries to ask questions whenever customer visits.

4.4 Action on visit report is taken as per organizational policy

Action is the process of doing something especially when dealing with certain problem, a customer may take an action when he/ she want to complain about the product. Action on visit report should be determined by the organization policy since the organization has its own department dealing with the issues of customers visit. For example when a client is misunderstanding the set standard operating procedures, it means that the management responsible should immediately review the set procedures to minimize the confusion. However, when a person in charge in preparing call report rules quite unexpectedly due to his/her reasons, other person who is competent enough should be selected and occupy the position call report should be kept in a safe place. The following action may be taken in order to increase the customer visit on the organization, for example such policies include:

i. **Feedback method:** This entails calling back the customer and asking him/her whether he was satisfied with the visit or the product he/she obtained.
ii. **Gifts:** May be given to customers who visits for example a customer may be given a drink and a cake whenever he visits.
iii. **Delivery and thank note:** The firm offer a delivery service to customer whenever he/she visit and buy the product direct in the firm, also thank you note may be used to customer after he visits the firm in order to enhance good relationship with the firm.

When the customers are not visiting the business know that they are unsatisfied and not happy. The following ways should be taken effectively as illustrated below:

- Call the customer: The firm management should call the customer by use of phone to determine what the situation is all about.
- The firm should try to examine evaluate the customer expectations about the product being offered in the firm so as to know how to retain the customers.
- The customer issues should be settled out by the management. This is done by asking customer's questions and they will produce the answers pertaining the problem.

Call report

Call Report

Date	Phone Numbers	Reports	Additional Information

Figure 17: Call report
Source: vanscapital.com

Purpose of call report

- Building relationship: Call reports help the customer and business owner to build a strong relationship such that the customer know exactly what time he/ she called, so when there is a conflict concerning time, a solution can easily be determined.
- Call report help to determine financial health of the bank. In the bank the management uses the call report to improve its services. Call reports recorded are used to determine the needs of customer and what the customer expect from the bank by doing this the bank is able to grow its financial health thus more profit.
- Call report aids as a tool for business continuity. Since call report enhance quality service to customer, the quality effect will enable the firm to retain the customer and by doing this business operations can for gone on future.

Conclusion

This learning outcome covers; the importance of call report, content the format of writing the call report essay. It also outlines the procedures of visit report preparations as per standard operating procedures. It also covered the methods of capturing details of the visits as well as action to be taken by organization policy pertaining visit report. Visit report can be made at any time that is convenient to the firm by use of any method that is relevant and precise. However, different types of customer visits have been provided in the learning outcome and are discussed in details. Finally a call report is an effective tool that every firm should have in order to enhance good relationship between the firm and the customer.

Further Reading

1. Read more on draft report on Draft call report Ri-c November 8, 2012

4.3.5.3 Self-Assessment

Written Assessment

1. Which one of the party does not use the call report?
    a) Suppliers
    b) Customers
    c) Clients
    d) Thieves
2. Which information does not show the benefit of call report?
    a) Call report include information of the client
    b) Call report is used to enhance timely and accurate financial data
    c) Call report involves wastage of time and leads to loss of returns in a business
    d) Call report can be used by lecturers to teach students in class
3. The following are the function of a bank call report. Which one is not?
    a) Bank calls report consist information about the bank.
    b) Bank call report determine financial health report of the bank statements
    c) Bank call report set out how workers should be compensated in the bank.
    d) Bank call reports consist of set procedure of how to handle the clients.
4. Which one of the following is not a method of capturing visit details from the customer?
    a) Use of reward
    b) Use of warranty cards
    c) Use of cohesive methods
    d) Use of forms
5. Which one of the following information is not being included in a call report of a financial information statement for example a bank?
    a) Write off for bad debts
    b) Statement of asset/ liabilities
    c) Cheques dishonoured from the bank
    d) Statement of financial position
6. Which one is not a type of a customer visit?
    a) Customer visiting the firm
    b) On site customer visit
    c) Trade show visit
    d) On home customer visit

7. Is the call report required while preparing customer visiting in the organization?
    a) Yes
    b) No
    c) Yes or no
    d) None of the above
8. Elaborate what a call report is.
9. Evaluate call report effectiveness in financial institution.
10. Identify elements of a good call report.
11. Demonstrate method of preparing visit report as per standard.
12. Highlighting elements of a good report.

Oral Assessment

1. What do you understand with the term call report?
2. Analyse role of visit report to the firm.

Practical Assessment

The learner is requested to visit nearby firm to check how a call report looks like or even download an example of a call report document. They should highlight the following information that is; style used in the report, body content, the format and the kind of language used. The learner should be able to come up with such kind of call report and practice on different types of call report. The learner can extract a financial position statement from the newspaper and use the call report for example, we may have a call report made on sales on a particular time and dates and doing that you the learner will have full content.

4.3.5.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip Chart/white board
- Newspaper: Extract of financial statements.

4.3.5.5 References

Damodaran A (2006). Applied corporate finance 2nd edition, Newyork.NY: John wiley and sons inc.

Draft call report Ri-c November 8, 2012

Risto.T.salminen (2001). Journal of business and industrial marketing .finland.MCB UP ltd.

Wright, S., Greenwood, D., & Boden, R. (2011). Report on a field visit to Mondragon University: a cooperative experience/ experiment. Learning and Teaching, 4(3), 38-56

4.3.6 Learning Outcome No 5: Collect Credit Arrears

4.3.6.1 Learning Activities

Learning Outcome No 5: Collect Credit Arrears	
Learning Activities	**Special Instructions**
5.1 Establish credit arrears as per standard operating procedures	Group discussions
5.2 Identify customer linked accounts as per credit policy	Case study
5.3 Establish recovery from linked account as per the credit policy	Written Assessment
5.4 Take action as per credit policy	

4.3.6.2 Information Sheet No4/LO5: Collect Credit Arrears

Introduction

This learning outcome covers credit arrears, identification of credit arrears, categories of credit arrears, credit arrears report and related accounts.

Definition of key terms

Credit arrears: This is a legal term for the part of a debt that is overdue after missing one or more required payments.

Credit area report: This is a record of someone who owes either a bank or any lending institution payment behaviour.

Paid in arrears: This means payment is overdue or that the payment is not due until after the service period.

Content/Procedures/Methods/Illustrations

5.1 Credit arrears are established as per standard operating procedures

Process of establishing credit arrears

i. Follow up quickly the late loan
ii. Form a strong solidarity groups
iii. Update and enforce credit policies
iv. Limit the outreach responsibility of each credit officer to a specific geographical area
v. Avoid lending to start up business
vi. Provide financial incentives for credit officers

Importance of establishing credit arrears

- **Loan payment:** Customers are able to pay their loans after communicating to them.
- **Tracking the arrears:** The bank is able to tell who have a credit arrears and are able to locate them.
- **Fares up for the bank:** Once the bank identifies the arrears, they are able to follow up with the customers and that fairs up their income once it is repaid.

There are two types of credit arrears:

a) Interest arrears

This is the amount of interest that is built up on your account since your last payment. Interest is accrued daily based on the loan balance. When a payment is missed, interest continues to accrue on the balance until the next payment. When interest has accrued longer than the agreed repayment period then it is reserved to as interest arrears.

b) Principle arrears

When a loan is drawn down, the amount borrowed, interest rates, terms and agreed level of payments are used to generate an amortization table. This is effectively a plan as to know how the loan is intended to be paid. When payments are missed the actual balance had planned to be at this point in the loan. This referred to as principle arrears.

Categories of credit arrears

- **Payment in arrears:** It is payment that is made once a service has been offered.
- **Payment in advance for example salaries:** It is payment made before the actual service has been provided. They include insurance premium, prepaid electricity bill, lease etc.
- **Annuity in arrears:** This also applies in financial industry when making annuity payment. An annuity is a Non-transaction action that occurs in equal intervals and in equal amounts over a period of time. For example mortgage payment.
- **Dividend in arrears:** The concept also applies when a publicly traded company issue dividends to its investors. It occurs when the company delays in paying the cumulative dividends to its preferred stock holders by the agreed time.
- **Arrears swap in derivatives:** An arrear swap is a type of interest rate swap that is set and pays the interest rate at the end of the coupon period, rather than in the beginning. On the contrary, a standard swap sets the interest at the beginning and pays the interest at the end. It is preferred by speculators who predict the yield curve and receive interest payments at the end of the coupon period. They include preferred, stock credit arrears, common credit arrears, loan repayment and cash credit in arrears.

Table 12. Credit arrears report

SAMPLE OF BANK CREDIT REPORT	
	Equity Credit Report.
	John Mairu.
	File #52431 Date 03/01/2019
	Customer 10012 User Jeney
SSN: XXN-XX6231	
Address- 00237 Kiambu	
Report details	account status
Tradeline overviews	total past due 0
Total 4	day 30 0
Current 0	day 60 0
Current reg 0	day 90 0
	Account balance 10633
	Monthly payment 302
	Collection 0
PERSONAL INFORMATION	
Name: John Mairu	on file sin 07/09/2018
DOB: 8/5/1980	
SSN: XXN-XX 6231	
Employment information	
Employer Brighton Assurance Company	
Position Accountant	

Figure 18: Credit report

Credit report

It is a detailed breakdown of an individual's credit history prepared by a credit bureau

Credit bureau

This is firms that aims at collecting financial information about individuals and create credit reports based on the information and lenders use the reports along with their details to determine loan applicants' credit worthiness.

5.2 Customer linked accounts are identified as per credit policy

Related arrears accounts

a) Call in arrears

Journal entries

- Call in arrears account Dr

  To share allotment a\c

  (Being various outstanding transferred)

- Bank a\c Dr
  To call in arrears account
  (Being the amount received out of call in arrears a\c)

b) Dividend in arrears a\c
c) Stock credit arrears account

5.3 Recovery from linked account is established as per the credit policy
Process/stages of establishing or credit policy

i. **Establish credit standards:** At this stage, the firm must be able to decide how much credit risk it is willing to accept.
ii. **Establish credit terms:** Here, the firms decide on the length of time before payment must be made and the possibility of offering a discount.
iii. **Obtain customer details:** At this stage, every client who is willing to take a risk on the credit must provide all the necessary information needed to process loan.
iv. **Establish interest:** At this stage, the firm decides how much interest they will have to charge on credit given.

Process to recover linked accounts

i. Establishment of a credit policy
ii. Track payments carefully
iii. Keep all the records on track
iv. Charge interest on overdue payments
v. Cut off credit to overdue clients

Elements of credit policy

- Character
- Collateral
- Capacity
- Capital/funds

Credit policy is a set of principles on the basis of which it determines who it will lend money or gives credit.

Types of credit

- **Revolving credit:** This is a type of credit that gives a maximum borrowing limit and you can make charges up to that limit.
- **Charge cards:** You must pay all charges in full every month.
- **Service credit**: It is your contract with service providers such as gas, electric utilities, cable and internet.
- **Installment credit:** It is a loan for a specific sum of money you agree to repay plus interest and fees on a series of equal monthly payment over a set period of time.

Factors to consider on credit policy

- Bank lending rates
- Households in the economy
- Supply of credit
- Availability of banks to firms and household

5.4 Action is taken as per credit policy

Actions taken according to credit policy are the approval and declining of the credit based on different factors.

Ways to improve credit history policy

i. Pay bills consistently and on time.
ii. Maintain a reasonable amount of unused credit.
iii. Apply for credit only when needed keeping credit inquiries to a minimum.
iv. Check credit reports annually disputing any errors that hurt your report.

Effects of bad credit report

- High interest rates on credit cards and loans
- Credit and loan applications may not be approved
- Difficulty getting approved
- Security deposits on utilities
- Employment denial
- Higher insurance premium
- Calls from debt collectors

Factors affecting good credit report

- **Payment history:** Having a long history of on-time payments is best for your credit scores while missing a payment destroys ones credit report.
- **Credit usage:** The amount you owe an installment loans such as personal loan, mortgage or student loan.
- **Length of credit history:** These includes age of oldest account, newest account & your most recent accounts
- **Credit mix and types:** Having experience with different types of credit, like revolving credit card accounts and installment on loans may improve credit wealth.
- **Recent credits**

Conclusion

This learning outcome covers; credit arrears, identification of credit arrears, categories of credit arrears, credit arrears report and related accounts.

Further Reading

1. Read on credit arrears on the following publication Encyclopaedia of American business. By W.Daris Folsom,Rick Boulware.2014.Business.

4.3.6.3 Self-Assessment

Written Assessment

1. Which of the following is a type of credit arrears?
    a) Interest arrears
    b) Call arrears
    c) Preferred stock
    d) None of the above
2. Which one of the following is not an arrear related account?
    a) Call in arrears
    b) Financial a/c
    c) Credit in arrears
    d) Dividend in arrears
3. A credit arrear is a legal term used for the part of debt that is overdue after missing a payment. Is it true or false?
    a) True
    b) False
    c) Not sure
4. Which one of the following is not a factor that affects credit report?
    a) Dividends arrears
    b) Payment history
    c) Not sure
    d) Credit usage
5. The following are factors to determine while creating a credit policy. Which one is not?
    a) Product of the bank
    b) Supply of credit
    c) Environment
    d) ALL of the above
6. Identify from the following a type of credit arrears.
    a) Annuity arrears
    b) Segment arrears
7. Evaluate five determinants of credit worthiness.

8. What does the term credit MA mean?
9. Identify and elaborate on factors that affect credit worthiness of a client.
10. What are the indicators/determinants of credit arrears?
11. Outline four types of credits.

Oral Assessment

1. What do arrears mean?
2. Elaborate on the following terms;
    a) Dividend in arrears
    b) Call in arrears
    c) Credit arrears
3. Outline two types of arrears.

Practical Assessment

1. In a group of 7 students in your class, take a visit to the nearby bank, in the bank get to learn about credit arrears. Observe the bank environment and learn how credit arrears are treated by the bank according to its policy.

4.3.6.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip chart/white board

4.3.6.5 References

Lung, henry (2009). Fundamental of Financial accounting. Ehisevier

Marriott, Steve -07-12). So who invented double entry book keeping? Huffington post retrieved 2018-08-03

Perotti, E. C. (1998). Inertial credit and opportunistic arrears in transition. European Economic Review, 42(9), 1703-1725

W. Daris Folsom, Rick Boulware. (2014), Business. Encyclopaedia of American business.

4.3.7 Learning Outcome No 6: Issue Demand Letter

4.3.7.1 Learning Activities

Learning Outcome No 6: Issue Demand Letter	
Learning Activities	**Special Instructions**
6.1 Identify customer arrears as per standard operating procedure 6.2 Prepare demand letters as per standard operating procedure 6.3 Dispatch demand letters as per standard operating procedure 6.4 Record demand letters as per standard operating procedure 6.5 File demand letters as per organizational policy	Lectures Class presentations

4.3.7.2 Information Sheet No4/LO6: Issue Demand Letter

Introduction

This learning outcome covers demand letter, types of demand letter, content of demand letter, importance of demand letter, preparation of demand letter, methods of issuing demand letter and factors to consider when issuing demand letter.

Definition of key terms

Demand letter: Entails a formal and professional document sent by a party to another, the recipient who may have defaulted financially or breaded a contract requesting payment or other action to correct. It is also called a letter of demand, collection letter or a debt collection letter. It is given to the debtor before a legal action is taken that is, it is the last resort in debt recovery.

Content/Procedures/Methods/Illustrations

6.1 Customer arrears are identified as per standard operating procedure (SOPs)

These are payments that are overdue and supposed to be made at a given time period. With the high rise of customer arrears in the organizations, need for identification of the challenge is essential which must meet the SOPs standards. This is essentially possible and important to keep the pace with the rising credit intake by the customers rather than individuals. Answering the question how helps the institution in curbing/minimizing the growing number of arrears and in which case the firm should have plans and procedures in place to help the customers and support them in mitigating the risk of a serious and fattening arrears situation arising at any given time.

Importance of identifying customer arrears

- Helps the bank/financial institutions recover its debts from the customers owing them
- Helps banks determine their extend of risk in terms of credit risk hence take appropriate measures on mitigating them
- The bank/financial institution is able to know who their customers are
- Arrears identification is essential as banks/financial institutions are able to know which products sell well and make necessary improvements on given products

Causes of arrears

- If loans are too large for the cash needs of the business, an individual may opt to have the extra funds directed to own personal use. This results to possible arrears as the individual will have difficulties repaying off the loan.
- Ignorance as well as lack of discipline in the repayment of the loan will result to possible accumulation of arrears.
- Absence of a grace period from time of being disbursed with the loan by the financial institutions.
- Decrease of credit service ability of borrowers hence increase in default rate
- Giving multiple loans to present defaulters.

Reduction of the arrears can be done in the following ways;

- Follow-up visits after missed payments are important as the customer finds it urgent and necessary to repay off the loan.
- The financial institutions must come up with policies in loan recovery and make it available to all customers with loan requests.
- Train staff on effective debt recovery practices
- Reduce credit limit for the customers

6.2 Demand letters are prepared as per standard operating procedure

Demand letter is both a formal and professional document to an individual for defaulting financially or breaching a contract asking them to honour their payments. Preparation of the letter is done after identification of arrears by the customers and is of great significance as;

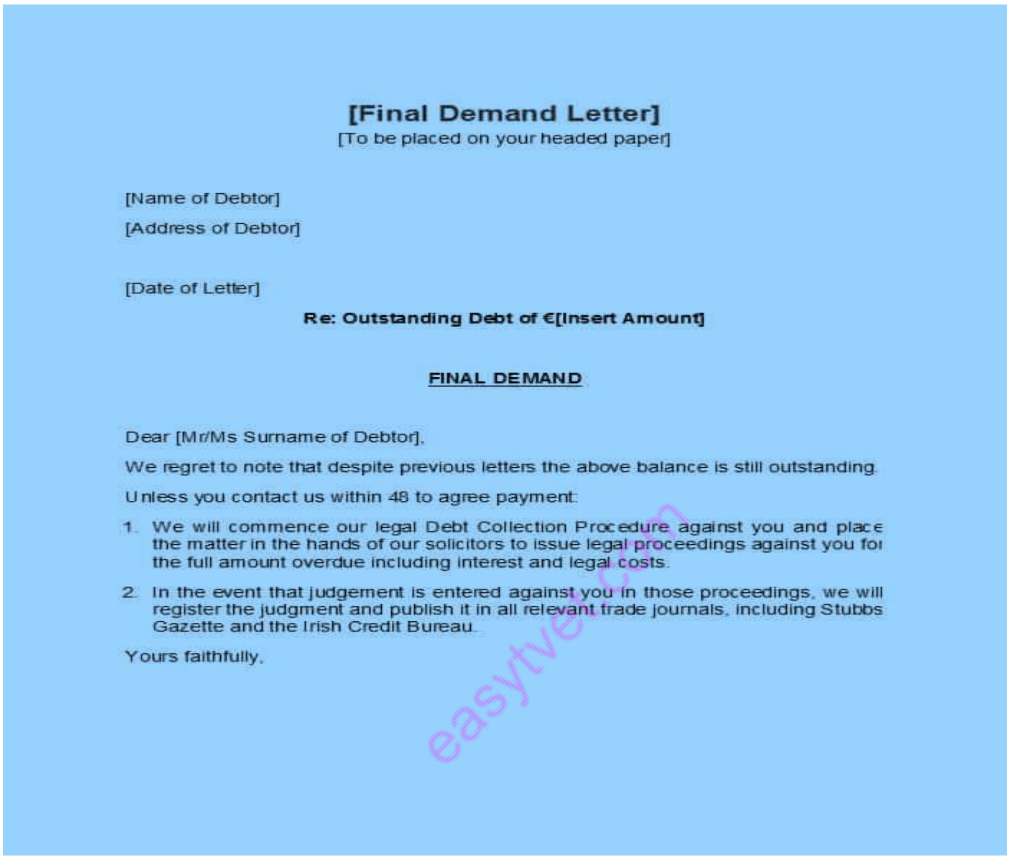
Importance of demand letter

- It establishes that one is seeking settlement for their invoice in a formal and professional way hence debtors/clients do reconsider their invoice with regards to the cost implications (helps encourage settlement).
- It helps establish and maintain goodwill between business parties.
- In case the dispute is litigated, one has a detailed outline of all circumstances resulting in non-payment.

Methods of dispatching demand letters

- Self-delivery
- By post as parcels
- Mails
- Hiring a lawyer to deliver it on your behalf

Demand letter



[Final Demand Letter]
[To be placed on your headed paper]

[Name of Debtor]
[Address of Debtor]

[Date of Letter]

Re: Outstanding Debt of €[Insert Amount]

FINAL DEMAND

Dear [Mr/Ms Surname of Debtor],

We regret to note that despite previous letters the above balance is still outstanding.

Unless you contact us within 48 to agree payment:

1. We will commence our legal Debt Collection Procedure against you and place the matter in the hands of our solicitors to issue legal proceedings against you for the full amount overdue including interest and legal costs.
2. In the event that judgement is entered against you in those proceedings, we will register the judgment and publish it in all relevant trade journals, including Stubbs Gazette and the Irish Credit Bureau.

Yours faithfully,

Figure 19: Demand letter
Source: templatelab.com

Contents/inclusions of a demand letter

The following are the contents of a demand letter;

- Sets out why the payment is being made
- How the payment should be carried out; e.g. in full, installments, etc.
- Directions for the reply
- Deadline for the reply

How to prepare a demand letter

In writing a debt collection letter that will yield results, ensure;

i. To be precise and on point.
ii. Include all the necessary information like name, date and all details of a debt collection letter.
iii. Avoid threats and intimidation and keep it within the debt collection guideline.

iv. Be firm and remind the debtor of the repercussions of non-payment including legal action.
v. Provides facts and figures with attached invoices, statements, copies of the contract and any documents relating to the debt.

6.3 Demand letters are dispatched as per standard operating procedure

The dispatch process comes right after preparation of the demand letters and entails the process of formally distributing the contents of a document to a recipient. Simply delivering the contents of a document to the supposed recipient or debtor asking them to repay off their debts, which could be financial. The dispatch process is done through mails, posts as parcels, hiring a lawyer to deliver it on your behalf etc.

Types of demand letters

- **Debt owed:** Letter requesting debtor to settle their dues must outline reasons for the debt, amount owed and original due date as well as terms of settlement.
- **Action required:** Description of action being requested be well included like providing a service.
- **NSF check (Not Sufficient Fund):** Letter requesting payment after a debtors check is returned. Includes information about the check, payment amount, bank name and check number.
- **Stop repayment:** Letter that requests payment after a debtor puts a halt/ stop payment on a check. Includes check information like check number, payment amount, bank name, date of issue and compensation for bank fees as well.

Considerations before issuing demand letters

i. Try giving the debtor a call and sending reminders before settling for the demand letter.
ii. If the call fails, prepare a letter for dispatch and include the debt due etc.
iii. State in the letter clearly on your intentions to take legal action.
iv. Have a clear explanation on the method of payment of the debts.
v. Attach all relevant supporting documents with all important invoices.

6.4 Demand letters are recorded as per standard operating procedure

After a successful dispatch of a demand letter, recording of the same is done in which case the creditor must retain a copy of the letter for future reference and for proof in cases the debtor/ recipient makes attempts of denying having received it. In reference to the Standard Operating Procedure, the record of the demand letter kept must be a duplicate of the letter dispatched to the debtor.

Importance of record keeping in debt management

Essentially businesses need to keep records of all demand letters due to the following reasons;

- Miscommunications and mistakes are prevented thus smoother debt recovery.

- Accurate, detailed and complete records will give one the best idea of the debt recovery progress hence helps in dispute resolution.
- Well organized and updated credit files help to ensure no account is forgotten and prompt delivery of debt efforts thus follow-up of invoice is enhanced.
- Proper record keeping also enables the financial institution to determine how old the debt is.
- Organization is able to keep track of its customers

6.5 Demand letters are filed as per organizational policy

An organizational policy regards a set of guidelines and best practices put in place to protect the company's employees, customers and stakeholders in a bid to establish expectations and behavioural limitations. Every organization has a central record-keeping system to which every document is filed accordingly. The essence of a good filing system is that it;

- Reduces the time taken to manage finances.
- Enhances the budgeting and planning tasks.
- Readily avails important information within the least time.
- Documents are kept in a safe place thus prevents lose
- Helps organizations be organized, systematic and efficient

A filing system entails an organized, systematic and transparent central record keeping way of organization.

Equipment used for filing

- **Filing cabinet**: Used to keep flat files and suspension files

\

Figure 20: Filing cabinet
Source: manutan.ie

- **Date stamp**: Used to date stamp documents that are received on daily basis for later chronological filing.

Figure 21: Date stamp
Source: ezee.sg

- **Steel cabinet**: Used to keep big files that need be enclosed somewhere.

Figure 22: Steel cabinet
Source: luoyanghefengfurniture.com

- **Register:** Used to record files taken out and returned
- **Box file**: Big file used to keep big documents that cannot go into a filing cabinet.

Figure 23: Box file
Source: indiamart.com

Methods of filing

- Filing by subject
- Filing in alphabetical order
- Filing
- By places/geographical order
- Chronological filing

Filing systems

Technological advancement has led to a shift from the traditional filing system to electronic filing system. Most organizations have abandoned traditional filing system which involves much paper work to electronic system.

Benefits of implementing an electronic filing system

- Improved security and compliance
- Faster file retrieval, since documents are indexed, getting to a given customers details is easy as one just needs to type their name and all information is provided
- Saves money as much paper is eliminated
- High safety guaranteed in the event of the office being damaged, the files are safely guaranteed. In the event of the office being damaged, the files are safely kept by automatic back-ups.

Conclusion

This learning outcome covered; need of identification of customer arrears, putting emphasis on demand letters as a method of debt collection, types of demand letter, contents of a demand letter, importance of demand letter, preparation of demand letter, methods of issuing demand letter and factors to consider when issuing demand letter.

Further Reading

1. Read on guidelines in debt collection from the Central Bank Act.

4.3.7.3 Self-Assessment

Written Assessment

1. Which of the following is the major source of revenue of any business?
    a) Purchase
    b) Sales
    c) Commission
    d) Interest

2. Which of the following is not a demand letter?
    a) Not sufficient fund
    b) Stop payment
    c) Debt owed
    d) Debt settled
3. Tiva enterprises experienced a reduction in net operating profit after taxes (NOPAT). Which of the following cannot help explain the decline?
    a) Sales revenue decreased
    b) There was an increase in depreciation
    c) Taxes increased
    d) Interest expense increased
    e) More debts were written off
4. Which of the following would increase the likelihood that a company will increase its debt ratio in its capital structure?
    a) Increase in costs incurred while filing for bankruptcy
    b) An increase in the corporate tax rate
    c) Increase in personal tax rate
    d) Decrease in the corporations' business risk
5. Identify the alternatives that could potentially result in a net increase of a firm's free cash flow for a given year.
    a) Decreasing the accounts payable balance
    b) Increasing the period over which fixed assets are depreciated
    c) Reducing the days-sales-outstanding ratio
    d) Dispatching as many debt collection letters as possible to debtors
6. Peter, an assistant accountant at Vivo Emy Debt Collectors is stuck on the contents of a debt collection letter. Which of the following is not an inclusion?
    a) Payment being claimed
    b) Deadline for reply
    c) Deadline for repayment
    d) Check number
7. According to the fair debt collection practice act, who of the following is not a third party that the debt collector can deal with in debt collection?
    a) The creditor
    b) The debt collector's attorney
    c) The bank
    d) Creditor's attorney
8. Outline and evaluate the importance of dispatching demand letters.
9. Demonstrate the need for a central filing system in any organization.
10. Elaborate your understanding of standard operating procedures.
11. Outline the contents of a demand letter.
12. Summarize the possible causes of arrears in financial institutions.

Oral Assessment

1. Name some of the contents of a demand letter.
2. Summarize your understanding of standard operating procedure.

Case Study Assessment

Fiona runs multiple businesses apart from her permanent job. Lately, she’s convinced that her in-flows have had a drastic drop which has consequently impacted her work tremendously as her employer is angry with her performance. Her businesses have really held the bag possibly due to the wrong turn the clients have taken on debt repayments. Fiona offers you an entry level job as a debt collector in one of her companies that is the most hit with uncollected debts and good news you know much on demand letters. Her systems are all in place. Elaborate how you will swiftly utilize these systems to maximize the debt collection exercise for positive results.

4.3.7.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip chart/white board

4.3.7.5 References

Brigham, E.F, and Ehrardt, M. (2009). Financial management theory and practice. Chartered Institute of Public Finance and Accountancy, (CIPFA), 2007

Gathuya, P. (2010). A survey of factors that influence financial management

Lin, J. & Hwang, M (2010). Audit Quality, Corporate Governance and Earnings.

4.3.8 Learning Outcome No 7: Perform Credit Facility Restructuring

4.3.8.1 Learning Activities

Learning Outcome No 7: Perform Credit Facility Restructuring	
Learning Activities	**Special Instructions**
7.1 Receive customer request as per standard operating procedure (SOP) 7.2 Obtain customer details as per standard operating procedure (SOP) 7.3 Confirm acceptability of credit restructure as per bank policy 7.4 Capture credit restructure in the system as per standard operating procedure 7.5 Make credit restructure decision as per bank policy 7.6 Communicate credit restructure decision to customer as per banking policy	Oral Assessment Discussion Written assessments

4.3.8.2 Information Sheet No4/LO7: Perform Credit Facility Restructuring

Introduction

This learning outcome covers; credit restructuring, customers' requests evaluation, customer details verification, validation of the restructure, possible restructure decisions and means of communication of the feedback. The learner should fully understand these contents in-depth. The learner should be open minded and practical in this learning outcome.

Definition of key terms

Credit restructuring: It is a method used by organizations or firms to avoid the risk of default on existing debt. It is mostly used where the borrower/debtor is in financial crisis and is unable to pay the existing loan.

Bank Policies: These are principles/regulations adopted by the bank for reference.

Customer request: This is a formal plea/order/appeal by the customer to the creditor as per his special needs.

Customer details: These are the basic information that aids in gaining a better knowledge of your customer.

System: It is an organized method of the work-flow in an organization set up by the information and communication technology department.

Capturing: This is a manual task whereby data is fed into the system. The system interprets the captured data.

Content/Procedures/Methods/Illustrations

7.1 Customer request is received as per standard operating procedure

In any credit facility, all debtors are obligated to repay their loans, according to their contractual terms. In this case, a debtor/customer should communicate their issues to the creditor instead of waiting for loan default. This can be done in way of writing a letter to the bank's/credit facility's management or by manner of self-representation.

This is only made possible by way of supporting documents to validate your request. The creditor discusses the cause of overdue payment, borrower's financial position.

Customer request is reviewed as follows;

i. **Credit history:** The bank reviews both your credit history and that of your personal guarantor so as to gauge your credit worthiness.
ii. **Collateral available for securing the loan:** In this case the bank would want to make sure that there is a property that secures the loan in case you fail to make the payments.
iii. **Cash flow history and the trends for future projections:** This information is very critical to the bank as they can predict your consistency in loan repayments used on a certain business trend. A tool called cash flow budget worksheet is used in Excel. This worksheet is set for projecting your cash flow for six months. A working cash flow ration is set at different rates by different banks.
iv. **Business reputation/personal traits:** This is as well considered in case the borrower have had successful prior business experience, a good prior credit or depositor relationship referrals by respected community residents, community work involvement and has a good evidence of effort, care and due diligence in the business planning processes and proposals.

7.2 Customer details are obtained as per standard operating procedures

Customer details are accessed in the system to aid in ascertaining his/her capacity, collateral, capital, character and conditions. These are the 5 C's of credit risk assessment. The bank checks whether you have other debts elsewhere e.g. Metropolis, other credit facilities i.e. present and former loans.

They will also consider the following important factors:

- Assets owned to reduce the risk of non-repayment.
- Financing pattern for projection/consistency in repayment
- Tax history. The creditor will ascertain whether you evaded tax
- Work experience.
- Nature of employment. The banker would wish to know whether the contract is permanent or temporary to guarantee loan security.

Customer details describe the basic information that aids in gaining a better knowledge of your customer.

Types of customer information/details

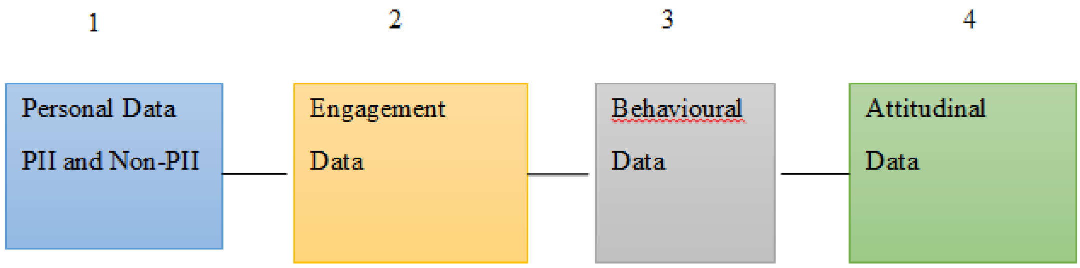


Figure 24: Types of customer information/details

Personal Data (P.I.I and Non P.I.I)

Personally identifiable information (P.I.I) is any information that can be used to recognize an individual’s identity. It includes;

a) **Linked information:** They do not require additional data point e.g. full name, physical address, Email address, Date of birth, etc.

b) **Linkable information:** It cannot identify a person on its own, but it can do so when additional information is provided e.g. Location, Gender, Race, age group and job details.

Non-Personally Identifiable information (Non-PII)

It cannot be used to identify. It is anonymous in nature e.g. IP address, cookies, devices, IDs, etc.

i. **Engagement Data:** It tells you how your customers interact with your brand via various internet/marketing channels e.g. Social media, Email, Feedback etc.

ii. **Behavioural Data:** It helps uncover underlying patterns that customers reveal during their purchase journey. This is possible through subscription details, purchase details, repeated actions, Task completion etc.

iii. **Attitudinal Data:** It is enhanced by the feelings and emotions of your customers. It is carried out through feedbacks, surveys, reviews and customers complaints.

Attitudinal data includes;

- Customer satisfaction
- Sentiments
- Product desirability
- Preferences
- Motivations and challenges
- Purchase criteria

7.3 Acceptability of credit restructure is confirmed as per bank policy

After all considerations in the bank policy are met and the request is verified as valid as to why the debtor is unable to repay the loan at once, the bank then decides to accept the restructure if he has genuine reasons. The request is scrutinized, approved and verified by various head to ascertain correctness and accuracy. Acceptability of credit restructure has many benefits for your business which includes:

- **Consolidated existing debts:** It assists in reducing the number of monthly repayments you have to keep track of consolidating.
- **Plan your finances more easily:** If you are currently paying off numerous loans, which may have different interest rates and loan terms, it can be difficult to plan your company's finances. Restructuring allows you to make plans for your business's future growth.
- **Lower interest rates:** Consolidating your company's existing debts could mean that you pay a lower interest rate overall, reducing the cost of finance to your business from outstanding loans.
- **Freeing up cash in your business:** Restructuring debts can mean you are making lower repayments each month, freeing up cash for running your business and enabling you to grow.

There are two types of debt restructuring

- **General Business Debt Restructuring**: The creditor does not realize any losses during general debt restructuring. It occurs when the creditor extends the loan period or lowers the interest rate allowing the debtor to temporarily gather himself financially then pay later.
- **Troubled Business Debt Restructuring:** It results in a loss to creditors during the process. It occurs when the creditor receives less than the original value of the investment.

The creditor needs to be willing to allow an adjustment to the initial investment and the debtor needs to repay the debt in full to the creditor without challenges.

Advantages of Restructuring

- Legal protection of the debtor from creditor's recovery of society based on the forgiveness of liabilities.
- Protection of assets
- Providing time for the re-launch of the company.
- After successful restructuring, accompany can operate without restrictions.
- The inability to count old liabilities with new liabilities that arose after the beginning of the restructuring process
- If a creditor's bankruptcy claim comes to court during restructuring, the court will deny such claim by court order.

Disadvantages

- During the restructuring process, the administrator approves the debtor's legal action (with the exception of common legal actions.
- In case the restructure plan is not approved the company is declared bankrupt.
- In case the restructuring plan towards the creditor is not being fulfilled the plan becomes legally unenforceable towards this creditor.

7.4 Credit restructure is captured in the system as per standard operating procedure

At this stage of the credit restructuring, the new credit details/data is captured in the system to effect changes. New monthly installments are calculated and the rates adjusted as well as the loan period. The adjusted details are then saved in the system depending on the accounting package the firm is using some use QuickBooks, others sage, SAP, etc.

7.5 Credit restructure decision is made as per bank policy

The creditor, at this point is now satisfied with the supporting documents provided by the debtor or by his negotiator. It is approved by the management. The following decisions are made:

a) Restructuring of the payments and consolidating the debt by defining anew reimbursement schedule in accordance with the real payment possibilities of the debtor.
b) Cancellation of a part of debt if the debtor is unable to pay but there is the possibility of recovering a part of the granted credit.
c) Debt-equity swap. This can be achieved by converting a part of debt in capital (debt V's shares), and by mobilizing new capital in the form of issuance of bonds or shares.

7.6 Credit restructure decision is communicated to customer as per banking policy

As the final stage in credit facility restructuring, the decision is communicated back to customer/debtor by means of a phone call, email or letter, within a reasonable time frame of not more than 10 days as per the policy.

Restructuring techniques

- **Conversion:** Distressed borrowers negotiate with their bankers that their overdraft facilities be converted to term loans. Hence they not only benefit from an extended repayment period but also avoid many penalties and charges associated with overdraft excesses.
- **Below market rate of interest:** This technique offers the borrower a less than market interest rate. This tents to convince the customer that the bank is mindful of its long term financial health and resumes servicing its debt obligations.
- **Concessions, banks can decide to wave** all charges levied on the customer both in the past and in the future.

- **A new repayment schedule:** A loan monthly repayment is determined by the length of repayment period and it's normally calculated to amortize the loan evenly throughout that period.

After the decision is relayed to the debtor through letters, emails or even through calls the restructuring process now is debt settlement/ restructuring pros to the debtor.

- Lower your debt amount
- Help avoid bankruptcy
- Aids in getting creditors and collectors off your back

The cons to the debtor

- Your creditor may not agree to negotiate.
- You could end up with more debt if you stop making payment on a debt, you can end up paying late fees/ interest.
- It can negatively affect your credit, your credit scores can take a hit to the result of any delinquent payment, and the creditor could also sent your account to collections or sue you over the debt.
- Banks analysis before starting their restructuring process if the initiation of it will improve its position, that will allow realizing and respecting of an output from the credit relationship without turning to the expensive process of implementing warranties.

Principles whose applications make the difference between success and failure of their restructure

- The decisions will be taken only on the bases of well checked information and certified by an external auditor.
- The success of restructuring depends on choosing one of the creditor banks as a leader to supervise the process and coordinate in all creditors actions.
- Changing the credit terms and conditions must consider rather to be covered with collateral than the increase of credit that pushes more the burden of the debt and puts in danger the positive effects expected.
- Selling the debts to third parties on the secondary market will be made under the condition that the new creditor will not stop their restructuring process approved at the beginning by old creditor.

The decisions made should be in line with the outlined specifications / policies for the banks by the Central Bank of Kenya.

Conclusion

This learning outcome covered; credit restructuring, customers' requests evaluation, customer's details verification, reasons for credit restructuring, implication of credit restructuring, types of credit restructuring and factors to consider in credit restructuring, validation of the credit restructure, restructure decisions and means of communication of feedback to the customer.

Further Reading

1. Read on Debt restructuring and refinancing from Investment banking India mart

4.3.8.3 Self-Assessment

Written Assessment

1. Which C is not in the category of credit risk assessment?
    a) Capacity
    b) Credit
    c) Capital
    d) Collateral
2. Customer request is reviewed as all this except?
    a) Cash flow history
    b) Collateral available
    c) Ethnicity
    d) Credit history
3. There are 3 types of debt restructuring which, which one is not?
    a) Debt-equity swap
    b) Cancellation of part of debt
    c) Debt appetite
    d) Restructuring of the payments and consolidating the debt.
4. Which of the following is not convenient means of giving back the feedback to the customer?
    a) Email
    b) Phone calls
    c) Letters
    d) Skype

5. While assessing credit-worthiness, which of the following factor is not considered?
    a) Financing pattern
    b) Tax history
    c) Assets owned
6. After how long should the creditor communicate the credit restructure to the customer?
    a) 30 days
    b) 20 days
    c) Not more than 10 days after request
    d) 25 days after request
7. Which of the following activities is not performed while credit restructuring?
    a) Customer request
    b) Customer details
    c) Acceptability
    d) Customer satisfaction
8. Summarize what credit is restructuring.
9. Outline the meaning of capturing in relation to credit restructuring.
10. Elaborate the meaning of a system, discussing its pros and cons.
11. Differentiate the different types of customer details
12. Outline three meaning of bank policies.

Oral Assessment
1. What are customer details and how does it assist in credit restructuring?
2. What is customer request and how is it evaluated?

Case Study Assessment

Turnaround and Restructuring

$8MM multiple store, National Food Chain Franchisee unable to make bank loan payments, in default of franchise agreements with default notices issued for all locations and shareholder's personal resources depleted. Assess whether or on what basis, the franchise remains viable; whether it could cure the various payment defaults; whether the business is worth more broken up and sold or continuing to operate under various store configurations.

4.3.8.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer/excel
- Flip chart/white board

4.3.8.5 References

Basu, S.M. and Rolfes, H.A. (1995). Strategic Credit Management. Toronto: John Wiley & Sons Inc.

Blats, M. Kraus, Karl – J., Haghani, S. (2006). Corporate restructuring. Finance in times of crisis, Florida. Springer Verlag.

Slatter, S.,Lovett, D. Barlow, L. (2006). Leading Corporate turnaround, Ed. Jossey Bass/J.Newyork: Wiley & Sons Ltd.

CHAPTER 5: CREDIT COLLATERALIZATION

5.1 Introduction of the Unit of Learning/Unit of Competency

Credit collateralization is a unit of competency offered in TVET Level 6 banking and finance course qualification. This unit specifies the competencies required to establish credit collateral. It involves identifying security options, determining sufficiency of collateral, signing and witnessing the legal documents, conducting joint registration and maintaining credit security documents. The significance of credit colorization to TVET level 6 banking and finance curriculum is to equip learners with knowledge and skills to demonstrate communication, reporting, complaint handling, leadership skills, team player, organizing, time management, problem solving, analytical, computer packages, bank operational procedures, legal operating environment, banking policies and procedures and security management so as to fit well in the world of work.

The critical aspects of competency to be covered include demonstrated ability to match exposure with collateral, determine sufficiency of the collateral, sign and witness the legal documents, conduct joint registration and maintain credit security documents. The basic resources required include computers, phones, stationery, furniture, list of approved lawyers and transport.

The unit of competency covers 5 learning outcomes, each of the learning outcome presents; learning activities that covers performance criteria statements creating trainees an opportunity to demonstrate competecies stipulated in the occupational standards and content in curriculum. Information sheet provides; definition of key terms, content and illustration to guide in training. The competency may be assessed through written test, demonstration, practical assignment, interview/oral questioning and case study. Self-assessment is provided at the end of each learning outcome. Holistic assessment with other units relevant to the industry, sector, workplace and job role is recommended.

5.2 Performance Standard

Security options, legal documents and credit security documents as per credit policy and credit category.

5.3 Learning Outcomes

5.3.1 List of Learning Outcomes

a) Identify security options
b) Determine sufficiency of collateral
c) Execute legal document
d) Conduct security perfection
e) Maintain credit security documents

5.3.2 Learning Outcome No 1: Identify Security Options

5.3.2.1 Learning Activities

Learning Outcome No 1: Identify security options	
Learning Activities	**Special Instructions**
1.1 Determine the type of collateral as per credit category	Written assessment
1.2 Determine the exposure as per the credit policy	Demonstration
1.3 Match the exposure with collateral as per the credit policy	Practical

5.3.2.2 Information Sheet No5/LO1: Identify Security Options

Introduction

This learning outcome covers; security documents, types of security documents, Importance of the security documents, collateral, types of collateral, importance of collateral and collateral for different types of credits.

Definition of key terms

Collateral: A collateral is a property or an asset that an individual (borrower) provides to a lender to act as a security for a loan.

Credit: In the financial sector, the term credit has various meanings. However, it can generally be defined as: a contractual agreement where a person who is borrowing gets a valuable thing now and promises to repay at a later date with an additional amount normally referred to as interest.

Content/Procedures/Methods/Illustrations

1.1 Type of collateral is determined as per credit category

When getting a loan or credit from a bank or financial institutions, the lender the lender has to look to the collateral depending on the credit category. The credit categories are classified according to the credit policies of a lending institution. There are various types of categories of collateral that lending institutions considers before extending credit to a borrower. Collaterals can be classified into the following categories;

- **Intangible collateral**

This is a collateral that is not physical and in many cases, it is difficult to attach a financial value to such a collateral. Examples of intangible collateral include; patents, trademarks, goodwill and copyrights among others. In most cases, financing or lending institutions do not accept intangible collaterals as a security for a loan or credit.

- **Tangible collateral**

Tangible collaterals are physical properties that an individual or organization can use to secure a loan. Examples of tangible collaterals loan includes: Vehicles, land, equipment, machinery and stock among others.

Categories of credit

Credit or loans are divided into two main classes;

a) **Open ended credit:** This is a form of credit where an individual uses a credit card to make purchases but repays the whole amount used at the end of the month.
b) **Closed-ended credit:** In closed ended credits, the borrower repays a specific amount of the sum in installments on a periodical basis.

Collateral for different types of credit

- **Secured personal loans:** For an individual to get a secured loan, he or she will use as collateral such as a car or certificate of deposit as a security for the loan.
- **Title loans:** When an individual has a property such as a car or land, car title or land title deed can be used as collateral.
- **Home equity loans:** In the home equity credit, an individual's home is used as collateral. An individual can only borrow up to 85% of the equity amount that he or she has in the home.

Importance of collaterals

- Collateral helps the lender to take the property and sell it for repayment, if the borrower defaults to repay the loan.
- It enables the borrower to have a high chance of getting the loan.

Credit security documents

These are documents that are used in ascertaining the information provided in the credit agreement. It can include: guarantee of the credit, the pledge agreement and other agreements as pertaining to the security of securing credit

Types of security documents

- **Personal security document:** This is a document that shows the personal details and security information of the person who wants to access a loan.
- **Title deeds:** This is a security document that stands in place of land owned by a borrower.
- **Car logbook:** A car logbook is a document that stands in place of a car that is used as collateral for a loan.

1.2 Exposure is determined as per the credit policy

Credit exposure refers to the amount of money that will be lost when a borrower fails to repay the loan. When giving loans, banks prefer increasing their loan exposure to individuals who have high credit ratings.

Determining credit exposure

In determining credit exposure, financial institutions assess the credit rating of a borrower. An individual with a high credit rating has a high credit exposure as compared to an individual with a low credit rating.

Controlling credit exposure

Based on the policy of a lending institution, there are various methods used in controlling loan credit exposure. Some of these methods include;

- **Creating credit limits:** A lending institution assesses the ability of a borrower to repay the amount borrowed. After assessing, it places a certain limit that the credit card user cannot exceed.
- **Offering different credit limits to borrower:** Difference between credit exposure and credit risk. Although the two terms are often used interchangeably, credit exposure is actually one of the components of credit risk. Credit exposure helps in measuring the magnitude if a loss occurs. Credit risk on the other hand, is the likelihood of a loss occurring or the probability of a borrower to default in repaying the loan.

1.3 Exposure is matched with collateral as per the credit policy

Matching risk exposure with collateral refers to the process of assessing the amount of money that will be lost, when the borrower defaults to repay the amount borrowed against the collateral that the borrower has provided.

Factors to consider when matching collateral with credit

- **Credit rating of the borrower:** Financing institutions compare credit exposure with the credit rating before identifying the type of collateral to demand. A borrower with a high credit rating will require a lesser collateral or lower value collateral as compared to a borrower with a low credit rating.
- **Risk of the loan:** Lending institutions compare the risk of the loan before lending or offering the loan in comparison of the collateral they demand. The riskier loan will attract high valued collateral whereas a less risky loan will attract less valued collateral.
- **Risk level of the lending institutions:** Lending institutions that are risk averse prefer to have more or highly valued collateral so that they can recover their credit easily in case the borrower defaults. On the other hand, lending institutions that are risk takers may not pay much attention to the value of collateral.

Therefore, they offer credit even though the credit amount does not match the type of collateral provided. However, such institutions have established various strategies that reduce the risk of losing the amount loaned.

Conclusion

This learning outcome covered; security documents, types of security documents, importance of the security documents, collateral, types of collateral, importance of collateral, and collateral for different types of credits.

Further Reading

1. Read on the current changes that lending institutions have put in place in assessing securities for loans.

5.3.2.3 Self-Assessment

Written Assessment

1. Which of the following is an example of tangible collaterals?
    a) Patents
    b) Vehicles
    c) Land
    d) Machines
2. Which of the following does not form part of tangible collaterals?
    a) Land
    b) Goodwill
    c) Computers
    d) Vehicles
3. The following are classes of collaterals. Which one is odd one out?
    a) Tangible collateral
    b) Closed ended credit
    c) Intangible collateral
    d) Invoice collateral
4. Which one of the following forms part of the security document?
    a) Notebook
    b) Newsletter
    c) Title deed
    d) Invoice

5. Which of the following is correct about categories of credit?
    a) Everyone can access all credit categories.
    b) All credit categories have similar credit facilities.
    c) All financial institutions offer similar loan categories.
    d) Some loan categories are open ended while others are closed ended.
6. The following are true about the importance of collaterals. Which one is false?
    a) They cover for the loan borrowed.
    b) In case a borrower defaults collateral can be sold to recover the loan.
    c) They help the borrower have easy access to loan facilities.
    d) They facilitate easy assessment of a loan.
7. Which one of the following terms fails to fit in the study of security options and credit?
    a) Collateral
    b) Security document
    c) Risk exposure
    d) Customer experience
8. Interpret the term collateral.
9. Differentiate between credit risk and credit exposure.
10. Analyse factors to be considered when matching exposure and collateral.
11. Evaluate the term credit.
12. Categorise methods used in controlling credit exposure.]

Oral Assessment
1. What is the difference between open ended credit and closed ended credit?
2. What is a security document?

Case Study Assessment
Tala is one of the companies that provide credit to most young people in Kenya. It is evident that the company does not require collateral for it to extend credit/ loans to the borrower who uses the application. It therefore means that the company is a risk taker and does not match its credit exposure to the collateral. However, the company uses strategies such as quick increment of loan amount to encourage borrowers to continue borrowing and refund the money borrowed. Nevertheless, the company has suffered many credit risks due to high rates of defaulting clients.
a) From the case study, assess if it is important to match collateral with credit exposure.

5.3.2.4 Tools, Equipment, Supplies and Materials
- Writing materials
- Projector
- Computer
- Flip Chart/white board
- Computers

- Phones
- Stationery
- Furniture
- List of approved lawyers
- Transport

5.3.2.5 References

Anderson, L.B., Pectin, m., & Sokol .A. (2016). Credit exposure in the presence of Initial margin. Available as SSRN 2806156(2016).

Hamza's' (2017) impact of credit risk management on banks performance: A case study in Pakistan Banks, European Journal of Business Management; 9 (1) 57-64

Lakdawala .A. Minett, R., &Olivero. (2017). Intermarket and credit policies amid sovereign debt crisis (No 2017-1) Lebow College of Business. Drexel University.

5.3.3 Learning Outcome No 2: Determine Sufficiency of Collateral

5.3.3.3 Learning Activities

Learning Outcome No 2: Determine Sufficiency of Collateral	
Learning Activities	**Special Instructions**
2.1 Determine security ownership as per law 2.2 Determine security caveat as per law 2.3 Determine the use of collateral elsewhere as per law 2.4 Conduct security valuation as per credit policy	Case studies Direct instruction Written Assessment

5.3.3.2 Information Sheet No5/LO2: Determine Sufficiency of Collateral

Introduction

This learning outcome covers; collaterals, methods of collateral valuation and how banks determine the value and sufficiency of collaterals and its importance.

Definition of key terms

Collateral: This is an asset that a loan borrower pledges to extend to acknowledge that they must finish their loan repayment.

Security ownership: This is the legal possession or control of an asset.

Security valuation: This is the process by which banks have to investigate the amount by which the security of borrower is worth.

Security caveat: This is an order by the court requiring a debtor not to sell the property without the banks consent.

Content/Procedures/Methods/Illustrations

2.1 Security ownership is determined as per law

Law is a system of rules that defines how people of a particular community or country should conduct themselves. Law is enforceable. Security ownership is being in possession of an asset. The ownership of security or securities of borrowers has to be legal i.e. the possession of assets of borrowers has to be formal and standardized according to the law.

Establishment of legal ownership of collateral

Collateral can be any asset e.g. shares or stock, land, building, vehicles etc. The borrower/debtor has to produce or prove that he/ she owns the security that is to be used as collateral. E.g. for land, a borrower can produce a title deed that is valid, for vehicle a person can produce receipt, driving license, etc. The borrower normally has the full authorization to pledge, transfer, and sell the security. Having the documents such as title deed establishes that the borrower legally owns the asset.

2.2 Security caveat is determined as per law

A security caveat is normally lodged to the court of law by the bank if the bank feels that the borrower might transfer or sell ownership of the collateral. The bank lodges a security caveat in reference to the law. A security caveat is normally an injunction i.e. requires one to stop doing something Security caveat is normally determined by the court of law if the banks do not have the power to prevent the debtor or borrower from transferring property, they can therefore file a security caveat. If the bank does not have a reasonable cause to lodge a caveat. The bank will be liable for any damages the debtor will incur. In cases of security caveat, the bank does not have the right to have the full ownership of the property or sell property.

2.3 Use of collateral elsewhere is determined as per law

Collateral can be used by the borrower or the bank (lender) in certain circumstance in reference to the law. Most banks as per law do not accept a debtor to use the same asset as collateral in acquiring loans in different banks or to transfer ownership of the asset used as collateral. There are different ways a debtor can use collateral elsewhere:

- Transfer ownership of the asset by selling it.
- Use the same collateral as collateral in acquiring other banks.
- The borrower can use the collateral if it is a non-current asset e.g. in cases where a business uses its stock as collateral, the business owner can still conduct its trading activities by using its stock.

2.4 Security valuation is conducted as per credit policy

Credit policy is a set of rules that govern how giving of credit to borrowers can be conducted. Credit policy can include: credit worthiness of borrowers, procedure of giving credit to borrowers and terms and conditions of giving credit, etc. The value of a security is worth a security. The value of a security is determined by the bank using the fair market value as per the relevant credit policy.

Interpretation of valuation report

Valuation report is interpreted by determining the very recent fair prices in the market for that particular asset to be used as collateral. The valuation report is normally prepared by a qualified experienced expert.

Collateral valuation methods

Collateral valuation methods used are as per the agreed accounting policies in a particular country or bank.

The principles applied though, should be widely accepted to reduce of variances that might occur. They include:

- **Cost approach:** The appraiser determines the value of the asset by taking into account the cost of reproducing it.
- **Market approach:** An appraiser determines the value of the asset by calculating the worth of similar asset that is the market price.
- **Income approach:** Investors normally pay for the expected income they will acquire each year from the asset and when the asset is finally sold by transferring ownership in the future.

Discounting of collateral values

Collateral values are discounted by incorporating the risks associated to asset being used as collateral. Discounted cash flow analysis is used e.g. Net present value analysis, internal rate of return.

Importance of discounting collaterals

- It takes into account time value of money i.e. the value of the collateral as at the present day from the time it was purchased.
- It is a good measure of profitability that can be gained from the collateral if the borrower defaults in paying the loan.
- It incorporates risks associated with the collateral so as to know the exact value of the collateral.

Importance of establishing sufficiency of collateral

For an asset to be used as collateral, the value of the collateral has to be sufficient enough and must be comparable to the amount of loan requested. Its importance is to assure the bank that it will get its money back if the borrower defaults in repaying the loan.

Conclusion

This learning outcome covered; collaterals, methods of collateral valuation and how banks determine the value and sufficiency of collaterals and its importance.

Further Reading

1. Read more on Collateral pricing by E Benmelech, NK Bergman- Journal of financial economics,2009- Elsevier
2. Read on Group lending, repayment incentives and social collateral by T Besley, S Coate- Journal of development economics, 1995- Elsevier

5.3.3.3 Self-Assessment

Written Assessment

1. Which of the following are two types of discounting collateral values?
   a) Net present value and cost approach
   b) Internal rate of return and net present value
   c) Cost of approach and net present value
   d) Market approach and cost approach
2. Which is an advantage of discounting collateral values?
   a) To know the profit to be made from collateral
   b) To sell the collateral
   c) To buy the collateral
   d) To dispose the collateral
3. Among the following you have learnt from this learning outcome except?
   a) How to buy shares
   b) Legal ownership of collateral
   c) Discounting of collateral values
   d) Valuation of collateral
4. Security caveat is given by____________.
   a) Court order
   b) Borrower
   c) Citizens
   d) Government
5. A valuation report is prepared by____________.
   a) Manager
   b) Appraiser
   c) Banker
   d) Teller
6. The person who goes to borrow a loan from a bank is called______________.
   a) Borrower
   b) Citizen
   c) Father
   d) Creditor
7. Elaborate what a security caveat is.
8. Clarify what collateral is.
9. Identify three methods of collateral valuation.
10. Outline two types of discounting methods in collateral valuation.
11. Classify methods of marketing approaches.

Oral Assessment

1. Who issues a security caveat?
2. What is security valuation?

Practical Assessment

In a group of five students, visit the nearest bank and inquire the procedures that are followed by the bank to determine the value of assets used as collateral.

5.3.3.4 Tools, Equipment, Supplies and Materials

- A collateral valuation report
- Writing materials
- Projector
- Computer
- Flip chart/white board
- Computers
- Phones
- Stationery
- Furniture
- List of approved lawyers
- Transport

5.3.3.5 References

AA Rampini, S Viswanathan,. (2013). Collateral and capital structure Journal of financial Economics.

E Benmelech, NK Bergman- Journal of financial economics, (2009). Elsevier

G Jimenez, V Salas, J Saurina., (2006). Determinants of collateral. Journal of financial economics.

Smith & Howard, (4th October 2015). Certified Public Accountants and Advisers.

T Besley, S Coate Journal of development economics, (1995) Elsevier

5.3.4 Learning Outcome No 3: Execute legal document

5.3.4.1 Learning Activities

Learning Outcome No 3: Execute legal document	
Learning Activities	**Special Instructions**
3.1 Issue the customer with offer letter and other legal documents as per credit policy 3.2 Sign offer letter and other legal documents as per banking policy 3.3 Confirm offer letter and other legal documents as per credit policy 3.4 Sign offer letter and other legal documents by advocate as per credit policy 3.5 Witness *Legal documents* as per credit policy(Guarantee, 3rd party guarantee, Letter of hypothecation, Chattels mortgage, Directors guarantee)	Discussion forums Lectures

5.3.4.2 Information Sheet No5/LO3 Execute legal document

Introduction to learning outcome

This learning outcome covers; legal documentation, types of legal documents, importance of securing the legal documents, parties involved in securing legal documentation maintenance of legal documents, archival and retrieval of legal documents.

Definition of key terms

Legal documents: These are documents that show some agreement between two people to at least one promise.

Offer letter: It is a letter given by a company to a potential employee that provides key terms of the expected employee’s employment. Such key terms are title, full time work schedule and at will employment status.

Credit policy: It is a set of guidelines that are used to determine which customers are extended credit and unpaid invoice. It also it can be defied as limits to be set on the total amount you owe at a given time.

Content/Procedures/Methods/Illustrations

3.1 Customer is issued with offer letter and other legal documents as per credit policy

According to credit policy which is a government policy at a particular time on how easy or difficult it should be for individuals and businesses to borrow money and how much it will cost them. Credit policy requires the offer letter and other legal documents to be issued to customers for them to know their position on their credit request.

Importance of signing legal documents

- Security
- Signature binds the document
- Authorization
- Approval

3.2 Offer letter and other legal documents are signed as per banking policy

An offer letter is a letter from a bank guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount. According to banking policy, offer letter and legal documents should be signed in order to make the contract bound and legal.

Table 13. Sample of a bank offer letter

Date----------------
Business manager----------
Name of a bank -----------------
Branch address and location---------------------
Dear sir/madam----
Request for loan
In line with our company projected expansion, we plan to start mass production of ready-made dresses to supply bigger markets. Given our track record and experiences in the fashion industry and the marketability of our design we know we will make more profits and achieve our desired profits. For this purpose we are making a loan request (state amount) to facilitate the acquisition of more industry, weaving and embroidery machines, industrial sewing machines, the reconstruction and design of our present location, rebrand and promote the business on print and electronic media and on the internet.
We hope that our request will be given due attention.
Dr. John Muchuvki
Managing director.

Types of legal documents

- Bank statement
- Credit card receipt
- Paying slip
- Packing slip
- Lockbox check image
- Cash receipts
- Contracts

What makes a signed document legal?

- A signed document signifies knowledge and approval.
- If the document is legally enforceable as per the banking policy.
- If it is stated in the contract that it must be used.
- Signed documents acts as an acceptance of the contract in question.
- A signed documents acts as an obligation between the signor and the signee

3.3 Offer letter and other legal documents are confirmed as per credit policy

Confirm that all required documents have been received and the assessment process has begun. If your banks document requirements are met, steps taken to inform the applicant that the assessment process has begun and to provide information about the next steps for the applicant: Send an acknowledgement to indicate that. The following should be considered when offer letter and other legal documents are confirmed as per credit policy:

a) Focus on setting your credit limit: Documents should be confirmed if it has the credit limits before it is signed
b) Pay attention to your invoice structure may fail to pay; documents should have an invoice structure to make sure pay doesn't fall easily.
c) Establish a notifications system: They should have a notification system to show it can be used legally before being signed.
d) Require deposits: Document should have a request deposits before it is signed to make sure payments will be done.

3.4 Offer letter and other legal documents are signed by advocate as per credit policy

An advocacy is the process of standing beside an individual or group and speaking out on behalf to protect and promote their rights and interest.

Types of advocacy

- Self-advocacy
- Citizen advocacy
- Group advocacy
- Professional advocacy
- Non-instructed advocacy

Principles of advocacy

- **Clients directed:** They should act to the direction of the clients.
- **Confidential:** They must build trust between clients and advocate.
- **Duty of care:** They are a duty not to advocate in this that are illegal
- **Empowerment:** They must work to increase the power and control clients have over time.
- **Independent:** Meaning they must not have conflicts of interest
- **Needs based:** Service is provided to people in the clients group according to their needs. The services are free and equitable
- **Partisan:** Should always be on the disadvantaged side

Benefits of signing offer letter and other legal documents

- Protects your future self by signing the offer letter and other legal documents that are needed to legalize the contract. Signing them is acts as an approval in order to avoid arguments.
- The presence of a lawyer shows that the contract was legal and gives advices on how and when or what to consider and what condition should contract be signed
- An advocate helps the clients to make informed decisions
- An advocates signature makes the contract binding and fits for approval.
- Advocate stamps and signatures make the contract a legally enforceable.

3.5 Legal documents are witnessed as per credit policy

In a legal contract a witness is someone who either voluntarily or under compulsion, provides testimonial evidence, either orally or written of what he/she knows or claims to know.

Essentials of a witness

- Must be 18 years of age of majority in your state or province
- Have ability to make decisions
- Able to confirm the identity of the person who signing the document
- A neutral third party
- Must be of the right mind

Types of witness

- Eyewitness is someone who brings observation testimony to the proceedings after having seen an alleged contract.
- Expert witness: Is the one that has superior knowledge to the average person when it comes to the topic to testify about.
- Character this witness vouches under oath to the good reputation of another person often in the community where that person lives.
- Reliability of witness.

The benefits of witnesses

- Witnesses help to solidify and authenticate your contract by providing proof that the signatures are legitimate and consensual
- They're an important part of ensuring that your legal documents is legally sound when they are required
- Witnesses keeps you from having to face repercussions of having an invalid contract
- Helps to clarify what happened in the event

Conclusion

This learning outcome covered; legal documentation, types of legal documents, Importance of securing the legal documents, parties involved in securing legal documentation, signing of offer letter as per banking policy, confirming offer letters as per credit policy and legal document and knowing the legal documents.

Further Reading

1. Read on the consequences of signing offer letter and the role of witnesses.

5.3.4.3 Self-Assessment

Written Assessment

1. Which one of these is not a definition of key terms of learning outcome?
    a) Offer letter
    b) Legal documents
    c) Credit policy
    d) Debit policy
2. Which one of the following includes an offer letter?
    a) Start date and compensation
    b) Profit
    c) Credit
    d) Debit
3. Offer letters and other legal documents are signed as per banking policies. The following should be considered whether it can be negotiated or not except?
    a) Job responsibilities
    b) Base salary
    c) Bonuses
    d) Credit

4. What is the definition of credit policy?
    a) Is a letter given by a company to a potential employee
    b) Is a set of guidelines that are used to determine which customers are extended credit and billed
    c) Is a policy which specified from time to time
    d) Is a loam arrangement in which an item of movable personal properly acts as security for a loan
5. Which one of the following should be considered when offer letter and other legal documents are confirmed as per credit policy?
    a) Pay attention to your invoice structure
    b) Pay your debts
    c) Issue documents
    d) Offer loan
6. Which one of the following is not among the witnesses in legal documents as per policy?
    a) Guarantee
    b) Director guarantee
    c) 3^{rd} party guarantee
    d) Creditor
7. Choose the meaning of legal document in the following.
    a) Is a loan given to creditors
    b) Is a policy specified from time to time by the reserve book
    c) Document that shows some contractual relationship
    d) A letter give to a potential employee from a company
8. Propose the importance of having a witness.
9. Elaborate on credit policy.
10. Analyse two types of advocates.
11. Clarify the advantages of letter per credit policy.

Oral Assessment

1. What is the importance of having witness in offer letter?
2. What is the benefits of issuing offer letter and other legal documents as per credit policy?

Case Study Assessment

It was a usual evening at the office when we received a slightly visual inquiry. An attorney from the United States was considering the possibility of outsourcing his entire back office preparations to India. Even before we analysed his inquiry, we understood that this was not routine data entry work. We called up the client to discuss his enquiry in data.

5.3.4.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip chart/white board
- Computers
- Phones
- Stationery
- Furniture
- List of approved lawyers
- Transport

5.3.4.5 References

Basu, SM. And Rolfer, H.A (1995), Strategic credit management John Wiley & son Inc. Toronto.

Blatz.M.Kraus karl.J.Haghan 15. (2006). Corporate restructuring. Finance in times of crisis, springer verlag

Slatter.S.Lovett. D.Barlow.L. (2006). Leading corporate turnaround .E.D .Jossey Bassls.wirg& sons' ltd.

5.3.5 Learning Outcome No 4: Conduct Security Perfection

5.3.5.1 Learning Activities

Learning Outcome, No 4: Conduct Security Perfection	
 **Learning Activities**	**Special Instructions**
4.1 Obtain security documents as per credit policy 4.2 Compile security documents as per joint registration legal requirement 4.3 Obtain legal charge on property as per banking policy	Case studies

5.3.5.2 Information Sheet No5/LO4: Conduct Security Perfection

Introduction

This learning outcome covers; how individuals come together to acquire a loan through joint registration, collateral, the different types of collateral that are used in joint registration and the types of legal charge imposed on the collateral assets.

Definition of key terms

Legal joint registration: This is the process by which two or more persons come together to register to own or have something

Legal charge: This is the process by which the bank protects the money they have lend to the borrowers by banks by having the right to take over the collateral of borrowers who do not pay their debts.

Legal requirement: This is an obligation that governments or state impose that have to be met by individuals or organizations.

Credit Policy: These are the set written principles on the basis of which the bank will determine who it will give loans to.

Content/Procedures/Methods/Illustrations

4.1 Security documents are obtained as per credit policy

Security documents are agreements that a borrower provides security interests in a specific asset to be used as collateral and it is done with reference to the relevant credit policies. Security interest is a process where the borrower gives the bank the legal right to reclaim part or all of the assets used as collateral if the borrower defaults to repay; loans i.e. stops paying the loans. The bank obtains the security documents in their possession. Joint registration is where there is a shared loan made to two or more persons i.e. borrowers.

All the borrowers in the joint registration are equally responsible for paying the loan to the bank. In joint registration there are assets used as collateral.

Types of security documents

- Indemnity agreement: This is an obligation that a borrower has to pay compensation to the bank if the borrower fails to pay their loan in full.
- Security Agreement: This is a document that shows a borrower owes the lender an unsecured loan, the lender wishes to secure the loan against the assets of the borrower.
- Debenture: This is a document that certifies and contains the terms and conditions of a debt, which is secured against all or considerably all the assets of the borrower.
- Chattel Mortgage: This is a mortgage that is created over a specified movable asset of a company as collateral for a loan.

Importance of Joint Registration

- There is more income pulled together as there are two or more persons who can help repay the loan.
- Joint registration makes it easy for the group to easily get a loan compared to when one is an individual. Because of more assets that are brought to the table to be used as collateral.
- Joint registration is better and the group easily gets loans if there are borrowers in the group who have high credit scores i.e. banks prefer to lend loans to borrowers who have a long credit history on borrowing and repaying loans on time.

Reasons Borrowers should consider joint registration

- The joint group since it combines personal incomes of different people gives them a better security level to the bank and the bank will be more comfortable in giving the loans.
- The joint group credit score can improve if there are borrowers in that group who have a really good credit score improving the overall credit rating of the joint group.

Credit rating

A credit score is a statistical number that determines the credit worthiness of a person. It is used by banks to determine:

- The persons who qualify for a loan
- The maximum amount of loan a borrower can be given
- At what interest rate will be borrower be given.

4.2 Security documents are compiled as per joint registration legal requirement

The security document entails one or more of the above-named assets is compiled and left to the bank. The assets are jointly owned by all the borrowers in the joint registration and they all equal interest in the assets used as collateral.

Steps taken in registration of Different types of collateral;

Once joint parties have written and signed security documents, they then register. In Kenya it is normally free. The registration is done online in the following process;

i. Open the website: www.ecitizen.co.ke in the internet
ii. If one does not have an account one can open an account by clicking create account. If one has an account one can login;
iii. Access Business registry services.
iv. Access the application form by clicking on collateral registry (MPPS).
v. Select the application from the list. Select the application from the list.
vi. Identify this application and click on the Blue highlighted application form of the top right corner.
vii. Open the application form and add the grantor details
viii. Add creditors details
ix. Enter collateral details
x. Enter secured loan particulars
xi. Review the application
xii. View the notice
xiii. Amend or cancel notice of registration

Types of Collateral

The following types of collateral can be used by joint registration.

- **Shares:** They can be taken away either by floating or fixed charge where shares have not been dematerialized, shares security can be taken over by depositing the relevant share certificates with the bank (Latham and Watkins 2016).
- **Land:** It can be sued by borrowers as charge or by depositing a title deed document to the bank.
- **Contractual rights:** This can be used as collateral by joint registration over contractual rights by way of a fixed or floating charge or an assignment in each case provided that here is nothing in the relevant contract that prohibits the granting of such security. (Langham and Watkins 2016)
- **Insurance proceeds:** This is a collateral over insurance proceeds can be used by joint registration groups and it can be taken away by banks by way of a charge over, or by way of an assignment of the relevant insurance contract (Latham and Watkins 2016)
- **Intellectual property:** This collateral bank will take e.g. trademarks. Copy rights and other intellectual property by sofa fixed or floating charge.

Floating charge: This charge is used by banks if borrowers use assets that change in value and quantity over time. E.g. Inventory: The borrowers can sell, buy inventory without asking for permission from the banks first. Other types of assets that can be used with floating charge are: vehicle, debtors etc.

Fixed Charge: This charge is created if borrowers have fixed assets e.g. Land, building, machinery etc. These assets are normally not sold by the borrowers. The bank (lender) has all control over the assets used as the borrowers are in possession over the assets.

Table 14: Differences between floating and fixed charge

Basis of comparison	Fixed charge	Floating charge
Type of assets	Non-current assets	Current assets
Dealing in asset	Borrower have no right to deal with the assets	Borrowers can use the assets
Preference	Preferred first	Preferred secondly
What is it	A legal charge voluntary	Equitable charge
Registration of charge	Voluntary	Compulsory

Collateral Assignment

This relates to insurance policies where there is a conditional assignment of appointing the bank (lender) as the primary beneficiary of a death benefit to be used as a collateral for the loan.

Parties involved in joint registration

- Company
- Partnerships
- Individuals
- Unincorporated associations
- Local authorities

Costs involved in a joint registration

- When a joint loan is acquired, all parties in the joint registration sign a credit agreement that each of them will be responsible in paying the loan in full if the other party or parties fail to pay the loan. It never matters who spent the loan e.g. if two married couples have a joint loan and one spouse dies the other partner has to pay the loan in full.
- Interest is also incurred by borrowers in joint registration above the principle amount they borrowed from the bank.
- Time involved in repaying a loan should be considered as this can put pressure on borrowers of joint registration and this puts pressure on the borrowers.
- Penalties can be incurred in joint registration on credit acquired from the banks if the joint borrowers do not complete paying their loan on time.

- Being listed in the credit reference bureaus if the borrowers fail to repay their loan, they will be listed in CRB as defaulters and this can limit them in accessing more loans in the future. This is a cost to joint registration.

4.3 Legal charge on property is obtained as per banking policy

Legal charge is created by court of law on the terms of lenders having security interest over assets that are being secured and it is obtained in reference to the banking policy. A legal charge arises when the banks and borrowers agree with the bank to have a security interest in the collateral asset as a security for the loan. The borrowers must intend to give the bank a security interest in the collateral asset as a security for the loan. The borrowers must intend to give the bank a security interest which is identifiable to the collateral. The bank has no right to possess the asset used as collateral. When the borrowers fully repay the loan, the legal charge is terminated. A legal charge is usually against the borrowers if they fail to pay the loan. As discussed earlier, there can be three types of legal charge; fixed charge, floating charge and assignment charge. The legal charge must be informed of the contract where both parties i.e. the bank lenders and the borrowers have to sign.

Conclusion

This learning outcome covered: how individuals come together to acquire a loan through joint registration the borrowers use the assets they have as collateral, the different types of collateral that are used in joint registration and the different types of legal charge imposed on the collateral assets.

Further Reading

1. The learners can further read the following book; monitoring by delegates or by peers? Joint liability loans under moral hazard-J conning 2005.

5.3.5.3 Self-Assessment

Written Assessment

1. Which of the following is a type of a legal charge?
    a) Court charge
    b) Floating charge
    c) Homework charge
    d) None of the above

2. Which of the following is not party that can engage in joint registration?
    a) Individuals
    b) Companies
    c) Partnership
    d) None of the above
3. A joint registration is made up of?
    a) Two or more parties
    b) One company
    c) One unincorporated association
    d) One individual
4. Which of the following is not a cost associated with joint registration?
    a) Getting a loan more easily
    b) Being listed in CRB
    c) Limited repayment period
    d) Interest
5. Which of the following is a characteristic of a floating charge?
    a) It involves non-current asset
    b) The lender has full possession of the collateral
    c) Collateral used are current asset
    d) It is the most preferred charge
6. Which is an importance of joint registration?
    a) More ease to acquire a loan
    b) Less assets are brought on board to be used as collateral
    c) High costs are incurred in joint registration
    d) There can be low credit rating/score used as collateral
7. Which of the following is not an asset used as collateral?
    a) Shares
    b) Land
    c) Contractual rights
    d) None of the above
8. Elaborate on legal charge.
9. Outline two types of legal charge.
10. Elaborate who a borrower is.
11. Identify three costs involved in joint registration.
12. Outline four assets that can be used as collateral.

Oral Assessment

1. What is credit score?
2. Who is eligible in applying for joint registration?

Practical Assessment

With the help of your trainer, go to any Equity Bank branch and inquire of the procedure and requirements for joint registration.

5.3.5.4 Tools, Equipment, Supplies and Materials.

- Writing materials
- Projector
- Computer
- Flip chart/white board
- Computers
- Phones
- Stationery
- Furniture
- List of approved lawyers
- Transport
- A sample of a security document

5.3.5.5 References

Ameli inyangu and partners advocates (2017) Registration of Security Rights in Movable Property.

Hazard-J Conning (2005) M.onitoring by Delegates or by Peers? Joint liability loans under moral.

Latham and Watkins (2016) Taking security in Kenya – A comparative guide for investors.

MC Faulkner hand book of finance (2008). An introduction to securities lending.

5.3.6 Learning Outcome No 5: Maintain Credit Security Documents

5.3.6.1 Learning Activities

Learning Outcome No 5: Maintain Credit Security Documents	
Learning Activities	**Special Instructions**
5.1 Fill legal documents as per standard operating procedures	Discussion forums
5.2 Store security documents as per standard operating procedures	Lectures
5.3 Maintain security documents register as per credit policy	Group discussions
5.4 Maintain insurance register as the credit policy	
5.5 Maintain valuation report as per credit policy	

5.3.6.2 Information Sheet No5/LO5: Maintain Credit Security Documents

Introduction

The learning outcome covers; maintenance of the credit security documents to completion. The procedures and methods given are standard thus fit across lending firms for the maintenance of such documents. The final practice of maintenance should be destruction of obsolete documents which creates space for new ones. That is the proper and efficient maintenance of such documents.

Definition of key terms

Legal documents: These are official written contractual agreements that show the relationship between two parties in this case being documents showing the rights of the debtor and the creditor.

Insurance register: This is a record of data for policy applications and claims which enables insurance companies to check, retrieve and confirm the accuracy of details

Valuation report: This is a written feedback which gives the detailed inspection and the asset market value as surveyed by the market body.

Content/Procedures/Methods/Illustrations

5.1 Legal documents are filed as per standard operating procedures

Filing legal documents requires proper maintenance and cataloguing to ensure that they can be easily accessed when need arises. Due to the material benefit that the documents have, their safety in filing should be made utmost through the choice of correct filing procedures and methods.

Procedures of filing legal documents

The standard operating procedure for filing legal documents for credit involves the following:

i. You receive the document directing you of the legal documents to be collected and field.
ii. Taking action to check whether the documents directed to be filed complete.
iii. Follow up whether the documents directed to be filed are the actual documents from the sender.
iv. Collect the documents directed to be field and organize them as required.
v. Confirm whether they are required documents and file them as required.
vi. Maintain the file system used to file the documents.
vii. Continually perform good housekeeping and safety of the room of the files to avoid any damage.

Methods of filing legal documents

i. **Filing by category:** Filing is done by grouping the legal documents that belong together and kept in a single file.
ii. **Filing by alphabetical order:** Filing of the legal documents as per the first alphabet appearing of the document.
iii. **Numerical order filing:** Documents to be filed are allocated numbers and filed in the order of those numbers.
iv. **Geographical order filing:** The legal documents are field according to the region they are from or the region of the owners.
v. **Filing by date:** The documents are filed according to the day of generation and authorization.

Filing equipment

- **Filing cabinet:** This is equipment for keeping flat and suspension files for an organization.
- **Steel cabinet:** Especially used to keep legal documents, the equipment is used safely to lock big files.
- **Date stamp:** It is for stamping documents to show the dates of receiving and authorization.
- **Filing register:** Refers to a record that shows the order of files in the shelves or in the box.
- **Filing shelves:** Suspended enclosures where files can be placed and locked.

5.2 Security documents are stored as per standard operating procedures

Credit security documents are very vital in the securing of the agreement between the creditor and the debtor. They safeguard the rights of the credit issuer to be assured of repayment of the finances lent out or benefiting from the terms spelt out in the agreement.

Methods

- **Softcopy formats:** With the massive use of technology in organizations today, the credit security documents can be converted to soft copy scanning and then be stored in computer systems within the client files. Such storage method is safe and secure due to backup which ensures that data can be accessed even if the equipment breaks down.
- **Hard copy format method:** The copies of the original documents or the copies of original documents presented in securing credit are kept in files and stored in the format they are in until the contractual agreement is over.

Procedures

The procedure for storing the credit security documents is similar to the one for filing the legal documents. However, for the credit security documents, the documents are stored in an accessible place to allow easy retrieval and updating in due process.

Importance for keeping the security documents

- For confidentiality purposes.
- To keep track of rights spelt out in the credit advancement.
- For proof purposes in case one party breaches the contract,
- For future reference of the terms of credit.

5.3 Security documents register is maintained as per credit policy

The maintenance of security documents register is important that it keeps the required record up to date and that the list of creditors is maintained properly for the credit agency. The credit policy requires that those that have repaid their credit are struck out of the register while those in process of payment are maintained up to their last repayment date. Such documents details can be kept for future reference of the borrowers in determining their credit history.

Procedure

The credit policy procedure for maintaining security documents register requires that documents of debtors are withheld until the last installments of the borrowed funds is made. The following procedure therefore applies:

i. Consistently check whether installments have been paid as required and the interests due
ii. Upon payment of the last installment, check the compliance of creditors and debtors.
iii. If all requirements are met, clear the debtors who have paid their last installments and interests.
iv. Return their credit security documents if they belong to the owners and keep that belong to the credit company.
v. Sign the agreement of contract termination and keep details for future use.

Methods

i. **Records management:** This is a method embraced when the documents are in soft copy such that the ones that are done with from the register are deleted or transferred to archives where they are stored for future reference.

ii. **Shredding method:** This is applied to security documents register which is in hard copy such that the ones that have been done with are destroyed to create space for new records.

5.4 Insurance register is maintained as the credit policy

It is required by the lending policy that every contractual agreement of borrowing is safeguarded by insuring it. Therefore, the insurance register for the credit advanced should be maintained with the periods and amount payments for the insurance.

Procedure

i. Requesting information from the insurance firm in regard to premium payments of the debtor.
ii. Updating of records of insurance payments of the debtor in the credit insurance file.
iii. Checking and striking out those members that have completed paying their insurance on loans and no longer have loans with the organization.
iv. Consistent maintenance of records and addition of new records as per the credit policy.

Importance of maintaining insurance register

- To ensure that the file is up to date for security of funds borrowed in case of default.
- To ensure that loans given out are consistently in compliance with the credit policy set by the financial institutions governing body.
- To ensure that the loaning organization stands a better chance of recovering the finances loaned out, at any given time.
- Helps in creating good credit history for the borrower in terms of insurance premium payments for loans.

Importance of maintaining security documents

- For future references in terms of loaning
- They guide in the orderly clearance of the loaned
- Loan repayments are able to be kept up to date
- List of creditors is well ascertained when the documents are maintained
- Proper credit management is achieved with the maintenance of the documents

5.5 Valuation report is maintained as per credit policy

The valuation report is maintained to ensure that the full amount advanced as credit can be recovered from the asset inspected and value in case of loan default. Therefore, the report is maintained through recalculation of the assets' value by subjecting it to conditions such as depreciation if the loan is long term.

Procedure

i. Continuously revalue the asset that was originally valued for the acquisition of the loan. This is done through recalculation of the value of the asset through depreciation.
ii. Updating of the report continuously such that the data to be referred to can have the true and fair value of the asset valued.

Ways of maintaining valuation report

- Mathematical computation. The asset valuation report can be computed and maintained with the present figures across the loan period.
- Doing away with reports that are no longer in use. Reports whose work has been finished have no use to the lending organization thus can be done away with either by destruction or disposal.

Conclusion

The learning outcome covered; maintenance of the credit security documents to completion. The procedures and methods given are standard thus fit across lending firms for the maintenance of such documents. The final practice of maintenance should be destruction of obsolete documents which creates space for new ones. That is the proper and efficient maintenance of such documents.

Further Reading

1. Read more on: business law; lending and borrowing policies and the law of contracts

5.3.6.3 Self-Assessment

Written Assessment

1. Which of the following is not a legal credit document?
   a) Title deed
   b) Loan agreement
   c) ATM card
   d) Credit policy
2. Which of the below is not a filing equipment?
   a) Filing cabinet
   b) Stamp
   c) Filing register
   d) Shredder

3. Which of the following is not a filing method?
    a) Filing by dates method
    b) Geographical filing method
    c) Filing by category method
    d) Filing by importance method
4. Which of the following is an importance of filing?
    a) For record keeping
    b) Keeps the documents free from dust
    c) Prevents the debtor from defaulting
    d) None of the above
5. Which of the following parties' benefits from maintaining security documents register?
    a) Creditor
    b) Debtor
    c) Both creditor and debtor
    d) None of the above
6. Can a valuation report of last year be used for acquiring a loan this year?
    a) Yes
    b) No
    c) Maybe
    d) Don't know
7. Interpret different types of credit needs.
8. Highlight the ways in which credit records are obsolete
9. Analyse the importance of keeping a valuation report.
10. Outline the importance of soft copy documents.
11. Discuss the conditions of loan defaulting.

Oral Assessment

1. What is the best way of getting rid of obsolete records?
2. What are the associated costs of maintaining credit documents?

Practical Assessment

Learners should visit a nearest loaning facility and practically learn the whole procedure of asset valuation and report generation of the valuation since it forms the basic and material step for determining amount of credit one can access.

5.3.6.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip chart/white board
- Computers
- Phones

- Stationery
- Furniture
- List of approved lawyers
- Transport
- Sample credit security documents

5.3.6.5 References

Chatterjee, S. (2017). Record keeping through the ages. IQ: The RIM quarterly, 33(1):40.

Lowe, J. (2018). Managing loans and credit. In essential personal finance (pp. 158-180). Routledge

Oliver G. (2017). Managing records in current record keeping environments. Currents of Archival thinking, 83.

CHAPTER 6: CUSTOMER RELATIONSHIP

6.1 Introduction of the Unit of Learning/Unit of Competency

Customer relations is a unit of competency covered in TVET level 6 banking and finance course qualification. This unit specifies the competencies required to manage customer relationship. It involves managing customers' communication, segmenting bank customers, inducting customer into loyalty program and monitoring customer satisfaction. The significance of customer relations to TVET level 6 banking and finance curriculum is to equip learners with knowledge and skills to demonstrate computer packages skills, bank operational procedures, legal operating environment, banking policies and procedures and customer service so as to fit well in the workplace.

The critical aspects of competency to be covered include demonstrated ability to manage customers communication, segment customers, induct customer loyalty programmes and monitor customers satisfaction. The basic resources required include computers, phones, stationery, furniture and customer database.

The unit of competency covers 4 learning outcomes. Each of the learning outcome presents; learning activities that covers performance criteria statements creating trainees an opportunity to demonstration competecies stipulated in the occupational standards and content in curriculum. Information sheet provides; definition of key terms, content and illustration to guide in training. The competency may be assessed through written test, demostration, practical assignment, interview/oral questioning and case study. Self assessment is provided at the end of each learning outcome. Holistic assessment with other units relevant to the industry sector workplace and job role is recommended.

6.2 Performance Standard

Customer's communication, bank customers, customer loyalty program, and customer satisfaction as per organizational service charter, customer service charter, and the nature of customer.

6.3 Learning Outcomes

6.3.1 List of Learning Outcomes

a) Manage customer's communication
b) Segment bank customers
c) Induct customer loyalty programmes
d) Monitor customer satisfaction

6.3.2 Learning Outcome No. 1: Manage Customer's Communication

6.3.2.1 Learning Activities

Learning Outcome No. 1: Manage Customer's Communication	
Learning Activities	**Special Instructions**
1.1 Develop communication strategy as per organizational service charter 1.2 Identify Communication channels as per the customer service charter 1.3 Develop communication content as per nature of the customer 1.4 Develop Feedback mechanism as per customer service charter	Oral assessment Written assessment

6.3.2.2 Information Sheet NO6/LO1: Managing Customer's Communication

Introduction

This learning outcome covers; defining communication, channels of communication, communication process, importance of effective communication, storage of communication records, confidentiality of communication process and records.

Definition of key terms

Communication channels: These are means through which information is sent from the sender to the receiver.

Service charter: It is a written scheme that shows how an organization aims to work with its clients providing guides into how a firm operates.

Feedback mechanism: This is a repetitive system where it responds to a sent message.

Communication: It is the transfer of ideas and information from the sender to the receiver with the aim of getting feedback from the receiver.

Communication strategy: It is a policy to accomplish communication objectives

Content/Procedures/Methods/Illustrations

1.1 Communication strategy is developed as per organizational service charter

Customer charter as a tool is used for instilling confidence in customers and establishing a commitment to healthy interpersonal relationship which is an effective way to develop a communication strategy within an organization.

The following are the principles implemented by customer service charter:

- Identification of channels of communication
- Response plan to customer's compliments and complaints formulation
- Customer feedback considerations

Importance of communication strategy

- Ensures good inter-personal relationship.
- Facilitates unity of authority.
- Ensures media channels are identified and the impact of them to employees and customers.
- A good communication strategy helps to maintain a good organizational image.
- It enhances motivation from the highest level of management to the lowest since information is shared equally across the firm.

Examples of communication strategy

- **Communication plan.** It is a blueprint of how exchange of ideas and information approach will be achieved, adding in time plan and roles.
- **Target audience.** It is anyone a person seeks to communicate with as part of the communication approach. It may include customers, target market or stake holders.

Ways to develop a communication strategy

- Setting communication objectives
- Developing key messages for target audience
- Establishing a time schedule/plan
- Identifying media channels
- Identifying and selecting strategic approaches in relation to communication

1.2 Communication channels are identified as per the customer service charter

Communication channels are the ways through which personnel in a firm exchange ideas and information. Hence, complicated information/messages need richer means of communication that ease synergy to ensure clarity.

Ways to identify a good communication channel

- Experimenting with new communication channels to test if they are of benefit to the firm and if they ensure organizational objectives are met.
- Performing a communication feasibility/ viability.
- Channel options evaluation and selecting the channel mix that is appropriate communication objective and target audience.

Channels of communication

There are several channels of communication, these include:

- Broadcast media
- Electronic communication
- Written communication
- Face to face communication
- Mobile channels

Broadcast media communication

This is a type of channel that is used when addressing mass audience. They include television, radio, blogs, websites, advertisements, loud speakers etc. For example, a firm seeking to inform customers of a new or recommended product, may advertise using a broadcast channel so as to reach the targeted audience.

Importance of broadcast media communication

- It is an effective communication channel when an organization needs to address mass customers about a product or service.
- Broadcast media provides messages/information that can educate the target audience more so the clients/customers

Limitations of Broadcast Media Communication

- Maintenance cost of broadcast media is high as compared to written communication.

Electronic communication

Electronic communication is a type of media channel that can be used for individual to individual, group or mass audience. Care must be taken when establishing information with precision so as to avoid the use of irony/sarcasm. Electronic communication may also be defined as the medium of communication through which information is sent and received via computers, internet etc.

Importance of electronic communication

- Since electronic communication involves the use of laptops and mobiles, there is movability of information and ideas therefore facilitating message mobility.
- Majority of electronic communication have a storage capacity and therefore, a person may save his/her information for future retrieval.

Written communication

It is a type of communication channel that uses paper to send and receive information in writing.

Importance of written communication

- Written communication is durable in life span as compared to electronic communication since electronics may face faults which may affect communication.
- Since the messages/information stored in written form is permanent, it is not prone to distortion.
- It is an effective monitoring and controlling tool in an organization.

Disadvantage of written communication

- Since it is manual, it may consume time to communicate with other personnel.

Face to face communication

This is direct individual to individual exchange of ideas and information.

Importance of face to face communication

- Since it is a direct communication, there is assurance of feedback from both sides of communication (senders and receivers).

Mobile channels

Not different from electronic communication which uses media like mobile phones and laptops.

1.3 Communication content is developed as per nature of the customer

Nature of the customer in relation to good communication system assumes that customers are positive and helpful by nature. They do not come to the organization as neutral parties but rather are consumers of service and products hence coming from perspective of connection, knowledge and skills.

Social styles that group customers according to their behavioral styles

- **Responsiveness**. Ways in which customer express their feelings when communicating with others.
- **Assertiveness.** It is the degree we affect others.

Content is the fact and figures, ideas and opinions that are transmitted through communication media

How to create (develop) content in relation to communication

i. **Content brainstorming:** Ensuring the person establishing the brainstorm has access to flip charts to capture essential words and explanation that can be used in the content.

ii. **Draft content refining:** Refining the draft version of the content by rechecking them with the following questions:

   a) If they support communication objectives
   b) If they motivate the target audience

iii. **Testing finalizing content:** Testing the content to ensure that they conform to internal and external target audience and also incorporating the feedback from the target audience so as to finalize the content.

Barriers to effective communication

- Physical disabilities. For example, hearing and speech problems
- Cultural differences
- Lack of attention and interest
- Emotional barriers

Overcoming barriers

- Giving constructive feedback
- Use of simple language
- Active listening

Communication process

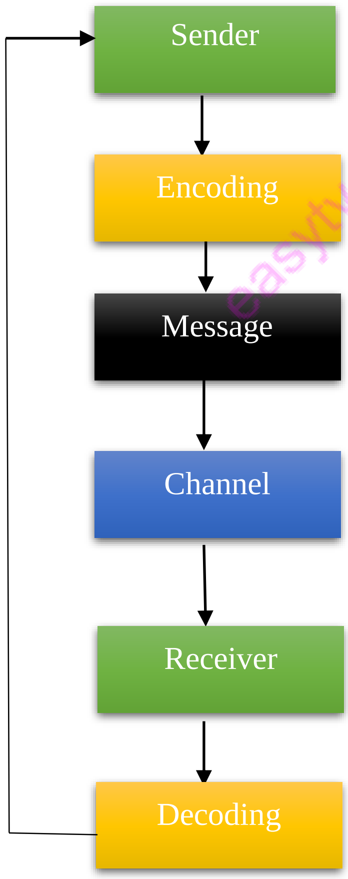


Figure 25: Communication process

a) **Sender:** This is the personnel who starts the conversations and is responsible for transmitting the message.
b) **Encoding:** It is the process initiated by the sender where he/she uses specific words or symbols in the message to be sent.
c) **Message:** Combination of words, symbols, group of characters, ideas to be sent.
d) **Channel:** It is the medium through which the sender uses to transmit the message to the receivers.
e) **Receiver:** This is the recipient of the message sent.
f) **Decoding:** It is the process of converting the encoded message from the sender so as to be understood by the receiver.
g) **Feedback (output):** Once the receiver decodes the message and understands the communication chain is complete.

Importance of effective communication

- Increases efficiency. When communication is done poorly, it affects efficiency and also quality of work.
- Facilitates coordination. Good communication enables the manager to coordinate his/her employee.
- It facilitates a good flow of unity of authority from the high level management to the lowest.
- Basis of good decision making. Good communication brings about ideas, thoughts and information to the high level management which is useful for making decisions within the firm.
- Provides good interpersonal relationship between managers and employees.

1.4 Feedback mechanism is developed as per customer service charter

Ways to develop effective feedback mechanism

- **Two-way system:** Communication system should always encourage dialogues across all levels of management within the organization.
- **Acknowledging:** If the employees or customer's contributions are heard and acknowledged, it enhances good feedback mechanism.
- **Anonymity:** This means where customers can anonymously ask questions. It creates a comfort level among customers and employees to be able to communicate freely.

Process of feedback

i. Understanding the encoded message.
ii. If not understandable, classification is requested and questions are asked.
iii. When classified, message is understood as it was originally intended.
iv. Reaction of the sender is conveyed.

Types of feedback

- **Positive feedback:** Kind of output that is satisfactory to the sender.
- **Negative feedback:** Sent when the message cannot be understood by the receiver.

Effective feedback need not be:

- Specific
- Informative
- Bearing right attitude

Conclusion

This learning outcome covered; defining communication, channels of communication, communication process, and importance of effective communication, storage of communication records, confidentiality of communication process and records and feedback mechanism.

Further Reading

1. Read and make notes on storage of communication records and confidentiality of communication processes and records.
2. Read and make notes on barriers of communication as per the nature of customer.

6.3.2.3 Self-Assessment

1. Which of the following is not one of the steps in communication process?
   a) Decoding
   b) Encoding
   c) Feedback
   d) Networking
2. The following are channels of communication except?
   a) Face to face
   b) Mobile communication
   c) Written communication
   d) Television communication
3. The following are types of feedback except?
   a) Output
   b) Positive feedback
   c) Negative feedback

4. Is encoding and decoding done by the sender?
    a) Yes
    b) No
5. Is electronic communication different from mobile communication?
    a) Yes
    b) No
6. Elaborate the meaning of communication strategy.
7. State two importance of face to face communication.
8. Identify types of feedback.
9. Summarize communication plan.
10. State three types of communication channels.

Oral Assessment
1. How would you describe effective communication?
2. How important is a good feedback to the sender?

Case Study Assessment
Dan, a manager at Wamkufu Company needs to train his staff members on how to establish effective communication on the customers to ensure good interpersonal relationship between the employees and the customers.
    a) As the manager, how can this be implemented?

6.3.2.4 Tools, Equipment, Supplies and Materials
- Writing materials
- Projector
- Computer
- Flip chart/white board
- Stationaries
- Furniture
- Phones
- Laptops

6.3.2.5 References

Agus, A., & Hassan, Z. (2010). The Structural Influence of Entrepreneurial Leadership, Communication Skills, Determination and Motivation On Sales and Customer Satisfaction
Baumgartner, F.R., &Jones, B.D. (2002). Positive and Negative Feedback
Hargie, O.(Ed.). 2006.The Handbook of Communication Skills

6.3.3 Learning Outcome No. 2: Segment Bank Customers

6.3.3.2 Learning Activities

Learning Outcome No. 2: Segment Bank Customers	
Learning Activities	**Special Instructions**
2.1 Classify customers as per bank policy 2.2 Assign customer's products as per bank policy 2.3 Recognize customers as per product type 2.4 Inform customers on their segment as per bank policy 2.5 Obtain customer feedback on their segment as per bank policy	Group discussions Lecture method Field excursions

6.3.3.2 Information Sheet No.6/LO2: Segment Bank Customers

Introduction

This learning outcome covers; importance of customer segmentation, basis of customer classification, recognition, importance of recognition, types of recognition, process of serving the bank customers, segmentation is very important to ensure that each particular need is effectively met.

Definition of key terms

Product: It is a manufactured or produced material for sale by a business entity and in this case a bank.

Segment: This refers to a group of individuals who share common features and are grouped together for marketing needs by the bank. Each group is unique and different from the rest.

Content/Procedures/Methods/Illustrations

2.1 Customers are classified as per bank policy

Customer classification is the grouping of customers such that those with similar features belong to one distinct group. They are categorized according to the details they give to the bank. Each client making a transaction in a bank on the financial products is given any of the following categories;

a) **Retail customers:** These are the majority of the bank's customers who receive the general and broad protection cover from the bank.
b) **Professional customers:** They are the clients who have the knowledge and experience on risks involved in various investments and are given narrowed protection by the bank.

c) **Corporate customers:** These are the customers who do bulk transactions with the bank at any given time and require direct access to the bank and its management.

d) **Eligible counterparties:** They are the bank customers who have the broadest knowledge and experience in dealing with financial instruments thus the bank gives them the narrowest scope of protection.

Importance of customer classification

Classification, which can also be referred to as segmentation, is an important market practice which helps the bank to move from 'one-size-fits-all' approach into specified personalization approach of serving its customers. Below is the importance;

- For marketing efficiency as the customers are broken down to manageable groups.
- It makes it easier to determine new market opportunities as each segment is independently served.
- It leads to better branding strategy as products are designed to meet the needs of each segment.
- It improves distribution strategies by placing products to the close access of the customers that need them.
- Enhances customer retention since customers are served to satisfaction.

Classification basis

- **Customer type:** This forms the four categories of customers who are retail, corporate, professional and eligible counterpart customers.
- **Industry of working:** Customers are classified according to the field of business they operate such as manufacturing customers, professionals such as lawyers.
- **Income level:** Here the customers are classified to their bank balances and the transactions they do. They therefore fall into retail or corporate customers.
- **Demographic factors:** Aspects such as age, education, gender and marital status can be used to classify customers thus they have customer classes such as student customers and normal working customers.
- **Customer needs:** The customers are classified according to their wants thus we can have loan customers, investor customers and general transaction customers.

2.2 Customers are assigned products as per bank policy

Customers have different consumption needs, thus the array of products assigned to them should meet their consumption needs. Product assigning therefore is done after assessing the customer needs and identified the specific products that will quench the need.

Procedure

i. **Understand customer drive:** Talk to the customers, watch how they act, conduct surveys to understand the customers and the opportunities they can be helped in.
ii. **Comprehend your value proposition:** In the market, determine the value that the customer gets after consuming the product in regard to its cost.
iii. **Determine customer segments that can yield more value:** Various customers have different perceptions of the value they receive from the bank products those that segment with high perceptions forms the segment that can yield more value.
iv. **Create a win-win price:** Set product prices according to market prevailing conditions and expectations to enhance a take situation for the customers.
v. **Focus investments on the valuable customers**: Assign the bank product to the group of customers who can yield more value according to their needs and features.

Importance of product assigning

- High value for the products is able to be derived from the placement of the products to the right customers.
- Customer satisfaction is able to be achieved, since specific group needs are met by right product assigning.
- It facilitates great market entry with new products, since customer needs are well known and new products are developed addressing their needs.

2.3 Customers are recognized as per product type

The product type that a customer consumes makes the customer be recognized for it and thus service delivery becomes easier. The bank has sections in which various customers are served as recognized. This improves efficiency.

Importance of customer recognition

- It is for easy product availability since the product that the customer is recognized with is highly made available for them at all times.
- Puts the bank at a profitable advantage than the competitors since such a recognized customer is able to do much business with the bank.
- It increases customer loyalty since the customer feels a sense of pride banking with the bank.
- It makes it easy to project customer behavior and transactions since product steps are known.
- It facilitates lead customer as the existing customer feels there is great service in the bank thus brings over friends to bank with the bank.

Types of customer recognition

- **Driver customers:** These are the dynamic and active personality clients of the bank whose motto is always "Let's go right now!" They easily get irritated with petty issues happening within the bank. They should be professionally and humbly being handled to retain them.
- **Analyst customers:** These are the customers focused on details of the bank and their transactions. They can even tell that some cents were deducted from their account and demand for an explanation. They should be handled with data and figures to convince them.
- **Amiable customers:** These are customers with great sociability and good in making relationships. Such customers go along well with everybody and are easy to serve and retain for the bank. They can however be difficult to formally deal with and since they are informal.
- **Expressive customers:** These are the emotional type of clients who have high positive energy and always love to be accorded great attention. They can easily lose focus from business talks as they are being served thus as a banker you should serve them by politely reminding them to stay on course of the business talk.

2.4 Customers are informed on their segment as per bank policy

Despite the fact that it is not obligated to the bank to inform each customer on the segment they belong to, it is important as per bank policy to inform the customers of their segments. This comes along with the explanation of the benefits attached to each segment such that if such a customer decides to belong to a different classification, he/she is aware of what it entails.

Instances of when to inform customers of their segment

- **At customer enrollment stage:** When the customer is signing up to become the bank's customer, they can be informed of their segment as per the information they have been provided. It is the most appropriate stage.
- **When serving the customer:** The customer can find themselves in a different section of the bank for service. They can be informed of their segment and be directed where they can be served better.
- **During customer centrism sessions:** Annually, financial institutions have customer centrism exercise thus during that exercise the banker should interact with their customers and inform them of their segments.

Importance of informing customers of their segments

- Facilitates orderly service for the customer at the right section of the bank.
- Enhances customer involvement in the process of sharing such information.
- Builds customer confidence by knowing where they belong in the bank and their level of recognition.
- Customer knowledge is increased as such details are shared with the client and other necessary details.

2.5 Customer feedback on their segment is obtained as per bank policy

Customer feedback is important in determining the gaps of services and products offered by the bank. When feedback is obtained effectively, necessary adjustments are able to be made to better serve the customers. Channels of obtaining feedback should therefore be developed and put to use to obtain the right feedback at the right time.

Ways of obtaining feedback

a) **Engaging the customers:** Talking to the customers and asking them about the bank products can give the right feedback.
b) **Evaluation of the segments:** The customer segments can be scanned to determine the results of the product offering thus feedback.
c) **Making use of feedback channels:** Feedback points such as suggestion boxes should be put to use to obtain feedback.
d) **Inferences from customer behavior:** Feedback can be deduced from the way the customers behave and act towards a certain bank product.

Importance of customer feedback obtaining

- Helps to rectify deviations existing in bank products.
- Enhances customer service delivery as problems are identified and ironed out.
- It shows that customers actually are making use of the bank products.
- Proves to the customers that their grievances are considered once the feedback has been worked on.

Conclusion

This learning outcome covered; importance of customer segmentation, basis of customer classification, (customer type, industry, income level, demographical factors, customer needs), recognition, importance of recognition, types of recognition, process of serving the bank customers, segmentation is very important to ensure that each particular need is effectively met.

Further Reading

1. Read on customer service by Shire, K. Holtgrewe, U. & Kerst, C. (2017). Re-organizing customer service work: an introduction. (*In re-organizing service work; Call centers in Germany and Britain)* (pp. 1-16). Routledge.

6.3.3.3 Self-Assessment

Written Assessment

1. Which of these is not a customer classification?
    a) Retail customers
    b) Corporate customers
    c) Loan customers
    d) Professional customers
2. Which is not a basis for customer classification?
    a) Customer type
    b) Demographic factors
    c) Customer needs
    d) Customer banking history
3. Which of these is a benefit of customer classification?
    a) It leads to better strategies of product branding
    b) It helps to know each customer by name
    c) It is a management directive that has to be done
    d) It helps the customer to get large amounts of loans
4. Which of these is not a demographic factor required by banks?
    a) Education
    b) Age
    c) Gender
    d) Health status
5. Which of the following is not a type of customer according to recognition?
    a) Driver customer
    b) Amiable customer
    c) Nominal customer
    d) Analyst customer
6. When is the best instance to inform the customer of their segment?
    a) At the enrollment stage
    b) During customer centrism sessions
    c) When serving the customer
    d) On the way when you meet him/ her
7. Elaborate on the importance of customer classification
8. Analyse the procedures of assigning bank products to customers
9. Summarize the importance of product assigning to customers.
10. Discuss the importance of customer recognition to the bank.
11. Highlight the ways of obtaining customer feedback

Oral Assessment

1. How do we assign customer product?
2. What are the four types of customer according to customer recognition?

Practical Assessment

Students to visit a local bank and learn how the bank has segmented its customers and how each section serves its segment. Then try to find out the features of each segment and what makes them be in one common segment.

6.3.3.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip chart/white board
- Stationaries
- Furniture
- Phones

6.3.3.5 References

Baker, M.J, & Sarem, M. (2016). (*Marketing theory: a student text)*. Sage publishers.

Chang, M.S., & Kim, H.J. (2018). A customer segmentation based on big data in a bank. (*Journal of digital contents society)*. 19(1), 85-91

Hellensen, S., & Opresnik, M.O. (2019). (*Marketing mix in marketing planning process)*. World scientific book Chapters. Roctledge.

Shire, K. Holtgrewe, U. & Kerst, C. (2017). Re-organizing customer service work: an introduction. (*In re-organizing service work; Call centers in Germany and Britain)* (pp. 1-16). Routledge.

6.3.4 Learning Outcome No. 3: Induct Customer Loyalty Program

6.3.4.1 Learning Activities

Learning Outcome No. 3: Induct Customer Loyalty Program	
Learning Activities	**Special Instructions**
3.1 Identify loyal customers as per banking policy 3.2 Inform Customers of the loyalty programme as per banking policy 3.3 Register loyal customers in loyalty programme as per banking policy	Written assessment Presentation

6.3.4.2 Information Sheet No. 6/ LO3: Induct Customer Loyalty Program

Introduction

This learning outcome covers: define loyalty programs, importance of loyalty, loyalty level measurement tools, loyalty level determination process, pros and cons of the loyalty program.

Definition of key terms

Loyalty programme: It is a programme run by an organization or business with an aim to provide additional benefits to their frequent customers. The benefit may be discounts for the products. Loyalty programmes aim to maintain customer retention as well as attract additional customers.

Banking policy: These are procedures that are applied by the bank to run its operations. They differ from bank to bank however they must be within the regulations of the Central Bank of Kenya (CBK).

Content/Procedures/Methods/Illustrations

3.1 Loyal customers are identified as per banking policy

Loyal customers are customers who have regularly purchased different products provided by the bank.

Loyalty level determination

- Identify the reasons of carrying out the loyalty assessment.
- Identify categories of the customers that the bank would wish to establish loyalty level.
- Draft questionnaires with a few questions. For example:
    a) How much have you transacted for the specified period e.g. year?
    b) For how long have you been a customer to the bank?
    c) What product have you purchased from the bank in the past years?

- Issue the questionnaires.
- Assess the customers' level of satisfaction by analyzing the questionnaire.

Importance of loyalty programmes

- The bank may carry out loyalty programmes to increase business. This means the programme can attract new customers because of benefits for instance free products that come with it.
- The banks may improve sales. If the programmes being carried out has a discount offer, then more sales will occur as the customers will utilize the chance of making purchases in the bank at the lower price.
- When loyalty programmes are carried out the relationship between the bank and the customers is strengthened. This means the closer the bank is to its customers the higher the chances of customer retention.
- The programme may make the customer keep coming back to transact with the bank. This happens when the programme is centered on the number of transactions done by the customer. For instance, a customer may accrue more benefits each time they make a deposit or a withdrawal.
- The bank is able to gather more data on marketing from loyalty programmes e.g. new customer preference or gap in the market.
- Through loyalty programmes the bank may engage in corporate social responsibility (CSR). This is beneficial to the whole society e.g. making a charity donation in the name of the most loyal customer.
- Loyalty programmes, makes the bank be in a competitive edge. This means that the bank that engages in these programmes is known by the public and appears more appealing than other banks.

3.2 Customers are informed of the loyalty programme as per banking policy

The bank should ensure that all customers are aware of the programme. This can be achieved through advertisement on the media or billboards.

Pros of a loyalty programme

The aim of loyalty programme is to ensure that the customers are satisfied. The following are the benefits of a loyalty programme.

- Loyalty programmes assists to retain good customers. This means that customers will not be contemplating to moving to the competitors.
- Loyalty programme assists to scale out unwanted customers. This happens because the process of identifying customers to participate in the program is done diligently.
- Most of loyalty programme are advertised to reach the bank customers, when this happens other potential customers hear about the bank hence creating a wide brand awareness.

- The customers who experience and participate through this programme may put in a good word for the bank to their family and friends, hence trying in new customers.
- When loyalty programme are carried out frequently it improves the level of engagement between the bank and the customers.

Cons of loyalty programme

The disadvantages of loyalty programme include:

- Carry out loyalty programme requires a lot of money to make it effective. This may be very costly for small banks.
- Customer loyalty is matter of personal choice which may tend to change from time to time.
- Loyalty programme does not guarantee that the bank will retain its customers because in the long run the customers may switch to other brands.
- Different customers have variant tastes and preferences hence it's difficult for the bank to come up with loyalty programmes that address all these needs and preferences because they have many customers.
- Carrying out a loyalty programme from the assessment stage is time consuming. Gathering data from customers to determine their level of loyalty takes time.
- Focusing all the bank resources to loyalty programmes can be detrimental to other bank operation.
- Loyalty programmes may sometimes be effective i.e. not achieving the objective that it was meant to especially when all banks engage in regular loyalty programmes.
- Digitalization of the bank system from the traditional bank system as reduced the instances that require a customer to physically visit the bank. As a result, the bank may face challenges on getting information to assess customer loyalty level.

3.3 Loyal customers are registered in loyalty programme as per banking policy

Loyalty level measurement tools

- **Net promoter score (NPS)**

NPS is a measure the chances of customer referring the bank to their family and friends. The answers should be in a range of 1-10 as shown below.

How likely are you to recommend this bank?

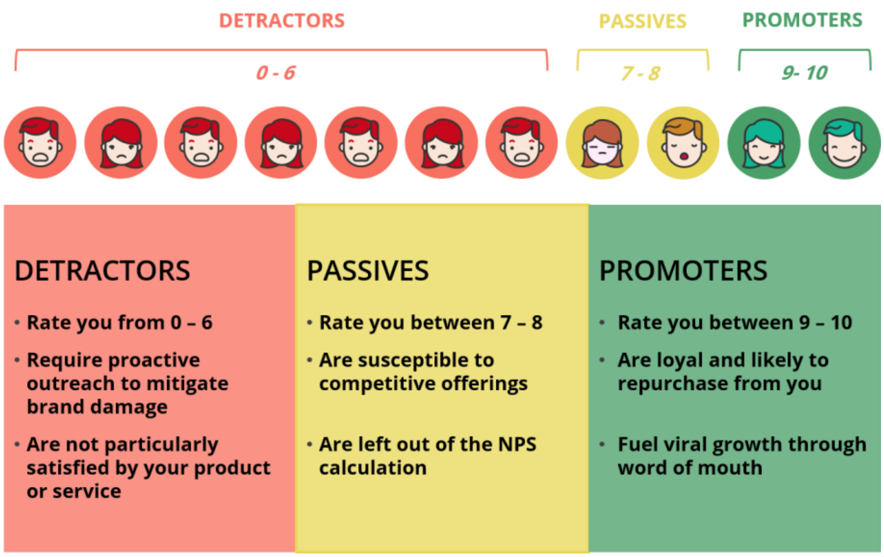


Figure 26: Net promote score

$$NPS = \ Highest\ Score - Lowest\ score$$

- **Repurchase ratio**

This is a ratio done for regular (repeat) customers over once time customers. It is done by dividing the number of accounts that are active by the number of dormant accounts or closed accounts over a period of time. The higher the ratio, the higher the loyalty level.

- **Upselling ratio**

This is a ratio of the number of customers that have more than one bank products e.g. they have a personal account as well as the savings accounts divided by the customers with only one bank products. The higher the ratio the better.

Importance of registering loyal customer in loyalty programme

- It encourages customer and bank relationship. The customer feels valued and appreciated.
- It improves customer relations especially where the loyalty program will take into account discounts.
- It enables the bank to have new customers in this case it means that a customer registered in a loyalty program will tell their friends and relative.
- By calculating the loyalty matrix, the bank is able to tell the loyalty level of its customers and the area of improvement.
- Through registering loyal customers to loyalty programmes hence creating public awareness and increasing more customers.

Conclusion

This learning outcome covered; define loyalty programs, importance of loyalty, loyalty level measurement tools, loyalty level determination process, Pros and cons of the loyalty program.

Further Reading

1. Read on loyalty assessment and factors hindering loyalty programme

6.3.4.3 Self-Assessment

Written Assessment

1. Which among the following are not benefits of loyalty programme?
   a) Increased sales
   b) No new clients
   c) Customer retention
   d) Makes the company known
2. What makes the bank carry out loyalty programmes?
   a) To enhance sales
   b) To reduce number of customers
   c) New customers
   d) All the above
3. Which among the following are not the tools for measuring the customer loyalty?
   a) Down selling ratio
   b) Upselling ratio
   c) Net promoter score
   d) Repurchase ratio
4. Why should the bank advertise the loyalty programme?
   a) To inform the customers
   b) To sell more products
   c) To launch new programmes
   d) To retain customers
5. Which among the following are not disadvantages of a loyalty programme?
   a) Carry out the loyalty programme requires a lot of money to make it effective
   b) Customer loyalty is a matter of personal choice which may tend to change from time to time
   c) Loyalty programme does not guarantee customer retention
   d) To encourage more sales

6. What among the following is not importance of loyalty programme?
    a) The bank may carry out loyalty programmes to increase business
    b) The bank may improve sales
    c) May make customers keep coming back to transact with bank
    d) Reduce make reach
7. Which among the following procedures of loyalty programme is not true?
    a) Identify the reason for loyalty assessment
    b) Identify the categories of the customers that the bank would wish to maintain loyalty with
    c) Issue the questionnaires
    d) None of the above
8. Outline the pros and cons of loyalty programme.
9. Analyse the measurement tools of loyalty programmes.
10. Discuss the benefits of loyalty programmes.
11. Evaluate on net promote score.

Oral assessment

1. What is customer loyalty?
2. How is customer loyalty programme importance?

Practical Assessment

Assuming you work in customer relation team of a big company in Kenya. You have been tasked by the head of customer relation to formulate a customer loyalty programme which the company intends to roll out at the end of the year. In a group of at least three, formulate the loyalty programme. Also proceed to advice the head of customer relation on the most appropriate customer loyalty measurement tools the company can employ.

6.3.4.4 Tools, Equipment, Supplies and Materials

- Projector
- Computer
- Flip chart/white board
- Stationaries
- Furniture
- Phones

6.3.4.5 References

Perreault W. D & MCcarthy E (2002). Basic marketing14th edition New York McGraw Hill

Reichheld F. (1996). the loyalty effect. The hidden forces behind growth, profits and lasting value. Boston. Bain &company incorporation

Reinartz W. & Kamar V (2002). The mismanagement of customer loyalty. Cambridge. Harvard Press

6.3.5 Learning Outcome No. 4: Monitor Customer Satisfaction

6.3.5.1 Learning Activities

Learning Outcome No. 4: Monitor Customer Satisfaction	
Learning Activities	**Special Instructions**
4.1 Inform customers of feedback mechanism as per banking policy 4.2 Analyze customer feedback as standard operating procedures 4.3 Determine course of action as per nature of the feedback	Oral tests Discussion Lecture method Projects

6.3.5.2 Information Sheet No 6/ LO4: Monitor Customer Satisfaction

Introduction

This leaning outcome covers; define customer satisfaction, importance of customer satisfaction, customer satisfaction matrix, customer satisfaction indices, customer satisfaction monitoring process, customer satisfaction improvement, customer satisfaction maintenance, handling dissatisfied customers and causes of customers' dissatisfaction.

Definition of key terms

Feedback mechanism: It refers to transmission of information from the recipient and back to the sender once again. Feedback mechanism ensures there is flow of information from the sender to the recipient i.e. from the banks to the customers and vice versa.

Customer feedback: This is ideas, compliments and information given by the client about a service or product.

Content/Procedures/Methods/Illustrations

4.1 Customers are informed of feedback mechanism as per banking policy

Customers satisfaction refers to the extent to which the products and services of a given firm yields experiences that exceed the expectation of the customers. It also refers to the proportion of the customers whose experiences have exceeded the underlined known or set goals by the firm. It is also the feeling of happiness in a customer when he/she interacts with the products of the firm.

Customer satisfaction plays an integral role not only in the sound growth of the firm, but also on the consumer's increased loyalty to a firm. Thus, customer satisfaction metrics is vital in the management and monitoring aspects of a given firm or firms in a given industry.

Importance of customer satisfaction

- It is a differentiation point between firms.
- It plays an integral role in the reduction of consumer churn.
- It is an indication of consumer loyalty and subsequent repurchase intention.
- It is a cheaper method of retaining customers as opposed to advertisement to obtain new ones.
- It reduces negativity about a given business through the word of mouth.
- It is an incremental strategy to the customers' lifetime value.

Why customers need to be informed of the feedback mechanism

The feedback mechanism as per the bank policy ensures that customers have an opportunity to not only vent their opinions but also to ensure the organization develop goods based on the needs of the customers. The feedback mechanism ensures there is creation of a feedback loop that warrants a bank is able to act appropriately. The feedback loop comprises of 3 aspects i.e. listen, analyse and act.

Importance of feedback to a bank

- Improvement of banks products and services based on the customer's feedback.
- The bank can measure the customers' satisfaction rate or level based on the feedback.
- The customers' feedback portrays the fact that the bank values the opinions of the customers.
- Customer feedback aids in the creation of a suitable and effective customer experience.
- The ability to improve its customer retention ability by utilizing the feedback.
- Customers' feedback forms the basis for decision-making in an organization i.e. a happy customer is a promoter.

4.2 Customer feedback are analyzed as standard operating procedures (SOPs)

SOPs denote that a customer's feedback should be addressed in a manner that it correlates with the organizations polices and regulation. A customer satisfaction metrics denotes a simple way of receiving each customers' perspective or impression about a product. Also, the customer satisfaction metrics denote the level of happiness among the customers concerning the product experience of customers. Analyzing customer feedback provides information about the degree of either;

- Satisfaction in the organisation's products and services.
- Dissatisfaction in the product line.

- Desire for the forms prosperity i.e. providing measures for improvement in current operational trends.

Importance of analyzing customer feedback

Analyzing customer feedback helps in identifying;

- Concerned and satisfied customers
- Customers who are concerned and not satisfied m
- The needs that the firm has not addressed
- Customers who are neither concerned nor satisfied
- Customers who are not concerned but are satisfied

The customers' satisfaction matrix groups customers into 4 categories;

Table 15: Customers' satisfaction matrix

Concerned and satisfied customers Contains customers holding a great concern yet they dissatisfied by the product.	**Concerned and not-satisfied customers** Contains customers who are concerned about the product quality and are not satisfied. The customers may need valuable feedback and attention about the product.
Not concerned and satisfied Contains customers who are not concerned about the quality of the product but are satisfied.	**Not concerned and not satisfied** Customers are not satisfied neither are they concerned about the quality.

Customers' satisfaction indices

A customer satisfaction index refers to the combination of a customer's survey scores taken from different aspects. The scores are then used in the creation of a single index that underlines the overall customers' satisfaction. Customer satisfaction index is based on the fact that satisfied customers have a higher likelihood of purchasing goods/ services repeatedly as well as being loyal to a particular brand.

Customer satisfaction monitoring process

Monitoring the level of customers' satisfaction is the most important aspect of a firm as far as its growth and financial success is concerned. Besides, customer monitoring process helps to reduce the probability of getting negative results in a business.

Steps of measuring and monitoring customer satisfaction process

i. Surveying customers- this can be done through emails, phones class etc.
ii. Understanding expectation. Understanding what the customers want based on services and products
iii. Find out where the business is failing. Areas where the firm is not fulfilling obligation effectively
iv. Assess competition
v. Measurement of emotional aspect

vi. Loyalty measurement
vii. Determine intentions to repurchase
viii. Feedback cards

4.3 Course of action is determined as per the nature of the feedback

The nature of feedback provided by customers can either be:

- Approval of quality product and services.
- Disapproval of the quality of product and services.
- Recommendation on what should be done in future.

Determining the course of action plays an integral role as it:

- Ensures customer needs are addressed.
- Determines the most economic and viable method of addressing the needs without incurring substantial costs.

The feedback obtained from customers necessitates decision a firm or a bank will depict in ensuring it maintains or improve its profitability. Feedback may prompt either;

- Customer satisfaction improvement.
- Customer satisfaction maintenance.

Customer satisfaction improvement is undertaken when the customers underline dissatisfaction with the quality of the products and services provided by a given firm. The basis for determining the low level of quality of products may be due to their own expectation or the products and services of competitor firms being superior compared to those offered by the firm. Hence, the firm may opt improvement measures such as:

- Tracking feedbacks.
- Rewarding employees as a motivation to perform better.
- Lower customers' efforts to reaching out to the management.
- Setting expectations and following through.
- Making the company culture alive.
- Offering trade discounts.

Customers' satisfaction maintenance entails providing good customer service either through support and maintenance to the customers.

Customers' satisfaction maintenance can be done through:

- Improving the level of employee's professionalism.
- Following up with customers.
- Improving the quality of the brand.
- Being charitable.
- Personalizing the market.
- Creating social media concepts.
- Being empathetic to the customers and employees and being responsive.

Customer satisfaction is an integral tool in driving the business towards profit maximization. Since a happy employee leads to a happy customer as in the event that the employees are satisfied in their activities, they ensure that by loving the firm, other people also love the brand as well. However, there are cases whereby a firm may have to handle the dissatisfied customers whom regardless of the employees being happy, they may have a distaste for the firms' products and services.

Causes of customer dissatisfaction

- Poor quality products
- Incompetent employees
- Delays on provision of services
- Lack of goods and services at the time of need
- Overpricing of goods and services

Steps in handling dissatisfied customers

i. Remain calm-especially in instances where the customers start yelling and being rude
ii. Do not take allegations or comments by the customers personally
iii. Actively listen to the views of the customer
iv. Actively empathize
v. Apologize gracefully
vi. Find an astute solution to the concerns of the customers
vii. Identification of a dissatisfied customer entails using surveys to some extents.

Conclusion

This learning outcome covered; define customer satisfaction, importance of customer satisfaction, customer satisfaction matrix, customer satisfaction indices, customer satisfaction monitoring process, customer satisfaction improvement, Customer satisfaction maintenance, handling dissatisfied customers.

Further Reading

1. Read more on emerging issues in monitoring customer satisfaction.
2. Study more on role of loyalty cards in customer satisfaction management.

6.3.5.3 Self-Assessment

1. The following are true about customer satisfaction except one. Which one is it?
    a) A happy employee means a happy customer.
    b) A happy customer is a promoter.
    c) Customers can be happy without the employees being happy.
    d) Customers’ satisfaction brings positivity about a business.
2. Which among the following shows the correct feedback loop?
    a) Act → Listen → Analyse
    b) None
    c) Analyse → Act → Listen
    d) Listen → Analyse → Act
3. Which one is the true about a happy customer?
    a) He remains loyal to the brand under consideration
    b) He is bitter and ungrateful.
    c) Apologizes for a poor-quality product.
    d) None.
4. Which among the following is true about the customer who is not concerned?
    a) They hold a great concern about the product of the firm.
    b) They are not satisfied neither are they concerned about the quality of the product.
    c) Are concerned about the products but are not satisfied.
    d) Are not concerned about the quality of the products but they are satisfied.
5. Three of the following are customers’ satisfaction improvement measures. Which one is not?
    a) Rewarding employees
    b) Tracking feedback
    c) Referring them to another business entity.
    d) Offering trade discounts.
6. Why is a feedback important to a bank?
    a) It helps in the improvement of the bank’s products and services.
    b) It helps in mergers and acquisition of other banks.
    c) It serves as collateral.
    d) None of the above.
7. A banking policy comprises of all the following except?
    a) Employee satisfaction maintenance
    b) Account opening criteria.
    c) Serving specific customers all the time
    d) Adequate feedback mechanism
8. Enumerate the role of technology in identification of dissatisfied customers.
9. Identify the need for feedback mechanism among customers in the banking sector.

10. Outline the steps in monitoring customer satisfaction.
11. Elaborate on the notion that "a happy customer is a promoter."
12. Outline differences between customer satisfaction improvement and customer satisfaction maintenance**.**

Oral Assessment

1. What is consumer satisfaction? How can one tell that a customer is satisfied with the products and services of a business entity or brand?
2. Why is it important to monitor customers' satisfaction?

Case Study Assessment

Sylvia, a bank manager at Equity bank has realized that there is a large number of customers who peep through the door and leave without making an entity into the banks. Also, some of the customers have engaged the tellers in altercation over their slow nature in serving the customers with some opting to go to dire extents such as engaging in fists with the guard in the bank. Advice Sylvia on:

a) How to determine the root-issue of the change in behavior of the customers?
b) How can Sylvia ensure the customers are happy and believe in the banking activities?
c) What changes would you put in place to improve the customer experiences is in the banking hall?

6.3.5.4 Tools, Equipment, Supplies and Materials

- Projector
- Computer
- Flip chart/white board
- Stationaries
- Furniture
- Phones

6.3.5.5 References

Fader, P. (2012). Customer Centricity: Focus On the Strategic Advantage. USA. Wharton School Press.

Hill, N, Brieverly, J. (2017) How to Measure Customers Satisfaction. London. Routtege

Hill, N., & Alexander (2017). The Handbook of Customers Satisfaction and Loyalty Measurement. London. Routtege

CHAPTER 7: CUSTOMER SERVICE

7.1 Introduction of the Unit of Learning/Unit of Competency

Customer service is a unit of competency offered in TVET level 6 banking and finance course qualification. This unit specifies the competencies required to offer customer service handling customer enquiries, managing customer complaints, guiding customers on banking services and responding to internal queries. The significance of offer customer service to TVET level 6 banking and finance curriculum is to equip the learner with knowledge and skills to demonstrate communication, negotiation, conflict resolution, listening, budgeting, financial management problem-solving handle customers in a good and professional manner so as to fit in the workplace.

The Critical aspect of competency to be covered include demonstrated ability to respond to customer queries, complaints and internal queries. Basic resources required include: computers, phones, stationery and furnitures.

The unit of competency covers 4 learning outcomes. Each of the learning outcome presents; learning activities that covers performance criteria statements creating trainees an opportunity to demonstrate competecies stipulated in the occupational standards and content in curriculum. Information sheet provides; definition of key terms, content and illustration to guide in training. The competency may be assessed through written test, demonstration, practical assignment, interview/oral questioning and case study. Self assessment is provided at the end of each learning outcome. Holistic assessment with other units relevant to the industry sector workplace and job role is recommended.

7.2 Performance Standard

Handle customer enquiries, manage customer complaints, guide customers on banking services and respond to internal queries as per standard operating procedures.

7.3 Learning Outcomes

7.3.1 List of Learning Outcomes

a) Handle customer enquiries
b) Manage customer complaints
c) Guide customers on banking services
d) Respond to internal queries

7.3.2 Learning Outcome No. 1: Handle customer enquiries

7.3.2.1 Learning Activities

Learning Outcome No. 1: Handle customer enquires	
Learning Activities	**Special Instructions**
1.1 Obtain customer details as per standard operating procedures	Oral Assessment
1.2 Record customer concerns as per standard operating procedures	Discussion
1.3 Acknowledge understanding of customer queries as per standard operating procedures	
1.4 Respond *Customer queries* to as per standard operating procedures (account statement, balance, cheque book and debit card)	

7.3.2.2 Information Sheet No. 7/LO1: Handle customer enquires

`

Introduction

This learning outcome covers; customer queries, importance of customer query, different types of queries, ways of handling customer enquiries, communication skills, and different types of customers and escalation of customer queries.

Definition of key terms

Customer feedback: Is information provided by customers about their experience with a product or service.

Customer queries: It refers to the questions posed by customers with regards a firm's product quality, efficiency, work ethics, among other factors.

Content/Procedures/Methods/Illustrations

1.1 Customer details are obtained as per standard operating procedures.

Customers have high expectations when they pose questions about how the firm will handle their underlined questions. Thus, a company ought to handle customers concerns with a lot of care. A firm should consider developing a script for the employees responsible for handling customer queries. A script underlines the guidelines that should be followed to effectively yield positive results concerning the customer queries. A script should underline the following aspects;

- Courteous greetings
- Introduction of both the organization and the employees' name.
- Finding out the reasons behind the customer's call.

- Listening to the customers and repeating the information to ensure that their concern is understood.
- Being patient.
- Being thankful to the customer.

Customer queries if handled in the best way can help to solve some of the challenges facing a financial institution, improve its current assets and activities and in some cases, it may lead to existence of innovative ideas. As a result, a business entity has to ensure it is easily reachable by clients or customers. The frequency at which customers raise their concerns and in return the organization acts on them can easily translate to the success of the firm. It also ensures that the customers feel free to engage the organization in matters it believes should be adjusted to suit their preference.

1.2 Customer concerns are recorded as per standard operating procedures

Dealing with customer's concerns positively is vital in keeping or maintaining the customer's loyalty. Prompt customer queries management and response improves the business processes; hence, it results to repeated business. Repeated business by the customers is an indication of satisfaction by the firm's products and services as well as the quality of the products and services. Therefore, the firm is bound to have more customers and increased profitability levels since a happy customer is a promoter.

Importance of recording customer concerns

- It increases customer retention rate which is cheaper than customer acquisition as it involves costs such as advertisements.
- It improves customer service in an organization which represent a firm's mission values and the brand image.
- It is a recipe for reduction of problems especially if an organization has great customer support services.
- It aids in improving customer loyalty where the concerns of the customer are adequately addressed.
- Customer enquiries serve as a basis for innovation in an organization.
- Addressing the customer concerns appropriate may prompt the customers to even pay more since their needs will be addressed by the firm.
- Customer enquiries in growing the buyer's lifetime value.
- It acts as a basis for attracting more customers since a happy customer is a promoter.

Recording customer queries is critical for a firm as it ensures that the organization can use the query on a basis for guiding implementation of solutions to particular concerns.

Handling customer enquiries may involve the following steps/ process:

i. Appreciating the customers for bringing up the query.
ii. Recording the particular details of the customer's query.
iii. Correctly getting all the facts by ensuring what is recorded is the challenge or set ask the customer faced.
iv. Discussing the various options for fixing the problem or issues at hand.
v. Acting quickly.
vi. Keeping promises and following up.

Understanding customer query ensures that the organization can come up with the most suitable strategy of addressing the concerns. Also, it serves as a basis for making customer decisions concerning the products and services offered.

1.3 Understanding of customer queries is acknowledged as per standard operating procedures

Customers have different personalities ad may thus underline their concerns differently. The employees and the bank at large should be ready to deal with the challenges posed by the diverse personalities of the customers as they outline their concerns.

Types of customers

a) The meek customers

They may opt against submitting a query over the fear that the organizations management and employees do not care about the customer's concerns. In a bid to engage such customers, the management through the employees' can either start a conversation either via, call or face to face convention or even use a survey questionnaire.

b) The aggressive customer

He or she may loudly express his or her news and may not be in a position to accept excuses. The employees should thank the customers for raising his or her concerns, be courteous, agree with the customer and apologize for the problem. Also, the employee should explain what is being done or will be done to curb such problems in future. However, if the customer engages the customer in a conversation, there is a likelihood that the argument may escalate to a heated confrontation which may make the situation worse.

c) The high-roller customers

The high roller customers often pay well and in return they expect a high level of premium support. Thus, a high roller customer is likely ask queries in a reasonable manner. Since the customer always want the best, it is important for the employee to listen to the customer in a respectful manner and acknowledge the existence of a problem.

d) The rip off customer

This type of customer is motivated by the desire to receive a hand-out rather than waiting for an adequate and satisfactory support experience. The employee should maintain composure while engaging with the customer and respond adequately. The customer should use available accurate data in backing up his or her responses when engaging with a customer. The risk involved with a rip off customer relates to the fact that the customer may end up taking advantage of a company as they normally aim at obtaining what they do not deserve.

e) The chronic query customer

The type of customer is constantly unhappy and often engages the employees of an organization over un-attended issues. Despite the rather frustrating nature of the customer, the employee should offer adequate support to the customer. The employee should be apologetic, sympathetic and honest. Although the chronic complainer customer may contact the organization ever again, the customer often accepts and appreciates the efforts aiming at fixing the underlying situation.

Types of queries

The queries asked by customer often ask queries involve;

a) Queries about service and product
b) Queries about behavior

Queries about service and products may relate to the quality of service that a customer has received from a given firm. Queries about behavior relate to the personal and professional conduct of the employee in a firm. Customer feedback and responses can be provided using a number of ways e.g. using text messages, phone calls and email messages.

Importance of responding to a customer

- Ensure the customer needs are addressed.
- Improves relationship between firm and customers.
- Aids in providing clarifications.

1.4 Customer queries are responded to as per standard operating procedures

Responding to customer queries plays a vital role in the customers' decision to either be loyal to a firm's products or not. Communication skills are essential in recording to customer's queries. The communication skills an employee may embrace include;

i. Active listening
ii. Considering non-verbal communication
iii. Being clear and succinct
iv. Being empathetic
v. Clarifying & summarizing
vi. Creating rapport
vii. Being present
viii. Providing feedback

These are instances where the customer may opt to escalate his or her queries to the top management. Escalation may occur when the customer feels that a given employee cannot or is not in a position to offer the required assistance. Factors leading to escalation may include handling cases and dispute resolution among other considerations. An employee may also escalate a query in the event that;

- It is a request from the customer
- When needs can't be met
- When solutions are exceeding abilities
- When the customer issues threats

Conclusion

This learning outcome covered; customer queries, importance of customer query, different types of queries, ways of handling customer enquiries, communication skills, and different types of customers and escalation of customer queries.

Further Reading

1. Read more on Emerging issues in handling customer's enquiries

7.3.2.3 Self-Assessment

Written Assessment

1. The communication skills an employee can embrace involve the following EXCEPT?
    a) Active listening
    b) Creating rapport
    c) Making deliveries
    d) Providing feedback
2. Among the following, which is a benefit of customer queries?
    a) It improves the level of customer complaint
    b) It focuses only on the product
    c) It creates confusion in a firm
    d) It improves customer retention
3. What aspect should a script not entail?
    a) Courteous greetings
    b) Being patient
    c) Being thankful to the customer
    d) Keeping records of complaint

4. The following are types of customers except?
    a) The Rip apart customer
    b) The meek customer
    c) The high roller customer
    d) The chronic customer.
5. One of the following relates to handling customer enquiry. Which one is it?
    a) Follow up and delaying on enforcing a decision
    b) Keeping promises on follow up
    c) Escalating all customer queries
    d) None of the above
6. Which one is an importance for customer query?
    a) It reduces organization problems
    b) Has limited impact on day to day activities of a firm
    c) Can demonstrate staff in an organization
    d) All of the above
7. The following are type of customer query. Which one is not?
    a) Query about behavior
    b) Query about organization infrastructure
    c) Query about service
    d) Query about security in the district
8. Outline three reasons for query escalation in an organization.
9. Elaborate how you would handle a chronic complainer customer.
10. Enumerate roles that the script plays in handling customer queries.
11. Outline five communication skills an employee can embrace when handling customer complains.
12. Suggest the impact of technology on employee queries.

Oral Assessment
1. What do you understand by the term customer complaints? How can you handle customer complaints?
2. What are the remedies available in handling a meek customer?

Practical Assessment
During your free time, visit a bank or any financial institution. Take a look at the customer service area and the entity as a whole. What do you notice relating to customer enquiry? Ask the attendant on the challenges they face about customer complaints. As a finance trainee how would you solve such a challenge?

7.3.2.4 Tools, Equipment, Supplies and Materials
- Writing materials
- Projector
- Computer
- Flip chart/white board

7.3.2.5 References

Bergman, B. & Klefsjo, B. (2010). Quality from customer needs to Customer Satisfaction. Sweden: Student Literature Ab

Hill, N. & Alexander, J. (2017). The Handbook of Customer Satisfaction and Loyalty Measurement. London: Routledge

Rosenfield, L. (2011). Search analytics for your site: Concentration with your customers. New York: Rosenfield Media

7.3.3 Learning Outcome No 2: Manage customer complaints

7.3.3.1 Learning Activities

Learning Outcome No 2: Manage customer complaints	
Learning Activities	**Special Instructions**
7.1 Obtain customer details as per standard operating procedures. 7.2 Record customer complaint as per standard operating procedures 7.3 Acknowledge understanding of customer complaint as per standard operating procedures 7.4 Respond customer complaint to as per standard operating procedures	Discussions Oral tests

7.3.3.2 Information Sheet No 7/LO1: Manage customer complaints

Introduction

This learning outcome covers; customer complaints, importance of handling customer complaints, types of customer complaints, handling difficult customers and escalation of customer complaints.

Definition of key terms

Customer complaints: It is an expression of dissatisfaction on a customer's behalf to a responsible party.

Content/Procedures/Methods/Illustrations

2.1 Customer details are obtained as per standard operating procedures

Customer details are obtained as per standard operation procedures. Customers complaints should be treated with utmost care since they have a role in the success or failure of a given business entity. The customers may complain on either similar or different issues at given time. Although the organization may not be able to attend to all the complaints raised by the customers at a given time, it should seek to address them. Several factors can lead to the existence of complaints among customers.

The complaints may be due to;

- Failure to keep the promises made to the customers
- Existence of rude employees in a firm
- Provision of low-quality products and services to the customers
- Failure to listen to the customers' plea by the employees
- Keeping unresolved issues for a relatively long time
- Inaccessibility of the management to answer some queries or offer assistance
- Provision of poor-quality products and services
- Existing of hidden costs or fees and even information

Customer complaints can serve to improve the relationship between the customer and the management if at all the underlined issues are attended to adequately. Therefore, handling customer complaints is pivotal to a firm's growth and life in a given industry.

Importance of handling customer complaints

- They aid in keeping the senior management team informed about the business activities in the firm.
- They improve the firm's programs relating to service education. They give insight on a company's service education programs and the steps or strategies that can be taken to improve them.
- They aid in the improvement of customer communication. They pave way for frank discussions between the employees in the firm and the customers.
- They help in the identification and improvement of policies and procedures. The customers' complaints may point out the areas that require improvement.
- They aid in the enhancement of customer satisfaction.
- They affect the brand image of a firm.

The customers' details should be obtained to ensure follow-up is done and check whether they are satisfied with the changes that will be made.

Ways to obtain customer details

a) Enquiring from the customer
b) Obtaining from the internet
c) Information from other credit rating agencies

2.2 Customer complaint are recorded as per standard operating procedures

Customer complaints are recorded as per standard operating procedures. Handling the concerns or complaints of the customers positively, plays a vital role in keeping or maintaining the customers' loyalty. Adequately and timely management of the customer's complaints improves the business processes, thus repeated business with the customers and increased profitability. Adequate and timely management of the customer's complaints ensure that the firm is bound to maintain or increase its number of customers leading to increased profitability level in the firm.

Recording customer complaints is critical for a firm as it ensures that the organization can use the complaint for improving its activities and guiding future plans such as innovations and employees training.

The customer's complaints can either be related to;

- The quality products or service provided
- Behavior of the employee
- Promises made to customers
- Product availability and its price

A customer's complaints should be recorded carefully to ensure the issues raised can be addressed with ease. The following aspects can be considered in recording and handling customer's complaints;

- Appreciating the customer for raising the complaint
- Recording the details of the complaint precisely
- Recording the details of the customer for follow up
- Under-laying various recommendations to solve the issues raised

Once the complaint is recorded, it can be given to the management for decision making and implementation.

Importance of recording customers' complaints

- It aids in determining suitable ways of addressing the complaints
- Ensures a customer's personality is determined, hence deducing a way of handling the customer
- It provides a basis for decision making in the organization

2.3 Understanding of customer complaint is acknowledged as per standard operating procedures

Customers have different personalities. Thus, they may present their complaints in different ways. For instance, some of the customers may be bitter, others calm etc. The following are the most common types of customers:

a) **The Meek customers:** They may fail to make a complaint due to fear of being at loggerheads with the employees or the management. These customers may opt to use a suggestion box to air their complaints. Therefore, the management should ensure it has adequate suggestion or complaints boxes to cater for the complaints and suggestions from the customers.

b) **The Aggressive customers:** The aggressive customers may express their complaints loudly and in an unruly way and may not accept excuses from the employees. To handle aggressive customers, the organization through its employees should thank the customers for raising their concerns. The employees should be cautious and should take note of the complaints and explain what will be done to solve the issue.

c) **High-roller customer:** The high-roller customer often pays well in return they expect quality services. A high-roller customer is likely to complain in a responsible manner since they always expect the best quality product and service.

d) **Rip-off customers:** This customer may raise complaints to ensure they are given handouts rather than waiting for an adequate and satisfactory support experience. The customer should use the available accurate data in backing up his/her responses when engaging with the customers.

Acknowledging a customer's complaints entails ensuring the customer is aware that his or her complaints has been received and recorded. Besides the employee should also ascertain the customer that his/her complaint will be addressed at a given time. The employee should also take the details of the customers such as an email address or telephone number for communicating regarding the solution to his/her question.

2.4 Customer complaint are responded to as per standard operating procedures

Responding to the customers' complaints adequately, play a vital role in determining the prospects of success of the firm at large. Besides, it serves as a basis for determining whether the customers will be loyal to the firm or opt for another brand altogether. Therefore, it is important for the employees to respond to the customers' needs promptly and effectively. The customers may easily listen to the employee or he/she may prove difficult to handle. The firm should be able to deduce ways of handling the difficult complaints. For instance, the firm through its employees can;

- Remain calm
- Do not take the complaints personally
- Listen to the views of the complaints keenly
- Emphasize with the customers
- Apologize to the customers
- Outline a sound remedy for the customer concern
- Promise that such an occurrence may not happen in the future if it is not caused by natural forces

Sometimes the complaints of the customers can be escalated to the top management. For instance, if;

- It is a request from a customer
- When the complaints raised cannot be met by the junior employees
- When the required solutions to the complaints exceed the abilities according to the junior employees
- When the customer issues threats

Importance

- Helps in reducing boredom among staff
- Aids in inculcating appropriate customer ethic
- It is a basis for decision making
- Improves customer-employee relationship

Conclusion

This learning outcome covered; customer complaints, importance of handling customer complaints, types of customer complaints, handling difficult customers and escalation of customer complaints.

Further Reading

1. Read more on emerging issues in addressing customer complaints from listen to customer's complaints and act fast by Richard Branson.

7.3.3.3 Self-Assessment

Written Assessment

1. Three of the following are ways of handling customer complaints. Which one is not?
   a) Remaining calm
   b) Confronting the customers
   c) Apologizing to the customers
   d) Emphasizing with the customer
2. The following are types of customer complaints. Which one is not?
   a) Complaints about product quality
   b) Complaints about employee behavior
   c) Complaints about organizational infrastructure
   d) None of the above
3. Which of the following is an importance of customer's complaints?
   a) They help in keeping the management informed about the firm's activities
   b) They do not affect the brand image
   c) They help in improving the customer communication
   d) They affect the decision making process of a firm
4. Among the highlighted points, which relates to the causes of customer complaints?
   a) Good quality products
   b) Timely provision of goods and services
   c) Timely and provision of defective goods
   d) None of the above

5. The following are types of customers except one. Which one?
   a) The high-roller customer
   b) Rip-off customer
   c) Meek customer
   d) Aggressive customer
6. As an employee, at which point would you escalate a customer's complaints.
   a) When he/she listening to your response
   b) When you can take care of the complaints
   c) When the customer has requested for the intervention of top management
   d) None of the above
7. The following are vital strategies that a firm can use to acquire information relating to customer's complaints. Which is not?
   a) Use of suggestion and complaints box
   b) Use of questionnaires
   c) Reporting to the customer care desk
   d) Ignoring dissatisfied customers
8. Suggest ways of handling an aggressive complaint customer.
9. Deduce the impact of technology on customer complaints.
10. Outline factors that may necessitate escalating customer's complaints.
11. Highlight four ways you would classify the complaints raised by customers.
12. Outline the importance of the customers' complaints to a firm.

Oral Assessment

1. What do you understand by customer complaints? What is the importance of handling customer complaints?
2. What are the remedies available in handling the rip-off customer?

Practical Assessment

During your free time visit a bank and observe whether there is a point or box for the customers to raise complaints. Enquire from the customer care the strategies the bank uses to get information about the customers and whether there have ever been cases or complaints that were escalated to the management. If the response is escalated is yes, ask the strategy used by the management to address the issue.

7.3.3.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip chart/white board

7.3.3.5 References

Bergman, B. & Klefsjo, B. (2010). Quality from customer needs to Customer Satisfaction. Sweden: Student Literature Ab

Hill, N. & Alexander, J. (2017). The Handbook of Customer Satisfaction and Loyalty Measurement. London: Routledge

Rosenfied, L. (2011). Search analytics for your site: Concentration with your customers. New York: Rosenfield Media

7.3.4 Learning Outcome No 3: Guide customers on banking services

7.3.4.1 Learning Activities

Learning Outcome No. 3: Guide customers on banking services	
Learning Activities	**Special Instructions**
3.1 Understand customer needs as per work place procedures 3.2 Understand Services offered at different work station as per organizational structure 3.3 Identify bank products as per organizational structure 3.4 Serve customers as per their need	Lectures Observations Presentations

7.3.4.2 Information Sheet No.7/LO3: Guidance on banking services

Introduction

This learning outcome covers; the customer needs in regards to banking, the organizational structure and hierarchy. It also covers the bank products, types of bank customers, the services to a customer and the importance of customer services.

Definition of key terms

Customer needs: These are the wants that your customers want fulfilled when in contact with your business or searching for solutions that you can provide.

Bank products: This refers to the services that are provided by the banks, that is credit cards, debit cards, purchase cards and treasury management services.

Customer service: This refers to the one on one contact/interactions between a client or a customer with a representative of an organization.

Workplace: This refers to the given location where someone works for his or her employer.

Debit card: These are payment cards that are used pay out for transactions performed and usually deduct directly from customers checking account.

Hierarchy: This is a system that arranges members of an organization in ranks according to their relative positions or status.

Content/Procedures/Methods/Illustrations

3.1 Customer needs are understood as per work place procedures

The customer needs as per banking activities involves the daily transaction activity, membership of a customer, the records and historical activities and the right to know of every product or service offered at a certain bank where he or she is a customer. The customer needs as per the work places are as follows:

a) Tellering services

A customer needs as per tellering services in banks include activities such as;

- Cash deposits and withdrawals
- Check the cash balances as per different accounts
- Depositing of cheque in the bank
- Enquire about services offered in the bank
- Opening various account of memberships

b) Loans

This is another workplace in the bank which deals with the client loans where the customer deserves to know;

- Various relevant information on every type of loan offered like interest rates, repayment methods and time.
- Variations and terms of conditions of the loans.
- Obtaining the credit instrument like loans and clearance forms.
- To surrender or collect the collaterals as per the loan requirements.
- To have the client have awareness and consultancy services as per loans available.
- Progress of his own loan account balances and statements as per loans rates.\

c) Customer services

The workplace offers company customer interactions to provide their customers with Information pertaining a given product and services or address their inquiries. The customer needs as per this include;

- Their problems/complains be handled.
- To be provided with guidance and information on regards to various services.
- To be assisted in areas of difficulty.

d) Accounting services

This refers to the process of recording the financial transactions analyzing and reporting this transaction to describe the financial position of the business. The customer needs as per the service include;

- Customer should access all the transaction records that they have performed.
- They should be given a relevant document such as banker's cheque and other documents needed to transact.

e) **Marketing officers**

This is the workplace that deals in promoting of the company's products and services. The customer needs could be satisfied by answering to them;

- The quality and quantity of products.
- Importance of the products and its advantages as compared to its substitutes.
- The price mechanism used to determine the price of the commodity.

Importance of understanding your customers' needs

- Quality services are provided: By understanding your customers' needs, you can provide quality services to them.
- Meeting their product/service expectation: Through identifying the customer needs, you are able to identify their expectations in regards to the kind of services they want and deliver to that.
- You can persuade the customer get services from you since you have the knowledge to the customer needs: You can convince/persuade them to acquire services/products from your premises.
- Understanding customer needs is the beginning of success of business: By understanding and fulfilling the customer, you fill the gaps present in regards to customer wants and this leads to successful business.

3.2 Services offered at different work stations are understood as per organizational structure.

Organization structure is a method employed by organization in order to identify the various levels of activities. In an organization, various services and functions performed at the various levels and the person's responsible at each level.

Importance of understanding services offered

- The client's expectations of services/products offered by organization are described.
- Provides confidence to a consumer of a given product while enquiring of the products details.
- It saves time when you understand services offered by organization during various activities i.e. consultations, need a given service and product in organization.
- Through understanding services offered by a given organization, its purpose, products and services, it earns the awareness needed by customer insider to come purchasing.
- The organization increases sales; promotes their product by making the product to be known by its customers.

Different managers perform different tasks of an organization. There are three levels of management in the hierarchy of an organization, top level management, middle level management and low level management.

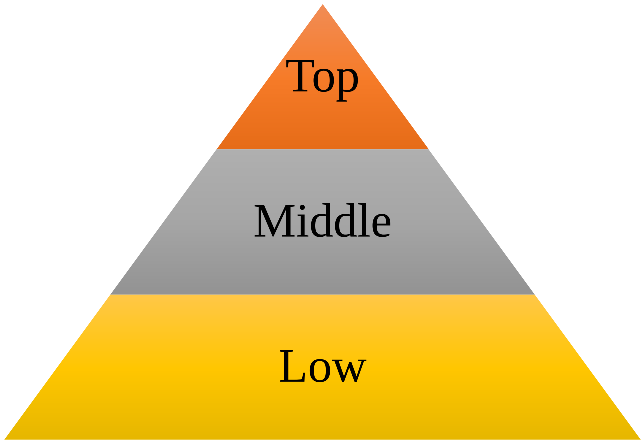


Figure 27: Levels of management

a) Top level management

These levels consist of the most senior persons of a given organization and include the chief executive officers (C.E.O), chief financial officer (CFO) and information officers whose functions are as follows;

- They make decisions affecting the entire organization
- They set the goals of the firms and aid in the achievement of the set goals
- Are responsible for all activities of the business and the implication of the society
- Are responsible for the performance of the organization
- Are responsible for the organizational welfare

Understand the services offered at different work stations as per organizational structure

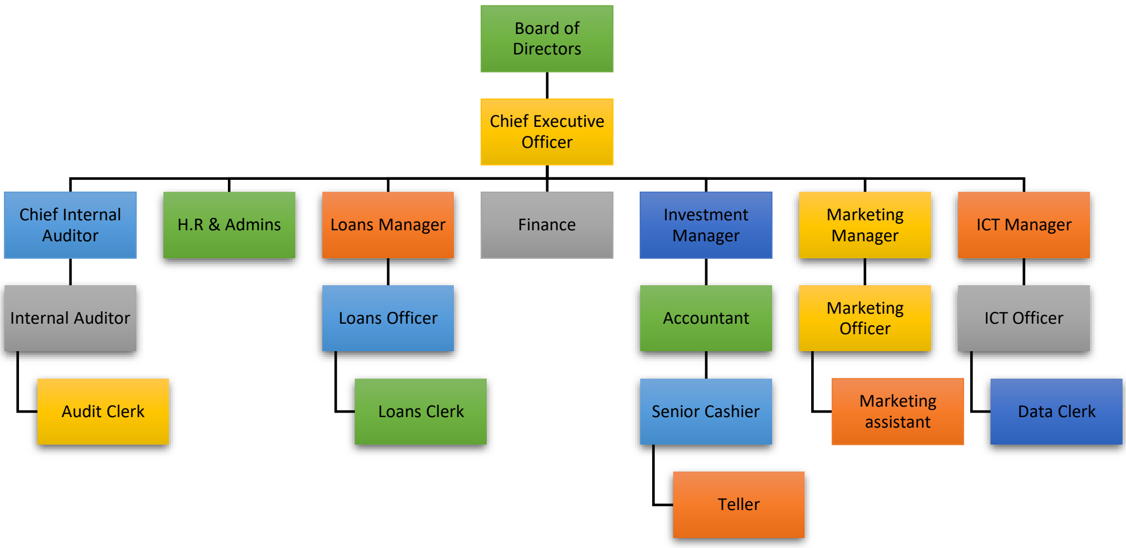


Figure 28. Management flow chart

b) Middle level management

The level links the top management and the low management levels and acts as a subordinate staff to the top-level managers. They include the general managers, plant managers, division managers and regional managers and are responsible for the following;

- Are responsible to carry out the organizations goals as set by their seniors for their department.
- They control, manage and motivate the first level managers to achieving business goals.
- Are responsible for the activities that are performed by the first managers.
- They communicate to the first level management through offering suggestions and feedbacks.

c) Operational/first line managers

This is the lowest level in the hierarchy of the organization and consists of office managers, supervisors and firemen. Operational managers are responsible for the following;

- Are responsible for daily management of line workers.
- Supervisors directly oversee daily workforce.
- They interact with daily workers of the firm and instructing/giving directions to them.

Workstation as per organization structure is very important as it;

- It brings accountability of projects and services. A well-developed hierarchy outlines the activities of accountability for every project and individual so where the projects fail, a follow up can be done and identify the failing party in the project.
- Helps in employee development and guidance. The hierarchy in an organization helps employees to understand from where they receive guidance from.
- Enhances communication in the company. A proper communication channel between the employees, managers and the division of the company is established where middle level managers act as an intermediary to bridge the gaps between the top and low management.

3.3 Bank products are identified as per organizational structure

These refer to the services that banks offer their customers in relation to cash management. The products include transactional account, savings accounts, debit cards, credit cards, travelers’ cheque and mortgages.

a) Transactional/checking/current account

These are bank accounts used to easily access money like ATM cards, electronic transfers and debit cards and are of the following significance:

- They are non-interest-bearing accounts
- Allow unlimited deposits and withdrawals
- Enhanced easy access to money e.g. ATMs
- Customers don't carry around large amounts of money

b) Savings account

This is a deposit account in financial institutions that earn the customer an interest from the initial principle depending on a given rate. Savings accounts are important in the following ways;

- Provide financial independence from credit
- Money in the savings account is secured
- Prevents one from unanticipated spending
- Provides the customer with peace as they have funds in the accounts

c) Debit/credit accounts

This refers to situations where money is taken out of your accounts (withdrawn) while the credit account is the situation where money is added to your account and occurs as a result of performing various transactions like:

- When a transaction is made usually with debit cards
- When a debit card is swiped for an online transaction
- In case a retainer sends transaction details to a bank transfer the funds to him

Ways of identifying bank products

- Consultations in bank through customer services
- Gaining access to banks promotional products i.e. brochures, advertisements and posters
- Promotional/marketing methods adopted by organization i.e. roadshows and salespersons of the organization
- Through social media platforms where banks create awareness of their products and interacts with their clients

Importance of identifying bank products

- An individual is able to identify the various products i.e. loan types and choose as per his performance.
- Clients can evaluate the products and choose one that suits them the best.
- Customer can device various merits from different bank products thus the benefit to distinguish them.

ATM cards

These are payment cards that are instilled with chips containing unique card numbers and are used to perform transaction at the ATM machines and possess the following importance;

- Quick cash withdrawals
- Provides an account balance enquiry
- Easy to access details of recent transactions
- Easy means of depositing funds
- Used for payment of some utility bills
- Saves time

Travelers' cheque

These are mediums of exchange that are used by persons travelling abroad as an alternative of carrying cash. Travelers' cheque is of significance as follows;

- They are safe methods with ease of replacement if lost
- Easy to use at any large banks and bank outlets
- Have no expiry dates

3.4 Customers are served as per their need

Serving customers is the core purpose of the business thus proper means and methods should be adopted in the same case. For proper customer service, ensure the following;

- Provide quality customer service: Customers are regarded the most important person for the running of any business thus they should be offered products that suit their needs for satisfaction purposes.
- Listen to customer complains.
- Consider customer service automation: This is in a bid to increase speed, accuracy and efficiency hence making customers satisfied with the services.
- Manage your social media correctly: The media has been used to create an image for several companies thus if done right the success of the company is guaranteed.
- Build a good relationship between customers and organization which is majorly achieved by building trust with the customers.
- Know your customers: This enables you understand their needs and wants, limits, goals and standards.
- Fix mistakes: By fixing previous mistakes the customer feels appreciated and they will be willing to stay if mistakes are not prone to happening.

Importance of serving customers as per their needs

- Customer retention is cheaper than customer acquisition
- Your customer greatly represents your mission and values thus great customer service creates happy customers
- Enhances customer loyalty
- Customers are willing to pay expensively for quality services
- Enhances competitive advantage to the business

Conclusion

This learning outcome covered; the customer needs in regards to banking, the organizational structure and hierarchy, the bank products, types of bank customers, services to a customer and the importance to a customer.

Further Reading

1. Read more on E-services delivery methods from British journal electronic banking 9(3): 1-8,2015

7.3.4.3 Self-Assessment

Written Assessment

1. At what level does an organization manger operate?
   a) Functional
   b) Operational
   c) Middle level
   d) Top level
2. Which one is not a recognized key skill of management?
   a) Conceptual skill
   b) Human skills
   c) Damien skills
   d) Writing skills
3. What is a social enterprise concerned with?
   a) Profit maximization
   b) Market share maximization
   c) Providing public service
   d) Running business to create social benefit

4. In what order do managers perform?
    a) Planning, organizing, leading, controlling
    b) Planning, organizing, controlling, leading
5. Who of these is not an entrepreneur?
    a) Barrack Obama
    b) James Dyson
    c) Damien Hirst
    d) Mo Farah
6. Discuss the following terms;
    a) Workplace
    b) Debit/credit card
    c) Organization hierarchy
7. Evaluate the various services/products a client can access from the bank.
8. Illustrate in drawing the hierarchy of an organization and functions in every level.
9. Discuss the importance of transactional account.
10. Elaborate on the benefits an organization would have if they employed proper customers' service.

Oral Assessment

1. What are the different ways you can operate your accounts?
2. What do you understand by the following terms?
    a) Overdraft protection
    b) Annual percentage rate (APR)
    c) Balloon payment
    d) Amortization
    e) Crossed cheque

Practical Assessment

In groups of three, identify an organization around your area, visit the organization and find out its organizational structure, the various services offered by each level of the employees in the organization and the impact of the organization to the surrounding.

7.3.4.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip chart/white board

7.3.4.5 References

Bhattacaryay, B. N. (1989). Marketing approach to promoting banking services. Vikalpa, 14 (2), 35-42

Clementine. (2002). Building A Predictive Model in Bankruptcy.

Dr. Madan Lal Bhasin. (2006). A Competitive Tool in Banking and Retail Industries.

Foster, D. P., & Stine, R. A. (2004). Variable selection in data mining: Building a predictive model for bankruptcy. Journal of the American Statistical Association, 99 (466), 303-313

7.3.5 Learning Outcome No. 4: Respond to internal queries

7.3.5.1 Learning Activities

Learning Outcome No. 4: Respond to internal queries	
Learning Activities	**Special Instructions**
4.1 Receive internal queries as per standard operating procedures	Questionnaires
4.2 Analyze internal queries as per standard operating procedures	Project
4.3 Act upon internal queries as per standard operating procedures	Practical assessment
4.4 Receive and dispatch mails as per standard operating procedures	

7.3.5.2 Information Sheet No.7/LO4: Respond to internal queries

Introduction

This learning outcome covers; queries, types of queries, teamwork, different method, communication, internal communication, etiquette and handling difficult workplace.

Definition of key terms

Internal query: These are questions asked within the organizations as data collection tools in order to gather some information.

Dispatch book: This is a record where all dispatch mails are recorded.

Analyze: This is the process of cleansing, transforming and identifying patterns force given data to aid in decision making.

Standard deviation: This refers to how spread out a given data is.

Content/Procedures/Methods/Illustrations

4.1 Internal queries are received as per standard operating procedures

Internal queries are questions asked within the organizations by clients/customers with intends to know more on the organization or certain product/service provided by the organization.

Methods on how queries are received

- General queries are received in the customer services help desks in the organization, customer service in the organization can respond to the queries or offer directions to the responsible person/department to respond to the query.
- Confidential queries in the organization are received at the respective departments where the issues/queries can be attended to or properly responded i.e. customer account details and loan issues.
- Queries can also be directed/addressed to a given department to respond to the query.
- Internal queries can also be received by the seniors from their employees in regards to requesting for directives, instructions and guidance in their job performance.
- Queries are received through online interactive platforms where organizations interact with their clients/customers.

Characteristics of Internal Queries

- They are posted in relation to the organization products, services or nature.
- They are mostly directed to various departments enquiring of products in various sections.
- They require definite answers.
- They could be used by organizations to improve on their services/products delivery.

4.2 Internal queries are analyzed as per standard operating procedures

Process to receive internal queries

i. An employee of the organization will receive the query from a client through any means (social media platform, face-face and customer service).
ii. He/she should understand the question parameters and respond to queries as per the organization procedures.
iii. In instances where more details/clarifications on the query is required. The client should be referred to the respective departments where the query could be responded.
iv. In the department, the query should be received and responded to ensuring the customers satisfactions.
v. Customer could be asked to rate the services provided to him in the scaled rating (good, very good poor, very poor).

Importance of internal queries

- They are used as consultation tools where clients fail to have full information to organization products/services
- They are used to clarify information to the customers
- They are used by employees in organization for directives to carry out activities
- Queries can be used by organizations to fill the gaps/loops in their systems
- They are used as means of provision of information to the clients

Techniques for data analysis

- Text analysis
- Statistical analysis
- Predictive analysis
- Prescriptive analysis

Data analysis consist of the following phase

i. **Data requirement gathering:** All you identify is the purpose to conducting this analysis.
ii. **Data collection:** You gather information from various sources using the data collection tools, observation, questionnaires and interviews.
iii. **Data cleaning:** This process is to make the data useful, meaningful and erasing the duplicate records, and errors possibly made.
iv. **Data analysis:** Once cleaned data can now be analyzed, tools for analysis and software can be used to interpret and draw conclusion. This is by identifying patterns and trends.

Analyzing internal queries

The analysis of internal queries will be implemented through the given process:

i. **Check the top asked questions:** Based on the queries you had asked, check on the responds that were given by the respondents of your questions. What were the responses like? How many responded?
ii. **Filter the results as per subgroups:** Classify the responses in smaller subgroups that will enable an easy fast method of analyzing the data. You can filter depending on the responds provided.
iii. **Interrogate the data:** Interrogating the data will mean to analyze intensively the responses. Identify the percentages of the responses against total responses.
iv. **Record and prepare presentations:** With the analyzed data, record your findings and present your information. Pictorial representations are highly recommended i.e. pie charts, bar graphs, to show the data.

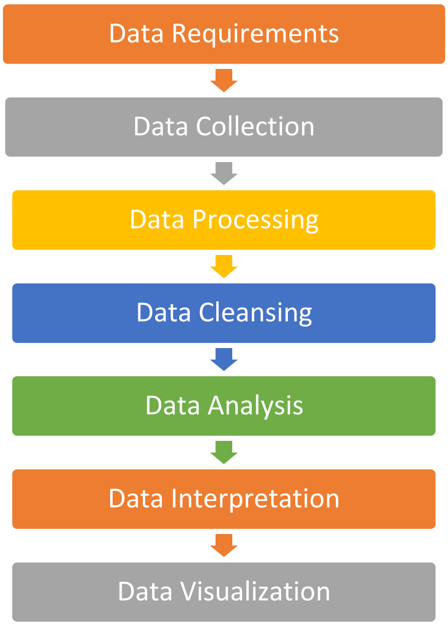


Figure 29. Flow chart

4.3 Internal queries are acted upon as per standard operating procedures

Once data is collected and analyzed, it's now ready to be acted upon in order to understand the content. Analyzed data will follow the process of;

Data interpretation

This is process through which analyzed data is reviewed in order to make an informed conclusion. Qualitative data analysis will be in word context and person-person techniques are required for interpretation. The methods applied will be observations and documents. Quantitative data analysis will involve numeric and patterns. A relationship among the data sets must be identified in order to come up with proper information.

Methods that will be employed will involve;

The mean, standard deviation, frequency distribution, regression analysis, predictive and prescriptive analysis.

a) **Mean:** Represents the average set of responses when dealing with multiple data sets. Mean is also referred to as arithmetic mean average, mathematical expedition. $(Mean = \frac{\sum fx}{\sum n})$
b) **Standard deviation:** It is used to identify the distribution of responses around mean describing degree of consistency in responses and providing insight to data sets.
c) **Frequency distribution:** This is measure gauging the rate of a response with given data sets, they range from (disagree, strongly disagree, agree, and strongly agree).
d) **Regression analysis:** This allows you to examine the relationship between two or more valuables of interest.

$$Regression - Y = a + bx$$

Data visualization: This refers to the graphical representation of the information and data methods that could be implemented in the data visualization include pie charts, graphs, relational diagrams and maps.

Types of data visualization

- **Temporal data:** Temporal category consists of data that is linear and has only one dimensional. The data visualization tools used in this case includes; scatter plots, line graphs, and bar graphs.
- **Hierarchical data:** These are used in displaying cluster information from a certain origin point to another and is usually within large groups. Visualization tools include; tree diagrams, ring charts and sunburst diagram.
- **Network:** Shows relation of how data sets connect deeply with other data sets. The tools used include; matrix chart, entity diagrams, and alluvial diagrams.
- **Multidimensional:** These are data that have 2 or more valuables. Due to the many layers of datasets visualization could be vibrant.

Tools used include; pie charts scatter plot, histograms and Venn diagrams.

4.4 Mails are received and dispatched as per standard operating procedures

Mails handling is the process of receiving, recording, dispatching and sending letters and documents.

Receiving mails process

i. The incoming mails are always received by mailing department and are brought to office.
ii. They are received by office secretary/person.
iii. They are recorded in the entry book/register book.
iv. They are then dispatched to their intended persons/department/destinations.
v. The mail is stamped on the first page of the reference number, entry number and date.
vi. The mail is then cleared.

Dispatching mails

i. Drafting the mails. They are written or prepared by the parties interested in sending out the mails. They are signed by responsible officer for validity.
ii. The department concerned in mails collects all mails from department and sends them to mailing department.
iii. The department records the mails in a dispatch book.
iv. They then fold the letters in envelop size, seal the envelope write the receivers details. The letter is then stamped.
v. The letter is then dispatched to its intended person, office, destination through the post office or a messenger.

Conclusion

This learning outcome covered; queries, types of queries, development of questionnaires, data collection methods, data analysis techniques, data interpretation, data visualization and mails process handling.

Further Reading

1. Read more on analysis techniques from methods of analytical by R S Dragon.

7.3.5.3 Self-Assessment

1. What does it mean by quantitative data?
    a) Graphs and tables
    b) Any data you present in your report
    c) Statistical analysis
    d) Numerical data that could be usefully quantified to answer research
2. Which of the following is not type of graph?
    a) Bar
    b) Scatter
    c) Pie
    d) Box
3. Standard deviation is?
    a) A means of measuring the extent of spread quantifiable data
    b) A way of describing those phenomena that are not normal
4. Which part is not a data analysis technique?
    a) Data mining
    b) Data cleansing
    c) Data collection
    d) Data requirement
5. Which one is not a qualitative data analysis tool?
    a) Standard deviation
    b) Mean
    c) Regression
    d) Statistics

6. What is needed when sender and receiver of mails are the same system?
    a) IP
    b) Domain
    c) Servers
    d) User agents
7. What does MIME stand for?
    a) Multipurpose internet mail extension
    b) Multipurpose internet mail entity
8. Discuss the process of sending and receiving mails.
9. Write short notes on;
    a) Text analysis
    b) Statistical analysis
10. Differentiate between qualitative and quantitative data analysis.
11. Analyse standard deviation.
12. Discuss the types of data visualization.

Oral Assessment

1. How would you solve a competition of your organization product with your competitors?
2. How would you identify the part of your team members who is not performing as per requirement?

Practical Assessment

You are the Human Resource Manager in a company dealing with various products. You want to conduct a research for the satisfaction your products give to the customers.

a) Develop a sample questionnaire your team will use to collect information.
b) Use the analyzing tools to analyze the data and present the information.
c) Prepare a report with sample results of the information collected.

7.3.5.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip chart/white board

7.3.5.5 References

Gilham, B. (2008). Developing a Questionnaire. A & C Blade

Morusis, M. J. (2006). SPSS Guide to Data Analysis. Upper Saddle River. MJ: Prentice Hall

Rosemary, J. O. (2006). Functional data analysis. P., Gill, K., Stewart

CHAPTER 8: TELLERING SERVICE

8.1 Introduction of the Unit of Learning/Unit of Competency

Tellering service is a unit of competency offered in TVET level 6 course qualification in banking and finance. This unit specifies the competencies required to provide tellering service. It involves facilitating cash deposit, processing cash withdrawals, facilitating purchase of foreign currency, facilitating sell of foreign currency, facilitating account to account transfer, facilitating interbank local and foreign transfer, balancing end day till and issuing bankers cheque. The significance of provide tellering service to TVET level 6 banking and finance curriculum is to equip the learner with the knowledge and skills to demonstrate credit and debit recovery principles and techniques and communication and negotiation skills so as to fit well in the workplace.

The critical aspects of competency to be covered include demonstated ability to facilitate cash deposit, process cash withdrawals, facilitate purchase of foreign currency, sell of foreign currency, account to account transfer, and interbank local and foreign transfer, balance end day till and issue bankers cheque. The basic resources required include: computers, internet, phones, stationeries, furniture and forex rates.

The unit of competency covers 10 learning outcomes. Each of the learning outcome presents; learning activities that covers performance criteria statements, thus creating trainee's an opportunity to demonstrate competecies stipulated in the occupational standards and content in curriculum. Information sheet provides; definition of key terms, content and illustration to guide in training. The competency may be assessed through written test, demonstration, practical assignment, interview/oral questioning and case study. Self assessment is provided at the end of each learning outcome. Holistic assessment with other units relevant to the industry sector workplace and job role is recommended.

8.2 Performance Standard

Facilitate cash deposit, process cash withdrawals, facilitate purchase and sell of foreign currency, account to account transfer, interbank local and foreign transfer, balance end day till, facilitate cheque deposit and withdrawal issuance of bankers' cheque as per banking policy and in accordance to standard operating procedures.

8.3 Learning Outcomes

8.3.1 List of Learning Outcomes

a) Facilitate cash deposit
b) Process cash withdrawals
c) Facilitate purchase of foreign currency
d) Facilitate sell of foreign currency
e) Facilitate account to account transfer
f) Facilitate interbank local and foreign transfer
g) Balance end day till
h) Issuance of bankers' cheque
i) Facilitate cheque deposit
j) Facilitate cheque withdrawal

8.3.2 Learning Outcome No 1: Facilitate cash deposit

8.3.2.1 Learning Activities

Learning Outcome No 1: Facilitate cash deposit	
Learning Activities	**Special Instructions**
1.1 Receive customer request as per banking policy 1.2 Verify *Customer details* as per banking policy 1.3 Confirm cash as per banking policy 1.4 Count cash as per banking policy 1.5 Store cash as per standard operating procedures 1.6 Sign cash deposit duplicate slip by customer as per banking policy 1.7 Issue copy of deposit slip as per banking policy	Case studies Presentations Direct instruction

8.3.2.2 Information Sheet No8/LO1: Facilitate cash deposit

Introduction

This learning outcome covers; cash deposit, validation of notes, understanding different foreign currency notes, how to sort notes, how to count notes, communication techniques, how to use cash counting machine and the use of coin counting machine.

Definition of key terms

Customer details: This is data about a customer that is stored in a personal file of the customer. The file mostly in banks is in electronic form and contains contact, address, age, history of cash deposit; withdrawals etc., this details/information of customers are normally collected by banks with reference to their bank accounts.

Banking policy: These are the guidelines given by the central bank on majorly banking system of interest taking into consideration the interest of customers of the bank in their activities of deposits, loans etc.

Cash deposit: This refers to all the deposits in the bank account of a customer in form of money i.e. in terms of cash cheque, money transfers.

Content/Procedures/Methods/Illustrations

1.1 Customer request is received as per banking policy

Customer request is a formal appeal by a customer to the bank to make a cash deposit to their bank account as per the required banking policies. Once a customer has any of the accounts named below, they can request to deposit cash in their accounts. The customer normally wants to deposit cash for safe keeping. There are different accounts a bank customer can make requests to deposit cash.

They include;

a) Current account

It is also called demand account. The bank customer can deposit or withdraw cash from this account as he or she pleases. This account owner can be charged a fee to the customer on monthly basis because the account is normally a liability to the bank. A customer can often withdraw cash from this account using ATM cards, over the counter, etc. or in any other method that a bank allows their customers to withdraw cash from their account.

b) Savings account

This is an account where a customer normally deposits cash and earns interest on top of the cash deposited after a certain period of time. One can make withdraws using ATM card or over the counter. The funds in this account are normally safe and a customer can easily access them. The savings account is normally not linked to paper cheque or current accounts.

c) Call deposit account

This account can be referred to as advantage account or checking plus account.
It bears the features of both checking and saving accounts. This makes it easy for consumers to earn interest on their deposit at the same time to easily access their cash via withdrawal.

d) Certificate of deposit

This account is also called time deposit account. It offers higher rates of return compared to traditional savings account. For a consumer to get returns, one has to let the cash stay in the account for a set period of time.

Validation of notes

Notes: Refers to money in form of paper

This is process of verification of bank notes of customers to ensure that they have maintained the required level of compliance. When a customer requests to deposit notes to a bank in form of a deposit the teller has to verify that the notes are not counterfeit or fake.

Understanding different foreign currency notes

These are the currency of foreign countries that is authorized as a mode of circulation in that particular country. Most foreign currency notes are traded in banks. Some of the foreign currency notes include:

- United States Dollar
- Pound sterling
- Kenyan shilling
- Indian rupee

How to Sort Notes

There are ways on how to sort notes in banks. They include;

- Develop sorting procedures. The sorting procedures should be followed by employees majorly bank tellers. A guide of the procedures is created and must be followed by all employees giving a guide on how notes should be sorted in banks.
- Automated money sorters. The bank should invest in automated money sorters hence making sorting money more accurate, easy and quickly. The automated money sorters even alert on fake money notes. It is able to process hundreds of thousands of coins and notes per hour.
- Store currency securely and properly. Currency in banks should be stored secured and properly. When this is done, bank's productivity increases and errors reduced, cost are cut and cash is managed efficiently.

1.2 Customer details is verified as per banking policy

a) Image

Once a customer opens a bank account, he/she must be taken a clear colored passport size photo and this will entail as part of their details and the teller verifies that they are dealing with the same person in the passport image when they want to deposit cash. The teller also verifies the image of the customer who is depositing cash in the bank account by requesting for the customer's identification card.

b) Signature

When one wishes to register and open a bank account, he or she fills an application form by filling each detail required in the application form, read and understand the terms and conditions and sign at the end of the form acknowledging that they have filled the form accordingly to the best of their knowledge. This signature is normally used to verify that the teller is dealing with the same person as the signature must match that in the banking system of the customer's data.

c) Balance

The balance of the customers in the bank account is normally verified by the teller if the customer requests for their bank balance to be verified. This is normally determined according to the cash deposits and withdrawals the customer has been making. The bank account balance can be easily determined using the bank statements which clearly indicates the dates and the exact amount of deposits and withdrawals on the exact time

1.3 Cash is confirmed as per banking policy

When a bank customer gives cash to the teller for deposit, the teller normally confirms the cash given to him or her according to the bank policy e.g. confirming the amount given to him by counting either by hands or cash counting machine, verifying if the cash is not counterfeit or fake, etc.

Importance of confirming cash

- To verify the amount of cash the customer has given the teller
- To verify that the cash given is not counterfeit
- So that the teller can confirm how much he should deposit in the customer's bank account

1.4 Cash is counted as per banking policy

Cash is normally counted depending on their value and currency. Cash is counted using the procedures outlined in the banking policies by the teller or authorized persons of the bank. A bank note counter should be used to count the cash customers are depositing. This helps save time and avoids counterfeit bills and fake notes.

How to use cash counting machine

- A banker/teller normally puts a bundle of cash in front of the bank note counting machine.
- Each note of cash is passed through the microprocessor scanner and the number of times the beam of light is interrupted; the machines knows how much it has pulled through.
- The bankers then removes the bundles of cash counted and puts another new bundle of cash.

Use of coin machine

The banker/teller places all coins at the front of the coin counting machine which has got optical senses system and rotating discs to identify coins based on their diameters, size and thickness. It keeps a record of all the coins that passed through them and directs them to separate receiving cups.

1.5 Cash is stored as per standard operating procedures

Most of the banks have standard operating procedures that guide how cash deposited in the bank should be stored. Standard operating procedures outlines procedures step by step that should be followed by banks. Most banks do not store their customer's money. Banks keep a very small percentage of cash deposits depending on the bank policies. Most of the money is kept physically in branch vaults and ATM machines and the rest is kept in the Central Bank.

1.6 Cash deposit duplicate slip is signed by customer as per banking policy

A cash deposit slip is a paper that contains the account number, name of account, cash deposited and is normally produced in a pair so that the customer can sign and go home with the duplicate slip while the bank retains the original. This process is done with reference to the relevant banking policy. This is a form of communication technique showing how much has been deposited, in which at what time and date.

Importance of signing cash deposit duplicate slip

- A sign is a confirmation that the cash duplicate slip was issued and verified by the customer.
- A sign confirms the validation of a transaction actually occurring i.e. that the cash was deposited in the bank account.

123 Main Street
TECH TOWN, USA

COMPANY NAME Ltd.

321 One Avenue
TECH TOWN, USA
(000)111-2222

			Account No. 000901-006503-69
			Account Type: SAVING
			Amount
Account Number	000901-006503-69	Date: 09/08/2015	264, 500/-
Credit Current Account Title	Mr. Adam Smith Carton		
Particulars	Cash/Cheque/Other		
Amount	Dollar two hundred sixty four thousand and five hundred only.		
Receipt#	AB DEP 009	Total	264,500/-
Received by	Signature/Stamp of the authority		Signature/stamp of the authority

Figure 30: Sample cash deposit slip
Source: http://arizonapartybus.info/printable-deposit-slip-that-are-effortless/

1.7 Copy of deposit slip is issued as per banking policy

The customer will be issued the duplicate cash deposit to confirm that the amount has been deposited in his account after signing.

Why a deposit slip is issued

- Issuing of deposit slip offers protection to the customer as he or she is able to account for the funds deposited in his or her account.
- If a customer later checks his or her account and finds that the deposit was not made in his account, the copy of the deposit slip can act as proof that the bank received cash from the customer.

Conclusion

This learning outcome covered cash deposit, validation of notes, understanding different foreign currency notes, how to sort notes, how to count notes, communication techniques, how to use cash counting machine and use of coin counting machine.

Further Reading

1. Read more on cash deposit by M. Osterberg, J Srensson-US. (2010). Cash deposit apparatus and method. Patent 7,819,308. Google patents

8.3.2.3 Self-Assessment

Written Assessment

1. Which of the following is a type of deposit account?
    a) Student account.
    b) Smartcard account.
    c) Current account
    d) Lock saving account
2. Which of the following is a detail in customer personal information of bank deposits?
    a) Image
    b) Place of work
    c) Number of children
    d) Place of birth
3. Which of the following is not a type of foreign currency?
    a) US dollar
    b) Pound sterling
    c) Turkana shilling
    d) Kenyan shilling
4. Where is bank money physically securely stored?
    a) Teller cabin
    b) Bank vaults
    c) House
    d) Under the bed
5. The following are ways a person can withdraw cash from their accounts except?
    a) ATM
    b) Over the counter
    c) Stealing
    d) As per bank policy
6. Which of the following is a way of sorting out money in the bank?
    a) Arranging while mixing the cash
    b) Using automated money sorters
    c) Arrange coins together with notes
    d) None of the above

7. Which of the following is a characteristic of a current account?
    a) You cannot withdraw cash from it
    b) One earns interest in the money deposited
    c) It is a savings account
    d) One can withdraw using ATM card
8. Outline two types of deposit bank accounts.
9. Discuss the meaning of cash deposit.
10. State one advantage of cash deposit account.
11. What is the name of the document that is generated after a customer deposits cash? Elaborate.
12. State and analyse three customer details.

Oral Assessment

1. What is a savings account?
2. Name two foreign currencies.

Case study

A privately held retailer company headquartered in the United States selected Red bridge bank to conduct a bank fees and service. The big-box retailer with more than 200 domestic US locations utilizes a total of seven banks for its daily cash management, cash and coin deposit and banking needs. In addition every time they deposited the money to the bank there were no cash receipts given to them by the bank. Why do you think the bank did not give them receipt? What are the implications of not receiving a cash receipt duplicate? Explain

8.3.2.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip chart/white board
- Furniture
- Phones
- Coins
- Notes
- Cash deposit slip sample

8.3.2.5 References

Clements, J. F. (2007). System and method for cash deposit/issuance.
Hughes, G. (2004). Deposit system and method of taking deposits.
Jonsson, M., Skoog, A., Osterberg, M. & Lundin, P. (2012). Cash deposit apparatus and associated methods and devices.

8.3.3 Learning Outcome No 2: Process cash withdrawals

8.3.3.1 Learning Activities

Learning Outcome No 2: Process cash withdrawals	
Learning Activities	**Special Instructions**
2.1 Receive customer request as per banking policy 2.2 Verify *customer details* as per banking policy 2.3 Confirm customer balance as per standard operating procedures 2.4 Retrieve cash from till as per banking policy 2.5 Count cash as per banking policy 2.6 Confirm cash by customer as per banking policy 2.7 Sign cash withdrawal duplicate slip by customer as per banking policy 2.8 Store copy of cash withdrawal duplicate slip as per banking policy	Lectures Group discussions Written assessment

8.3.3.2 Information Sheet No8/LO2: Process cash withdrawals

Introduction

This learning outcome covers; cash withdrawal, validation of customer details understanding different foreign currency notes, how to sort notes, how to count notes, communication techniques, how to use cash counting machine and use of coin counting machine.

Definition of key terms

Banking policy: This is a working guide to regulatory compliance that helps attain effective accuracy in the key bank functions and operations and could include policies on bank security, bank secrecy and anti-money laundering, compliance management, etc.

Cash withdrawal duplicate slip: Entails a bank document in which a person writes the date, account number and amount to be withdrawn from the bank.

Content/Procedures/Methods/Illustrations

2.1 Customer request is received as per banking policy

Customers are the most important ingredient in the growth and success of any bank. This means that organizations and banks as well should place maximum value on maintaining the customers' high level of satisfaction in terms of service and product quality. The need for prompt address of customer concerns is what necessitates the importance of customer request forms which must be received according to the banking policy. A customer request is a concern or inquiry by a customer presented on a document that's intended for different requests and is of significance in the following ways:

- Allows customers to have their inquiries and requests processed without fear
- For convenience reasons
- Help save time by maximizing the waiting time a customer could take on queuing and explain their cases out

The customer requests are different in nature depending on the need of a customer and include requests like balance inquiry request, loan application requests, account request, etc. A form has its contents as the customers' basic information like name, address, email address, contact number, specific date the customers want their inquiries and requests processed and space for customers' description as well as customer signature.

2.2 Customer details is verified as per banking policy

Verification of customer details entails the ascertaining of validity and reliability of the identity of the client through independent and reliable source of documents, and/ or information. Banks undergo the process of Knowing Your Customer (KYC) so as to verify their customers' identity either before or during the time they start doing business with them. In other words, KYC refers to the regulated bank practices similarly used to verify clients identities/ details. Pieces of information like names, birthdays, address, the social security number and signature are put on verification to help gauge the legality of the customer.

KYC in Kenya is performed on both individuals and companies accounts for the following reasons:

- The information helps banks ensure their customers are not involved in illegal activities like corruption, bribery or money laundering.
- Helps protect customers that might be harmed by financial crime.
- Banks get to understand their customers and their financial dealings better thus prudent risk management.

With the above inferences, the verification activity is subject to a procedure undertaken which is subject to the following;

- Collect the basic data of the customer like names, address, birthdays, photo and signatures to help establish if one has been involved in a financial crime.
- Collected data is compared with lists of individuals known for illegal activities like money laundering.
- Banks then quantify the extent of risk their client carries and their likelihood in getting involved in illegal activities.
- Theoretical outline of the face of the customer's account in the future is done in relation to their risk extent.
- Customer account is consistently monitored.

2.3 Customer balance is confirmed as per standard operating procedures

Customer balance refers to the money available in an individual's or entity's checking on savings account at any given time after the debits and credits are balanced. Banks have over time lost huge amounts of cash to fraudsters an evidence for need of preventive vigilance also called standard operating procedures which entails systematic instructions that are compiled by an organization to enable the employees carry out complex daily operations with an aim to achieve quality output, efficiency and great performance at the same time reducing failure to comply with industry regulations. Automation in the right sense could be a way to prevent most of the fraudulent activities in the banks as much as it can be manipulated.

The Kenyan banking sector has experienced tremendous transformation with most rather nearly all bank activities being digitalized possibly to enhance financial inclusion as well as quality output to the growing connected clientele. With introduction of mobile banking, customers can confirm their bank balances with ease and convenience. Other digitalized ways the banking sector has eased operation is through internet banking and agency banking where agency banking involves the banks training agents to engage in banking services on their behalf with an aim to reach the unbanked and under banked at a cheaper rate. KCB Mtaani, Co-op Kwa jirani amongst others are examples of bank agents with the Kenyan KCB and Coop bank respectively.

Internet banking also called web banking is an electronic system of payment where customers of a bank perform their financial transactions on the financial institutions/bank website with an internet connection whereas mobile banking involves remote use of a mobile device like a smart phone. Banks and financial institutions were among the first adopters of automation considering the humongous benefits they get from embracing information technology as;

- Automation reduces the redundancies in the operations hence freeing up staff for deployment to more productive activities.
- Improved/key banking operations with minimum errors hence customer satisfaction.
- There is ease and convenience on the side of the customer as they can access their accounts any time any day and carry out activities like deposits, withdrawals and balance confirmation.
- Minimized chances of fraud.
- It has also facilitated storage of historical data and customer details for longer periods essential for future reference.

2.4 Cash is retrieved from till as per banking policy

A till also called cash register is an electronic machine/ device used to register and calculate transactions at a point of sale (POS) and normally with an inbuilt printer to print out receipts for purposes of future reference. After the client request on cash withdrawal is made and possible verification done, the balance is availed to the customer which subsequently leads to retrieval of cash from the till in accordance to the bank policies.

2.5 Cash is counted as per banking policy

Counting of cash is a process of determining the exact total amount of money available at a given time. Given the huge amounts of money in the banks necessity of error free currency sorters that process thousands of bills and coins per hour is essential as much time is saved hence increasing productivity of the bank as employees will have more time to focus on customer service possibly resulting to customer satisfaction.

Cash being one of the most liquid asset of any organization, its susceptibility to loss is very high hence need for maximum care is a requirement to safeguard the asset. The cashiers and head of finance department are required to observe the following during counting of cash;

- Count cash from hand to counter
- Count starting with large denominations to small denominations
- Verify all cash before putting into the drawer
- Avoid interruptions during counting
- Count in front of the customer

2.6 Cash is confirmed by customer as per banking policy

The customer confirms the cash withdrawn to ascertain if the count by the financial institution is correct. Basically confirmation is all about verifying something for final proof and which must be done in accordance to the banking policy. The reason for confirmation of the cash by the customers is:

- Customer is able to verify if the amount they are given matches the amount requested for withdrawal.
- Verification helps boost confidence of the customer in the bank thus good relations.

2.7 Cash withdrawal duplicate slip is signed by customer as per banking policy

A withdrawal slip is a bank document on which an individual or entity writes the date, name, account number and amount of money to withdraw from a bank from the person's/entity's account. After a successful withdrawal procedure, the bank offers the customer a duplicate withdrawal slip to input their signature for authenticity purposes after which the customer is given their money alongside a copy of the receipt. This is essential as the customer is able to keep records of his withdrawals for future reference.

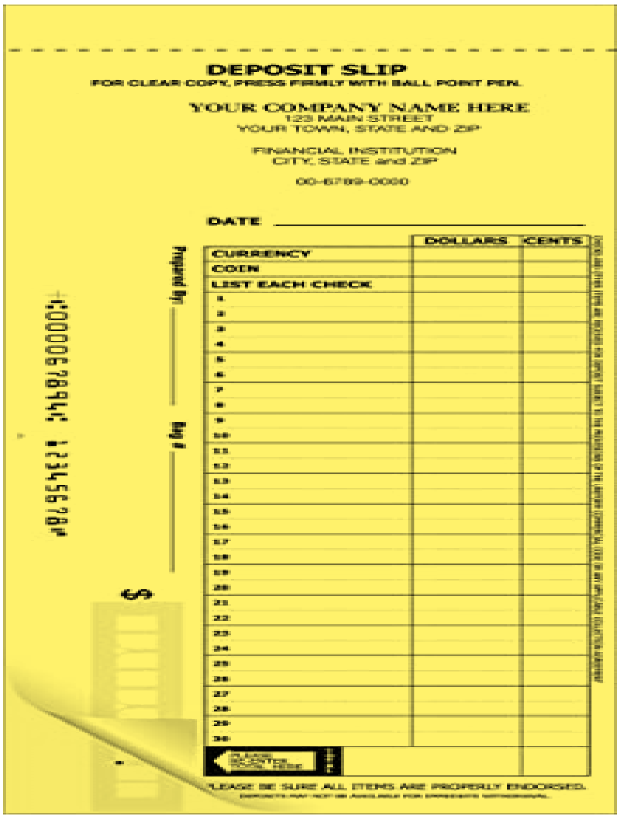


Figure 31: Duplicate slip
Source: germantowndepot.com.

NOTE: The customer must sign a duplicate of the withdrawal slip.

2.8 Copy of cash withdrawal duplicate slip is stored as per banking policy

The banking policy of signing a duplicate withdrawal slip must be adhered to in which the bank must remain with the other copy of the receipt and place it in a designated place for balancing at the end of the day. This too is necessary as:

- The bank has proof that a withdrawal was made hence can produce the receipt in future in case of doubts by the clients.
- Enables end of day bank balances as credits and debits must balance out.

Conclusion

This learning outcome covered; cash withdrawal, validation of customer details, understanding different foreign currency notes, how to sort notes, how to count notes, communication techniques, how to use cash counting machine and use of coin counting machine.

Further Reading

1. Read more on bank policy from Kenya Banking Act.

8.3.3.3 Self-Assessment

Written Assessment

1. Which one of the following is not an advantage of introducing computerized accounting system?
    a) Time is saved through speed of inputs
    b) Increased accuracy of entries
    c) Cost involved in training staff to use the system
    d) Increased job satisfaction
2. Debiting the petty cash book with the exact amount spent in the previous period is an example of?
    a) Going concern
    b) Prudence
    c) Contra entry
    d) Imprest system
3. Which of the following is not a reason for maintaining day books in addition to the ledgers?
    a) Having a dual system allows tighter controls to prevent fraud and theft within the firm
    b) Day books and ledgers act as a backup for each other in case of loss of information
    c) Transactions can be more easily verified
    d) More time is spent on entering the transactions in both books and ledgers
4. A cheque deposited for which the bank will not transfer any money is referred to as?
    a) Credit transfer
    b) The journal
    c) Dishonored cheque
    d) Guaranteed cheque
5. Verification of a customer's details is of significance to the bank and customer as well. Which of the following does not add value to this statement?
    a) Customers are well understood by their banks
    b) Risk is well mitigated and managed
    c) Customers that may be harmed by financial crime are protected
    d) Helps completely curb fraudulent activities

6. Which of the following is not a function of a commercial bank?
    a) Credit control
    b) Accept demands
    c) Advance loans
    d) Issue paper notes
7. Which of the following will lead to possible loss of cash given its high liquidity state?
    a) Count cash in front of the customer
    b) Verify all cash before putting in the drawer
    c) Counting for multiple customers at a single time
    d) Count starting with large denominations down to small denominations
8. Elaborate on the meaning of duplicate withdrawal slip.
9. How would verification of bank details help in risk mitigation?
10. Identify the various ways banks have automated their services and describe them.
11. Why would banks keep a copy of the withdrawal slip?
12. What do you understand by the term financial inclusion?

Oral Assessment

1. What are the advantages of central filing system?
2. Name two banking policies with regard to retrieving cash from the till.

Project Assessment

In groups of threes, carry out an analysis of how automation in the banking industry would impact service delivery and customer confidence giving recommendations of the same to the growing bank industry and other financial institutions.

8.3.3.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip chart/white board
- Furniture
- Phones

8.3.3.5 References

Hasan Danser (2013). Global strategies in banking and finance, Istanbul.
Josang, A. R Ismail, C Boyd (2007). Decision support systems, North Holland.
Ozil, P.K. (2008). Impact of digital finance on financial inclusion and sustainability, Borsa Istanbul Review.

8.3.4 Learning Outcome No 3: Facilitate purchase of foreign currency

8.3.4.1 Learning Activities

Learning Outcome No 1: Facilitate purchase of foreign currency	
Learning Activities	**Special Instructions**
3.1 Receive customer request as per banking policy 3.2 Confirm if the bank deals with the currency as per the organizational policy 3.3 Confirm validity of the currency as per standard operating procedures 3.4 Negotiate exchange rate based on the bank policy 3.5 Confirm exchange rate 3.6 Count the foreign currency 3.7 Issue equivalent Kenya shillings 3.8 Print receipts in duplicate 3.9 Issue Customer copy of the receipt and retain the bank copy 3.10 Keep foreign currently in the till	Class discussions Group presentations Case studies

8.3.4.2 Information Sheet No8/LO3: Facilitate purchase of foreign currency

Introduction

This learning outcome covers; foreign currency, importance of forex in a bank, interpretation of exchange rates, validation of notes, understanding different foreign currency notes, communication etiquette, rates negotiation skills and validation of customer details and understanding the importance of forex in a bank.

Definition of key terms

Exchange rate: The exchange rate refers to the price or value of the currency of a country when compared to the currency of another country. The exchange rate shows the number of units of the currency of another country that an individual can buy using the home currency.

Foreign currency: This is the operating currency of a foreign country which has been authorized to act as a medium of exchange and circulation in the country.

Content/Procedures/Methods/Illustrations

3.1 Customer request is received as per banking policy

The central bank of Kenya plays a significant role in facilitating and managing foreign exchange business. In the process of managing the foreign exchange business, the central bank prepares reports and statements regarding all dealers of foreign exchange based on the banking policies. Banks and other dealers of foreign currency receive the request from the customer to exchange foreign currency by paying a keen consideration to the banking policies. A customer can request to;

- Buy foreign currency
- Sell foreign currency
- Open a foreign currency account
- Transfer a foreign currency cheque

The bank then verifies the customer request before they begin to execute the request. Therefore, the central bank issues and provides guidelines to guide and bring order in the financial market. As the central bank manages foreign exchange business, it establishes principles that dealers such as banks need to follow.

Principles to be considered by foreign exchange dealers

- Dealers must know their customers and follow the principles always.
- Foreign exchange dealers should exercise caution in the business always to curb any issue of illegal transactions such as money laundering.
- Dealers should only accept new products after they have made clear consultations with involved parties such as the central bank and forex dealers.
- Dealers of foreign exchange should have high levels of integrity and competence.

Dealers of foreign exchange

Part VI A of the central bank Act contains regulations and dealers of foreign exchange. The following are some of the dealers of foreign exchange:

- **Authorized banks:** These have a license from the central bank to purchase or sell foreign currency or participate in any business that involves foreign currency.
- **Foreign Exchange Bureaus:** These institutions also engage in the purchase, sell and lending activities that involve foreign currency. It can also deal with other foreign products such as travelers' cheque and personal cheques.
- **Any other person authorized by the central bank:** Apart from the authorized banks and forex bureaus, the central bank can also authorize an interested individual or broker to engage in foreign exchange business.

Importance of forex in a bank

Forex is a section in the bank that deals with any business that involves foreign currency. Some of the business includes;

- Buying of foreign currency
- Selling foreign currency
- Borrowing foreign currency
- Clearing foreign cheque
- Clearance of foreign travelers' cheque

The presence of a forex in a bank enables the bank to facilitate such processes and provide such services to its customers. Additionally, in the process of providing foreign services, the bank earns profit in the form of a commission.

3.2 Confirm if the bank deals with the currency as per the organizational policy

When a person visits a bank to carry out any foreign currency transaction, the person providing such services should check to confirm if the bank deals with the currency that the customer wants to transact in. Confirming will be based on the policies that the organization has established to guide its employees on handling foreign currencies.

Interpretation of exchange rates

Foreign exchange rates help in the determination of the value of one currency in relation to another currency. Foreign exchange market is global and occurs 24 hours to allow traders from different countries with different time zones to either sell or buy currency for different purposes. Some of the purposes for buying and selling foreign currency include speculation and hedging.

When an individual move to a different country, he/she will be required change the currency of the country he/ she moves to so that they can use it there. In the process of selling and buying foreign currency, changes occur in the currency exchange rate. The exchange rate may either increase or decrease. When the demand for a certain currency increases, it becomes expensive. This means that you will need more of a local currency to purchase it.

Conversely, when the demand for a certain currency reduces, the value of the currency reduces and the exchange rate for that country's currency also reduces. It is necessary for foreign exchange traders to continually interpret the exchange rates of the currencies they are dealing with. If you want to find out the exchange rates of the currency as an individual, you can check on websites such as XE.com, or visit banks that have been authorized. Changes in the exchange rate will make certain currencies to appreciate in value while others will depreciate in value.

3.3 Validity of the currency is confirmed as per standard operating procedures

Some currencies have validity periods by which they must be in operation. Once their validity has expired, it may be difficult to buy, sell or convert an expired currency. Using the standard operating procedures of a forex dealer, they will check to confirm if the currencies they have has expired or is still in use.

Validation of notes

This refers to the process of checking the foreign currency notes if they have the following features;

- If they are expired
- If they are original
- If the forex dealer handles such notes
- If they have all the necessary features of the currency

Some banks and foreign dealers have special devices that help in the validation process. These devices can accurately count and validate currencies in either notes or coins. Such devices provide speedy services that enable a bank to provide effective and efficient foreign exchange services.

Some of the devices for such activities include;

- Note sorters
- Coin and note counters
- Ultra violet light detection
- Multi-currency note counters

3.4 Exchange rate is negotiated based on the bank policy

Different banks or forex dealers have varied foreign exchange rates for the foreign currencies. Some banks may regulate the exchange rate so that they can make more profit. Other countries may have strict regulations in regards to the exchange of foreign currency. While negotiating for foreign currency transactions, it is necessary to consider the bank policies. Various factors need to be considered in this circumstance to manage and exchange foreign currency. Two main factors to consider in this scenario are;

a) Communication etiquette
b) Rate negotiation skills

a) Communication etiquette

This refers to the way an individual will present himself or herself to request for exchange of foreign currency in a country that has strict regulations. Some of the details considered are;

- Dress code
- Tone and voice
- Choice of words

b) Rate negotiation skills

Negotiation skills refer to the attributes that an individual requires to successfully participate in the forex market.

- One must have knowledge of money regulations before beginning negotiations. To get this knowledge, one can contact people who have already participated and dealt with regulations regarding foreign exchange.
- Ability to negotiate quickly and enable people to acquire foreign exchange. It will be necessary for the individual to update himself/herself with the current technological devices that lead to creation of profits and use such strategies to have quick access to foreign currencies.
- Ability to have direct access to the government. Accessing the government directly will help reduce some of the barriers put in place to control the flow of foreign currencies. Negotiators need to know some of the foreign dealings that a government may be interested in so as to have their support.
- Ability to obtain or secure guarantee form a financial institution. When a negotiator has the back up of a financial institution, it helps to reduce the rate he/she is exposed to and therefore can have an upper hand to negotiate for the exchange rates.

3.5 Exchange rate is confirmed

Sometimes a change in the exchange rate may occur within a short period of time. Therefore, before a bank or forex dealer decides and accepts to sell or buy foreign currency, it should confirm and know the exchange rate based on the operating procedures of the bank as at that time. In case the forex dealer accepts to sell or buy foreign currency without confirming the exchange rate, he/she may either make profit by exploiting the customer or make a loss by providing more to the customer. It also entails confirmations of the agreements that the forex dealer has with other banks trading in the same foreign currency to compare the exchange rates they are offering.

3.6 The foreign currency is counted

This one of the important steps in facilitating the purchase of a foreign currency. It will require an individual who is trained and who understands the values of various foreign currency to provide an accurate count of the notes or coins.

Understanding different currency notes

There are various notes in different countries that an agent or forex market needs to understand. Some of the foreign currency notes include;

- Tanzanian shilling note
- US dollar note
- Sterling pound

Having a better understanding of the foreign currency notes will give an individual a better hand in counting the foreign exchange notes. Accurate counting of foreign currency notes or coins will enable the agent to provide an amount equivalent to the desire of the customer after factoring in the exchange rate. However, there are current machines that can help in the counting of foreign notes and coins to give accurate figures in case an individual does not know how to count.

3.7 Equivalent Kenya shillings are issued

Once the counting of foreign notes has been completed and accurately ascertained, the customer receives Kenyan shillings that are equivalent with the foreign currency. At this point, in case the customer has any question regarding the exchange rates he/she can seek clarification. The customer will then check to confirm if he/she has received the expected amount in Kenyan shillings if he/she wanted the Kenyan currency.

3.8 Receipts are printed in duplicate

Once the transaction is completed, the bank prints receipts in duplicate. The two receipts printed are the bank copy receipt and the customer copy receipt. These receipts can be used for future reference in case of a dispute regarding the transaction.

3.9 Customer copy of the receipt is issued and the bank copy retained

A part of the standard operating procedures the customer is given the copy of the receipt, the bank then retains the second or bank copy. The bank retains the copy to enable it to prepare financial reports and statements on the foreign exchange dealings.

3.10 Foreign currency is kept in the till

The bank has a specific or special section that handles foreign currency. At this section, they have a till where they keep different notes and coins of foreign currencies. Each till keeps a specific foreign currency to enable easy retrieval in case it is required.

Conclusion

This learning outcome covered; foreign currency, importance of forex in a bank, interpretation of exchange rates, validation of notes, understanding different foreign currency notes, communication etiquette, rates negotiation skills and validation of customer details.

Further Reading

1. Read on more factors that contribute to the fluctuation of the exchange rate and its impact to exporters and importers from slideshare.net.

8.3.4.3 Self-Assessment

Written Assessment

1. The following are true about principle that dealers of foreign currency need to consider. Which one is not?
    a) They should exercise caution
    b) They should accept new products after they have made clear consultations
    c) All people are allowed to engage in foreign exchange
    d) Dealers need to have high integrity levels.
2. Which of the following is an authorized dealer of foreign currencies?
    a) Retailer
    b) Credit Officer
    c) Bank
    d) Bank Teller
3. Which of the following is false about activities of a forex dealer?
    a) Buying of foreign currency
    b) Selling of foreign currency
    c) Borrowing of foreign currency
    d) Laundering of foreign currency
4. The following are some of the reasons of buying or selling foreign currency. Which one is not?
    a) Hedging
    b) Speculation
    c) To purchase local products
    d) To distribute to the poor
5. Which of the following is incorrect about the purpose of notes validation?
    a) To check if they are stale
    b) To check if they are original
    c) To check if they are valid
    d) To check the appropriate features of a standard note
6. Which of the following is the right device used for notes validation?
    a) Computer
    b) Printer
    c) Franking machine
    d) Multi-currency note counters
7. Which one is correct about the negotiation skills of a forex trader?
    a) Ability to speak loudly
    b) Ability to know more people
    c) Ability to obtain guarantee from a financial institution
    d) Ability to speak fluently
8. Suggest a brief description of negotiation skills that a forex trader should have.

9. Elaborate on the importance of having a forex section in a bank
10. Highlight some of the devices that can be used in validating currencies
11. Discuss the purpose of making two copies of transaction receipts for a forex transaction
12. Analyse the reasons of validating foreign currencies.

Oral Assessment
1. Why is it necessary to validate notes of a foreign currency?
2. How does one interpret the exchange rates of currencies?

Case Study Assessment
There is a company which has been established in a foreign country and has sold its products. It has received revenues in the foreign currency. The company wants to make a purchase of raw materials from the local market using the local currency. For it to succeed, it will require to approach a forex dealer such as a bank through the central bank to change the incomes to the local currency to enable them purchase locally available materials for their use. In case the country has strict rules it will look for an individual negotiating skill to source for local currency in the forex dealers.

8.3.4.4 Tools, Equipment, Supplies and Materials
- Writing materials
- Projector
- Computer
- Flip chart/white board
- Furniture
- Phones

8.3.4.5 References

Brzoza-Brezina M., Kolaa M., Makarski K. (2019) Monetary and macroprudential policy with foreign currency loans. Journal of macroeconomics 54, 352-372
Farhi E. & Gabai X. (2016) Rare disasters and exchange rates. The quarterly journal of economics, 131 (1) 1-52
Nyamwera, L. N, & Ali I (2016) Determinants of hedging foreign currency risk in Kenya : A survey of tea expecting companies in Mombasa county. Imperial

8.3.5 Learning Outcome No 4: Facilitate sell of foreign currency

8.3.5.1 Learning Activities

Learning Outcome No 4: Facilitate sell of foreign currency	
Learning Activities	**Special Instructions**
4.1 Receive customer request as per banking policy 4.2 Confirm if the bank deals with the requested currency 4.3 Negotiate exchange rate based on the bank policy 4.4 Confirm exchange rate as banking policy 4.5 Receive Kenya Shilling as per standard operating procedures 4.6 Count and confirm Kenya Shilling as per standard operating procedures 4.7 Issue the foreign currency as per banking policy 4.8 Print receipts in duplicate as per standard operating procedures 4.9 Issue customer copy of the receipt is issued and retain as per standard operating procedures 4.10 Keep Kenya shillings in the till as per standard operating procedures	Group discussion Case study

8.3.5.2 Information Sheet No8/LO4: Facilitate sell of foreign currency

Introduction

This learning outcome covers; foreign currency, importance of forex in a bank, interpretation of exchange rates, validation of notes, understanding different foreign currency notes, communication etiquette, rates negotiation skills, validation of customer details, print receipts in duplicate and issuing customers copy of the receipt.

Definition of key terms

Exchange rate: It is the rate at which one currency will be exchanged for another.

Communication etiquette: Refers to the conventions and standards of social behaviour.

Validation: The action of checking the accuracy of something legally.

Duplicate: Things that looks exactly like something else.

Content/Procedures/Methods/Illustrations

4.1 Customer request is received as per banking policy

Importance of receiving customer request

- Customer request is the largest competitive advantages for banks when everyone after nearly the same products and services without much room to compete on price, the experienced customers have with their banks is what gives one bank a competitive advantage.
- Interpersonal service: Customers need to form a relationship with their bank so that they can make an effort to get to know them instead of just pushing a product.
- Consistent Omni channel experience: In modern bank customers interact with a bank, including online and mobile banking at an ATM and over the phone. Information quickly between channels or making sure deposit times is consistent no matter how a deposit is made. Bank needs to deliver on the expectations their customers have in all channels.
- Effective Problem solving: Customers are reasonable. They know that an occasional problem is possible but they also expect that their bank will make the situation right. This means fixing the problem quickly and effectively.

The following are the benefits of good customer service;

- **Increased sales:** More likely to try out the other products too.
- **Customer loyalty:** More likely to be a source or repeat business and to recommend the business to friends and family.
- **Enhanced public image:** Helps build a brand and provides protection if there is a slip-up in customer service.

Benefits of customer request in the bank

- **Customer preference:** Products and services confirm to the customers likes and dislikes such as hotel room that offers a range of pillows. Preferences include elements such as style, convenience and comfort.
- **Customer needs:** Problems your products and services solve for the customer such as luggage that offers system for folding a suit without wrinkling it. This includes elements such as functions, features and locations.
- **Customer perceptions**: Customer perceptions of your brand, products and services. This includes general concepts such as an airline perceived as safe, a hotel perceived as friendly and a bank perceived as secure.
- **Customer relationships:** Your relationships with customers include every customer service interaction, include- programs that single out the customer as an individual such as a loyalty card that assigns the customer a high status.

4.2 Confirm if the bank deals with the requested currency

Confirmation: Is the audit procedure performed by the auditor to test the existence accuracy and the ownership of bank's account and bank balance of entity.

How a bank confirmation works

A bank confirmation letter's purpose is to assure a 3rd party, generally a seller, that the borrower has access to sufficient financial resources to complete a transaction such as the purchase of goods. The primary purpose of bank confirmation is to verify the actual cash balance as per bank records. The auditors confirm the balance to the bank statement to verify reconciling items on the client's year- end bank reconciliation. Also additional information in standard bank confirmation is a role of bank confirmation.

4.3 Exchange rate is negotiated based on the bank policy

Negotiation: Is a discussion aimed at reaching an agreement.

Types of negotiations

- **Integrative negotiation:** Means joining several parts into a whole integration implies cooperation or a joining of forces to achieve something together.
- **Distributive negotiation:** Means giving out of value. It is also known as "The fixed pie."

Advantages of negotiated exchange currency

- Avoid currency fluctuations
- Stability encourages investments
- Keep inflation low
- Current account
- Flexibility

Disadvantages of negotiated exchange currency

- Conflict with other macro-economic objectives
- Less flexibility
- Joint at the wrong rate
- Require higher interest rates
- Current account imbalances
- Difficulty in keeping the value of the currency
- Encourage speculative attacks

4.4 Exchange rate is confirmed as banking policy

It is the rate at which one currency will be exchanged for another currency.

Importance of confirming exchange rates

- One will gain an insight of the exchange rate by analyzing his budget for travelling
- Helps one to do business efficiently in other countries
- It is of outmost importance to get the best possible exchange rate to ensure you are getting maximum return when spending your currency in another country
- Confirming exchange rate determines the level of economic in a country

Ways of confirming exchange rates

i. **Inflation:** Countries with lower inflation rates tend to see an appreciation in the value of their currency
ii. **Interest rates:** Higher interest rates cause appreciation while cutting interest rates tend to cause a depreciation
iii. **Speculation:** Here, if speculation believes the sterling will rise in the future, they will demand more now to be able to make a profit
iv. **Change in competitiveness:** When goods become more attractive and competitive this will cause the value of exchange rate to rise
v. **Balance of payment:** A deficit on the current account means that the value of imports (goods and services) is greater than the value of exports.

One can calculate an exchange rate by dividing the amount of the currency you start with by the amount of the foreign currency you'll get back. Banks do charges for foreign exchange rates for example; a bank will charge you a fee of $3 to $5 for using any out of network ATM, plus a 1% to 3% foreign transaction fee for an international withdrawal. The best of exchanging currency abroad is when you take out money from local ATMs once you arrive.

4.5 Kenya Shilling is received as per standard operating procedures

Kenya shillings is the Kenyan currency that is received from the Central Bank of Kenya and other commercial banks in exchange of the foreign currency.

Importance of receiving Kenya shillings

- Promoting the use of mobile payment: Enables one to be able to track the flow of money
- Watch out for inflation: The increase in money circulation could lead to inflated price as people rush to spend excess cash according to analyst
- Shillings stability relative to the dollar
- More tax revenue for the government
- Controversies around the new 1000 shillings note

A Kenya shilling is the currency of Kenya, divided into 100 cents, exchange rates, history and bank notes.

a) One will need Kenya shillings for the lodges. Once you are in Nairobi you will need to have Kenya shillings to pay for trips, medications and site-seeing. Therefore there are machines where you can change GBP to KES or withdraw KES for the duration of your time in Kenya.

4.6 Kenya Shilling is counted and confirmed as per standard operating procedures
How to issue foreign currency

i. Borrow the foreign currency in an amount equivalent to the present value of the receivable
ii. Convert the foreign currency into domestic currency at the spot exchange rate
iii. Place the domestic currency on deposit at the prevailing interest rate
iv. When the foreign currency receivable comes in, repay the foreign currency loan from step 1 plus interest

Central Bank of Kenya confirms that there is a shortage of circulation of the new notes. Coins that are currently used for trade are available in dominations of shs 1, shs 5, shs 10, shs 20 and shs 40. Bank notes are available in dominions of shs 50, shs 100, shs 200, shs 500 and shs 1000.

4.7 The foreign currency is issued as per banking policy

i. Issuing of foreign exchange offer protection against inflation
ii. It limits the governments' option to repay in the event of a financial crisis
iii. Borrowing in a foreign currency also exposes them to the exchange rate used
iv. If the local currency drops in value paying down international debts becomes considerably more expensive

4.8 Receipts are printed in duplicate as per standard operating procedures

Receipts can be configured to print dual currencies and the exchange rate to meet the needs of restaurateurs in tourist areas who need to be able to display their primary and secondary currencies. Here is an example of a receipt printed with dual currency displayed;

- The total displays the amount due in the primary currency. The example pictured shows a primary currency of United States Dollar (USD).
- The next line pesos (MXN) display the amount in the secondary currency. This receipt label is determined by you and can be customized to meet your needs.

Figure 32. Example of a receipt

Demo Training Pizza	
To Go	
Order	
Quick serve	
1 Guest	
Server: Authalio	
Cashier: Authalio	
Register: Receipt 3 (receipt 3)	
2018-05-31 13:54:15	
1 Baked ziti	9.00
Pesto	
1 garlic knot	6.00
Spicy marinar	
Subtotal	15.00
State tax (% of 9.00)	0.45
Tax exemption (To Go)	-0.45
Total :	15.00
Peso (MXN)	max 297.45
Paid in cash:	15.00
Amount date:	0.00
Exchange rate : Mex $ 19.83	
Authalio’s Pizza	
116 Central Ave SW	
Albuquerque. NM 87102	
Colombia	
5053495445	
Visit us on Facebook	
Donatello	
Power’ by LAVU	

4.9 Customer copy of the receipt is issued and the bank copy retained as per standard operating procedures

A copy of the receipt is issued to the customer once a transaction is made and a copy of the receipt is retained by the bank. The following are some of the reasons for issuing a receipt;

Reasons for issuing receipts and retaining receipts

- **Customer information:** Receipts serve as an effective communication tool to customers. Therefore, receipts note the details of a customer's purchase including itemized products and services, unit price, subtotals taxes and totals. Receipts also indicate the date of the purchase which is important to business buyers that use receipts to record transactions
- **Internal accounting:** Businesses keep copies of receipts for internal accounting. Receipts allow for accurate tracking of sales and revenue.
- **Returns and exchanges:** Companies that offer returns and exchanges policies often require a receipt as part of the process. When the customer gets the wrong size in outfit he typically presents the receipts to the retailer to return the item.

Table 16: Sample of a cash receipt

Cash Receipt

Receipt Numbers
Date:

Received from ____________________ The amount of shs
For ____________________

Current Balance : Shs ____________________

Payment Amount : Shs ____________________
Balance due : Shs ____________________

	Cash
	Cheque
	Money Order

Received by: ____________________

Payment receipt

Date ____________

Number ____________

Received from ______________________________ Ksh ____________

Ksh

For ______________________________

Account balance		
This payment		
New balances		

Received by ____________

- **Nonprofit donations:** When businesses wants to claim ash or gift contributions to an IRS – recognized S01 (c) (3) nonprofit organizations normally need a receipt according to the IRS website.

Receipts are documents that represent proof of a financial transaction. Receipts are used to proof a certain expense especially in tax. They are also issued in business-to-business dealings.

Importance of issuing receipts are:

- Tracks accuracy of sales and revenue.
- Receipts servers as valuable documents of sales transactions when a business faces an internal revenue service audit on its tax returns.
- Receipts notes any discounts on sales which are used for accounting and financial reporting.

4.10 Kenya shillings are kept in the till as per standard operating procedures

Reasons for keeping Kenya Shillings in a till:

- Security.
- Financial future.
- Cost-using a bank is almost always cheaper than using other business to cash your cheque
- To get money quickly
- For safety.

Conclusion

This learning outcome covered: Foreign currency, importance of forex in a bank, interpretation of exchange rates, validation of notes, understanding different foreign currency notes, communication etiquette, rates negotiation skills and validation of customer details (Image, signature and account balance).

Further Reading

1. Godwin, Janson (2003). Greenback. New York : Henry Holt

8.3.5.3 Self-Assessment

Written Assessment

1. Which is the correct definition of exchange rate?
    a) Refer to the conventions of social behavior
    b) Different types of people
    c) Etiquette
    d) Rate at which one currency will be exchanged for another
2. Which one of the following is not the importance of issuing foreign currency?
    a) Borrowing in foreign currency expose them to exchange rate risk
    b) Paying down of international debt becomes considerably more expensive
    c) Currency will not be exchanged to any customer
3. What do we mean by the word validation?
    a) Different types of currency
    b) Exchanging currency
    c) The accuracy of checking the accuracy of something legally
    d) Negotiation of currency
4. Which one of the following is not a benefit of a good customer?
    a) Increased of sales
    b) Customer loyalty
    c) Customer dependency
    d) Enhance public image
5. Which one of the following is a benefit of a customer request in the bank?
    a) Customer needs problems your products and service
    b) Customer loyalty
    c) Increased of sales

6. Which one is not an advantage of negotiated exchange currency?
    a) Keep inflation low
    b) Flexibility
    c) Current account
    d) Keep inflation high
7. Which one of the following can be a disadvantage of negotiated exchange rates?
    a) Less flexibility
    b) No credit
    c) High cost of current account
    d) Customer perceptions
8. Discuss the meaning validation.
9. Elaborate on the advantages of a good customer service.
10. Analyse the disadvantages of negotiated exchange currency.
11. Summarize the advantages of negotiated exchange currency.
12. Suggest the benefits of a good customer service?
13. Evaluate the importance of issuing foreign currency
14. Discuss different types of currency

Oral Assessment

1. What do you understand by the term validation
2. What are the qualities of a good customer service

Practical Assessment

In a group of five students, visit Central Bank of Kenya or commercial bank that facilitates the foreign exchange rates, discuss the interest rates that are used to exchange foreign currency and the reasons for exchange rates currency.

8.3.5.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip chart/white board
- Furniture
- Phones

8.3.5.5 References

Bishop, Paul and Dan Dixon (1994). Foreign exchange handbooks. New York: McGraw Hill.

Godwin, Janson (2003). Greenback. New York: Henry Holt.

Reinfield, Fred (1957). The story of paper money. New York: Sterling Publishing Company.

8.3.6 Learning Outcome No 5: Facilitate account to account transfer

8.3.6.1 Learning Activities

Learning Outcome No 5: Facilitate account to account transfer	
Learning Activities	**Special Instructions**
5.1 Receive customer request as per standard operating procedures 5.2 Verify *Customer details* as per banking policy 5.3 Confirm customer balance as per standard operating procedures 5.4 Transfer cash as per banking policy 5.5 Print cash transfer slip in duplicate as per banking policy 5.6 Issue copy of the signed cash transfer slip as per banking policy	Illustrations Written assessment

8.3.6.2 Information Sheet No8/LO5: Facilitate account to account transfer

Introduction

This learning outcome covers; account transfer, requirements for internal money transfers, importance of internal account to account transfer, (to customer, to bank, to government), methods of account to account transfer, validation of customer details (image, signature, balance) and communication techniques

Definition of key terms

Cash transfer slip: This is a form or slip that is used to record the transfer of money to an individual. The cash transfers are either conditional or unconditional.

Internal account: These are accounts that exist solely within your organization and that are used to transfer funds between business units.

Account transfer: This is done when an individual instructs a bank or business to send money directly into another account without necessarily withdrawing the cash first.

Content/Procedures/Methods/Illustrations

5.1 Customer request is received as per standard operating procedures

Customer request is the clients' complaint or work request made in by person either by letter, email or telephone. The following are the importance:

Importance of receiving customer request

- It points out aspects of your product that they need
- The customer feels involved and important
- Customers recommend good feedback
- It helps one to convince the customers to come back for more
- To receive feedback from new customers

A customer request means an informed affirmative request by a customer to receive information concerning the process and procedures needed to be followed in a bank for account to account transfers.

There is a process used to receive the request. It is as follows:

i. Be appreciative and polite
ii. Get to enquire the name of the client
iii. Be upbeat- this means have a positive attitude towards all customers
iv. Provide information just the way they enquire without adding any further information
v. Make confirmation on next actions according to their request
vi. Show appreciation to the customer for considering your institution to give them the service that they require.

5.2 Customer details is verified as per banking policy

Verification means confirmation of whether documents and details provided by the customers are legally true and not fake.

This is done for the following reasons:

- To find out the ownership and title of the assets
- To show the correct valuation of assets and liabilities
- To get to know the customers better
- Helps to build a mutual trust between both parties both the client and the bank

This verification process of customer verification is done through enquiring for a copy of the customers details and documents plus the original copies of documents and trace whether the registration numbers are the same or the serial numbers are similar. In this case it includes customers' names as in the ID, the account number in the cards and registration number in their ID.

The following details are required for a transfer

- The date the client wants the transfer to be made
- Name of the person or business client is paying
- Six digit sort code of the account client is paying
- Eight digit account number of the account customer is paying
- A payment reference (often your name or customer number) to let them know the money came from you
- At times you will need the name and address of the bank you are sending the money to. This helps them to check that the sort code is written.

5.3 Customer balance is confirmed as per standard operating procedures

Confirmation of the customers balance is done by the tellers in the counters. The customer has to give a request to check balance. Due to the improved banking system, some banks have come up with online banking system. In that, the customers can easily access their accounts details through their smart phones and laptops.

Importance of checking the customer accounts

- So as to know how much cash is in their accounts
- It gives information on how often the account is active
- Helps the customer know what amount of money is available for the transfer to occur
- It helps assure all concerned parties in a business transaction that the banks customer has available and necessary financial resources to conclude the transaction.

5.4 Cash is transferred as per banking policy

For transfer of cash from one account to another one has one has to follow the following procedure:

i. Complete the cash transfer form- this includes stating the reason for transfer
ii. Obtain approval and signatures- this is done by only authorized personnel's who sign this form. Two signatures are required
    a) Preparer
    b) By the bank manager
iii. Submit form to the cashier office where this form is reviewed and if there are any alerts then the bank makes contact with the customer for confirmation.

Methods of account to account transfer

- Online bank transfers: Log into your online account and select the option for making a payment. Follow the instructions on the screen to enter the correct details.
- Telephone transfers: Call your banks telephone banking service. The banks customer service representatives will guide you through the process. In some cases you might be guided through by an automated recording

- In branch bank transfers: If you have the money in cash you can pay it into the account of the person you owe it to in branch
- Writing a cheque and depositing it into another account or handling it to another individual

Importance of internal account to account transfer

- **To customer;**
  a) It saves time since it is just filling forms for instruction
  b) It does not require a lot of time
  c) Helps to know how much cash you really have available in your accounts
  d) Keeping track of your outstanding cheque and following up with payers
- **To the bank;**
  a) Knowing if customer payments have bounced or failed and determining if any action is needed.
  b) Making sure every transaction gets entered into your accounting system.
- **To the government;**
  a) Helps the governance know the flow of cash and how much money is required in the market
  b) Helps government make revenues out of charges made in the transfer

5.5 Cash transfer slip is printed in duplicate as per banking policy

A cash transfer slip is a form supplied by a bank for a depositor to fill out designed to document the details about the cash transfer i.e. From which account the cash is being credited to which account is the cash being debited.

The cash transfer slip has to always have a duplicate. There is always the original copy that is filled a duplicate copy for the client and a copy for the bank. This is to ensure there is a backup for the transfer conducted.

The importance of duplication is that it helps each party have evidence that the transaction was made.

Table 17: A sample of a cash transfer receipt

Date …………………….. No: ……………………
Received from: ……………………….. Amount (Kshs.): ……………..
Amount in words: …………………………………………..
For payment of: ……………………………………………..
From: ……………………. To: ………………………………
Received by: …………………………
Paid by: Cash ☐ Cheque ☐ Money Order ☐

Importance of cash slip

- It is a proof of the amount deposited in the form of cheque or cash with the detail or denomination in the account of payee of the cheque
- Offers protection to both the bank and the customer

5.6 Copy of the signed cash transfer slip is issued as per banking policy

During the cash transfer process there are signatures required for the activity required to be conducted. Ensure that the cash transfer slip is signed properly and a copy is given to you for documentation and filing purpose.

How to counter check the signatures

i. Check the signature are clearly written
ii. Check the signatures provided from the database on your end as the bank
iii. Do the counter check to ensure that the signatures are similar and not forged

After the counter check, you can now issue the copy of the signed cash transfer slip. The importance of issuing a copy of the signed cash transfer slip is to show the transaction was legally authorized.

How they are issued

They are issued through the following ways:

- Emails
- Mailings
- A handover

Conclusion

For account to account transfer there has to be a procedure followed for it to take place one has to submit a request. This learning outcome covered the necessities for Account transfer how to verify documents and details of the customer, the process of checking balances, cash transfer process, duplication of the cash transfer slip, how to confirm signatures made in the slip. It also elaborates further on the types of accounts in a bank and their description.

Further Reading

Read on:

1. Types of accounts in a business from accounting and finance for your business by Steven M. Bragg. and E. James Burton

8.3.6.3 Self-Assessment

Written Assessment

1. A fixed amount paid out of bank account on a regular basis is known to the payer as a?
    a) Standing order
    b) Cheque endorsement
    c) Credit transfer
    d) Direct debit
2. The reason for having a bank current account would not include?
    a) Have access to funds for emergency use
    b) The need to make regular payments into and out of the bank
    c) Not to have too much cash held on the business premises
    d) The desire to earn maximum return on financial investments
3. A contra entry in the cashbook would include?
    a) Transferring cash into the petty cash box
    b) Totaling up the bank and cash columns at the end of each month
    c) Withdrawing cash from the bank account
    d) Transferring the discounts to the accounts in the general ledger
4. A cheque deposited for which the bank will not transfer any money can be known as?
    a) A guaranteed cheque
    b) Dishonored cheque
    c) Credit transfer
    d) The journal
5. Which of the following will not deduct money from your bank account directly?
    a) An ATM
    b) A credit card
    c) A debit card
    d) A cheque
6. The delay that occurs between the time a cheque is written and the money is deducted from your account is known as?
    a) Float
    b) Overdraft
    c) Maturity
    d) Amortization
7. Which of these is not an asset of a scheduled commercial bank?
    a) Money at call at short notice
    b) Loans, advances and bills discounted or purchased
    c) Instruments
    d) None of the above

8. Outline documents that are required for cash transfer to occur.
9. Explain how one do a transfer of cash from one bank to another.
10. Illustrate the process of receiving a customer request.
11. Analyse three type of accounts provided in a bank.
12. Identify the importance of internal account transfer to the bank.

Oral Assessment

1. What do you understand by the term cash transfer?
2. What are the requirements for internal money transfer?

Practical Assessment

Visit a bank of your choice in groups of 3 ensuring that you have accounts in those banks enquire about cash transfer from one account to another. Make a request to get a cash transfer form. Fill the form providing the details and documents that are requested. After filling return the form and follow the procedures that the bank requests you to follow. Ask for duplicate slips for the transaction.

8.3.6.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Calculator
- Projector
- Computer
- White board
- Internet
- Samples of various bank slips

8.3.6.5 References

Behrman, J. R, Gallardo. Garcia, J, Parker S.W, ToddPE, Velez- Grajales, V. (2012) Are Conditional Cash Transfer Effective in Urban areas? Education Economics

DFID (2011), Cash Transfer Literature Review, London: Department for International Development

High Level Panel On Humanitarian Cash Transfer (2015) Doing Cash Differently: How Cash Transfers Can Transform Humanitarian Aid. Overseas Development Institute

8.3.7 Learning Outcome No 6: Facilitate interbank local and foreign transfer

8.3.7.1 Learning Activities

Learning Outcome No 6: Facilitate interbank local and foreign transfer	
Learning Activities	**Special Instructions**
6.1 Receive customer request as per standard operating procedures 6.2 Verify *customer details* as per banking policy 6.3 Confirm customer balance as per standard operating procedures 6.4 Transfer cash as per banking policy 6.5 File transfer form in duplicate as per standard operating procedures 6.6 Issue transfer receipt to customer as per standard operating procedures 6.7 Process transfer receipt as per standard operating procedures	Oral assessment Illustrations

8.3.7.2 Information Sheet No8/LO6: Facilitate interbank local and foreign transfer

Introduction

This learning outcome covers; local and foreign money transfer, the companies that aid in foreign money transfer and the importance of foreign money transfer to different parties e.g. banks customers and government.

Definition of key terms

Money transfer: This is the process of transferring money either electronically or physically from one place to another.

Foreign transfer: This is wireless transfer of money electronically in specific currency and amount to a person overseas. It can also be called international money transfer.

Content/Procedures/Methods/Illustrations

6.1 Customer request is received as per standard operating procedures

Customer request is the formal appeal for a bank customer to make money transfer from one account to another either locally or internationally. Account transfer is the process whereby an individual sends funds from one account to another.

Local money transfer services

The following are local money transfers types in Kenya:

- MPESA services
- Airtel money services
- Equitel services

Individuals can send money to other individuals in Kenya with the above mobile providers and many other which are not mentioned above. MPESA is mostly used in Kenya for money transfer and one only needs a receiver's telephone number.

Foreign money transfer services

What one needs to send money to Kenya?

- Bank name and address
- Account number
- Swift/BIC code: Business party identifier and is an 8 or 11 character code that one uses to send money internationally
- Receivers complete name

International money Transfer Company's include:

- PayPal
- Equity bank
- World bank
- Azimo
- Skrill
- Xpress money

6.2 Customer details is verified as per banking policy

Customer details is information that relates to one particular customer relating to their bank account. This information identifies one specific customer in reference to the banking policies.

Customer details include:

- Image
- Signature
- Balance

The bankers have to make sure that the image, signature and balance belong to one particular customer and the details are not fake. This verification is done to make sure that the details of a customer match that in the banking system.

Importance of verification of customer details

- Customer details verification helps the bank have a crystal picture of their customer they are dealing with
- Customer details verification helps the bank to ensure the security of a customer's money
- Customer details verification is important as it prevents money laundering

6.3 Customer balance is confirmed as per standard operating procedures

A customer balance is the net amount of an individual's bank account after all the credits and deposits have been balanced. A customer can confirm the balance of their account in reference to the acceptable standards of confirming customer bank balance.

Ways of confirming balance

i. If a customer's account is connected to their phone number, they can confirm their account balance by requesting the bank to update you on the account balance.
ii. Using ATM card. A customer can use ATM card to confirm balance by following the instructions in the screen.
iii. Calling the bank. A customer can call the bank to confirm their balance, if the bank offers such a service.
iv. Going to the bank. A customer can physically go to the bank and talk to teller who will confirm their account balance.
v. Logging in online. Most banks have applications where one can log in and confirm their bank balance.

6.4 Cash is transferred as per banking policy

A customer has to confirm their account balance before they make any money transfer to another bank account either locally or internationally and it has to be as per the acceptable banking policies. A customer also has to take into consideration the transaction charges relating to the money transfer process.

Requirements for foreign money transfers

- Bank name and address
- Swift/BIC Code
- Account number
- Receivers complete name

Setting up the transfer

- A customer sets up a free account with any of the recommended companies e.g. PayPal, Skrill, etc.
- A customer will receive a quote from chosen company by SMS or online.
-

8.3.7.4 Tools, Equipment, Supplies and Materials

- Cell phone
- Writing materials
- Projector
- Computer
- Flip chart/white board
- Furniture
- Phones

8.3.7.5 References

JP Magnes, (2004). Money Transfer System.
J Linlor, (2005). Secure Money Transfer between hand-held devices
V Modi, (2011). Money Transfer Service with authentication

8.3.8 Learning Outcome No 7: Balance end day till

8.3.8.1 Learning Activities

Learning Outcome No 7: Balance end day till	
Learning Activities	**Special Instructions**
7.1 Bundle cash is bundled as per standard operating procedures 7.2 Count cash as per standard operating procedures 7.3 Check system balance as per standard operating procedures 7.4 Check system balance against physical cash as per standard operating procedures 7.5 Verify Report on check of system balance against physical cash as per standard operating procedure 7.6 Return till to strong room as per standard operating procedures	Written Assessment Illustrations

8.3.8.2 Information Sheet No8/LO7: Balance end day till

Introduction

This learning outcome has covered how cash in notes and coins are stacked and piled up. This learning outcome has also covered the importance of having a till register, how to handle discrepancies in the cash register and that in the point of sale system etc. it has also covered the importance of keeping till registers safe.

Definition of key terms

Till: This is a machine that records sales and in which money is kept i.e. cash register in a shop.

Sort: To put a group or a number of items or things in order. Things or items of the same characteristics/ features can be sort together e.g. Ksh 50 note can be sort together.

Physical cash: This is money, it can be in notes or coins that can be seen or touched.

Cash: Money in terms of coins or paper money.

Content/Procedures/Methods/Illustrations

7.1 Cash is bundled as per standard operating procedures

Cash bundling is the sorting of cash either notes or coins in accordance with the relevant standard operating procedures. Cash is bundled whenever it is in bulk i.e. a large quantity of coins or notes of the same currency denomination or in accordance to the written standard operating procedures. Bundling of cash is done at the end of the day in most businesses as this is the time when the activities of the business have expired.

End of day of a business

It means the close of a business at the time its trading activities end. Most business set a designated time when they will have to complete their trading activities. E.g. most government operations end at 5.00 pm. Most businesses alert their customers on their time of closing the business so that if they want to purchases a good or a service, they can do so before end of the day.

Importance of end of day

- Employees get to know the tasks, achievements and advancements they have made at the end of the day
- It helps find out the tasks that have been closed at the end of the day
- Supervisor gets to pin point challenges experienced when carrying out tasks
- The end of day helps employees to know the tasks accomplished
- The end of the day helps employees know the stage they are in uncompleted projects
- The end of the day helps employees know the next day's objectives

7.2 Cash is counted as per standard operating procedures

Cash counting is calculation of the total sum of money that has been made by the business at the end of the day. Cash is counted with reference to the written standard operating procedures of a business on how they should count the amount of money at the end of the day.

Steps used to bundle notes

i. Acquire rubber bands or currency bands or what is acceptable as per standard operating procedures from the office store or bank.
ii. Separate the notes according to their value e.g. Ksh. 50 notes sort them together, Kshs 1000 notes sort them together etc. as you turn the notes to face the same directions i.e. front side of the notes to face upwards as it makes it easier.
iii. Count each note as you stack them together.
iv. Band them together.

Illustration

A shopkeeper has 100 pieces of Kshs 1000 notes, 200 pieces of Kshs 500 notes. The shopkeeper can have 2 stacks each containing 50 Kshs 1000 notes. While having 4 stacks each containing 50, Ksh 500 notes. By bundling cash notes, one easily gets to know how much they have made from the business.

Steps used to bundle coins

i. Acquire coin sleeves or as required by the standard procedures from the office store or bank or bookshop etc.
ii. The owner of the business can make piles of coins containing ten coins. This helps one to easily know how much he/she has in total.
iii. Separate the coins according to their value and size.

Illustration

A shopkeeper has got 100 pieces of Kshs 20 coins. The shopkeeper will make 100 piles of 10 ksh 20 coins.

Cash sorting technique

Cash sorting is arranging money in order according to their value and denominations.

A Cash sorter Machine;

- Counts money and splits them into groups.
- It is used for sorting notes.
- Some cash sorters machine detects fake notes by using the unique security features on the notes,
- It is mostly used in banks, casinos etc. because they handle large amounts of cash.

A business owner can come up with some cash sorting procedures:

i. Come up with sorting procedures and ensuring all employees in the business place follow them
ii. Buy automated money sorter/ cash sorter machine.
iii. Securely store cash after end of the day, the business owner can bank the cash or store in a very secure place.

Handling of soiled notes

Soiled notes can be:

- Wet notes
- Notes that get dirty over time
- Notes that are stuck in adhesive material

How to handle soiled notes

i. Go to bank and exchange the soiled notes for clean notes and recover the full amount you had earlier.
ii. One can also request the bank to deposit the amount in their bank account.
iii. Banks accept soiled notes at no cost and one can pay government dues e.g. taxes.

7.3 System balance are checked as per standard operating procedures

Checking of the till system balance is done according to the written standard procedures e.g. the till system balance can be conducted by authorized persons only. System balance in the till, includes all the money paid using mobile payment as this method is becoming very popular.

Importance of checking system balance

- Checking of system balance gives the business owner a crystal picture the cash he/she has made at the end of the day.
- The core reason of checking system balance is to curb shortages of cash because of theft or inaccurate cash handling by the employees i.e. the cashier.
- Checking the till system balance also helps the business owner to know that the employees are giving accurate change cash to customers.
- Checking of till system balance helps business owner not to have too much cash in hand.

Point of sale (POS) system

A POS system has the following functions;

- Has the ability to accept payment
- Track sales
- Ability to track and keep customer data
- Manage inventory

A simple POS system should be simple to use and easy to understand. A business owner checks the till system balance displayed in the POS system.

7.3 System balance is checked against physical cash as per standard operating procedures

The initial step is to count cash in the till register including all money paid using mobile payment, credit card etc. The business owner can do this easily by stacking notes and piling coins as discussed in learning activity two. After physically counting cash, the business owner should confirm that the physical cash is the exact amount displayed in the POS system. If the amounts do not match the business owner need to investigate why the variances arise.

Types of till variances

- **Small variances:** This is caused by human error e.g. the cashier giving more change to customers
- **Overages:** This occurs when the amount in the till register is more than that in the POS. Overages can be damaging to the image of the business as a cashier might not be giving enough change to customers, leading to customers complaining hence might lose customers.
- **Shortages:** This occurs when the POS system displays a higher amount than that you have counted from the till register. This implies that cash may have been stolen; the cashier gave more than enough change to customers.

Business owners should do something in their power to minimize the variances above for the business' image to improve.

7.4 Report on check of system balance against physical cash is verified as per standard operating procedure

A POS system provides a report on the sales made at the end of the day. A POS system must be provide clear, real time report.

Details of a cash report

A point of sale generates data at the end of the day that shows;

- Best-selling categories and items
- Shows costs of items
- Profit margin made
- To track sales of each department
- Flexible enough to adjust name of cashiers and staffing hours

How to retrieve a cash receipt

i. Press the Z- out button on the POS. the Z-out button is on the left side of the POS in sales registers options.
ii. After clicking the Z-out button, a new window opens
iii. The business owner can enter data of what he/she has received by the end of the day.

Below is an example of a cash register

Sales

Sales of services	Ksh. 50000
Sales of goods	Ksh. 80000
Total sales	Ksh 130000

Non cash collections and expenses

Debit card sales	Ksh. 20000
Cash payment for deliveries	Ksh. 10000
Total cash outflow	Ksh 30000
Beginning of the shift cash count	Ksh 5000
End of shift cash count	Ksh 100000

Note: The end of shift count meant the money in terms of cash left in the till register

Reconciliation of the report against physical cash

Reconciliation is the process of adjusting two records of accounts to ensure that they are in agreement. This ensures that the cash leaving an amount matches the money spent. In relation to the cash register, it is the process of confirming the amount of cash in till register at the end of the day. Confirming of the cash can also be made if there are different cashiers who use a till register. When the day ends, business owners, reconcile cash in the till register against the cash report.

Table 19: Example of cash reconciliation form

	Money collected		Sales recorded	Difference+/-
Cash collected Coupons collected Credit cards collected	Ksh. 10000 0 Ksh. 30000	Cash sales Coupons sales Credit card sales	Ksh. 11000 Ksh. 1000 Ksh. 30000	- Ksh. 1000 - Ksh. 1000 0
Total collected	Ksh. 40000	Total recorded	Ksh. 42000	+ 2000

7.5 Till is returned to strong room as per standard operating procedures

Till is usually returned to a safe secure place in reference to the standard operating procedures. Till register is a vital and should be the top most priority

Till safety: During the day, till register should be firmly be placed on a counter top see through plastic cash guards should be used to prevent cash being grabbed when the register is open. At the end of the day, cash till register should be kept in a specialized safe store.

Dual control: This is where two employees separately count the cash in the till register and comparing with the POS system. They then compile their findings and compare if there are any variance, they both review each other's work to reconcile the variances/ differences. Both employees sign a paperwork showing that they have agreed upon the cash in the till register**.** If a loss had occurred, they will follow the stipulated procedures to investigate the discrepancies. Dual control is important as the business owner is able to protect the business from losses and curb employees from making bad choices.

Conclusion

This learning outcome has covered how cash in notes and coins are stacked and piled up. This learning outcome has also covered the importance of having a till register, how to handle discrepancies in the cash register and that in the point of sale system etc. it has also covered the importance of keeping till registers safe.

Further Reading

1. JJ Geib, (2001). Cash till manifold having a sixth coin bin for a coin sorter. SS Kuhlin, 6, 196, 913, 2001, US patent

8.3.8.3 Self-Assessment

Written Assessment

1. Soiled notes can be inform of _________.
    a) Dirty notes
    b) Clean notes
    c) Teared notes
    d) None of the above
2. How much is charged when one exchanges soiled notes in the bank?
    a) Ksh. 1000
    b) Ksh. 5000
    c) Ksh. 100
    d) Ksh. 0
3. Which of the following is a function of POS?
    a) Ability to accept payment
    b) It is big
    c) It is metallic
    d) It is plastic

4. Which of the following is variance type of variance?
   a) Shortages
   b) Profit
   c) Damages
   d) None of the above
5. The following are details of cash report except?
   a) Profit margin made
   b) Costs of each other
   c) Both a & b
   d) None of the above
6. Dual control involves how many persons?
   a) One person
   b) Two persons
   c) Three persons
   d) Ten persons
7. What button is normally pressed in the till register to give a cash report is called?
   a) Z out button
   b) T out button
   c) X out button
   d) None of the above
8. Elaborate what dual control is
9. Outline two functions of a POS system.
10. Identify three importance of checking system balance.
11. Elaborate how notes can be soiled.
12. Evaluate on end of day business.

Oral Assessment
1. What is a till?
2. What is a bundle of cash?

Practical Assessment
The learner should be accompanied by their tutor to a nearby supermarket that uses a cash till register. Request the manager to give a copy of a past year cash report. Examine one the previous cash report generated by the cash till register and note down its details.

8.3.8.4 Tools, Equipment, Supplies and Materials
- Writing materials
- Projector
- Computer
- Flip Chart/white board
- Furniture
- Phones
- A sample of cash receipt from a supermarket

8.3.8.5 References

Carter, O. (2002). Added Coin Compartments for Current Cash Tills
Gray, A. (2004). Games Of Chance Using a cash till roll
Zimmermann, T. (2000). Cash Register Termim

8.3.9 Learning Outcome No 8: Issuance of bankers' cheque

8.3.9.1 Learning Activities

Learning Outcome No 8: Issuance of bankers' cheque	
Learning Activities	**Special Instructions**
8.1 Receive customer request as per standard operating procedures 8.2 Verify *customer details* as per banking policy 8.3 Confirm customer balance as per standard operating procedures 8.4 Print bankers cheque as per standard operating procedures 8.5 Record bankers cheque as per standard operating procedures 8.6 Sign bankers cheque as per organizational policy 8.7 Issue confirmation slip in duplicate as per standard operating procedures 8.8 Issue bankers cheque and duplicate slip to customer as per standard operating procedures	Written assessment Oral assessment

8.3.9.2 Information Sheet No8/LO8: Issuance of bankers' cheque

Introduction

This learning outcome covers; what a banker's cheque is, how it is obtained, how it can be stopped if it is lost or stolen. This learning outcome also covers the details in a bankers' cheque and the costs associated with purchasing it and how bankers' cheque are recorded it also covers authorization of bankers' cheque.

Definition of key terms

Banker's cheque: It is also known as bankers' draft. This is where one gives the bank an amount of money and the bank gives you a cheque so that you can give the person you are paying.

Cheque: This is a document that gives the bank an order to pay an amount from a person's account to the person's name on the cheque.

Authorization: It is giving official permission for using a document.

Content/Procedures/Methods/Illustrations

8.1 Customer request is received as per standard operating procedures

A customer requests the bank to write him a banker's cheque so that he can pay another person using the bankers' cheque. This request happens after the customer gives the bank an account of money after they write him a cheque.

Importance of a bankers' cheque

- It is very certain i.e. there is guaranteed payment it can't bounce like other normal cheque.
- Since bankers cheque is guaranteed, it is good for it to be used for large transactions i.e. it involves large amounts of money that involves completing deals that involve expensive
- Safety of transactions compared to personal cheque when there are payment transactions.
- It is fast: Using of bankers cheque is fast as the transaction is processed within the same business day. Normal cheque take several days to be processed and the bank can reverse the deposit made in the recipient account.

Steps in preparing bankers cheque

i. Write the name of the individual or firm you are paying.
ii. A line is then drawn on the blank spaces so that no names or figures can be added.
iii. Add details i.e. account or reference number of the recipient. This ensures that it is the receipt that receives the cash.
iv. The cheque is kept stub that contains all the details.
v. One then gives the bank the amount indicated in the bankers' cheque.

Costs associated with bankers' cheque

Different banks charge differently. Below are a few examples of the charges relating to local bankers cheque.

Kenya commercial bank

Customer	Ksh. 200
Non customer	Ksh. 200

Foreign currency

Customer	$10
Non customer	$15

Equity bank Kenya

Customers'	Ksh.100
Non customers'	Ksh. 100

Commercial bank of Africa

Bankers' cheque/draft indemnity	Ksh. 1000
Online bankers' cheque local currency	Ksh 125
Online bankers' cheque local/foreign currency	Ksh.125

8.2 Customer details is verified as per banking policy

Customer details are validated and they include: Image, signature and account balance A customer's image, signature should match those in the bank system. A customer then validated the account balance as per standard operating procedures. The customers details are to be verified when the bankers' cheque is issued by the bank to the customer.

Requirements for one to be issued bankers cheque

- Apply for a bankers' cheque. Apply using an original application form of bankers' cheque. It should be filled where necessary and signed by the applicant. The form is usually provided in the bank.
- Purchase of a cheque leaf. This purchase is done in the bank and the cheque leaf is usually in original form. Most banks charge ksh 400 to ksh 800 depending on the book.
- Identification card. The applicant should provide an original identity card at the teller.

8.3 Customer balance is confirmed as per standard operating procedures

Customers balance is usually net off after balancing deposits, withdrawals, transaction costs, taxes, etc.

A customer can verify their account balance using the following methods

- Logging in online
- Using ATM card and following instructions on the ATM machine screen
- Using the phone number if the account is linked with the telephone number
- Going physically to the teller in the bank and confirm the account balance

Confirm customers balance

Customer's balance is confirmed and verified to ascertain;

- How much is actually in the bank account
- If the funds in the bank account are sufficient enough to make a withdrawal which will be given to the bank teller for him/her to be issued a bankers cheque
- To take account for the transactions cost.

8.4 Bankers' cheque is printed as per standard operating procedures

Cheque are printed by secure accepted software that enabled secure payments and ensures that the cheque can easily be traced during auditing procedures. The cheque printing standards are regulated by approved bodies' e.g. Canadian payment association

(CPA 006). All cheque printed should meet the regulated standards. The following are some of the security features in bankers' cheque;

- Data encrypted
- Audit trail
- Email alerts
- Full reporting tools with in built archive

Details in bankers' cheque

- Check number
- Bank name
- Date
- Amount in shillings and words
- Signature

8.5 Bankers' cheque is recorded as per standard operating procedures

Recording of bankers' cheque

The following books are used to record bankers' cheque transactions;

a) Cashbook
b) Bank ledger accounts

The internal accounts related to bankers' cheque are cashbook and bank reconciliation and bank ledger accounts.

Cashbook

This is a journal that records cash receipts including bank withdrawals and bank deposits. The cashbook has two sides i.e. debit and credit side. If a customer withdraws cash from his bank account, so that they can give it to the teller and be issued a bankers cheque, the amount withdrawal is credited as bank and debited as cash in bank ledger accounts.

Bank ledger account

Accounts of cashbook and ledger accounts are double entry accounts. Therefore a bank ledger is prepared by the bank at the end of the business day and includes all deposits and withdrawals to show the net amount in a customer's bank account. The recipient of a bankers' cheque receives cash in his/her bank account and the following transactions are undertaken.

8.6 Bankers cheque is signed as per organizational policy

Bankers' cheque is usually signed by the bank teller. Authorization of bankers' cheque. The bankers' cheque itself is an authorization for the payee to receive the amount the prayer has given to the bank. Specific bank tellers are authorized by the bank management to sign bankers' cheque. Signing of a bankers' cheque by the bank teller is a form of authorization that the cheque is good for the transaction to be made. Signing of bankers' cheque confirms that the cheque is not counterfeit. Authorizing a bankers' cheque is a communication technique that confirms that the transaction has legally occurred and a confirmation that the money will be deposited in the payee's bank account

Repurchase of bankers

Repurchase is to buy something back. A purchase can easily repurchase bank cheques if it is unused. The bank cheque is repurchased because it is no longer required. Bank cheque is repurchased at a fee depending on the type of bank you are transacting with.

Treatment of lost or stolen bankers' cheque.

Bankers' cheque can be stopped if they are stolen or lost. A payer can return to the bank and explaining to the bank that the bankers' cheque is lost or stolen. The payer should present a copy of a printed bank cheque if the bank cheque has not been casted and the bank can verify that the bank cheque has not been cashed, the bank can cancel it or issue a new replacement bankers cheque.

8.7 Confirmation slip is issued in duplicate as per standard operating procedures

Confirmation slip is a document given to a customer by the teller to proof the transaction is settled. The confirmation slip is usually printed as two documents so that the customer/player can be issued with duplicate confirmation slip as the bank remains with the original. The payer will always be certain that the transaction has indeed occurred when issued with a confirmation slip if in any case, which rarely occurs, that the bank cheque has not been cashed, the payer can always use the confirmation slip to prove that the bank verified that the transaction was completed.

8.8 Bankers' cheque and duplicate slip is issued to customer as per standard operating procedures

After the transaction is complete;

- The payer has issued a specific amount of money to the bank
- The bankers' cheque has appropriately been filled
- The bank teller has signed the bankers cheque

After the above transactions are completed, a payer is issued with a bankers' cheque and a confirmation duplicate slip.

Conclusion

This learning outcome covered: Bankers cheque, importance of bankers cheque, steps in preparing bankers cheque, cost associated with bankers' cheque, validation of customer details, recording banker cheque, internal accounts related with a bankers cheque, authorization of bankers' cheque, repurchasing bankers' cheque and treatment of lost or stolen bankers' cheque.

Further Reading

1. Read on recording bankers' cheque

8.3.9.3 Self-Assessment

Written Assessment

1. Who signs a bankers' cheque?
   a) Customer
   b) Bank teller
   c) Soldier
   d) None of the above
2. What document does one go with to the bank if the bankers' cheque is lost or stolen?
   a) An original bankers cheque
   b) Copy of bankers cheque
   c) Confirmation slip
   d) Cashbook
3. The following are details contained in a bankers cheque except?
   a) Date
   b) Serial number
   c) Cheque number
   d) Date of birth
4. How can one verify their account balance?
   a) Using phone number
   b) Counting receipts given in the bank
   c) Doing guess work
   d) None of the above
5. The following are security details in a bankers cheque except?
   a) Color of the bankers cheque
   b) Email alerts
   c) Data encrypted
   d) Audit trail
6. What affects the customer's account balance?
   a) Withdrawals
   b) Weather change
   c) Government legislation
   d) Climatic changes

7. Who issues a bankers cheque?
    a) The bank
    b) The government
    c) The people
    d) ATM
8. What are the requirements of one getting a bankers cheque?
9. Name two accounts where bankers transactions are recorded
10. Suggest two customer details
11. Discuss the meaning of authorization
12. Are there any costs associated with purchase of a bankers' cheque? Elaborate.

Oral Assessment

1. What is a cheque?
2. Name the steps of preparing a bankers cheque?

Practical Assessment

With the help of your trainer, visit a nearby bank and inquire on the procedures of a bankers cheque transactions.

8.3.9.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip chart/white board
- Furniture
- Phones
- A sample of bankers cheques

8.3.9.5 References

Britisei, A. (2007). cheque came into their hands and the signa.
David, K. (2013). Competitive banking, bankers clubs and bank regulation.
Thakur, R. S. (2005) .customer service in banks. After Economic Reforms

8.3.10 Learning Outcome No 9: Facilitate cheque deposit

8.3.10.1 Learning Activities

Learning Outcome No 9: Facilitate cheque deposit	
Learning Activities	**Special Instructions**
9.1 Receive customer request as per banking policy 9.2 Verify *customer details* as per banking policy 9.3 Scan cheque for clearing as per bank procedure 9.4 Sign cheque deposit duplicate slip by customer as per banking policy 9.5 Confirm cheque as per banking policy 9.6 Archive cheque as per standard operating procedures	Illustration Projection

8.3.10.2 Information Sheet No8/LO9: Facilitate cheque deposit

Introduction

This learning outcome covers; what is a cheque, process of receiving customer requests, verification of customer details and identification of a cheque validity.

Definition of key terms

Bankers Cheque: It is a document that orders a bank to pay a specific amount of money from one person account to the other persons account in whose name the cheque has been issued.

Drawer: A person who's writing a cheque

Drawee: A person to whom cheque presented for withdrawal.

Payee: A person who pays the cheque to the drawee.

Content/Procedures/Methods/Illustrations

9.1 Customer request is received as per banking policy

Customer request is a complaint or suggestion made to council by a person either through a letter, email, telephone etc. Strategies to validate customer request;

- Check customers roadmap (location)
- Validate customers request in accordance to your market
- You have to know what customer request entails
- What are the merits and demerits of the customer's request
- What is opportunity cost?
- Impact of the customer's request

- Does it require research or further investigation?

Process of receiving customer requests

i. Start with a good impression; Smiling and good facial expressions. These put customers at ease and shows them that you are ready to help
ii. Be civil and respectful
iii. Treat all customers with understanding and empathy
iv. Respond promptly and accurately
v. Be reliable, be honest, trustworthy and consistent
vi. Explain the process and how the bank operates for them to understand the overall decision of a firm
vii. Make the information accessible. People don't want to operate in the dark. So while explaining the process to them, make sure they know where & how to get the information about services & processes or bank products at a later date
viii. Be the expert. Make sure you know what the bank is all about. Explain to the customers what they are needed to know or do in order to validate their requests
ix. Anticipate the customer needs. If you are in tune with your customers emotions, you'll be able to understand their needs and provide them with a solution
x. Look for ways to get a yes
xi. Strive for great customer service at all level

Ways to determine if a customer request is actionable

- **Assess strategic alignment of request:** This is when the firm asks themselves if the customer request aligns to their goals and objectives.
- **Determine strategic significance of customer:** This is what are strategic values of pleasing or fulfilling's a customer request.
- **Request from prospects vs. actual customers:** This is when a firm has to identify whether or not to customer is serious.
- **Prioritize request against existing plan:** The question would be, does this request conflict with other high priority items if it does you will need to review its viability.
- **Assess scale of impact to user base:** How will addressing this request/complaint add value to the other customers?
- **Consider persona of customer request:** The question to be asked is the feedback coming from the right person at your customers company
- **Quantity value of customer request:** What could be the monetary value of the customer or request itself.

9.2 Customer details is verified as per banking policy

According to banking policy, Customer requests are identifications of a customer. They tend to describe the customer in terms of the nature, age, etc. Customer details to be verified by bank are:

- National identification card
- Credit worthiness

- Age
- Sex
- Names
- Contact details

Cheque validity/essentials of a cheque

- Unconditional
- Signature
- It is an instrument in writing
- Must be payable upon demand
- Must mention exact amount to be paid
- Must have 3 parties:
  a) Drawer
  b) Drawee
  c) Payee
- Cheque must be daily dated by customers of bank
- Cheque is drawn by a customer on his bank

Importance of verifying customer details

- It is an important process done to avoid money laundering
- It helps to build a mutual trust to be able to ensure safety of money
- It's a measure that is used to prevent fraud in case someone is abusively using your debit card or illegally using your funds
- Customers verification enables one to identify theft
- It also helps to identify terrorism financing
- It helps to curb bribery and corruption

Methods of customer verification

- **Knowledge based authentication:** This is done by verifying a person's identity by reassuring an answer to security questions. They are very easy questions to be answered by a customer.
- **Two factor authentication:** This method requires users to provide a form of personal identification also known as a token in addition to the usual username and password before accessing the actual account of the customer.
- **Credit bureau based authentication:** This method relies on information from one or more of the three major credit bearers. This companies stores a large number of information on their credit worthiness.
- **Database methods:** Use data from variety of sources to verify customer's identity. These sources are online database from social media as well as offline database.
- **Online verification:** This method uses techniques to determine if a government issued ID belongs to the user, including artificial intelligence biometrics, computer

vision and human review. This method actually use a picture of themselves holding an ID thus ensuring that the ID is there.

9.3 Cheque are scanned for clearing as per bank procedure

Cheque scanning: This is a process of scanning a cheque both the front and the back of a cheque transforming the paper cheque into a legal digital image.

Types of cheque

- **Bearer cheque:** This cheque can be transferred by mere delivery and needs no endorsement
- **Bankers cheque:** It is a cheque issued by bank itself and guarantees a payment
- **Crossed cheque:** When cross a bearer cheque twice at the top left of that cheque. It becomes a crossed cheque. Only the name written on it can get the amount transferred to his account.
- **Self cheque:** The account holder writes self to receive money physically from the branch where he holds the account.
- **Account payee:** A bearer cheque becomes an account payee cheque by writing account payee or crossing it 2 with 2 parallel lives on the left side top corner.
- **Dishonored cheque:** It’s a cheque that is not honored as a result of insufficient funds in the account of the drawer of the cheque.

Importance of scanning a cheque

- Save on administrative and labor costs. When it comes to handling a cheque the cost related to this process is high scanning a cheque simplifies the work of handling the cheque as in hardcopy to a softcopy document,
- Increase your security. Scanning of cheque cuts on potential fraud by verifying and authentication each cheque you process.
- Get access to date. Hard copies of cheque were kept on file so information could be looked up and confirmed with a cheque scanning it easy to sort and store some information digitally.
- Deposit cheque remotely. With this you can deposit and process a cheque with just a few clicks. This allows work to be easy for verification and authentication of cheque.
- Improves productivity. It allows you to process a cheque right away by strong organizing and depositing them quickly them quickly and automatically.

9.4 Cheque deposit duplicate slip is signed by customer as per banking policy

A cheque is said to be valid if it signed by the customer authorizing the payee to be a certain amount of money to the drawer.

Importance of signing a duplicate cheque

- **For identity:** Signatures helps to confirm someone's identity
- **For approval:** When a cheque deposit is signed it means that the clients have given approval on the cheque to be deposited
- **For authentication:** Its authenticity if the signer provide their approval through signing

Importance of confirming a cheque

- To reduce any available errors
- For verification whether its valid or not
- For approval to make sure the signature of cheque is same in the account
- To check all the information are correctly done
- To ensure the amount in the cheque deposit is available in his/her account for withdrawal

9.5 Cheque is confirmed as per banking policy

Cheque confirmation is done to make sure that all the details of a cheque are well included and that there is sufficient amount of funds in the drawers account to be able to pay the drawee the amount indicated on the cheque.

9.6 Cheque is archived as per standard operating procedures

Methods of archiving cheques as per SOP

a) **Business storage:** This is a type of storage that is done by buying extra room/archives to store cheque papers
b) **Electronic storage:** This is where cheques are archived in electronic devices e.g. computers for future use

Advantages of electronic storage

- It is easy and efficient
- It saves on time
- It also saves on space
- It is easily accessible
- It is a fast method of storage

Cheques and remittances are scanned and read not only for archival or record keeping purposes but also for further processing. Cheque data and images can be transmitted electronically within and across institutions intra and interbank reducing overheads in operations, transportation and physical storage spaces and minimizing risk discrepancies and loss during handling. Electronic cheque data can be backed up and restored easily, thus giving you the flexibility to manage your data recovery center.

Ways of keeping cheque books safe

i. Record all details of cheques issued
ii. Do not leave your cheque book unattended
iii. Always keep your cheque book in a safe area
iv. When you receive your cheque book, please make sure you count the pages/number of cheques remaining

Conclusion

This learning outcome covers; what is a cheque, process of receiving customer requests, verification of customer details and identification of a cheque validity.

Further Reading

1. Banking theory law and practice author Rajesh
2. Management control systems: text and cases by selchar books. Google.

8.3.10.3 Self-Assessment

Written Assessment

1. Who is primarily liable on a cheque?
   a) Drawer
   b) Paying banker
   c) Collection banker
   d) Everybody who touches the cheque
   e) None
2. The effect of a crossing cheque is?
   a) The payee can obtain payment only through account
   b) The payee is compelled to open an account
   c) The payee will bare to endure the cheque to a bank
   d) None
   e) All
3. A cheque crossed as payees account only is direction to?
   a) Bearer account
   b) Payee
   c) Drawer

4. Which one of the following is not a type of cheques?
    a) Self cheque
    b) Bakers cheque
    c) Cheque book
    d) Bearer cheque
5. Which one of the following is not a method of customer verification?
    a) Knowledge based
    b) Two factor method
    c) Database methods
    d) All of the above
6. Cheque archiving is the process by which cheques are written and signed.
    a) True
    b) False
    c) Not sure
7. Out of the following, identify customer details used to verify bank details.
    a) Contact
    b) Sex
    c) ID
    d) All of the above
8. Suggest the purpose of a cheque.
9. Categorize three types of cheques.
10. What do you understand by the term dishonored cheque?
11. Highlight and discuss five essentials of a cheque.

Oral Assessment

1. What is a cheque?
2. What does self cheque mean?

Case Study Assessment

On 25th august 2014, a cheque dated 01. 09. 2014 for 500,000 ksh is presented and paid, reducing the balance in the account to 200,000 ksh. Two days later a cheque dated 23. 08. 2014 for 600, 000ksh is presented but returned for a reason “funds insufficient discuss the legal position of the bankers in this case.

8.3.10.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip chart/white board
- Furniture
- Phones

8.3.10.5 References

Angawal. R. 2017. Disruption of banking in emerging market economy. An empirical study of India. Economic analysis. 50 (8-4), pp. 20-30.

Haldeer, Z. (2015) .IBISworld Industry Report 52211, commercial banking in the us. Retrieved February 23, 2015 from IBISworld database.

IASB. (2010) dishonored cheque London. ASB

8.3.11 Learning Outcome No 10: Facilitate cheque withdrawal

8.3.11.1 Learning Activities

Learning Outcome No 10: Facilitate cheque withdrawal	
Learning Activities	**Special Instructions**
10.1 Receive customer request as per banking policy 10.2 Verify *Customer details* as per banking policy 10.3 Confirm customer balance as per standard operating procedures 10.4 Retrieve cash from till as per banking policy 10.5 Count cash as per banking policy 10.6 Confirm cash by customer as per banking policy 10.7 Sign cash withdrawal duplicate slip by customer as per banking policy 10.8 Store copy of cash withdrawal duplicate slip as per banking policy	Discussion Oral test Presentation

8.3.11.2 Information Sheet No8/LO10: Facilitate cheque withdrawal

Introduction

This learning outcome covers; cheque, validation of customer details and determination of cheque validity. It also covers how customer requests are received, methods, how customer details are verified, how to confirm the customer balance, how cash is retrieved, methods of retrieving cash, main function of cash office, importance of confirming cash, cash withdrawal duplicate slip, importance of cash withdrawal duplicate and measures taken to prevent signature fraud.

Definition of key terms

Customer request: This involves a customer demanding something from the seller, for example he/she may ask for some information.

Cheque: This is a written document that consists of sum stated from the drawers account cheque also is a document that orders a bank to pay certain sum of money to person in whose name the cheque has been issued.

Cash: This refers to coins and notes which are legalized by a legal tender and they are used in a country.

Policy: These are rules developed by the company to govern the management of the various activities in an organization.

Verification: It means truth that is providing information that is correct and fair.

Content/Procedures/Methods/Illustrations

10.1 Customer request is received as per banking policy

Banking policy: These are rules and regulations relating to customer requests, that is, how the customers applies his/her queries, who to receives them, and when should the customer place his/her request. Banking policies are normally written down in a piece of paper whereby the customer is given to read and understand them.

Importance of customer request

- The bank managers are able to understand what the customer needs and the solution is being provided immediately
- Customer request enable faster provision of services, the bank managers are able to provide services at a quicker way since the customers problems are well analysed

When receiving customer request certain features have to be followed as illustrated below;

i. A customer request should be honest, this means that the person in charge of dealing with customer, should act honestly and whenever a phone call is made, you should take it and listen to the feedback from the customer and he language used should be simple and polite and by doing this, you will impress the customer.

ii. Customer request should be received and then the response should be sent to the customer because in some calls the seller does not give out the response and the customer usually feels unimportant, such that he/she can go away and change into another bank for same product thus in order to maintain him/her a proper tone should be used by the right people who are employed to take this positions.

iii. The last feature of receiving a customer detail is that a customer should be provided with an alternative solution to the problem; since the customer request is as a result of your commodity being unable to fulfill certain need. This is inability to drive the customer to contact you to say what they think is wrong. So you should be able to provide a solution to any problem arises.

The following are methods of how customer request are received

- **Use of emails address**

Customer may send an email to the bank complaining about something pertaining the service being offered, the emails are easy to use and fast, so whenever the email is being sent, a person reviewing banks email should be able to see and respond immediately by use of the email, because sometime you may find that the email are deleted without even being read or gone through.

- **Use of telephone calls**

A customer may make a direct call to the bank and request whatever information he/she wants. Phone calls are better since the feedback is obtained immediately. Telephone calls are the best due to speed and cheap as well as immediate response.

- **Use of live chat**

Social media platform such as twitter, Facebook or WhatsApp whereby a customer may chat directly with the person in charge in the bank via online platform, the communication may be informal since most of the visitor in the website are able to see what all is about.

10.2 Customer details is verified as per banking policy

Customer details are all information relating to customers as per the rules and regulations of the bank for example customer details include: full names of the customer, age of customer, amount of money withdraw, signature of the customer and date when the amount was withdrawn. Customer details verification should not take more than 5 minutes, for example when a customer wants to process bank transfer request, customers order details should automatically be verified in a very short transaction time of a few seconds after he/ she submit his/ her payment. In order to enhance the verification process to be faster the following ways may be followed as illustrated;

i. All the details concerning the customer should be computerized such that whenever the customer requires some verification, it is easy and faster this will enable the company to serve the customer in a better way.
ii. When customer verification is done manually the persons responsible should be quick enough and counter check what is required and leave what is not required by the bank policy. Skilled personnel should be hired in order to enhance competence in service provider on areas of customer verification, care should be taken because some people responsible for verifying customer normally take the customer information or even using customer information to benefit themselves thus the management should adapt the information technology system to verify the customer.

Customer verification can be done in the following ways

- On site checking identity card
- A customers' identity card can be checked and the information on the identity should portray the customers, there is an electronic identity card given to customer by the business, this method involves independently verifying customers' identity through the comparison of information provided by the customer with information obtained from a consumer reporting agency.
- Contacting customer, checking references with other banks in order to verify the customer these methods seems to be slow.

Importance of verifying customer details customer

- **The bank is able to prevent fraudsters:** In the process of verifying the customer details, the bank is able to know real customer and then the customer cannot withdraw cheque by mistake of another identity

- **Prevention of wastages:** The bank is able to prevent wastages due to failure of recognizing its customers by verifying customer details; the real service is being given to the real customer thus no wastages of resources
- **Verification of customer details enhances high quality services:** Through the verification of customer details, the banker's management are able to provide services to customer quickly since customers are served according to their problems after the management have gone through their details.

10.3 Customer balance is confirmed as per standard operating procedures

A customer may make a positive confirmation. Positive confirmation request asks that a customer sign and mail the form back to bank either attesting to the fact that the figure owed is not correct.

The methods below can be used to confirm the customer balance

i. A customer may use the business websites thus claiming some delayed balances from the organization. An email can be made immediately the customer wants to claim any amount or even to confirm that the amount received is correct.
ii. The customer may use the receipt invoice to confirm the balance since the receipt invoices contain some details of the balance in words and in figures the customer is able to confirm the balance and if the balance is not precise then he/she can go back with the receipt and negotiate with the seller what is not happening.
iii. A customer may make a direct call to the seller for example he/she is given more change than what was required after examining the value of the good in the receipt invoice, he/she can make a call. A call is faster and immediate feedback is obtained compared to the use of emails, mobile phones enable the customer to negotiate with the seller and conclude the issue immediately, emails usually causes delays because the seller might be offline or he/she may not give the response immediately. It is important for the customer to confirm the balance since this enhances transparence and accountability and the organization is able to correct its areas of weakness when dealing with customers thus avoiding loss between the two parties.

10.4 Cash is retrieved from till as per banking policy

The bank has offered different methods of retrieving cash whereby the customer may use any method he/she may feel appropriate to him/her. These methods are illustrated below:

- **Use of mobile phones**

The bank have set guidelines concerning the retrieving cash some services such as M-pesa provides a link whereby customer can withdraw the cash by use of phone, the procedure is simple since the customer requires only to have a bank account and a Safaricom registered line.

- **Use of ATM cards**

Banks have issued out rules of ATM card for example ATM cards services is 24/7 and a customer can retrieve cash anytime. ATM cards are obtained from the bank and they are not compulsory, the customer can operate his/her account without the ATM card and since the service offered 24/7 the banks have provided a security to the ATM gadgets.

- **Direct contact with the bank**

A customer may visit the bank to retrieve the cash, in the bank tellers are always in the bank during the working hours and the customer may ask any question concerning cash that is the balance left in the account after withdrawal hence the bank provides a receipt invoice so that the customer can reconcile his/her account with amount withdrawn and the amount balance left in the account. It is the responsibility of the management to top up the till with cash in order to enhance continuous retrieval of cash by the customer, most of the banks have person whom are trusted with such kind of work.

Importance of retrieving cash from the till

- Cash retrieved from the till is the actual amount thus enhancing better services to the customer and more attraction of customer
- Retrieving cash from the till is faster and quickly since the method used to retrieve the cash are faster for example use of phone to retrieve cash
- It is cheap to retrieve cash from the till, customer incurs low cost when retrieving cash

10.5 Cash is counted as per banking policy

The bank have a cash office that ensures that the cash management and loan approval procedures are adequate, functional and are as per the standard regulating the money as provided by the central bank.

The main function of the cash office include;

Counting and recording of both incoming and outgoing cash in order to ensure how much money has been deposited into the bank account and how much money has been credited. Also in the book we have tellers whom they count cash manually. When the customers are retrieving cash in the bank, the teller normally count the cash several times by confirming the amount.

The customer also counts the cash to confirm that the amounts given are correct as per invoice receipts. In the bank we have a money counting machine the notes are arranged in an orderly manner and then inserted into the machine. The machine is so accurate such that it cannot count the money which is fake and the teller sometime may count the cash manually to confirm that the amount is correct thus avoid loss.

Benefit of counting the cash include

- Counting of the cash helps to settle a conflict between bank teller and management due to mistrust.
- Counting of cash increases customer confidence because whenever he customer count the cash and realizes that the amount is correct he/she will have a confidence with bank.
- Counting of cash increases the teller and customer relation since each party has come into the conclusion that the process of exchanging the cash have been terminated properly.

In the bank only assigned personnel can count the cash not all person counts the cash.

Process of counting cash

Cash is counted by two methods:

- **Use of manual:** The teller counts the cash one note at a time and noting down out the actual figure
- **Use of machine:** The teller usually arranges the cash that is note and then he/she puts the notes in a machine and then the machine counts all the notes. The machine is more accurate compared to manual method.

10.6 Cash is confirmed by customer as per banking policy.

In the bank the cash is always confirmed by the customer in order to raise any issue; however when the customer withdraws the cash, immediately he/she is issued with a receipt invoice. The receipt invoice consist of the following information as illustrated below:

- **Date:** This is the current date when the cash was being withdrawn.
- **Time:** This is also the current time when the cash was being withdrawn.
- **Bank balances:** The balances include what is being left in customers account and also the amount of bank charges are shown.
- **Amount of cash withdrawn:** Exact amount of cash retrieved is clearly shown on the receipt invoice.

Importance of customer confirming cash in the book is as follows;

- The customer is able to verify his/her account by knowing how much money was left in the account this helps in minimizing loses that may occur due to the teller mistakes.
- By confirming the cash, the customer increases his confidence and thus increasing companies' public image and the bank can increase the number of customers.
- Confirming the cash help to identify the error that might occur unexpectedly since the customer can raise the issue and the matter can be settled at convenience way because of information technology failure due to information overload then the errors might be countered.

- Confirming of cash enhances the accuracy, when the customer confirms that the cash amount is correct then acuteness is enhanced.

The customers have different ways of confirming the cash that is for instance a customer may use, direct call emails, receipt invoices, letters and even he/she can confirm direct face to face in the bank.

10.7 Cash withdrawal duplicate slip is signed by customer as per banking policy

Cash withdrawal duplicate slip is a piece of paper used in bank to withdraw cash from the account. The withdrawal slip consist of the following information:

- Amount withdrawn in words and figures exact amount is shown on the slip to ensure customer is satisfied.
- Name of the customers, details of the customer signifies the ownership of the account whereby only the owner of the account can withdraw the cash.
- It also consists the customers signature, the customer insert his/her signature whereby the signature resembles the same as previously.

The importance of providing the signatures in the bank usually help prevent fraud, the signatures are secured and confidential. A customer should use a signature that is not easy to forge or imitate. Some measures may be taken to prevent signature fraud, as demonstrated below:

i. A customer should not write signature slowly; the fraudster my easily practice what you have done and write the same sign.

ii. A customer should try to bring complexity in his/her signature, the customer should try to include long strokes in the signature because sometime withdrawal slip might be misplaced or theft.

iii. A customer should have more than one signature. A customer should have one legal signature and rest signatures for other purposes, fake signature will confuse the fraudster.

iv. Lastly the customer should avoid unnecessary upload of signature on internet also even misplacing the duplicate document since the victims can use withdrawal slip signature to use it in an unnecessary manner.

Benefit of signing cash withdrawal, duplicate slip

- Signing cash withdrawal duplicate slip helps to minimize the fraud, the management checks the customers details before signing the slip and this will minimize the slip
- Signing cash withdrawal duplicate slip helps to authenticate a writing or provide notice of its source and to bind individual signing the writing by the provisions contained in the withdrawal duplicate

10.8 Copy of cash withdrawal duplicate slip is stored as per banking policy

Copy of cash withdrawal slip is the document that contain information same as the one contained in the original document, the duplicate slip contains stamp and details of the customer. Withdrawal duplicate slip is usually given out by the bank. The following are the importance of withdrawal duplicate slip;

- Duplicate shows the actual information as per the original, the bank withdrawal document consist of the very same information as that of the customer
- Cash withdrawal duplicate slip can be used by the bank to settle the conflict which may arise between the customer and the bank because the customer might claim a compensation which is not indicated in the actual documents.
- The duplicate slip are important since the details of the customer like signature and stamp are contained in that item, so that to ensure the customer is satisfied a duplicate is issued.
- Withdrawal slip duplicate is important since it can be used in the future to confirm certain things such as balance and dates which was certain events took place.

The bank can store the withdrawal duplicate slip for future reference since the customer might claim non-existence information thus suing the company. The duplicates can be stored for a period of time, this duplicates are stored in a safe place such as in a file and being checked regularly by the person in charge in the bank. The bank duplicate can be stored for a time which is required as per the internal regulation rules. The bank usually ensures custody of the withdrawal duplicate, this is done to ensure privacy of the customer's information.

Conclusion

This learning outcome covered; cheque, validation of customer details, determination of a cheque validity, importance of counting the cash, how the cash is retrieved, and determination of a cheque validity, customer request and duplication of the cash withdrawal slip.

Further Reading

1. Read on how to sign documents.

8.3.11.3 Self-Assessment

Written Assessment

1. The following are methods of how customer request are received except?
   a) Use of emails
   b) Use of telephone calls
   c) Use of live chat
   d) Sending vulgar messages to the firm
2. Which one of the following does not signify the methods used to confirm customer balance?
   a) Use cheque
   b) Use of receipt invoices
   c) Direct calls
   d) E-mails
3. Do you think a customer can use a mobile phone to retrieve cash from the till?
   a) None of below
   b) Yes or no
   c) No
   d) Yes
4. Which of the following is not the benefit of cash counting?
   a) Cash counting increases customer confidence.
   b) Cash counting decreases bank managers cash
   c) Cash counting increases public image of the bank.
   d) Cash counting increases the relationship between the customers and employees of the bank.
5. Bank policy usually help to run the management of the bank and it outlines the procedures to be followed internally by the bank, identify which party designs those rules and procedures.
   a) Customers
   b) Board of governors
   c) Government agency
   d) Employees
6. Cheques are sometimes dishonored by the bank, which one of the information is not correct?
   a) Cheques are dishonored because of differing amount in figures and in words.
   b) Differing in signature make a cheque to be dishonored
   c) Cheques are dishonored when the date elapses.
   d) Cheques are dishonored when they have large amount of cash.

7. Customer request can be made by use of email, the following are disadvantages of emails except?
    a) Junk mails
    b) Sometimes emails are un-responded
    c) It is expensive to install computers and desktops
    d) Emails enhances speed
8. What do you understand by the term customer request?
9. Discuss method of withdrawing cash in bank
10. Cash is confirmed by customer in many ways, elaborate that statement.
11. Analyse validation of customer's details.
12. Discuss the following terms;
    a) Cheque
    b) Banking

Oral Assessment

1. What is a request?
2. What is a policy?

Practical Assessment

Identify one of the banks in Kenya, make a visit to determine the content of a cheque and validation of customer details.

8.3.11.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip chart/white board
- Furniture
- Phones

8.3.11.5 References

International Accounting standards board, (2008) international financial reporting standards. United Kingdom.

Keller K. (2011) marketing management. Jersey. Prentice Hall.

Kottler P, (2008) principles of marketing. UK. Financial times Prentice Hall.

CHAPTER 9: BACK OFFICE MANAGEMENT

9.1 Introduction of the Unit of Learning/Unit of Competency

Back office management is a unit of competency offered in TVET level 6 banking and finance course qualification. This unit specifies the competences required to manage back office. It involves processing salary, managing suspense account, managing asset register, managing office stationery, managing voucher, performing data clean up and managing customer account. The significance of back office management to TVET level 6 banking and finance curriculum is to equip the learner with skills and competencies to enable the organisation achieve its goals and productivity and cost efficiency. It also equips him/her with skills to manage the human resources at the work place, management of data, enhance organisation-customer relationship, among others so as to fit in the workplace.

The critical aspects of competency to be covered include demonstrate ability to process salary, identify sources of suspense entries, manage asset registry, office stationery and voucher, perform data clean up and customer account management. The basic resources include; computers, internet connection, phones,stationaries and furniture.

The unit of competency covers seven learning outcomes. Each of the learning outcome presents; learning activities that covers performance criteria statements, thus creating trainee's an opportunity to demonstrate competecies stipulated in the occupational standards and content in curriculum. Information sheet provides; definition of key terms, content and illustration to guide in training. The competency may be assessed through written test, demonstration, practical assignment, interview/oral questioning and case study. Self assessment is provided at the end of each learning outcome. Holistic assessment with other units relevant to the industry sector workplace and job role is recommended.

9.2 Performance Standard

Process employee salary, manage suspense account, asset register, office stationery, bank voucher, perform data clean and manage customer account as per standard operating procedures and in accordance to organizational policy.

9.3 Learning Outcomes

9.3.1 List of Learning Outcomes

a) Process employee salary
b) Manage suspense account
c) Manage asset register
d) Manage office stationery
e) Manage bank voucher
f) Perform data clean
g) Manage customer account

9.3.2 Learning Outcome No 1: Process Employee Salary

9.3.2.1 Learning Activities

Learning Outcome No 1: Process Employee Salary	
Learning Activities	**Special Instructions**
1.1 Receive business customer request as per standard operating procedures 1.2 Verify business customer request as per standard operating procedures 1.3 Check business customer employee details as the company records 1.4 Check business customer account as per standard operating procedures 1.5 Capture details of business customer employee in the system as per organizational policy	Observation Discussion Case study

9.3.2.2 Information Sheet No9/LO1: Process Employee Salary

Introduction

The learning outcome covers; salary, process, validation of business customer details, verification of employee details, importance of verification of employee details, requirement for salary processing and costs involved with salary processing.

Definition of key terms

Salary: It is a form of compensation that employees receive from the employer for rendering services for a specific period of time as may be specified in the employment contract.

Process: It is a standard procedure that is followed in order to achieve specific outcome or result.

Content/Procedures/Methods/Illustrations

1.1 Business customer request is received as per standard operating procedures

The main aim of having an SOP in the organization is to ensure uniform performance efficiency and quality output while striving to minimize errors and miscommunication. In process employees’ salary, business customer request is received in form of payroll, where all employees’ details are captured.

Importance of having a standard operating procedure

- Ensures operational continuity. With a standard operating procedure, employee absence does not affect operations in the organization because any other employee can carry on with the work.
- It created efficiency and enhances profitability because of reduced costs and minimum errors/wastage.
- It contributes to quality output because all employees are procedurally guided from the start to the end of the process.
- It eliminates cases of fraud because the whole process is handled by multiple personnel.
- It enhances accountability because any error can easily be traced.

Business customer request is received in form of payroll, where all employees' details are captured. This information includes;

- Employee's name
- The branch at which the salary account is held
- The name of the employer, usually assigned the CIF ID
- The employee's CIF ID and his identification details, either the ID number or the passport number
- Employee's account status (either active, closed or "on hold")
- Employee's account number
- The currency in which payment is to be made
- The amount of salary

1.2 Business customer request details are verified as per standard operating procedures

Salary information for all employees working for a particular employer is usually maintained under the "employee maintenance". This information is kept after mainlining the employer's details. Once the payroll is received, all the details are verified against the record maintained by the company/bank.

The procedure to be followed may include;

i. Reviewing information captured in the payroll for each employee to ascertain the correctness of the information.

The information to be verified includes;

- Individual's details to ensure that all listed persons are employees of a particular employer.
- Funding information.
- Accuracy of the transfer expenses for each employee.

ii. Determination of any adjustments to be made, either on the account or payment information and the necessary action to correct errors identified during the reviewing process.
iii. After review, the payroll verification form is signed.
iv. A copy of payroll verification is retained for the current period.

Importance of verification of employee details

- It reduces the risk of fraud and error
- It supports a safe environment within which individuals and business payments are made
- It reduces errors in the payment information. This ensures that customers get the best experience
- Ensures that no active employee is left out and that all inactive employees are not included

1.3 Business customer employee details are checked as the company records

Company record is a list of all employees of a particular company is usually maintained under the "**Employee Detail Maintenance**" file. Once they are received, they are cross checked.

Importance of checking business customer details as the company records

- It helps in reducing errors and fraudulent cases
- It prevents processing of faulty information which can otherwise contribute to fraud and losses

Employee's details are maintained under the "Employee Details Maintenance" as filed by the company. Before processing payment, all particulars relating to each employee are checked against the record maintained by the company. The record usually shows the default salary amount for each employee (Salary that is periodically credited to the employee's account).

NOTE: It is important to check employee's details before processing payment because the salary amount may differ from the default payment for the current period.

1.4 Business customer account balance is checked as per standard operating procedures

After processing salary, the details can be viewed or retrieved using the "salary log". The details include the customer account balance and can be viewed along the following criteria:

- Branch.
- Salary date
- Category of product used in processing data
- Transaction reference

- Processing date
- Employer customer identification file
- Employer and employer account
- Employer’s account currency
- Salary amount
- Salary currency
- Employee’s customer identification file
- Employees account
- Employee’s account branch
- Employee account currency

The purpose of checking business customer account balance is to ascertain the success of employee’s salary process.

Requirements for salary processing

- Name of the employee
- Account number
- Employee account branch
- Employee customer identification file
- Salary amount
- Employer and employer’s account
- Employer customer identification file
- Employee reference number

Costs involved with salary processing

Standard costs and fees

These costs are associated with any payroll solution. There is normally a standard fee charged per month, ranging between $10 and $ 85, depending with the size of the company and the number of employees. The company will then have to pay additional monthly charges for each employee a charge ranging from $5 to $15. Some providers usually set a minimum cost of processing payment independent of the number of employees. Small companies with say 15 employees may pay standard costs ranging from $40 to $ 160 each month.

Additional fees

In addition the standard costs and fees, additional fees are normally charged by providers who offer additional services like;

- Direct deposit
- Generating tax forms
- Paper check printing
- Employee portals.

1.5 Details of business customer employee are captured in the system as per organizational policy

This is the final stage of processing employee's salary. After all the details are received, validated, verified, checked and processing costs paid, the business customer details and captured in the system. Although there exists no law that specifies that the details should be retrieved, the captured information including the employee's full name, email address and tax withholding details may be retrieved.

Importance of capturing employees details in the system

- It helps in keeping the updated record of all the employees under a particular employer
- It reduces the processing time
- The record kept serves as a reference for future purposes
- It makes it easier in case of future editing

Conclusion

This learning outcome covered salary, process, validation of business customer details, verification of employee details, importance of verification of employee details, requirement for salary processing and costs involved with salary processing.

Further Reading

1. Read on calculating earnings and deductions for employees

9.3.2.3 Self-Assessment

Written Assessment

1. Written Assessment the different view of payroll results can be obtained form
   a) Payroll status
   b) Remuneration statement
   c) Payroll result log
2. Additional fees are charged by providers who offer the following additional features except;
   a) Paper check printing
   b) Check processing
   c) Direct deposit

3. After processing salary, customer details can be retrieved using _________.
    a) Payroll journal
    b) Salary log
4. What is CIF in full?
    a) Customer identification folder
    b) Customer identification file
    c) Customer identification function
5. Which one of the following can be used to check the business customer account balance?
    a) Salary date
    b) Transaction reference
    c) All of the above
    d) None of the above
6. Salary information for employees working for the employer is maintained under?
    a) Employer's maintenance file
    b) Employee's maintenance file
7. Which of the following information is not among those retrieved by employer after salary processing?
    a) Withholding tax details
    b) Email address
    c) Employee's full name
    d) Transaction reference
8. Discuss any three forms of employee compensation.
9. Summarize the procedure that is followed when verifying business customer details.
10. Analyse the importance of having a standard operating procedure in an organization.
11. Discuss the main costs involved with salary processing.
12. Suggest the importance of checking and verifying business customer details before processing payment.

Oral Assessment

1. How do you verify employee details?
2. What do you use to validate customer details?

Practical Assessment

Administration of wages and salary is the process of compensating employees for the services rendered to the organization. Procedurally, people expect payment after work and such payment is usually expected on time. Over the past 10 years, Mozac Company has been paying its employees irregularly and sometimes end up losing money because of poor record keeping. Advice the management of Mozac company why it is important to develop a structured employee salary process and how it will be used to minimize these losses.

9.3.2.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip chart/whiteboard
- Phones
- Stationaries
- Furniture

9.3.2.5 References

Bleg, B. J and Judith, A. T. (2006). Payroll Accounting 2006. Nelson Education.

Bragg, S. M. (2003). Essentials of payroll. New York. Oxford University Press.

Milkoric, G. T. and Jerry, M. W. (2005). Compensation 8th edition. New York. McGraw Hill/Irwin.

9.3.3 Learning Outcome No 2: Manage suspense account

9.3.3.1 Learning Activities

Learning Outcome No 2: Manage suspense account	
Learning Activities	**Special Instructions**
2.1 Retrieve suspense reports as per standard operating procedures	Lectures
2.2 Analyze suspense reports are analyzed as per standard operating procedures	Group discussions
2.3 Identify source of suspense entries as per standard operating procedures	Illustrations
2.4 Act on entries in suspense account as per standard operating procedures	

9.3.3.2 Information Sheet No9/LO2: Manage Suspense Account

Introduction

The learning outcome covers; suspense, importance of managing suspense accounts, types of suspense accounts, the need for suspense accounts in banks, risks associated with suspense account, retrieval of suspense report, reconciliation and reversal of suspense items.

Definition of key terms

Suspense: It is the state of being undecided or doubtful about a situation suspense accounts are accounts where uncategorized transactions are recorded as the accountant gathers more information on how to categorize the transaction. A suspense account holds transactions temporarily. Moreover, it is used by accountants to record discrepancies in their accounting books.

Reconciliation: It is the process of ensuring that records are in agreement. It is used to ensure that money leaving the organization is equal to the money spent. It is mostly used to merge books of account.

Content/Procedures/Methods/Illustrations

2.1 Suspense reports are retrieved as per standard operating procedures

Suspense accounts are used in two scenarios. First it is used to record transactions that are unclassified. These are transactions that have little known details about them. For example, receiving money in the bank without description of the transaction. Secondly, a suspense account is opened when the trial balance does not balance. It is used to determine the transactions that were unrecorded or that were recorded incorrectly.

At the end of the financial year the suspense account shall be reviewed and all transactions should be classified and posted into their various books but if they are not the suspense account is included in the statement of financial position as an asset or liability.

Suspense Account Retrieval and Reconciliation

The process of suspense, account retrieval and reconciliation is as follows;

Step 1: Review trial balance account in the general ledger to make sure the debit and credit sides of the ledger are equal. If they are not equal calculate the difference so as to know the discrepancy.

Step 2: Ensure that the difference from the above calculation is reasonable.

Step 3: Check all transactions against the entries of the journal to make sure it was not an entry error. This step is to ensure that all records of each transaction are recorded; they are posted correctly and have accurate supporting documents.

Step 4: Validate transactions against trial balance to ensure that the posting are accurate.

Importance of maintaining suspense account

- Helps to keep accounting books organized: Suspense accounts helps accountants organize their entries and makes sure that they have all the necessary documents.
- They ensure that accounts are accurate – In case of an uncertain transaction, they are recorded so that they can be investigated further.
- They help to identify errors in the books of accounts.

How suspense accounts are used

i. When preparing a trial balance: When two sides of the trial balance do not match a suspense account is opened to help correct it in case debits are more than the credits, difference is recorded as a credit and vice versa.
ii. Uncertainty of the payment
iii. Uncertainty in classification of the transactions

How to analyze suspense accounts

i. Suspense account reports are made when your trial balance is out of balance or when you have an unidentified transaction.
ii. Suspense account is a general ledger account that acts as a holding account until the error is discovered or the unknown transaction is identified.
iii. When working with the trial balance, you can open one Suspense Account to hold all of the discrepancies until you find them.
iv. Suspense accounts are temporary accounts and must be closed by the end of your accounting cycle.

2.2 Suspense reports are analyzed as per standard operating procedures

Analysis of the suspense account is done after retrieval of the suspense report. Analysis of the suspense report is done by checking the transactions against the available supporting documents. Moreover, analysis helps to decide the kind of suspense account to open.

Types of suspense accounts

- **Trial balance suspense accounts**

This is listed on the trial balance under other assets and it remains there until the discrepancies are solved. If the debts are larger than credit difference will be posted in the suspense at as credit and vice versa.

- **Received payments suspense account**

This is when a suspense account is opened when an invoice is paid without further instructions or the accountant is unsure of the invoice being paid.

- **Accounts payable suspense account**

This suspense account is made if an asset is purchased and paid for but it won't be delivered unless it is fully paid for.

- **Suspense account Journal entries**

Suspense accounts are important in banks because sometimes there banking entered with invalid account numbers or the account does not exist due to deletion or being frozen. It is also used in mobile banking, for instance money transferred to another user will remain in the suspense account until it is withdrawn.

2.3 Source of suspense entries are identified as per standard operating procedures

There are many sources of suspense account entrants. This is mostly classified on the use of the suspense account. The sources of suspense accounts include; the trial balance, balance sheet and journal entries.

Trial balance

Trial balance as a source of suspense account entry if two sides of the trial balance do not match by the end of the financial year a trial balance is created to help balancing it.

For example, a bookkeeping system of a company is not computerized and at 30th September 2019 the book keeper was unable to balance the trial balance. The trial balance totals were:

Debit 1,796,100 Credit 1,852,817

The start of the trial balance will be;

Table 20: Trial balance

DR		Suspense Account	CR
Difference	56,717		

Balance Sheet

A suspense account can be located in any areas of a balance sheet. Either in the Assets, Liabilities, Revenues and Expenses section of the balance sheet.

For example: If a company receives Ksh. 50,000 but cannot find the reason for receiving the money. The cash asset will be debited but the account to be credited will be unknown therefore forcing the accountants to create a suspense account so as to investigate further the details.

There are many risks associated with use of suspense account. They are;

- If suspense accounts are not closed at the end of the financial year and presented with the final books of accounts it weakens the position of the company.
- They are associated with fraud
- They are most likely to be erroneous

2.4 Entries in suspense account are acted upon as per standard operating procedures

Suspense account examples

Receiving partial payment from customer

Receiving partial payment of Sh 20,000 from customer procedure.

Open suspense account, credit 20,000 to suspense account. Debit the cash account for the same amount.

Account	DR	CR
Suspense Account		20,000
Cash	20,000	

After receiving full payment, debt 20,000 to the suspense account credit account receivables for the same amount.

Account	DR	CR
Suspense Account	20,000	
Account receivable		20,000

This closes the suspense account.

Example 3

Not sure how to classify a transaction

A supplier invoice of Sh 200,000 of services on the suspense account debit suspense account credit account payable.

Account	Debt	Credit
Suspense	200,000	
Account payable		200,000

Later it is decided to bill on the purchasing account to close the suspense account credit suspense account and debit purchasing.

Account	Debt	Credit
Suspense		200,000
Purchasing	200,000	

Conclusion

This learning outcome covered suspense, importance of managing suspense accounts, types of suspense accounts, the need for suspense accounts in banks, risks associated with suspense account, retrieval of suspense report, reconciliation and reversal of suspense items.

Further Reading

1. Effects to the financial position of a company if the suspense account is not closed by the end of the financial year.

9.3.3.3 Self-Assessment

Written Assessment

1. If payment received from a customer and the accountant is not sure to which account to apply to which of the following is the correct journal entry.
    a) Debit suspense account
    b) Credit suspense account
    c) Credit cash sales
    d) Debit account payable
2. Which of the following situations require use of suspense account?
    a) An expense allocated to a specific department
    b) Payment of specific invoice
    c) Brokerage client purchasing securities
    d) Receiving partial mortgage from client
3. In case of a payable and it is uncertain to which department to charge it to, which is the correct journal entry?
    a) Debit account receivable
    b) Debit suspense account
    c) Credit suspense account
4. Which of the following is not a type of suspense account?
    a) Received payment suspense account
    b) Trial balance suspense account
    c) Account payable suspense account
    d) None of the above
5. Suspense accounts are used to correct errors in the trial balance.
    a) Yes
    b) No
6. Trial balance is a source of information for the suspense account.
    a) Yes
    b) No
7. Suspense account's contents are uncategorized transactions.
    a) Yes
    b) No
8. Discuss the importance of suspense accounts.
9. Elaborate the risks of suspense accounts.
10. Elaborate the use of suspense accounts in banks.
11. |Evaluate suspense account reconciliation process.
12. Discuss reversal of suspense items.

Oral Assessment

1. What are the sources of suspense account information?
2. What is a suspense account? State its uses.

Practical Assessment

The following suspense account was created with a debit balance of Ksh. 350,000 to balance the trial balance.

Subsequently the following errors were also found:

a) Closing balance of the purchase ledger is under cast by Ksh. 16,000
b) Cash received of Ksh. 45,000 is only entered in the cash account
c) Purchase returns has been overcast by 26,000

What is the remaining debt balance in the suspense account after correction of the errors?

9.3.3.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip chart/whiteboard
- Phones
- Stationaries
- Furniture

9.3.3.5 References

Glynn, J. (2008). Accounting for Managers. London: Cengage Learning.
Nicholson, M. (2006). Mastering accounting skills. Basingstoke Palgrave Macmillan.
Rasni, S. (2016). Basic accounting. Prentice. Hall of India.

9.3.4 Learning Outcome No 3: Manage Asset Register

9.3.4.1 Learning Activities

Learning Outcome No 3: Manage Asset Register	
Learning Activities	**Special Instructions**
3.1 Mark bank assets as per standard operating procedures 3.2 Post bank asset in asset register as per standard operating procedures 3.3 Maintain bank asset register as per standard operating procedures 3.4 Handle asset requisition as per organization policy	Discussion Oral Assessment

9.3.4.2 Information Sheet No9/LO3: Manage Asset Register

Introduction

The learning outcome covers; asset register, different types of assets found in a bank, importance of maintaining asset registers, process of marking assets, details to capture in asset register, depreciation of assets, how to determine the cost of the depreciated asset, disposal of asset and repair of assets.

Definition of key terms

Asset: An item owned by the company and it has value to the company, for example, cash as an asset can be used immediately by the firm.

Asset Register: This is a list of the assets owned by the company and the list shows the price quantity of different type of assets.

Disposal of asset: Disposal means the sale of an asset in order to replace with another one or it can also means the process of getting rid of an asset because it has depreciated.

Depreciation: This is when an item value have been declined from the initial price, for example, the machine have been fully utilized at the extent that it cannot be able to provide certain service in the firm.

Cost: This involves an agreed sum of money between the buyer and the seller in order to acquire the asset

Content/Procedures/Methods/Illustrations

3.1 Bank assets are marked as per standard operating procedures

Bank assets have different types of assets, including physical assets for example a bank may owned, long term loans, equipment, land cash, investment or even the securities.

Several methods can be used to mark the asset as illustrated below;

i. **Invisible marking:** UV pens put an invisible mark on the asset owned by the bank such as vehicles that can only be seen under UV light. These markers are cheap and easily available.
ii. **Use of adhesive tag:** The method involve permanently affix the identification information to the asset by using a standardized adhesive tag. This method is beneficial to the tangible assets.

Marking an asset is beneficial to the bank as follows;

- Marking an asset help the bank to prevent loss of an asset since the assets are labeled and well known.
- Marking an asset in the bank shows how much the bank can receive from the marked item whenever it is disposed of, meaning that the bank is able to value an asset in current value.

Bank assets are marked as per standard procedure process as illustrated below;

i. Identify the type of the asset to be marked and then categorize the asset here marked are physical ones since label is attached to it.
ii. A unique identification number may be assigned to an asset so that there would be no confusion.
iii. Always counter check the asset and determine the kind of a label required, if the permanent label is required well and done, the label should be attached.
iv. In the bank we may have information infrastructure systems for maintaining the asset register to some information relating to the asset should be entered into the systems.
v. Lastly the label should be attached to the asset or the mark should be entered at a correct place in the asset.

Details contained in an asset tags or labels include unique codes, serial numbers, and location details among others.

3.2 Bank asset are posted in asset register as per standard operating procedures

When adding a new asset in the asset register as per standard involves recording an asset on the register that is debit the asset purchase to a general ledger asset account, a unique code for the asset must be entered in the register. One can delete an asset from the register only when it has no current value or even the asset may be sold and thus need to be eliminated from the register.

When posting depreciation two accounts are involved, that is;

- **Accumulated depreciation**

This is a contra account to the asset, accumulated depreciation will decrease the value of an asset on the balance sheet thus referred as contra account.

- **Depreciation expense account**

This records the expense from using the asset on the income statement. It is important to post an asset in an asset register since the bank can keep track record of the asset that it owns. The company is also able to determine the costs associated such as maintenance cost as well as full record of an asset is kept in summary form. The information posted in asset register is usually used by the auditor in verification of assets and also in validation of the fair value of the asset. Information posted in an asset register includes physical items such as vehicle whereby the initial cost of the vehicle is recorded and also the fair value after now the asset have been used, the depreciated value can be determined from the register. The accounts department ensures that the information relating to the asset is protected in order to enhance security of information to the third party.

Depreciation of an asset

Example:

A motor vehicle was purchased on 1st January 2015 at a cost of Ksh. 2000,000. The fair value of an asset on 1st January 2019 has amounted to Ksh.500, 000. Use a straight line method to determine the amount of depreciation**.**

$$Depreciation = \frac{Initial\ Cost\ -\ Fair\ Value}{Economic\ Life\ (years)}$$

$$Depreciation = \frac{2000{,}000 - 500{,}000}{4} = \text{Ksh.}\,375{,}000 \text{ shillings}$$

Therefore, on the asset register book debit a value of Ksh. 375,000 shillings and credit the depreciation account with the same amount for the double entry to be complete. While disposing an asset credit Ksh. 375,000 in the asset register and then debit depreciation expense account.

Table 21: Depreciation expense account

DR	**Depreciation expense account**				**CR**
Date	Detail	Amount	Date	Detail	Amount
	Bal c/f	375,000	1/1/2019	Accumulated depreciation	375,000
		375,000			375,000
				Bal b/f	375,000

Table 22: Accumulated depreciation account

DR CR	Accumulated	Depreciation	Account		
Date	Detail	Amount	Date	Detail	Amount
1/1/2019	Depreciation	Sh. 375,000.00	1/1/2019	Balance c/d	Sh. 375,000.00
		Sh. 375,000.00			Sh. 375,000.00
	Balance c/d	Sh. 375,000.00			Sh. 375,000.00

On the Asset Register enter Ksh. 375,000 as the value of cost.

Repair of an asset

Repairing cost this is the cost incurred to bring an asset back to an earlier condition or to repair means to keep asset at its operating present conditions.

Example;

If a company motor vehicle is damaged, the cost to repair the damage is immediately debited to repairs and maintenance expense.

Routine maintenance such as engine tune ups, oil changes radiator flushing the cost incurred is also debited to repairs and expense.

Disposal of an asset

Disposal of an asset involve eliminating the assets from the accounting records, for example, when an asset is sold its value is eliminated from the Asset register. Fixed assets are the one's which are being disposed; a gain or a loss is obtained when an asset is sold. A proper fixed asset disposal is of some importance from the perspective of maintaining a cleat asset register so that the recorded balances of fixed assets and accumulated depreciation properly reflect the assets actually owned by a business.

Example

ABC Company sells a machine for Ksh. 1000,000 and recognizes Ksh.100, 000 of depreciation per year over the 5 years the initial cost was Ksh.2000, 000 the entry is:

DR	**Accumulated depreciation account**				**CR**
Date	Detail	Amount	Date	Detail	Amount
1/1/2019	Accumulated Depreciation	Sh. 500,000	1/1/2015	Machine asset	Sh. 2,000,000
1/1/2019	Cash	Sh. 1,000,000			Sh. 375,000
	Loss on asset disposal	Sh. 500,000			Sh. 2000,000
		Sh. 2,000,000			

On the asset register eliminate Ksh. 2000,000 the initial cost of the machine.

3.3 Bank asset register are maintained as per standard operating procedures

Bank asset register is a document that consist of all assets which are found in the bank, bank asset register consist of physical assets such as cash, building, land as well as non-tangible asset like securities (shares).

Importance of Asset Register

- Bank asset register assist in conducting audit of the asset in the bank for example when an auditor is hired he/she always examine the asset register in order to verify the asset.
- Bank asset registers help in estimating the repairs and maintenance cost that is the management is able to repair an asset on time thus avoiding wastages of purchasing new assets.
- Bank asset register help the bank to calculate depreciation annually since the information relating the depreciation are provided in the asset register.
- Bank asset register help to meet the statutory requirements, there might be either rules guiding the bank on how to treat some assets into register and this therefore help to prevent misconduct of organization behavior.
- Bank asset register help to assist in both short and long term planning. The assets can be classified and categorized in a fixed asset register during impact analysis of risk assessment so as to identify those resources that require that extra bit of security.

Asset bank register is maintained in different ways for example for a fixed asset, assets can be registered through the software, such as excel sheet; excel sheet is an integrated accounting software whereby assets are recorded by use of simple spread sheet like excel to sort fixed assets using any criteria like date of purchase; for example, to make replacement decision, the details concerning an asset are entered in the software and then maintained the register is kept clean and when retrieving any information from the computer saves time since use of computer increases speed. The method of maintaining a bank asset register is by use of a book.

The book is maintained by an accountant whereby the details concerning the assets are written down and the information about the asset is deleted when an asset is disposed. The assets that are maintained in the bank asset register include; land, loan, investment or security, building, motor vehicles and some technological equipment.

3.4 Asset requisition is handled as per organization policy

Organization policy is the rules and regulations which manage an organization. Organization policy states out the terms to be followed by the management when carrying out certain activates. Organization policy also outlines what to be followed in case an employee refuses to follow the rules and regulations written in the organization.

Importance of organization policy

Policies in an organization are beneficial since they outline what is expected to be done and at what time

- Policies in an organization help to settle down the problem, the policies offer solution to certain questions in an organization, for example whom and who to report on certain matters.
- Policies in an organization simplify work, since the employees are able to follow the steps of carrying certain job, to a certain limit. This simplifies work to be done.

Asset requisition is the act of demanding or laying a claim to the use of a product. We have a purchase requisition document used when buying an asset, the purchase requisition happens when the company disposes off an asset and it want to replace it with another one. Purchasing requisition tells the purchasing department or the manager exactly what items and services are requested, the quantity, source and the associated cost.

Purchasing order is made after submitting the purchasing requisition listing items that are required to be purchased from an outside vendor. The requisition are required for small purchases, it is often standard procedure for internal department to buy items direct from retailers using a company credit card and skip the process of requisitioning the purchasing department altogether.

The following information is included in purchasing order whenever it is being issued as illustrated below:

a) **Name of purchasing office:** As the policy of the organization empower a procurement office on buying an item, so the name of the office should appear in the document.
b) **The pay terms:** Example we have a discount terms, hire purchase agreement terms, such term are included in the requisition purchase order in order to avoid conflict on time of payment.
c) **Invoicing instructions and the purchase order number:** This ensures that no confusion between the parties and in order to assist in record keeping, purchase order typically have same number as associated purchase requisition.

An organization can still have a purchase order for internal transactions, for example one department may wish to purchase an item from the other department and in such cases an organization may require the purchasing department to submit an interdepartmental purchase order.

Conclusion

This learning outcome covered; asset register, different types of assets found in a bank, importance of maintaining asset registers, process of marking assets, details to capture in asset register, depreciation of assets, disposal of asset and repair of assets, methods of calculating depreciation and how to treat the accounts of financial statements that is depreciation account and expense income account. The learning outcome also covers requisitions both purchasing requisition and purchasing order requisition and the importance of purchasing requisition to different organization.

Further Reading

1. Read on purchasing order requisition
2. Methods of valuing an asset during the time of disposal.

9.3.4.3 Self-Assessment

Written Assessment

1. What is the importance of maintaining bank asset register and which one is not?
   a) It helps in estimating the repairs and maintenance cost
   b) It helps to meet the statutory requirements
   c) It helps to conduct audit assessment in bank
   d) It keeps information about the liability of employee's compensation

2. Which one of the asset is not kept in the bank asset register?
    a) Land
    b) Cashbook
    c) Building
    d) Vehicle
3. When posting depreciation of an asset two accounts are used, that is accumulated depreciation account and expense income account. Identify the correct answer.
    a) None of the below
    b) No
    c) No/Yes
    d) Yes
4. Identify the information that is not included in purchasing order requisition.
    a) Name of purchasing office
    b) Pay terms
    c) Purchase order number
    d) Cash enclosed in an envelope
5. Do the large organizations maintain asset register?
    a) Yes
    b) No
    c) Yes/No
    d) None of the above
6. Which information is not correct concerning the marking of assets methods?
    a) Use of adhesive tags
    b) Use of fire to burn assets
    c) Use of labels
    d) Use of invisible marks
7. Identify which one of the following is not contained in asset tag/labels.
    a) Serial number
    b) Pin code/unique code
    c) Location details
    d) None of the above
8. Analyse the process of registering assets in the list.
9. Briefly discuss asset register.
10. What is purchase requisition and the function of requisition purchase order in an organization?
11. Discuss different types of bank assets.
12. What do you understand by disposal of an asset?

Oral Assessment

1. What is asset register?
2. What is amortization in asset?

Practical Assessment

Identify one company of your choice, visit and ask for the asset register, and briefly outline the contents it contains.

9.3.4.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip chart/whiteboard
- Phones
- Stationaries
- Furniture

9.3.4.5 References

Maheswari, S. N. (2001). Advanced accounting. New Delhi: Vikas publishing House, PVT limited.

Michael, R. Lewis. (2019). How to prepare Asset Register.

Richard Lewis and David Pendrill. (2002). London: Pitman publishing.

9.3.5 Learning Outcome No 4: Manage Office Stationery

9.3.5.1 Learning Activities

Learning Outcome No 4: Manage Office Stationery	
Learning Activities	**Special Instructions**
4.1 Maintain record of bank stationery as per organizational policy 4.2 Handle new asset requisition as per organization policy 4.3 Manage reorder level as per organizational policy 4.4 Dispose obsolete stationery as per standard operating procedure 4.5 Maintained stationery room is maintained as per standard operating procedure	Oral tests Written Assessments

9.3.5.2 Information Sheet No9/LO4: Manage Office Stationery

Introduction

The learning outcome covers; stationery, types of stationery needed in a bank, importance of managing stationery, reorder level, acquisition of stationery, disposal of obsolete stationery, stationery cost management, maintenance of the stationery room, storage of stationery, different methods of arranging stationery and retrieval of stationeries.

Definition of key terms

Stationery: Refers to writing materials and other office supplies.

Reorder level: It refers to inventory level at which a company would place a new order to the organization to run. It also refers to new manufacturing of products in the organization.

Content/Procedures/Methods/Illustrations

4.1 Record of bank stationery is maintained as per organizational policy

Organization policies are company's general statements of how an organization want and should behave and exactly how to do things. Organization policy record bank stationery in an orderly manner and the way it is needed of them.

Define stationery referring to commercially manufactured writing materials e.g. cut paper envelopes.

Sample/Illustrations

- The flat card
- The memo card
- Contact card
- Stamps and embossers
- Engraving

Other classification that may be needed

- Ink and toner
- Filling and storage.

Importance of recording bank stationery

- Aim the company in a positive and professional manner.
- The company will leave a long lasting impression.
- It keeps the records for future reference

Procedure of recording bank stationery

i. The user departments may inform the purchase officer to buy the stationery items which have reached the minimum level.
ii. The purchase officer may place the order by considering the rate of use of stationery and the balance of stock in hand.
iii. Reorder quantity is taken into account for placing an order.
iv. The purchase officer has to consider offer, discount, price, offer sides services.
v. The purchase officer make enquiries from the supplier's about the terms and conditions of supply and asset price lists quotations etc.
vi. The purchase officer has to prepare the statement based on price list
vii. The purchase officer can negotiate with suppliers based on lowest price quoted by the supplier.
viii. The suppliers has to decide the terms and conditions for supply of stationery items and purchasing officer the order has been placed with the selected supplier I a prescribed form.
ix. The purchasing order contains the details like quantity, quality, rate, time of delivery, terms of payment.
x. The purchasing officer or the office manager may sign the order.
xi. The officer has to check up the stationery items whether they are supplied according to order or not.
xii. After receiving the stationery items, entries are made in the stationery stock register under appropriate heads.
xiii. The purchase officer has to inform the department which requisitioned the stationery regarding receipt of the same from the supplier.

Methods of recording bank stationery

- Tender
- Quotations
- Fixed suppliers

Illustrations of record of bank stationery

It is being illustrated by use of graphs and images.

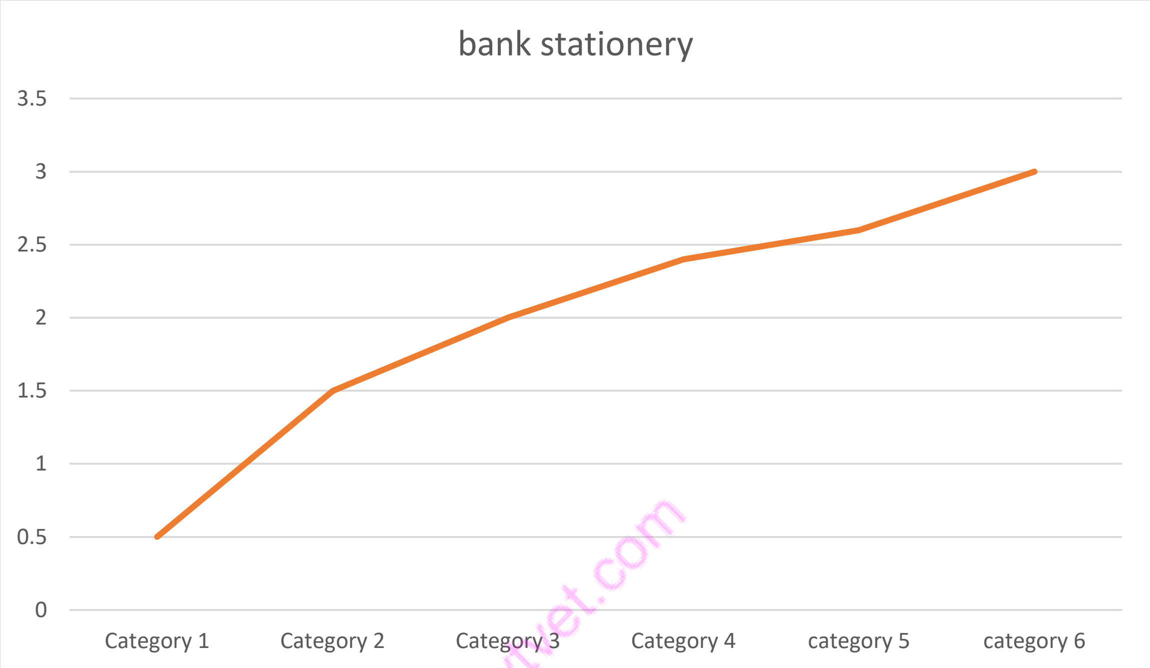


Figure 34: Record of bank stationery

4.2 New asset requisition is handled as per organization policy

Requisition refers to request for goods and services made by the employee to the person or department in a company that is responsible for purchasing.

Procedure for requisition

i. **Delivery date:** Enter the date you need for the delivery of the purchase
ii. **Vendor:** If requesting a quote ad a vendor has not yet been signed provide information of possible vendors in the document text box.
iii. **Shipping:** If the products are to be delivered to a department locate keep the shipping code.
iv. **Comments:** Don't enter important information in the comment box. This information does not appear on the requisition information when printed.
v. **Document text:** This box is used to provide details to procurement or financial services e.g. quote number, specification in delivery.
vi. **Item number:** Type in a description of the item wanted to purchase.
vii. **Commodity code:** The commodity code should match the account number.
viii. **Quantity and unit price:** Enter the quantity of the item requested

ix. Once finished entering all the information for the requisition click on validate at the bottom.

Importance of a requisition

- A document used when an employee needs to make a purchase
- Acts as a procurement process of a business organisation
- It controls documents

Content of requisition

- Description of the materials
- The date when the materials are required
- The date of delivery of the ordered products
- The quantity of the materials
- Authorized signature of the department

Methods of requisition

The requisitions application supports processing requisitions with demand on stock and with demand on lenders as same as process.

4.3 Reorder level is managed as per organizational policy

The reorder point formula is determined through three metrics;

- Average daily usage: How much of this product is sold in an average day.
- Lead time (average lead time). The amount of time between your order ad receiving the goods
- Safety stock: An extra reserve of stocks in case you unexpectedly run out.

Why is the reordered point formula important?

- Keeping a product in stock is delicate balancing act
- The reorder point formula has been mitigating this problem for long time, inventory management software exists to speed up and automate the process.
- Solving the reorder point formula manually is a method of inventory management

How do you solve the reorder point formula?

For the sake of simplicity the article will use one month as the example time period.

$$Number\ of\ sweaters\ sold: 85$$

$$Number\ of\ days\ in\ the\ month: 30$$

$$85/30\ =\ 2.83$$

Beyond the reorder point formula – remember that each step of the equation we just went through is something that needs to be run for every single product variant you sell.

Procedure of reorder levels

After you've made your preparations, the actual ROP formula is:

$$Reorder\ point: average\ daily\ usage\ \times\ average\ lead\ time\ in\ days + safety\ stock$$

$(10 \times 7)\ +\ 50 =\ 120$ Your inventory reorder point is $120\ units$

$Reorder\ point\ =\ maximum\ daily\ usage\ \times\ maximum\ lead\ time\ days$

Methods of reorder levels

i. **Reorder point strategy:** If you use the reorder point strategy, you select a stock level that signals when it's time to reorder inventory for instance if you stock 1000 pillows you may set your reorder point to when 200 pillows remains in your inventory.

ii. **Periodic strategy:** Every three months you look at the levels to see if they need replenishing

iii. **Top – off strategy:** The top off replenishment strategy also known as lean time replenishment takes advantage of times when picking operations are slow to bring stock to acceptable levels in forward pick locations.

iv. **Demand strategy:** Many businesses uses the demand strategy for inventory replenishment its simple and straight forward replenishment is based on demand.

v. **Lot sizing methods:** Are determined by the tradeoff between the carrying costs the cost of ordering supplier.

4.4 Obsolete stationery is disposed as per standard operating procedure

Obsolete: Refers to outdated items/assets of different kinds and the term in general has several meaning e.g. Equipment's and machines.

Stationery: This refers to commercially manufactured writing materials such as cut papers, envelopes

Content of obsolete stationery

- **Delete it without a trace:** Your first option is the easiest but it is not without its drawbacks with this option you will simply delete the content.
- **Delete it and let users know about it:** If you need to delete something let users know why you are deleting it.
- **Update it:** Update the obsolete portions of your content to be relevant for the modern update it with statistics.
- **Create a follow up:** While giving your client something new to consume as an extra measure update the original piece with a link pointing to the new follow up'
- **Make fun of yourself:** Make fun of yourself to your current client and followers.
- Archive it: Some brands have implemented an archive system which allows them to keep some of their older less relevant posts without making them easily accessible to new users.
- **Leave it alone:** You could choose to leave your old content alone entirely.

Types of stationery

- Papers
- Envelopes
- Writing implement
- Supplies

Procedure of obsolete stationery

Maintenance procedure

i. It is responsible of the instructor to report all equipment repair needs to the maintenance
ii. The maintenance department will identify the issue and if necessary obtain quotes from vendor to arrive at the best repair price or replacement.
iii. An assessment will be made to determine if its more visible to repair the equipment
iv. A purchase order will be generated and sent to the director for approval.

Disposal of equipment procedures

i. When it is determined that the equipment is no longer functioning or is obsolete, the instructor complete and inventory complete and inventory removal form.
ii. Disposal of equipment is removed to the warehouse until an inventory meeting is held.
iii. The technology manager or fiscal officer maintains a record of the disposition of equipment.
iv. All equipment being removed must be board approved if the item is over $25000
v. The warehouse manager is responsible for ensuring that disposed of items are deleted from the equipment inventory.

4.5 Stationery room is maintained as per standard operating procedure

Stationery room refers to a place whereby inventories are being stored e.g. Materials include; cut papers, content of stationery room, storage where place goods, room service, writing desk, cell phone and computers, video products where effective video solution for your business and stock register.

Procedure of stationery room maintained

i. The size of the room to operate
ii. The location based to operate
iii. The number and size of machines that are required in the room to maintain
iv. Number of workers to operate in stationery room
v. Time duration of time take to run the office

Methods of stationery room.

- Maintenance
- Managing office supplies
- Limit access to supplies
- Strategize when to reorder supplies: Many companies offer discount when companies order in bulk.
- Keep an inventory log to ensure how many supplies the office has.

Maintenance of stationery room.

- Purchase and supply of office stationery and sanitation items
- Auction of obsolete items
- Disposal of waste papers
- Repair of rubber stamps.
- Purchase of office vehicles and bicycles and their maintenance.

Importance of stationery room

- It stores materials such as envelopes in the office
- It is secure to store inventory of organisation
- It is easy to know where materials are located since its being arranged accordingly.

Conclusion

This learning outcome covered: Stationery, types of stationeries needed in a bank, importance of managing stationeries, reorder level, acquisition of stationeries, disposal of obsolete stationeries, stationery cost management, maintenance of the stationery room, storage of stationeries, different methods of arranging stationeries and retrieval of stationeries.

Further Reading

1. Read more on hot sizing methods

9.3.5.3 Self-Assessment

Written Assessment

1. Which one of the following is the importance of an office?
   a) Office acts as a center of information
   b) The office doesn’t acts as center of information
   c) The office can’t control the organisation
   d) Has poor communication system

2. How do you manage confidential information?
    a) Not records information
    b) By use of file records
    c) Information from employees suggestions
    d) By unrecorded receipts
3. The following are the importance of maintaining office equipment EXCEPT?
    a) For leisure
    b) For long lasting of machine duration
    c) To maintain the machine clean
    d) For responsibility purposes.
4. What should be considered in the preparation of reports?
    a) Decide on a good structure
    b) Don't form the procedure
    c) Start the reports without title
    d) Try to impress
5. Which one of the following is a method of controlling errors in the office work?
    a) Avoid checkup of records
    b) Don't negotiate with employees
    c) Cause conflict in case of errors in the office
    d) Bring the reality check on the table
6. What is the importance of keeping records?
    a) For fun
    b) To use it randomly
    c) To correct the users
    d) For future reference
7. Which one of the following the manager use to assist them in the organization?
    a) Chain of command organisation
    b) Staff organisation
    c) Line and staff organisation
    d) Line organisation
8. Suggest maintenance of stationery
9. Discuss functions of office manager
10. What are the records of bank stationery?
11. Discuss method of controlling errors in the office
12. Elaborate procedure of requisitions.

Oral Assessment

1. What is an envelope?
2. What is the difference between stationery and stationary?

Practical Assessment

During free time the students have to research on effects of office layout e.g;

a) Productivity
b) The requirements to unite together office layout
c) Effects on employees.

9.3.5.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip chart/whiteboard
- Phones
- Stationaries
- Furniture

9.3.5.5 References

Routledge (2017). Manage office stationery. 2 Park Square, Milton Park, Abingdon.

9.3.6 Learning Outcome No 5: Manage Bank Voucher

9.3.6.1 Learning Activities

Learning Outcome No 5: Manage Bank Voucher	
Learning Activities	**Special Instructions**
5.1 Check vouchers against record as per standard operating procedure 5.2 Reconcile vouchers as per standard operating procedure 5.3 Archive vouchers as per standard operating procedure 5.4 Retrieve vouchers as per standard operating procedure 5.5 Destroy vouchers as per standard operating procedure	Group discussions Case study

9.3.6.2 Information Sheet No9/LO5: Manage Bank Voucher

Introduction to learning outcome

The learning outcome covers; defining a voucher, types of vouchers, importance of managing vouchers, ticking of vouchers, storage of vouchers, retrieval of vouchers, disposal of obsolete vouchers, voucher confidentiality and the importance of maintaining confidentiality. It will also cover on how effective voucher management will boost on managing and processing of transactions faster and efficiently also during the process it will be auditing and tracking within the system to maximize security and reduce the fraud risk.

Definition of key terms

Bank Voucher: Is the backup of the documents for accounts payable by company's department through filling and gathering all the supporting documents required to validate the payment of liability.

Voucher: It is a check or form describing and authorizing the transaction of a liability to a supplier

Voucher reconciliation: This is the comparing of each transaction in accounting records with the same transaction in financial statement it ensures accurate accounting records

Content/Procedures/Methods/Illustrations

5.1 Vouchers are checked against record as per standard operating procedure

Voucher is a form or check describing and authorizing the transaction of liability to a supplier. The voucher is very crucial; since it's an internal accounting control mechanism that ensures each payment is validly authorized and that the products purchased are actually received. Voucher document include; the shipping receipts, general ledger accounts, due date, amount owed and suppliers invoice.

Accounts payable of the balance sheet is recorded as one lump sum whereby lump sum entail all amount of outstanding vouchers owed that are totaled. A firm might need to purchase raw materials or inventory from producers that are used in company's goods production. The producers can grant extension of credit to the firm through an agreement of payment to be made on a later date such as after 1, 2, 3 or 4 months. Voucher includes all documents support that shows the funds owed and any payment made to a vendor or supplier for an outstanding payable.

Voucher register records the voucher and the necessary documents, vouchers supporting documents includes ; company purchase order, supplier name to be paid, suppliers invoice, receipt indicating that products were received by the firm from the supplier, general ledgers, accounts to be used for accounting purposes, for the purchase ad payment should have authorized representative signatures of the company, proof of payment and date once the invoice to the supplier has been paid and payment terms such as the due date, money owed and discounts granted by the supplier for paying the invoice early.

Vouchers total amount that have outstanding balances owed are on the balance sheet recorded as account payable. When the voucher is paid the proof of payment is recorded as paid voucher which is included in the voucher.

Importance of vouchers

- They help to act as a proof of transaction that has been carried out
- Vouchers help in the auditing procedures as they are source documents for financial statements
- In case there is a loss of receipt a voucher can be used to validate a previous transaction
- They help to show that there are no vicious purchases or sales.

Types of vouchers

- **Purchase voucher:** A record that shows that a purchase has occurred
- **Adjustment voucher:** A record that shows changes in the business activities or changes in the business stock.
- **Sales voucher**: A record that proofs the sale of stock.

- **Payment voucher:** Is a document used to proof that monetary transaction has occurred between the supplier and the buyer. Businesses uses payment voucher for various purposes taking the place of cash in a transaction and indicating that an invoice has been approved for payments
- **Receipt voucher:** It is issued by firms after receiving payment in checks or cash during transaction. The voucher includes the total amount, signature of the recipient and issuer, date and names of products.
- **Supporting voucher:** They are vouchers that act as a proof of firms' transaction records e.g. memo, cash, check, sales invoice etc.
- **Noncash/ transfer/Journal voucher:** They are documentary proof of non-cash transactions. These vouchers are usually prepared to record non cash transactions of the firms involves transactions which move value from one point to another without involving cash money ad must be registered on vouchers. Ticking of vouchers is ensuring that the vouchers are audited and due diligence is taken care of, whereby different colors of ink are used. It also contains information guiding clients.

5.2 Vouchers are reconciled as per standard operating procedure

Large amount of income can be lost through theft of physical or the loss of vouchers, which can affect the baseline of your firm/SME. Good voucher management eliminates this uncertainty by ensuring data integrity and security is achieved through the encryption of vouchers. An effective voucher management system helps you manage payments conductively. For it to happen you should find right voucher management system and incorporate into your business. In which important features to look for includes; the voucher encryption, audit trail, voucher generation and multiple channels.

The importance of managing vouchers

- Less complexity. The use of good voucher management system ensures effective integration. By feeding in the needed details and charges of transactions from the point of sale terminal, transactions can be made more easily and accurately. Also there is no need of physical vouchers printing hence having additional significance of costing saving.
- Attracts new customers vouchers given away can assist attracting ew customers such as giving away e-vouchers as part of your digital/ social media campaign. The greatest way of attracting more consumers and staying socially connected is through awarding a winner with an e-voucher.
- Increase sales through selling of vouchers as new form of 'gift cards'. It can be done online by issuing codes of redemption or physical cards with codes on it. When consumers knows that using the voucher will help them save some money, they will tend to do more shopping. This leads to more sales.

- Increase customer's loyalty. Simple way of thanking your customer is through giving vouchers. This builds stronger relationships with them and compel them to have more trust in you, it is an efficient way of keeping you from switching brands. This usually promotes long term loyalty by encouraging the customers to make another purchase when they are awarded by vouchers.

5.3 Vouchers are archived as per standard operating procedure

A staff assigned a register/ particular book / file will be accounted for its custody during the working hours. But overnight all current records must remain under lock and key, in the hands of the assigned section. The incumbent in charge in the strong room or safe should have the duplicate keys of all receptacles with relative tags.

How vouchers are archived

i. All registers and books that are currently used must be serially entered in the register of current-cum-old records the files being filled section wise at separate openings which must be indicated on their covers.
ii. Where there is multiple numbers of branches, record warehouses might be opened whereby all nearby branches records might be stacked branch wise or sidewise and year wise at metropolitan centers. Record section space to be created within the branch premises which have space. Branches with limited space might be allowed to have record room by acquiring sufficient space on rent after examining the space available.
iii. All papers and documents that has connection with account opening forms must be kept in the strong room overnight. The locked loose leaf binders of specimen signatures must be placed in the strong room.

5.4 Vouchers are retrieved as per standard operating procedure

Vouchers are back-up documents that are kept by business or bank to validate payments or receipts. All transactions require to have voucher document for future references. These vouchers can be stored in either physical or electronic forms. Arrangements of backup should be in place for all records stored electronic form or any other record subjected to risk of loss. Regular testing is undertaken for retrieval of data when and as required that disaster recovery and company continuity systems are in place as per banks information security policy.

Data should be sufficient in order to monitor assess and control the risks available, nature and purpose of every payment is explained besides observance of all regulatory and statutory obligations. Data is available in a format suitable for the purpose for which it is available and required to authorized individuals (internal/ external auditors and RBI inspectors) on a timely basis. Retrieval request is a method of receiving a copy of the paper work to validate a transaction.

The request comes from the credit card user or cardholder and is received by acquires or bank. Most of these requests are made to support investigation into fraud, validate a charge back or in response to customers request such as needing it for filing.
Banks should act on retrieval requests as an opportunity to stop chargeback before it's filed either through issuing a refund or by providing detailed information to resolve the issue. Therefore once voucher has been deleted the funds are reversed into the client account. This is the process applied with Stanbic Bank when customers' requests for money voucher retrieval.

Importance of vouchers

- Enables validation of transaction to be monitored easily through the available copies.
- Provides information supporting investigation of fraud
- Validates a back charge of customers request such as needing it for filing.

5.5 Vouchers are destroyed as per standard operating procedure

Step 1: Records destruction upon expiry of the period as prescribed in policy statement and as per SOPs.
Step 2: Approval prior to destruction and authorization by control measure, providing of procedures for destruction of electronic media like tapes, floppies etc. as per the banks policy. The other department of the bank shall keep record in the registers providing information of the documents in paper/electronic or other form destroyed in consistent with the date and means of destruction

Procedure for removal and destruction of old records

First the old record meant for destruction which are due for destruction including obsolete printed stationery book/forms (apart from security books) to be recorded in a separate register whereby the following particulars will be recorded and confirmed by the incoming in charge/ officer under this initials.

Serial number, description of book or file starting date, end date, date of destruction and means used for destruction. Old records meant for destruction must be burnt in the presence of incumbent in charge and the officer. After destruction of the records, certificate is set to concerned zonal officer by branch office.

Voucher confidentiality in vital assets contain an all details of the customer. Banks are mandated with legal duty of protecting the confidentiality of existing and former customers. In banking sector the following principles govern the banks collection and storage of customer information, customer rights to access information about themselves and the disclosure of personal information

Importance of confidentiality.

- Confidential details in wrong hands can be used to commitment of illegal activities such as discrimination or fraud, which can be in turn result to costly lawsuits for the employer and can lead to loss of productivity
- Poorly security and protect in confidential business information can lead to the loss of business/ clients
- It helps in building confidentiality and trust from the customers hence creation of more sales ad future cross selling to the existing clients.
- Respect for client confidentiality and personal information should be top priority for all banking services to comply with.

Conclusion

This learning outcome has covered definition of a voucher, types of vouchers, importance of managing vouchers, ticking of vouchers, storage of vouchers, retrieval of vouchers, disposal of obsolete vouchers, voucher confidentiality and the importance of maintaining confidentiality. It also covered the effective voucher management which led to efficiency in managing and processing transactions.

Further Reading

1. Ticking of vouchers
2. Impact of effective voucher management to banks/ firms

9.3.6.3 Self-Assessment

Written Assessment

1. “A check or form describing and authorizing the transaction of a liability to a supplier.” The statement above describes?
   a) Voucher
   b) Voucher reconciliation
   c) Voucher management
   d) Voucher confidentiality
2. The following is the list of vouchers document EXCEPT?
   a) Shipping receipts
   b) Documentary proof
   c) Due date
   d) General ledger accounts

3. Which of the following is not vouchers supporting document?
   a) Supplier name to be paid
   b) Supply invoice
   c) Company purchase order
   d) Voucher serial number
4. Select the correct explanation of bank voucher
   a) Is a check or form describing and authorizing the transaction of a liability to a supplier
   b) Is the backup of the document for accounts payable by company's department through filling and gathering all the supporting documents required to validate the payment of liability
   c) Is the comparison of each transaction in both the accounting records and financial statement to ensure accurate accounting records?
5. The importance of managing vouchers is as follows apart from?
   a) Less complexity
   b) Increase sales
   c) Leads to loss of sales
   d) Increase customers loyalty
6. There are 3 types of vouchers EXCEPT?
   a) Payment voucher
   b) Receipt voucher
   c) Transfer voucher
   d) Confidentiality voucher
7. What is a non-cash voucher?
   a) It is issued by firm after receiving payment I check or cash during transaction
   b) They are documentary proof of non-transactions
   c) Is a document used to proof that cash transaction has occurred between the supplier and buyer?
8. What is meant by a non-cash voucher?
9. Give a brief description of the importance of keeping voucher documents
10. What do you understand by the term voucher confidentiality?
11. Discuss the importance of maintaining voucher confidentiality
12. Suggest how banks achieve storage of vouchers.

Oral Assessment

1. Elaborate on procedure of disposal of obsolete vouchers
2. What do you understand by the term voucher and list types of vouchers?

Case Study Assessment

Effective voucher management has been fully mandated in most companies in Kenya both services providers and goods producers. For example Equity bank has integrated all its voucher management in the system. This has led to cost cutting of the company's operations expense and improved trust from its customers hence led to increase in sales and customer retainment and trust with their products. Since client can retrieve all the transactions made in the customers' portrays future payments on loans or bonuses to be received from savings and other services relating to voucher.

9.3.6.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip chart/whiteboard
- Phones
- Stationaries
- Furniture

9.3.6.5 References

Carls Warren (18 January 2010). Survey of accounting .cengage learning p. 183.ISBN 978-0-538-74909-1.

Ravinder Kumar (2011) auditing and assurance. The institute of chartered accountants of India, Mumbai India

Yoseph, G (2004) Final evaluation of the cash for relief project in Goba koricha woreda of west Haraghe zone, Oromiya care Ethiopia, Addis Ababa

9.3.7 Learning Outcome No 6: Perform Data Clean Up

9.3.7.1 Learning Activities

Learning Outcome No 6: Perform Data Clean Up	
Learning Activities	**Special Instructions**
6.1 Check customer records as per standard operating procedure 6.2 Check customer details as per standard operating procedure 6.3 Capture missing details as per standard operating procedure 6.4 Take *Action* as per standard operating procedure (calling customer, flag account and collect the documents)	Case study Group discussions

9.3.7.2 Information Sheet No9/LO6: Perform Data Clean Up

Introduction

The learning outcome covers; what is data, different types of data, types of data in a bank, importance of cleaning data, process of cleaning, customer data confidentiality and importance of maintaining confidentiality. It also covers on how technology has improved on performing data clean up by transforming customer experience and also lend to efficiency in cleaning data by bank or firms through use of integrated system.

Definition of key terms

Data cleaning: It is the process of collecting raw data and to ensure all necessary types of data are within reach and also that most valuable and accessible details are utilized in the analysis process.

Data: It is the transactional and personal details where banks can establish overall view of their customers order to track customers in order to track customers speeding pattern.

Confidentiality: It is the agreement relationship between a customer and bank which usually prohibits the banker from disclosing details about customer’s affairs and accounts to third parties.

Content/Procedures/Methods/Illustrations

6.1 Customer records are checked as per standard operating procedure

Customer records are checked as per standard operating procedures. The banking sector is a good example of how technology has transformed the customer experience. Customer do not need to queue on Saturday morning to deposit their paycheck. They can now use their mobile gadgets to check their deposit check, account balances, pay bills and transfer money. Hence making services effective and efficient.

These self-service features are fantastic for customers hence being the main reason of traditional banks struggling to compete with similar firms and online only financial companies. Customer activities occurs mostly online now. The in-person services that most banks have been using to offer services are no longer relevant to customer needs.

Methods/Processes of data

Step 1: Adopting big data strategies and tools becomes so significant to the banking sector.

Step 2: Using both transactional and personal details banks can establish full view of their customers in order to ; track customers speeding pattern, segment customers based on their profiles, risk management processes implementing, personalize product offering ,collect analyze and respond to customers feedback and incorporate retention strategies. The application of data in banking is endless.

Step 3: Using available data banks can accurately measure the risk of giving a loan to a customer. for example predictive analytics model like the FICO scoring system can analyze consumers credit history, loan or credit applications and other data to assess its consumer will manage to make payments on time in future. Important way of banks to use their data is to adapt machine learning algorithms that will automate many of their processes and artificial intelligence (AI) solutions that have the potential charge to improve on how banks deals with regulatory compliances issues.

Types of data.

2.0 quintillion bytes of data to be generated everyday not everything will fit within single category.

Three ways of classifying data include;

- Semi structured it is data that may initially appear unstructured but entails keywords that can be used for processing.
- Unstructured it is data with no clear format such as emails since they are difficult to process.
- Structured. It is type of data that is highly organized and exists in a fixed format as a CSV file.

The large volume of data available at the banks needs advanced processing techniques for it to be translated into valuable actionable information. In order to filter through all types of big data, proper business tools is the most efficient way.

6.2 Customer details are checked as per standard operating procedure

Data modeling is efficient since it is a visual representation of quantitative data that banks can use to analyze, identify correlations and professional interpretation and anticipation assumptions on all capabilities that are useful in customer acquisition.

Importance of checking customer's details

- Enables banks to predict their likely behavior and possible actions of the customers who share demographics. Hence enabling banks to make valuable restrictions on who is likely to be profitable customers. Lifetime value and account survival.
- Analysis on historical helps banks forecast probable future outcomes
- Enables banks to monitor the recent life events such as job relocation or marriage using diagnostics analysis.

Types of data in banks include;

- **Inferential analysis:** Assists banks to draw conclusions through comparison of samples test of data against larger data sheets. By making these comparisons banks aim to create a degree of confidence in estimates they make related to the data, examining account attrition data. Banks use information they know about the current customer to predict their likely behavior and the possible actions of customers who share demographics. Banks can make valuable predictions on who is likely to be a profitable customer, lifetime value and account survival.
- **Predictive analysis:** Analysis on historical data helps banks forecast probable future outcomes. Customer's previous behavior can be used to predict how they will probably behave in the future. An example is banks can analyze on how frequently men between 24 and 37 take out new vehicle loans to forecast whether a 27 year old man who is in the fourth year of a five year loan is likely to be looking for a new car and a new loan.
- **Descriptive analysis:** It defines and describes the primary attributes of the subjects in a data set. Banks look at a different types of data points which includes average balances, household characteristic, branch statistics, accounts distributions cross sell ratios and small business information. To analyze the trend of customers would be for a particular pitch. For example, banks can use descriptive analysis to monitor the recent life events such as job relocation or marriage to predict clients in the market for mortgage.
- **Diagnostic analysis:** Through using known quantities and variables banks can manipulate data to explore and identify things that they don't know. For example, banks might analyses the customer profitability, demographic clusters products correlations and segmentation to model the correlation between some age groups and their probability of interest in products like mortgages, car loans or cash loans.

- **Prescriptive analysis:** Applying computational sciences and mathematics. Banks use prescriptive analysis after learning from predictive analysis and descriptive to take advantage.

These analysis apply anticipated happenings and adds more predictive qualities. For example, when the predicted behavior will happen and why.

Importance of customer records

- Services available at the door step since the customer doesn't need to go back to check on their balances or get details on their saving accounts. They can process their details through phone.
- Secured data: Clients details are secured by the encrypted online information from the bank to customers whereby customers access using passwords to their details in the system.
- Banks and financial institutions have managed to adopt large data strategies.

6.3 Missing details are captured as per standard operating procedure

Data claiming is important step between data collection data analysis. Raw data is usually imperfect and requires to be prepared for a high quality analysis and overall reliability. It is also the process of collecting raw data so as to ensure all necessary types of data within reach and that most valuable and accessible data is utilized in the analysis process. After data cleaning, data set should be in uniform with the other related in the operation. The mistakes identified or removed might basically bee caused by user entry mistakes, by corruption in transmission or storage.

Importance of capturing missing details

- To ensure all necessary types of data within reach and that accessible data is utilized in the analysis process.
- To make data be in uniform. With the related in the operations

Procedure of cleaning customer data include;

i. Data auditing. First complete auditing of databases of all customers. The auditing must apply statistical and database methods to identify anomalies and inaccuracies. The details should be used to identify characteristics and location of anomalies which can lead to root cause of the problem
ii. Use of multiple methods secondly the auditing process of database should not only use analysis through statistical or database methods but also should apply additional steps like buying external data and comparing it against internal data can be used
iii. Consolidate data the cleaning process of database should not only identify and remove dirty i.e. Inaccurate from customer database, but also should be used as an opportunity to consolidate customer data and extra details such as phone numbers, emails addresses or additional contacts should be incorporated if possible.

iv. Feedback banks have to create control mechanism where inaccurate details gets reported and updated into database such as there should be a control feedback mechanism for emails and any email which is undelivered owing to an incorrect address, should be reported and invalid email address should be cleared from the customer data.

v. Repeat lastly customers are increasingly becoming dynamic and so associated details like telephone number, addresses and company email frequently charges. Hence data cleansing should be part of regular flow. Regular updating of customer database is the only route towards ensuring clear customer database.

vi. Banks and firms should make investment in data cleansing and data management to priority.

Importance of cleaning data.

- Bank or companies driven by modern technology are currently operating on a large volume of data. New technologies such as ERP SCM and CRM systems have been introduced to improve on the needs at such companies.
- Helps banks to increase confidence reports generated from the data and ensuring decision making is supported by accurate details.
- Having cleansing system tends to account for duplicate and inaccurate data automatically hence reduces the time of accounting staff dedicate to such tasks
- Clean data results to efficiency and increased profitability for the banks and its account holders by removing mistakes such as missing and duplicate mailings that can be directly associated with unclean data.

6.4 Action is taken as per standard operating procedure (calling customer, flag account and collect the documents)

Collect the documents: The creditor instructs their financial institutions to provide documents/details related to the goods being exported to a client's bank with plead to present these documents to the client for payment, showing when and on what principles these documents can be released to a buyer.

Customer calling: This refers enquiring information to know more about the customer.

Flag account: It is when the bank suspects the money being transferred from within the country or outside country is large.

The agreement relationship between a customer and bank usually prohibits the banker from disclosing details about customer's affairs and accounts to third parties. However the confidentiality obligation is breached when for example, disclosing information of customers when required to do so by the law. It's precisely what AML/ CFT law do: request banks to report suspicious transactions and customers to national finance intelligence units (FIUS). Without customers consent or knowledge.

However it's limited to further details sharing. FSPs have been limited from disclosing to anyone else about the reports filed with an FIU including customer and other forms making it difficult for providers to inform others to COD issues.

The importance of customer data confidentiality includes.

- It helps to build and develop trust between bank and its customers. This effectively allows for free flow of details between the staff and the customer and acknowledges customers personal life belong to them
- The customer can file legal suits against the bank if he/she feels that some secret details about themselves have been revealed by the staff or company. Which can lead to negative repercussion on the company's reputation as well.
- It also makes company stay ahead of their competitors as their strategy is unknown to them.

Conclusion

This learning outcome covered; what is data, different types of data, types of data in a bank, importance of cleaning data, process of cleaning, customer data confidentiality and importance of maintaining confidentiality. It also covered how technology has improved on performing data clean up by transforming customer experience and also led to increase in efficiency of banks and companies on use of integrated system.

Further Reading

1. Read more on importance of maintaining confidentiality by banks.
2. Study more on advantages and disadvantaged of modern technology to performing data clean up.

9.3.7.3 Self-Assessment

Written Assessment

1. Which of the following is not type of data?
    a) Unstructured
    b) Structured
    c) Semi structured
    d) Customer confidentiality
2. The following is the list of types of data EXCEPT?
    a) Data modeling analysis
    b) Predictive analysis
    c) Descriptive analysis
    d) Diagnostic analysis

3. The agreement relationship between the customer and bank which usually prohibits the banker from disclosing details about the customers affairs and account to third party is ;
    a) Data
    b) Data cleaning
    c) Confidentiality
    d) Flag account
4. The following are the procedures used in cleaning customer data. Which one is not?
    a) Data auditing
    b) Prescriptive analysis
    c) Consolidate data
    d) Use multiple data
5. Which of the following is not the body that is allowed to obtain clients confidential details from financial institution?
    a) Anti-money laundry (AML)
    b) Know your customer (KYC)
    c) Artificial intelligence (AI)
    d) Finance intelligence unit (FIU)
6. Which of the following is the importance of customer data confidentiality?
    a) Building and developing trust
    b) Auditing process of database
    c) Accounting for duplicate and inaccurate data
    d) Cleansing data.
7. What is the important step between data collection and data analysis?
    a) Data
    b) Data cleaning
    c) Flag account
    d) Confidentiality
8. What do you understand by the term customer data confidentiality
9. Elaborate on the importance of maintaining confidentiality
10. Discuss data cleaning?
11. Elaborate calling customer in banking sector
12. Summarize the different types of data in a bank.

Oral Assessment

1. Procedure of cleaning customer data elaborate
2. Discuss types of data

Case Study Assessment

Due to advancement ad rapid changes of customer needs the financial institutions have adapted modern technology in order to be as close and in touch with their customers? An example is standard chartered bank, it has introduced online application which is installed in the mobile phones of the clients. Whereby consumers can withdraw money from any location without physical appearance to the bank and also through the online application and online banking customers therefore can retrieve information they need for example, interest rates on saving, balances in their account and also going through the companies status. This has also led to increased sales and trust from the customers.

9.3.7.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip chart/whiteboard
- Phones
- Stationaries
- Furniture

9.3.7.5 References

Mega squire (2015) clean data packet publishing.USA

P. Beyorn – (2009) Business information system. Basingstoke,UK:palgrave IS.978-0-230-20368-6

Tuomi, IIkka (2000). "Data is more the knowledge" Journal management information system, 6(3):103-117.doi : 10:1080/07421222.1999.115 18258.

9.3.8 Learning Outcome No 7: Manage Customer Account

9.3.8.1 Learning Activities

Learning Outcome No 7: Manage Customer Account	
Learning Activities	**Special Instructions**
7.1 Check customer account records as per standard operating procedure	Written assessment
7.2 Identify *Undesirable characteristics* as per standard operating procedure (zero balance account, dormant account and overdrawn account)	Question and Answer (Q/A) method
7.3 Take action on undesirable characteristics as per banking policy	Attending classes

9.3.8.2 Information Sheet No9/LO7: Manage Customer Account

Introduction

The learning outcome covers; customer records, process to check the customer details, undesirable characteristics, accounts actions as per undesirable characteristics of dormant accounts, zero balance accounts, handling the zero balance accounts, overdrawn accounts, confidentiality and importance of confidentiality.

Definition of key terms

System log: This contains the record of the operating system events that indicates how and when activities takes place.

Zero balance: This is a pooling system that only receive enough funds from other accounts to cover checks presented each day maintaining balance as zero.

Overdrawn account: This refers to a bank accounts which have been overdrawn much funds than they really had.

Content/Procedures/Methods/Illustrations

7.1 Customer account records are checked as per standard operating procedure

Customer record refer to the records provided pertaining an individual customer data or any other legally obtained information about him and activities carried out. Data is a key element in an organization and certain data as the customers' information and records are utilized by several department in an organization. The data should be held with a lot of integrity and confidentiality as any fraud with such data would cost a lot to the organization and the client. Customers' information captured by the organization should be identified with unique features that would allow distinguishing different customers with almost similar character. Customers ID could be used as a primary factor to identify/ distinguish customers. This information should be stored in areas where only the authorized personnel can access the data and should be protected to prevent damage.

Process to check customer details

i. Customer details are confidential details and should not be shown to anyone except the owner/client himself.
ii. The client should also provide the relevant documents that are meant to confirm his identity as the rightful owner of the account. The document provided should include; passport, ID card and birth certificate.
iii. If document is verified use a unique features/factors i.e. the ID card to check the client name against the system and the system log to identify his/her previous activities/ transactions
iv. You can confirm the transactions with client/if they really happen as per stated if they did the print records.
v. If not, fraud activities must have taken places such as stolen ATM and follow up should be undertaken

Circumstances when customer confidentiality is not considered

- Cases where the law requires the disclosure of the information
  a) If health/welfare of a young child is at risk you are required to contact department of community services to notify them.
  b) You should notify the police/ supervisor if your clients tells you she/he has committed a serious crime.
  c) If a writer is summoned to present in a court of law.
- When a client needs to be protected from harming themselves
- The need to keep records
- When working in conjunction with other professionals in caring for a client
- The requirement for professional supervision, training and seminars

Importance of checking customer accounts

- Enhance early identification of any fraud activity on his account
- Helps to identify the spending trends
- Provides awareness for your financial position
- Helps to identify fraud activities banks might have made
- Help identify mistakes

7.2 Undesirable characteristics are identified as per standard operating procedure (zero balance account, dormant account and overdrawn account)

This refers to the unpleasant characteristic that exists in the system. Such activities will always result to negative impact ad undesired expectations. They include:

a) **Zero balance account:** This is a cash pooling system that only receives enough funds from other account to cover checks presented each day maintaining balances as zero in this account. The account is used to increase investment and also eliminate any excess balances

Advantages of zero balance account

- **It saves time:** The employer/employees do not have to manually deposit the funds in the account rather the ZBA automatically does
- **It ensures an organized:** ZBA ensures you don't stress keeping trade of multiple accounts and payments it will automatically cover payments preventing any confusion that may occur.
- **Maximizing funds:** It will ensure to keep as much funds in the interest-bearing account instead of having funds in the payment account.

b) **Dormant account:** These are accounts that have shown no transaction occurrence in a period of more than 2 years only the bank charges or the interests.

Circumstances leading to dormant accounts

i. An account that is no longer used it could be declared dormant after period of time.
ii. If a letter is returned to banks declaring you no longer uses the address.
iii. If you got several accounts opened and forget to change the addresses associated to them.

c) **Overdrawn accounts:** These are bank accounts that have been overdrawn much funds that they really had. The overdraft will earn some interest as it is just like any other loan.

Limitations

They are very high interest rates that exceeds other borrowing sources
The overdraft faces the reductions in limits due to the poor performance

How to recover from bank overdraft

i. Cease using the account: Stop using this account until you attain the financial stability since the bank will always cover the overdraft with the cash your cheque in.
ii. Balance your account: You should balance off your accounts to determine how much you owe to the bank.

iii. Bring your account balance positive as soon you will want to pay back the overdraft in order to regain your account.
iv. Speak to your bank. If you owe too much to the bank you should talk to them and inform them of situation and you may not be blacklisted with the CRBs and your credit score might not be affected.

7.3 Action is taken on undesirable characteristics as per banking policy

Every action as per policy has consequences when the subject matter is breached. Data confidentiality could be breached by an employee of an organization. The following are among the consequences they have to deal with;

i. **Loss of business client/relationship:** A business may lose some of its customers. An employee who breaches is viewed as potential liability if hired. Persons guilty find themselves blacklisted
ii. **Termination of employment:** Breach of confidentiality is severe and enough to be prosecuted with criminal charges and possible incarceration.
iii. **Lawsuits:** In instances where the client confidentiality has been breached the client may receive monetary damages from employer.
iv. **Criminal charge:** This occurs when the breach severe ly affects the company fines and imprisonment maybe given if sufficient prove is provided

Dormant accounts

These are accounts that have been inactive for more than 2 years with no transaction performed thus have been closed and deemed dormant. Anyone who tries to reopen the account must provide reason why the account has been dormant that long and produce a copy of his details in relation to the account. Bank will request applications signed by all joint holders of account if the dormant account is a joint account. The activation will require you to perform another transaction online or offline once per year.

Importance of confidentiality

- Confidentiality helps to build trust: This is achieved through the flow to information between clients and workers and helps to resolve any conflict it there existed one.
- Workers should ensure to access only information for work that is covered by their job description: Client data/information should only be released to other parties with consent of the client.
- High respect for client confidentiality and staff information should be observed the organization requires guidelines or policies to guide workers.

Conclusion

This learning outcome covered; customer records, process to check the customer details, undesirable characteristics, different accounts, actions taken as per undesirable characteristic, dormant accounts, confidentiality and the importance of confidentiality. Zero balance account and handling of the zero balance accounts.

Further Reading

1. Expound on the undesirable characteristics, effects of dormant account and activation process.

9.3.8.3 Self-Assessment

Written Assessment

1. What are the three main branches of strategy research that makes up study of strategy?
    a) Strategy content
    b) Strategic content
    c) Strategy lenses
    d) Strategy processes
2. A numeric description of the outcome of an experiment is?
    a) Descriptive statistic
    b) Probability function
    c) Variance
    d) Random variable
3. The use of online and offline promotion technique to increase the audience of a site is
    a) Quality care
    b) Search engine optimization
    c) Search engine manceptig
    d) Traffic building campaign
4. Is sharing customer information with other organization effect?
    a) Yes
    b) No
5. Which one is not a document to be provided during registration?
    a) Passport
    b) Identification card
    c) Birth certificate
    d) Educational certificate.
6. Discuss the following terms
    a) Zero balance
    b) Overdrawn account
7. Elaborate the advantages of having a zero account?
8. Evaluate the process of recovering a bank account.

9. Analyse five undesirable characteristics as per banking.
10. Summarize the importance of a customer verifying his accounts.
11. Discuss the term “dormant account”

Oral Assessment

1. What is the difference between zero balance and a dormant?
2. How would you handle your customer negative reviews/feedbacks on your work?

Practical Assessment

1. You have been identified as a professional to carry out customer details verification process. Explain the various steps you would use to carry the give activity.

9.3.8.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip chart/whiteboard
- Phones
- Stationaries
- Furniture

9.3.8.5 References

Ms.Juthamas, (2001). Customer services and inventory management information system.
W. Johnson, (2009). Method and system for managing financial institution
Yates Jon(2011). Bank customer

CHAPTER 10: ELECTRONIC BANKING

10.1 Introduction of the Unit of Learning/Unit of Competency

Electronic banking is a unit of competency offered in TVET level 6 banking and finance course qualification. This unit specifies the competencies required to manage electronic banking. It involves processing registration request, managing service providers, managing bank customers, reconciling online transaction and recovering of default account. The Significance of electronic banking to TVET level 6 banking and finance curriculum is to equip the learner with knowledge and skills to demonstrate conflict resolution, communication, financial management and credit and debt recovery principles and techiniques so as to fit well in the workplace.

The critical aspect of competency to be covered include demonstated ability process registration request, understanding of service level agreement, understanding of service providers, manage bank customers, understanding of reconciliation process, identify default account and inform customers of their status as per repayment report. The basic resources require for include; computers, internet connectivity, phones and stationery.

The unit of competency covers 5 learning outcomes. Each of the learning outcome presents; learning activities that covers performance criteria statements, thus creating trainee's an opportunity to demonstrate competecies stipulated in the occupational standards and content in curriculum. Information sheet provides; definition of key terms, content and illustration to guide in training. The competency may be assessed through written test, demonstration, practical assignment, interview/oral questioning and case study. Self assessment is provided at the end of each learning outcome. Holistic assessment with other units relevant to the industry sector workplace and job role is recommended.

10.2 Performance Standard

Process registration request, manage service providers, bank customers, and reconcile online transaction and recovery of default account as per bank procedures, bank policy and in accordance to customer request.

10.3 Learning Outcomes

10.3.1 List of Learning Outcomes

a) Process registration request
b) Manage service providers
c) Manage bank customers
d) Reconcile online transaction
e) Recovery of default account

10.3.2 Learning Outcome No 1: Process Registration Request

10.3.2.1 Learning Activities

Learning Outcome No 1: Process Registration Request	
Learning Activities	**Special Instructions**
1.1 Receive customer registration request as per bank procedures 1.2 Verify customer request as per bank policy 1.3 Create customer online accounts as per customer request 1.4 Activate online accounts as per bank procedure 1.5 Communicate to the customer as per bank procedure	Discussion forum Demonstration from the trainer Practice by the trainee

10.3.2.2 Information Sheet No10/LO1: Process Registration Request

Introduction

This learning outcome covers; registration process (online, digital), registration options (required documents for registration), methods of verifying registration document (physical verification, documentation verification, and electronic documentation), document certification, creation of online account, and activation of account, modes of communication within and outside the bank.

Definition of key terms

Customer registration: This is the process of turning the prospective organizational consumers to actual consumers who will engage with the bank brand in the running process of the bank.

Bank policy: This is a bank′s high-level general plan in which the bank′s overall goals and directives are embraced. It can be a coded document in which the bank overall plan is captured.

Online accounts: This is an arrangement in which bank client funds are held in a signed-up platform that is maintained by a computer system.

Content/Procedures/Methods/Illustrations

1.1 Customer registration requests are received as per bank procedures

Customer registration forms the most crucial process through which bank products prospective buyers are turned to actual buyers. To fully undergo the process necessary documents are presented and verified and then registration happens. Therefore, due process has to be followed as per the bank procedures to ensure compliance and avoid any future risks.

Process

In the ancient era, customers used to walk into any bank, submit the relevant documents (ID and KRA pin), and be given a form which they fill and the details entered into the system and they become registered. However, with massive use of technology, customers can register themselves online to have an account with the bank of their choice. The following process applies;

i. Visit the bank′s website and search for the service of account opening.
ii. Click on "**Register Now**" option and a page of feeding in details to the system is displayed.
iii. Fill in the details required; enter the preferred username, the personal email and password of choice.
iv. Start key or activation key is sent to the personal email which is then used to verify the account.
v. The necessary documents are then uploaded to the website and attached to the respective account.
vi. Lastly, you do the account setup by putting your profile photo, security phrases, security questions, and any other information necessary for identification purposes.

Registration options

- **Manual registration:** This is the physical way of registration where an individual walks into the bank, asks for a form which he/she fills to become registered by the bank. Necessary documents must be verified and the photocopies of the documents attached to the application.
- **Digital registration:** Also called online registration. The option entails a customer opening a bank account for himself at his convenience using the computer platforms. The option requires computer literacy and skilled mind to undergo it.

Documents required for registration

The documents vary with the individual opening an account or registering with the bank. Anciently, a copy of your ID was enough to open a bank account. With theft increment, money laundering and increased KYC policies, the Central Bank of Kenya in 2016, added KRA pin as one of the documents required to register for a personal account.

To register for a company account or any registered legal entity, the certificate of registration KRA pins, IDs of the directors, Articles of Association, MOU and company KRA pin are necessary documents required. The documents can also be added as the bank policy for KYC for various banks across the nation.

Need for registration of document

- The ID is to proof for customer citizenship since non-citizens can only open a diaspora account.
- KRA pin is for taxation and compliance purposes for the law of the land.
- Company documents (Certificate of registration, MOU and Articles of Association) are to proof the existence and operations of such company and whether it is compliance with the law.

1.2 Customer requests verified as per bank policy

In the past years, the verification process of the documents content used to take a long process since the documents had to be physically passed through various departments. The technological era has changed the whole process thus the documents can be verified within a short time and the customer becomes registered. In the current era, the customer requests are processed within a minute and verified thus the customer becomes registered and leaves the bank with every document verified and the registration process done.

Methods of verifying the registration documents

a) Physical verification method

This is the manual handling of the documents and physically examining them to determine whether they meet the required standards. The success of the method depends on the skills and the knowledge that the banker possesses. This method is applied for customers who walk into the banks to manual apply for an account registration.

Advantages of physical registration

- Eliminates possibilities of having fake documents.
- The physical client can be ascertained as the true owner thus eliminates chances of fraud.
- The correct details are captured in the registration and verification process.

b) Documentation verification method

This is the method that involves document counter checking with the checklist formulated by the banks to guide a complete registration process. All the necessary documents are counterchecked to ensure a complete verification process.

Advantages of documentation verification method

- Ensures all documents are submitted for verification.
- Facilitates compliance to the bank policy and overall bank sector.
- The process of verification is orderly since the first document on the list is dealt with first.

1.3 Customer online accounts created as per customer request

Customers request for opening of online accounts which have to undergo a content verification process before complete creation to start using it. The creation of the account happens at the signing up stage but the account will be active for use once the documents have been verified and approved.

Method

Electronic documentation and verification method

The method requires customers signing up for an account to upload their account opening documents in soft copy formats. The documents formats are specified as per various banks but the standard format is the PDF format.

Advantages of electronic documentation

- Easy to process as they offer easy perusal.
- Enhances bank services convenience.
- Saves the bank from the hustle of keeping hard copy documents.

1.4 Online accounts activated as per bank procedure

When a bank account has not transacted over a long period of time, it becomes dormant and usually requires activation before it starts being in use again. The standard time stipulated for an account to go dormant is at least one year but others go beyond that depending on the bank balance and the type of customer operating that account.

Process of activation of online account

i. Log in to the website and select the **"Activate Account"** option.
ii. Answer the security questions as set during the account opening.
iii. Agree with the terms and conditions of activation of the account which will require a deduction of some fee for the service.
iv. Re-upload any necessary document that the bank might need.
v. Update and save the current online profile.

1.5 Communication to the customer is done as per bank procedure

In case of any information to be communicated to the customer, the contacts provided by the customer during registration are used to contact the particular customer. Unless that communication is really important and will affect the customer banking if not done, it should be avoided.

Methods

- **Phone call:** The customer can be telephoned using the mobile number provided.
- **Emailing:** The email account provided by the customer should be used in passing information to them.
- **Bulk SMS:** Incase the problem affects all the bank customers; a unified message can be sent to all of them such as when there is a system maintenance by the bank

Advantages of communication to the customer

- Keeps the customer updated with the bank
- Customer loyalty is enhanced with constant communication.
- Helps the customer to plan on their transaction thus convenience.
- Reduces customer conflicts with the bank since they get information in advance.

Importance of online activation of accounts

- Saves time for both the customer and the bank
- Offers 24/7 services this can be done at customer convenience
- Offers detailed reporting by requiring customers to give further details
- Can be used to incorporate online survey to gauge customer satisfaction
- It enhances further use of mobile banking

Conclusion

This learning outcome covers; registration process (online, digital), registration options (required documents for registration), methods of verifying registration document (physical verification, documentation verification, and electronic documentation), document certification, creation of online account, and activation of account, modes of communication within and outside the bank.

Further Reading

1. Larson,A, &Viitaoja,Y. (2017).Building customer loyalty in digital banking. The international Journal of Bank Marketing.

10.3.2.3 Self-Assessment

Written Assessment

1. Which of the following documents is not required for customer registration?
    a) ID
    b) Birth certificate
    c) KRA pin
    d) Company registration certificate
2. Which of the following registration options is fit for 90 year old customer?
    a) Digital registration
    b) Manual registration
3. Which of the following is not a method of document verification?
    a) Documentation verification
    b) Physical verification
    c) Biological verification
    d) Electronic verification
4. Which of the following is not part of an account setup?
    a) Individual photo
    b) Security questions
    c) Security phrases
    d) Details of school attended
5. Which is the standard format of documents to be uploaded for registration?
    a) PDF
    b) Word document
    c) HTML document
    d) PNG format
6. Summarize advantages of electronic documentation.
7. Elaborate on the process of activating online account.
8. Discuss two methods of verifying registration documents.

Oral Assessment

1. What is the standard procedure of customer registration?
2. What is the future of banking?

Practical Assessment

Students to visit a local bank and learn the customer registration process and observe how customers are served. Trainee then try to open an online account as learnt in class.

10.3.2.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip chart/white board

10.3.2.5 References

Gronholdt, L. (2019). Digital Customer Experience: an emerging theme in customer service excellence. In 22nd QMOD-ICQSS international (*conference on Quality and service sciences*.)

Mbama, C.I., &Ezepue, P.O. (2018). Digital banking, customer experience and bank financial performance.(International *journal of Bank marketing*)

Shaikh, A.A., Hanafizideh,P, P., & Karjaluoto,H, H. (2019). Mobile banking and payment system: a conceptual standpoint. (*International Journal of E-Business Research (IJEBR*), B (2), 14-27

10.3.3 Learning Outcome No 2: Manage service providers

10.3.3.1 Learning Activities

Learning Outcome No 2: Manage service providers	
Learning Activities	**Special Instructions**
2.1 Ensure that the compliance with Service Level Agreements (SLA) is as per the policy.	Discussion forums
2.2 Sought the Service provider report as per SLAs	Lectures
2.3 Conduct an engagement for proposed system improvements as per SLA	Field visit practical method
2.4 Implement the agreed changes as per bank request	

10.3.3.2 Information Sheet No10/LO2: Manage service provider

Introduction

This learning outcome covers; service providers, features of Service Level Agreement document (SLA), consequences of breach of SLA document, review options for SLA document. Service providers are third parties or outsourced suppliers for the bank who is fast is to provide consultation, communication, and storage, information processing or legal engagements. Such service providers can be company lawyers from a law firm, internet and voice calls from communication service providers, and auditor from external auditing firms or real estate investors for bank investing decisions.

Definition of key terms

SLA: This is a contractual engagement between service providers and their customers which gives the documentation of the services to be rendered, the standards of providing the service and the obligations of each party in the due course of providing the services.

Compliances: This is the process of ensuring that the bank employees as well as the bank follows the required rules and regulations as well as apply the required ethical practices in the operations process.

Bank request: This is a submission of a form to the service providers requiring the providers to provide stated service.

Content/Procedures/Methods/Illustrations

2.1 Compliance with Service Level Agreements (SLA) is ensured as per the policy content

SLA being a contractual agreement issues of ethics and compliance matter a lot in the operations process. Therefore, compliance is matter of no choice when it comes to SLA implementations. As a bank, the focus should be that the contractual agreement is not breached which will reduce law suits against the bank which can be very costly of the publicity of the bank. The standards and obligations of the SLA must be met to ensure that compliance has taken place.

Features of services level agreement

- **Agreement overview:** These are the basic details of the parties involved in the contractual agreement such as the participants' date of affection or expiry general statements of the particulars and the areas of SLA coverage.
- **Goals and objectives:** The purpose of the contractual agreement is stated as well as the capabilities of obtaining a mutual agreement are outlined in this feature.
- **Stakeholders:** This gives the definition of the parties involved in the agreement an example internet provider and the internet user which can be the bank.
- **Periodic review:** The agreement should also mention the dates when the services commence and expire as well as the interval of review to determine whether the provision of the services in the track as agreed by the contractual parties.
- **Service agreement:** It forms the voluminous section of the agreement in which the responsibilities of the services provider are stated. The aspects covered at this are the services scope, the customers' requirements, and the requirements of the services provider and the assumptions of the services.
- **Services management:** Forms the last portion of the agreement which deals with making request available and response to those request as per the policy.

Importance of SLA

- It strengthens the relationship between the bank and the service providers
- It increases new business not only for the service providers but also for the bank
- It creates clear and well-defined boundaries of communications
- It is good for the bank in retaining services providers who are excellent in-service provision
- They are very good in leading towards ethics since they are contractual

Assumption of service level agreements

- **Compliance:** Each party of the SLA assumes that the other party will comply with the stated requirements in the contractual period.
- **Utmost good faith:** Each party assumes that the contractual agreement was entered into with good intentions and not for manipulation
- **Profit making:** Each party assumes that the contractual agreement entered t5to will benefit each of them in terms of profit.

- **Fullness:** Each party of the contractual agreement assumes that the contract will be kept to its expiry without breach

2.2 Service provider report are sought as per SLAs contents

Service provider reports is very necessary in determining whether the goals and objectives set out in the SLAs have been achieved or they are being achieved in the due process. Therefore, the reports can be generated by the bank or the service provider to show the progress or the delivery of the service in the question.

Process seeking service provide reports

i. **Determining the need for the report**: When the service provisions have reached a level that the bank needs to know about the need for the report is identified.
ii. **Establishment of the periodic time for reporting**: The time intervals for reporting are determined and therefore cannot exceed during report seeking.
iii. **Contacting the relevant parties for the reports**: The party that is dealing with the provision of the detail of the report is contracted and requested to provide the details.
iv. **Generating the reports**: When all the report details have been given a command is executed which manufactures the reports.

Consequences of breach of SLA documents

If the report sought reveals non-satisfactory to the user and too way below the set obligations and goals services delivery is said to be poor and contract breached by not doing the expected. Below are the consequences;

- **Restitution:** This is the consequences of the party that breached the contract paying the other parties.
- **Punitive damages:** The payment of breaching the contract is paid to the other parties.
- **Liquidated damages:** This is the money that the two parties agree to pay in case of breach of contract.
- **Compensatory damages:** This is the sum total of money paid by the party that breached the contract as stated in the agreement gotten into by the parties.

2.3 Engagement for proposed system improvements is conducted as per SLA content

In the service provision process improvements are expected as the volume of consumers increase and the urge to get more advanced services by the bank. Therefore, the improvement that can be engaged should be specific and spelled out in an additional document or made as an addition to the existing SLA. Reviews to the SLA should therefore, be done and changes proposed for the improvement of the services.

Review options for SLA documents

- **Service level SLA:** This is the contractual agreement structured to show service provision based on a particular service across a wide range customer. A good example is an SLA for internet provision for customers across various industries such as financial, productions and manufacturing.
- **Customer based SLA:** This is a SLA structured for a particular clients covering all the aspects of services to be provided for that client. A good example is a communications service provider who can provide internet services, voice calls and massaging for a bank which is the customer in that case.
- **Multi-level SLA:** This is a type of SLA where the aspects are defined in regard to the services consuming organization using overall definition that are relevant for all organizational levels. All the services spelled to be offered by the service provider are interrelated and connected to the auxiliary services of the organizational thus multi-levels

Needs for proposing changes

- To improve service provisions to the bank
- To enhance customers services since the services provided help serving customers
- To adjust the current business world changes
- To keep pace with the competitions bank in the service provision

2.4 Agreed changes are implemented as per bank request content

In the process of service provision changes are necessary to ensure that the quality of service is maintained and improved for better consumers' services. It is therefore, important that the contractual services company engage in a talk to agree on necessary changes that will improve service delivery.

Process of making changes

i. **Determine the need for changes**: There must be a strong desire and will to do the changes in regards to customer's needs in the process of delivering the services. The pros and cons of a service can be studied to determine the desire for service changes.
ii. **Believe in the proposed changes**: The organization as well as its people should believe in the proposed changes which will improve services delivery to the bank
iii. **Identify the belief in driving the changes**: This is what provides anchorage for the change since change agent will keep referring to it for motivation and drive
iv. **Choose a better belief**: In deciding the belief to hold in driving the change a belief that is strong and long term should be selected to keep the organization motivated.

Change implementation

- Prepare for the change by collecting and analyzing information regarding strengths and vulnerabilities of the organization.
- Explain the change to the company stakeholders who will be affected by the change.

- Acknowledge the loss that the change will bring to the organization both in the present and in the future.
- Create a conducive climate for the change to avoid resistance.
- Build a plan for the change.
- Launch and sustain the change for effective service delivery
- Update the SLA regarding the changes made.

Importance of SLA change

- It helps to keep pace with the industry changes which are required for better operations
- Helps to accommodate any deviations that arise in the implementation process
- Helps to clearly explain the duties and obligations of the SLA thus avoid breach
- Resistance is able to be presented since the changes are communicated
- Weaknesses are sorted out during change as they are discovered in the review process

Conclusion

In summary effective, management of service providers for the bank requires guidance as spelled out in a service level agreement (SLA). This learning outcomes thus looked into management of service provider by discussing the SLA as document and an agreement, the consequences if that agreement is breeched, the review option available for changes of the SLA as the bank pursue into the receiving of services from the services providers.

Further Reading

1. Business law – the law of contrast

10.3.3.3 Self-Assessment

Written Assessment

1. Which one of the following is not a feature of SLA?
    a) Goals and objectives
    b) Agreement overview
    c) Periodic review
    d) Name of signatory

2. Which one of the following is not part of service agreement?
    a) Service scope
    b) Customer requirements
    c) Assumptions of the service
    d) Service expiry
3. Which one of the following is the importance of SLA?
    a) It strengthens the relationship between the service providers service consumer
    b) It enables the bank to get money
    c) It replaces the bank policy for better service
    d) It ensures good service
4. Which of the following is not a consequence of breaching SLA?
    a) Restitution
    b) Liquidation damages
    c) Punitive damages
    d) Profit damages
5. Which of the following is not a review option for SLA document?
    a) Service level SLA
    b) Multi-level SLA
    c) Management SLA
    d) Customer based SLA
6. Summarize the features of a service provider.
7. Analyse the process of seeking a service provider report.
8. Evaluate the importance of SLA.
9. Discuss the need for proposing changes in managing service providers.
10. Demonstrate the process of change implementation in SLA change.

Oral Assessment

1. State the features of an effective SLA.
2. What are the consequences of breach of SLA document?

Practical Assessment

Students to identify and visit a local service provider and determine the services provided. Inquire the process, methods and advantages of offering the various services by the service providers.

10.3.3.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip chart/white board

10.3.3.5 References

Allon, G., &Zhang,D.(2017).(*Managing service systems in the presence of social networks*). Available at SSRN 2673137

Choi,T.M. (2016). Managing service supply chains in the big data era: A system of systems perspective. In (*service supply chains systems*) (pg. 73-80).CRC press

Srinivas,D.,& Rao,N.H. (2018). Service quality in commercial Banks. A study of public sector banks in Warangal District.(*Journal of Management*) (JoM), 5(4)

10.3.4 Learning Outcome No 3: Manage Bank Customers

10.3.4.1 Learning Activities

Learning Outcome No 3: Manage Bank Customers	
Learning Activities	**Special Instructions**
3.1 Receive Customers instructions as per bank procedure 3.2 Customer instructions are (fund transfer, withdrawal, cheque book request, blocking of ATM cards) as per customer request 3.3 Communicate (fund transfer, withdrawal, cheque book request, blocking of ATM cards) customer request as per bank procedure 3.4 Receive customer feedback as per bank procedure 3.5 Resolving of customer queries and complaints as per bank procedure 3.6 Establishment of frequently asked questions (FAQs) framework is as per bank policy	Lectures Discussion forums Grouping and discussions

10.3.4.2 Information Sheet No10/LO3: Manage Bank Customers

Introduction

This learning outcome covers; receiving of customer instructions, communicating actioned customers request, receiving customer feedback and establishing frequently asked questions as per the bank policy. Managing of the bank customers determines the excellence of service to the customers as well as their ultimate retention. Customers' management thus covers all aspects dealing with receiving communications from the bank customers and acting on the communications as directed.

Definition of key terms

Complaints: These are statements from bank customers regarding something that is wrong or expressing dissatisfaction of service or product consumed.

Cheque book: A loose leaflet document given by the bank, in correspondence to a particular bank account, which the owner can use to instruct the bank to pay out specified funds to another party who can be addressed on one of the leaflets.

Feedback: This is the reaction or behavior exhibited by the bank customers after consuming the bank products or services.

Content/Procedures/Methods/Illustrations

3.1 Customers instructions are received as per bank procedure content

Customers give instructions to the bank by using the bank products that they have been given in the transactions process. Such instructions are given at particular specified points since the bank products can be effectively used at particular points. The bank has positioned itself in a manner that it is able to receive customer instructions conveniently by the incorporation of technology in the operations process.

Procedure

i. Customers executes the instructions of either withdrawing money from the bank.
ii. The bank identifies the customers' instructions through either computer systems or active listening by the banker.
iii. The instructions are internalized and recorded to determine what the customer needs.
iv. The instructions are then acted upon to give service to the customer.

3.2 Customer instructions are actioned as per (customer request)

Actioning of customer instructions is what leads to customers' service and management. The instructions are given through activities such a fund transfer, withdrawal, cheque book request, blocking of ATM cards as per the customer request.

Fund Transfer: This is where a customer fills a form directing the bank to transfer a stated amount of finances from the customer's account to another account either in the same bank or another bank both locally and internationally. The instruction is actioned on by the bank by stamping and signing the filled form and the details entered into the bank system to execute the instruction.

Withdrawal request: Previously customers used to fill forms for withdrawal but as many banks are choosing going paperless, the customer walks to the counter and presents the ID card and orally states the amount they want to withdraw. The instruction is actioned on by the teller keying in the amount directed to be withdrawn and then checking on the bank charger boxes to execute the withdrawal instruction.

Cheque book request: This is the customer instruction in which the bank is directed by the customer to generate a leaflet book for the corresponding account for purposes of execution of instructions through writing. The instruction is actioned on by receiving the application form at the point of application, ascertaining whether all requirements have been met (money is in the account and that the corresponding account is legible for a cheque book), stamping the application form and sending it the bank headquarters where cheque books are generated.

Importance of receiving customer instructions

- It helps to serve the customer since the instructions are mostly a request for service
- Customer satisfaction is achieved with attentive reception of the customer service
- The bank is able to reduce customer bank conflicts with effective instructions reception
- There is excellence in customer service when the instructions are received and acted on the latter
- It keeps the customer connected to the bank with the continuous instruction to the bank

Blocking of ATM cards: Presently referred to as visa cards, ATM cards are bank products which are used in giving multiple instructions to the bank. Blocking of such cards is actioned on by the customer physically presenting themselves to the back and request for blocking. In unavoidable circumstances which the customers cannot make it to the bank and it is urgent that they should block the ATM, the customer can call the bank using the number he/she provided during registration and request for blocking of the card. The customer service card personnel then log into the system and executes the block command on the ATM card.

3.3 Actioned customer request is communicated as per bank procedure

Communication of customer request is an essential part that gives the feedback to the customer regarding the instruction they had put forward. Communication of customer request can be done in multiple ways which ensure that customer need is met and bank procedure followed in meeting the need.

Ways of Communicating Actioned Customer Requests

i. **Fund Transfer Request**

When the customer has filled the bank, funds transfer request and the details have been entered to the system, the customer is issued with a receipt to proof that they did the transaction; a receipt which is an official way of communicating to the customer that transaction has been actioned.

ii. **Withdrawal Request**

Upon the execution of a withdrawal request, the customer is given the cash withdrawn plus a withdrawal receipt as\a way of communicating that the instruction executed has been actioned.

iii. **Cheque book request**

Once the application for cheque book has been done, the customer is given a waiting receipt showing the number of leaflets of the expected cheque book. A notification can also be sent to the customer email or phone notifying them that they have completed applying for a cheque book.

iv. **Blocking ATM cards**

When the visa card has been blocked, a notification is sent to the customers' phone or email directing the customer to visit any branch to get the card unblocked.

3.4 Customer feedback is received as per bank procedure

Customer feedback is what helps the bank asses the customer service and determine the satisfaction of the customer.

Ways of Receiving Customer Feedback

i. Through the suggestion box: Expressions from the customers are put into the suggestion box where they can be received by the bank.
ii. Through talking and engaging with customers: Sharing with customers can be great way of receiving feedback.
iii. Through online reviews: Checking the online platforms to see how the customers have reacted to various bank products will give a good feedback.
iv. Customer evaluations: Continually evaluating the customer can help mine good feedback from them regarding the bank operations.

Importance of receiving customer feedback

- It helps to identify the problem and improve service
- There is close communication between the bank and the customer
- Customer loyalty is enhanced once the feedback regarding a problem is solved
- Good feedback helps to rank the bank well in the industry
- Customers feel regarded when their feedback is graciously received and acted on

3.5 Customer queries and complaints are resolved as per bank procedure

Offering the bank products and services. Resolving such complaints implies good customer management.

Importance of solving customer queries

- They help to understand the bank customer in a better way
- They help to build customer loyalty
- They increase the word of mouth as the customers talk good about the bank
- It helps improve communication between the bank and the customers
- Customers feel the pleasure of being part of the company that values them

Procedure for resolving customer queries and complaints

i. Determination of the complaint and ranking it according to type.
ii. Forwarding the complaint to the appropriate bank department.
iii. Formulation of complaint solutions by the relevant department.
iv. Implementation of solutions of the complaint.
v. Communicating to the customer regarding the solved complaint.

3.6 Frequently asked questions (FAQs) framework is established as per bank policy

FAQs help customers to get immediate solutions for their questions in case their questions have been frequently asked to the bank. It helps the customers get solutions to their problems by themselves other than calling or complaining on the banks' social media pages.

How to determine FAQs

i. Group the questions or complaints to the category of services or products they fall in.
ii. Organize together similar questions and number them.
iii. Determine the questions that have been constantly repeated by various customers and then classify them as FAQs.

Importance of FAQS

- Enhance customer trust as they show the customer that the bank understands what they are facing
- Boost customer service by addressing common questions
- Saves time and finances by reducing calls and emails to support staff regarding common queries
- They improve the user experience by making it easy to find solutions to their problems
- It demonstrates product expertise by the bank through address of key questions

Conclusion

Customer management has proved to be a vital exercise in the service industry of banking. This learning outcome effectively addressed the receiving and actioning of customer instructions, communicating the actioning of the requests to the customers, receiving the customers' feedback, resolving the customer complaints and then the establishment of FAQs. Proper following of the areas addressed is what leads to proper customer management.

Further Reading

1. Read further on customer relationship by Bhat,S.A., &Darzi, M.A. (2016). Customer relationship management. (*International Journal of Bank Marketing*.)

10.3.4.3 Self-Assessment

Written Assessment

1. Which one of the following cannot be used by a customer to instruct the bank?
    a) Fund transfer request
    b) Cheque book request
    c) Withdrawal request
    d) Money deposit transaction
2. Which of the following is not a requirement for getting a cheque book?
    a) Funds being in the account
    b) Account being legible for a cheque book
    c) Signing rules of the account
    d) Account being only for local currency
3. Which instances does not show a situation when the customer can request for blocking an ATM card?
    a) When the card has been lost
    b) When the card is expired
    c) When an intruder has known the ATM card pin
    d) When the customer has suspected the card doing an online transaction without his/her knowledge
4. Which is not a way of receiving feedback?
    a) Suggestion box
    b) Customer engagement
    c) Online reviews
    d) Brainstorming with peers
5. Which of the following is not a communication in customers' withdrawal request?
    a) Being handed cash withdrawn
    b) Receipt showing withdrawal
    c) Bank statement
    d) Notification of funds withdrawal
6. Discuss the use of an ATM.
7. Highlight the procedure of resolving customer complaints.
8. Suggest how bank determines FAQS.
9. Evaluation importance of matter in banks.
10. What is the other name of ATM card?

Oral Assessment

1. What is the procedure of withdrawing money from a bank?
2. Apart withdrawal of funds, what are the other uses of ATM cards?

Practical Assessment

Students should conduct survey to determine all the aspects of the customer management from any financial institution near them. The survey should then be documented and discussed in groups.

10.3.4.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip chart/white board

10.3.4.5 References

Estrella -Ramon, A., Sanchez-Perez., Swinnen, G., &VanHoof,K. (2017). A model to improve management of banking customers.(*International management & Data Systems.)*

Gupta, J. (2018). Customer Experience management in Banking Sector.(*International Journal Of Management.IT and Engineering*) ,8(2),75-86

Khan, H.F. (2017). E-banking: benefits and issue. (*American Research Journal of Business and Management*),3(1),1-7

10.3.4 Learning Outcome No 4: Reconcile online transaction

10.3.4.1 Learning Activities

Learning Outcome No 4: Reconcile online transaction	
Learning Activities	**Special Instructions**
4.1 Receive reports from service provider as per SLAs	Lectures
4.2 Compare customer requests against the bank and service provider report	Class discussions
4.3 Establish variance as per the comparison report	
4.4 Make adjustments as per the variance report	Group discussions
4.5 Communicate adjustment results to customer as per bank procedures	Illustrators
4.6 File adjustments reports as per bank policy	

10.3.4.2 Information Sheet No10/LO4: Reconcile online transaction

Introduction

This learning outcome covers; variance, causes of variance, reconciliation process, importance of reconciliation and filing and archiving.

Definition of key terms

Variance report: A variance report is a document that compares the expected financial outcome with the actual financial outcome. A budget being an estimation of variables and assigning of funds to cover them there is a necessary to use to use the actual amount that was spent. A variance report is presented in excel or power point presentations where the difference between the budget and the results are clearly stated. The differences are expressed in numbers or percentages**.**

Filing: Means keeping of documents safely and being easily accessible for use. Most financial records are historical so a good filing system are important. Losing documents before the end of financial year can result to incorrect entries.

Comparison report: This allows data to be viewed in a summarized data broken down to subgroup of the data. This subgroups are based on the questions on the survey or interview. Comparison reports are mostly used to study trends in a specific group of people they just select the group they are interested in.

Content/Procedures/Methods/Illustrations

4.1 Reports from service provider are received as per SLAs

Service level agreements (SLA's) are a commercial between a service provider and the client SLA'S include the aspects of the said service which includes the quality availability and responsibilities. The key components of a good SLA is;

- Agreement overview: Includes details such individual involved and expertly date.
- Goals and objectives: This is the purpose of the document
- Stakeholders: Parties involved
- Periodic review: The expiry date of the SLA
- Service agreements: This include
    a) The service scope: Looks at the specific services offered by the agreement
    b) Customer requirement which includes details on payment
    c) Service provider requirements: Includes specification of response time in case it is required
    d) Service assumptions: Protocol on changes to services are discussed

4.2 Customer requests are compared against the bank and service provider report

All customers' requests have to be compared against the bank for payment for the services and to the service provider report to see if the terms of the agreement are made. This is also because the transaction that are online take two to three days to reflect.

There are channels that are followed during request of information from the bank by customers. Customer requests should be in person with identification or if other methods of communication are used there are follow up questions that are asked.

4.3 Variance as established as per the comparison report

Variance is a statistical measure of the difference between set observations. It also refers to how much actual expenditures deviates from the actual budget.

Variance formula

$$\delta^2 = \frac{\sum_{i=1}^{n} (x_1 - \bar{x})^2}{n}$$

Where

x_i = the ith data point

$\bar{x}$ =the mean of all data points

n =the number of data points

$\sum$ =summation

δ_2 =variance

Causes of variance

A variance is either favorable or unfavorable favorable variance is when the income is more than expected an unfavorable variance is when revenue is less than the expected income.

Favorable causes

- Healthier economy
- More advertising
- Up to date products
- Less competition
- Lower selling prices

Unfavorable causes include:

- Worse economy
- Market decrease in prices
- Higher competition
- Outdated products
- Poor management of materials

With the comparison report one can always view the trends using the data provided.

4.4 Adjustments are made as per the variance report

Adjust the bank statements

Bank balance should be the corrected balance. This is done by adding deposits in transit, deduct outstanding cheque, add or deduct the bank errors.

Adjust the cash account

Adjust this account by adding interest or deducting monthly changes and overdraft fees

Example

Zuku company ltd has a balance of 230,000 as of march 31st 2018.balance per cash book as 31st march 2018 is 243,000

Additional information

A cheque of 30,000 was deposited but not collect by bank

Bank charges of 5000 were not recorded in the cash book

Cheque of sh.20, 000 were issued but were not paid

Bank interest of 2000 was not recorded in cash book.

Table 23: Adjusting cash account

Solution

Particulars	**Amount DR**	**Amount CR**
Balance		Sh. 230,000
Add cheque deposited	Sh. 30,000	
Bank charges	Sh. 5,000	Sh. 35,000
Less cheque issued	Sh. 20,000	
Bank interest	Sh. 2,000	Sh. 22,000

4.5 Adjustment results are communicated to customer as per bank procedures

Bank communicates to their customers through various methods. They include the following:

- SMS banking
- Telephone
- Mobile phone
- Emails

These methods of communication are secure communication channels that are recorded in the personal information of the customer.

4.6 Adjustments reports are filed as per bank policy

Banks have to file its reports in ways that they can be more accessible in future in case they need to be looked into again. There are different types of banking filing systems and they include;

- **Alphabetical topical filing:** This is the filing according to the topic labeling them in alphabetical order
- **Alphabetical encyclopedia filing system:** Information should be in general category with subcategories that are placed in alphabetical order.
- **Straight numeric:** Labeling files from one and the next in the subsequent numbers.

Conclusion

This learning outcome covered; variance, causes of variance, reconciliation process, importance of reconciliation and filing and archiving.

Further Reading

1. Read further in the use of QuickBooks and sage in reconciliation

10.3.4.3 Self-Assessment

Written Assessment

1. Which of the following is not an un-favorable cause of variance?
   a) Bad economy
   b) More competition
   c) Fall in prices
   d) Advertisement

2. Which of the following is a component of service level agreement?
    a) Service agreement
    b) Statement of problem
    c) Introduction
    d) References
3. Service level agreement is legal contract between a service provider and client in which the vendor and service guarantees
    a) Minimum service charge
    b) Free upgrade for the length of the contract
    c) No defects no risks
    d) Minimum level of service
4. Variance is defined as breaking down data to be viewed in subgroups
    a) Yes
    b) No
5. Emails are approved ways of communication by the banks to the customers
    a) Yes
    b) No
6. Who contacts the agency about the SLA?
    a) Customer
    b) Service provider
7. Which of the following is a reason to suspend an SLA?
    a) Expiry of the contract
    b) Payment of service on time
8. Analyse the importance of reconciliation.
9. Discuss what is filing.
10. Identify the causes of variance.
11. Suggest an example of variance report.
12. What do you understand by archiving?

Oral Assessment
1. State the component of SLA's report.
2. What is a comparison report?

Practical Assessment
Safaricom Kenya ltd is an organization that provides service in Kenya. Through Safaricom pay-bill no 423655 customers of GOTV are able to pay their services. Do research on how the reconciliation of the above transactions are handled by both GOTV Africa and Safaricom.

10.3.4.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip chart/white board

10.3.4.5 References

Hightower R (2008). Accounting and Finance policies and procedures. John Wiley & Sons, 2008

Weyganot J.J Kimud, P.D & Kieso D.E (2009). Managerial accounting tools for business decision making. John Wiley & Sons, 2009

Zabback, P,H.B Paul, and U Deppish. (1990). Office documents on database kernel-filing, retrieval and archiving. ACM Sigois Bulletin 11 (No 2-3)

10.3.5 Learning Outcome No 5: Recovery of default account

10.3.5.1 Learning Activities

Learning Outcome No 5: Recovery of default account	
Learning Activities	**Special Instructions**
5.1 Identification of default account as per repayment report 5.2 Informing customer of their status as per repayment report 5.3 Reclassification of credit facilities as per payment performance 5.4 Notification of credit reference bureaus of the customer status as per regulatory requirement 5.5 Identification of collection agencies as per bank policy 5.6 Set Service Level Agreement as per bank policy	Demonstrations Case studies Discussions

10.3.5.2 Information Sheet No10/LO5: Recovery of default account

Introduction

This learning outcome covers; classification of credit facility account, delinquent account, constitute of delinquent account, consequences of default, recovery option, and recovery process.

Definition of key terms

Repayment report: It is a document that shows all the repayments that an individual borrowed has made to clear the loan borrower. It shows the amounts and periods of payment it also shows the percentage completion level.

Reclassification: This is the process of transferring one credit from one class to another depending on the completion rate and the risk level of the credit.

Content/Procedures/Methods/Illustrations

5.1 Default account are identified as per repayment report

Default Account Definition

A default account is an account on the loan repayment report which shows that an individual has not paid their previous debt balances. In case you have a default account, you attempt to apply for a loan, creditors are likely to check your credit profile and once they find you are in the credit default section, you are likely to be considered as a high risk debtor and they might not give you the loan. There are different types of accounts that individuals might default, the process of identifying default accounts is quite extensive and involves looking into the repayment period.

Factors that Determine Credit/Loan Default

- **Absence of the will to pay.** Some borrowers may generally lack the will of repaying the credit as they feel they are benefitting the creditor.
- **Diversion of borrowed funds.** During the time of borrowing, a borrower will have a specific need or reason for borrowing, once they receive the money; they get other needs that may be more important and urgent as well. Once these finances have been diverted, it might become difficult to repay the loan and this leads to credit default.
- **Poor appraisal by credit officers.** Before extending a loan to an individual, the credit officers should assess the credit worthiness and ability to pay the loan. Poor appraisals might make the credit officers think that the borrower might be able to pay, but in the end the borrower is unable to pay leading to credit default.
- **Effect of exchange rate depreciation.** This occurs mostly in borrowings that involve multi-currencies such borrowings require to be changed to the local currency. If the exchange rate depreciates it will affect the repayment probability of debtors as they may not wish to incur an extra cost in exchanging the currency.
- **Adverse economic sharks:** Changes in the economic conditions hamper the ability of individuals to repay their loans and contribute to increased rates of loan default. Economic shocks can cause inflation and reduce money supply.

How to Minimize loan Default

i. Use of collateral

When banks offer loans, they demand for a collateral which can be used to repay the loan when a borrower defaults. Collateral helps to reduce credit default risk.

ii. Securitization of credit

This means securing of credit by using insurance sectors. Once the credit is securitized or insured, it can be reclaimed from the insurance providers if the borrower defaults.

iii. Proper appraisal

According to Basel requirements, credit facilities should make appropriate appraisals to track the credit record of a borrower before extending credit. Prudent and sound appraisals will enable the credit facility to offer credit in areas where they have some level of certainty in repayment.

Effects of Loan Defaults to credit Facilities

According to Basel requirements, credit facilities should make appropriate appraisals to track the credit record of a borrower. Effects are as follows:

- It limits the financial growth of financial institutions
- It reduces the lending capacity of credit facilities
- It affects the general performance of credit facilities
- It will lead to capital inadequacy which may further result in solvency
- It reduces the profits of the institution

Identifying a Default Account

From the repayment report, you can check under repayment history. The repayment history of each client of a default account will have a D mark, the arrears that have led to the default account will be marked with numbers 1,2,3,4 or 5.

5.2 Customer are informed of their status as per repayment report

Customers are informed of their status as per repayment report. Depending on the category of the customer in the repayment report. The credit facility through the credit officer notifies the customer of the status of the payment as per the payment report.

How to inform a customer

Once the bank or credit institution has established a repayment report of an individual, it will take a stop to notify the client about his/her repayments status. The bank can inform the customer by:

- Calling the customer during daytime hours
- Sending notification message
- Writing an e-mail to the customer
- Contacting the customer through the guarantor if the above strategies fail

Type of default account

Delinquent account

A delinquent account is an account that the customer has not made his/her minimum monthly payment when comparing with the most recent date that the payment was supposed to be made. In most cases, once a customer account becomes delinquent after 30 days, if the account exceeds 60 or more days, then the credit company begins to process for the collection of its credit card.

Consequences of Default to a Borrower

- **Risk rate defaulting:** This shows the probability that the borrower will not be in a position to maintain financial ability to make periodical payments or planned in the repayment agreement.
- **Loss-given default:** This incorporates and compares individuals with different loan amounts and with different credit ratings. However, even if an individual has a good credit rating with a high income and is given more loan than an individual with low rating. The level of risk with an individual who has a huge loan is high compared to the individual with a less amount of loan.
- **Rate of exposure:** This refers to the total loss a lender is exposed to by the time of giving credit. It is important to consider the risk exposure before extending credit to an individual or organization.
- **Destroys credit rating of a borrower**
- **Hurts future loan opportunities**
- **Limits access to credit facilities**

5.3 Credit facilities are reclassified as per payment performance

A credit facility is a certain type of loan that is provided in the context of a business. The credit facility gives the person borrowing an opportunity to borrow for a certain period of time. A credit facility allows a company to take a loan so that it can generate capital for a longer period of time.

Depending on the payment performance, the credit facilities are reclassified

Reclassification refers to the process of categorizing credit depending on the level of risks associated with the credit. They can also be reclassified based on the complexity and the nature of loaning activities. The lending activities for large banks are complex as compared to the lending activities of small banks. Depending on the risks, credit facilities are reclassified into:

- **Performing credit facilities:** These are loans that are fully secured by liquid securities or physical properties. Example is a mortgage credit facility
- **Potential problem credit facilities:** These are credit facilities that show early warning signs of default. Such credit facilities may have other issues associated with them. As a result, they may need close monitoring.
- **Impaired credit facilities:** These are credit facilities that need specific provisions and other remedy actions. Some of these credit facilities may have been transferred to a credit agency.

Credit facilities are reclassified based on the following conditions

- Financial conditions of a borrower
- The repayment history of the power
- The value of the collateral that the borrower has provided

Types of Credit Facilities

- Revolving credit facility
- Committed facilities
- Credit letters
- Credit rental accounts

Credit Retail Facility

This refers to a method of financing that is mostly used by retail companies; they are characterized by credit cards.

Revolving Loan: This is a form of finance that financial institutions give to borrowers an opportunity to reduce, or withdraw the loan again. It is characterized by a fluctuating interest rate.

Committed Facility: It is a source of short-term loan where the creditor provides credit financing to a company provided that it meets the expected requirements. The loan provided has a certain limit.

5.4 Credit reference bureaus are notified of the customer status as per regulatory requirement

Debt recovery is the holistic process that is involved in recovering the loan or credit that the borrower has not paid. In the process of debt recovery, a credit institution can choose to hire a third party who will help to collect the money.

Debt Recovery Collection Process (Steps)

i. The process begins when a borrower has not paid after 30 days beyond the last repayment date
ii. The creditor attempts to make contacts with the borrower by phone
iii. The borrower can provide an explanation and set a new date for repayment
iv. After 30 days of control a different department takes up the role of debt recovery
v. After a period of 180 days, the creditor will still contact the borrower. If there is no response, the creditor will notify the credit reference bureau
vi. The creditor can choose to sell the dent to a collection agency
vii. Once the agency takes ownership of the debt, the creditors will claim the debt from the agency
viii. The collection agency reviews the claim
ix. Once it has ascertained the validity of the claim, it will write a demand letter to the debtor and an acknowledgment note is sent to the creditor
x. If the debtor fails to cooperate the details of the debtor are forwarded to the attorneys who will recommend a legal action
xi. If a legal action is authorized, the client prepares and files a lawsuit. However, if the client does not want to follow the legal action, the debt collection services works with the cause for an additional number of 60 days and then closes the case.

What are the regulatory requirement that credit reference should meet?

A person or company shall operate a bureau if it meets the following regulatory requirements:

- The bureau is established and incorporated as a company under the companies Act
- The bureau is licensed
- The CBK requires a credit reference bureau to have adequate capital and human resources necessary for running the activities of the bureau
- The credit reference should have an adequate management information system and an efficient internal control system
- Pay the CBK an annual fee of one hundred thousand shillings for license

Consequences of failing to comply with the regulatory requirements

- The company shall be liable to a fine of not more than 100000
- The regulatory body will revoke the license of the bureau and stop its further dealings
- The central bank shall take control of the bureau
- The bureau will receive a winding or resolution order

Actions that a debt collector is not permitted to do

- Calling the debtor several number of times either before or during the morning or after 9 pm.
- Contacting the debtor at his/her place of employment If the supervisor does not approve
- Informing other parties about the debt
- Using abusive or harassing language
- Presenting false information surrounding the debt
- Giving threats to the debtor
- Contacting you further after you have provided a letter of desist

Debt Recovery Options

The options available for recovering debt include:

- Writing a letter of demand to request payment
- Initiating judicial proceedings
- Providing a statutory demand
- Commercial form of settlement through arbitration

5.5 Collection agencies are identified as per bank policy

Each and every bank or credit institution has policies on the collection agencies that it can use in case of loan default. Once a borrowed has defaulted and the attempts of the creditor have not provided any results, the bank will inform the collection agency which will take the initiative to follow up on the debtor. Before agencies are identifies, the bank will gather the following information that it will offer to the collection agency.

- History and experience with the debtor
- All related data that may affect collectability
- Any adjustments made regarding the credit
- Any promises that the debtor may have made

5.6 Service level agreement are set as per bank policy

These are documents that contain information on the standard and quality of service that a financial institution such as bank should offer. The agreement ensures that an institution gets the right or prescribed services based on quality. The main purpose of a service level agreement is to specify the performance expectations.

The agreement has the following components:

- Category of service
- Acceptance range of quality
- Definitions on the3 terms under measurement
- The frequency or interval of measurement
- Relevant penalties for failing to perform

Steps of developing service level agreement

i. Develop objectives by reviewing the needs of a financial institution
ii. Defining the specific requirements and needs to improve efficiency
iii. Setting measurements and metrics for measuring service levels
iv. Developing and establishing accountability to include clear statements of the outcomes

Areas to consider when developing a service level agreement

- areas with high performance risks
- functions that a bank intends to measure
- areas where requirements are linked to goals
- area that require huge amounts of money

Importance of service level agreement

- Helps in measurement of results of institutional activities
- Gives banks an opportunity to take appropriate actions for failed activities
- Helps to guide service providers through feedback
- Helps in comparing results against service levels

Bank policies

- Transactions regulations
- Lending regulations
- Financing regulations
- Investment regulations
- Reporting regulations
- Guarantee policies

Conclusion

This learning outcome covered; classification of credit facility account, delinquent account, constitute of delinquent account, consequences of default, recovery option, and recovery process.

Further Reading

1. To read further on the ways that credit institutions can develop strategies to effectively collect amounts that debtors have defaulted.

10.3.5.3 Self-Assessment

Written Assessment

1. Which of the following factors does not affect credit default?
    a) Lack of will
    b) Diversion of use
    c) Poor appraisal
    d) Desire to repay
2. The following are true about effects of defaulting, which one is not?
    a) Limits financial growth
    b) Reduces lending capacity
    c) Affects general performance
    d) None of the above
3. Credit institutions can use the following strategies to reduce the risk of default apart from one, identify it?
    a) Proposal appraisals
    b) Use of collateral
    c) Providing unsecured loans
    d) Use of guarantors
4. How many processes are involved in the debt recovery process?
    a) One
    b) Three
    c) Four
    d) more than four
5. The following are debt recovery options except one, identify it?
    a) Calling a debtor and threatening him/her
    b) Writing a demand letter
    c) Initiating judicial proceedings
    d) Providing a statutory demand
6. A debt collector is supposed to do the following except one, which one?
    a) Calling a debtor beyond 9 pm and before 8 am
    b) Threatening a debtor
    c) Using an agency to collect his debt
    d) Provide false information about the debt

7. Financial institutions can apply the following strategies to reduce risks apart from one, which one is it?
    a) Using collaterals
    b) Insuring the credits
    c) Securitization of the credit
    d) Delinquent credit
8. Elaborate on what is a delinquent account.
9. Discuss the differences that exist between a delinquent account and a default account.
10. Analyse the strategies used in reducing the probability of defaulting.
11. What do you understand by the term debt recovery?
12. Identify two debt recovery options that exist to a creditor.

Oral Assessment
1. Mention two consequences of having a default account.
2. Can a creditor file a legal proceeding against a non-compliant debtor?

Practical Assessment
A student has decided to engage in a shylock business and provide credit facilities to his fellow students in need of finances to pay up for their school fees. After doing the business for a period of time, he realizes that the business is very profitable. However, he has one student who has refused to repay the loan. Suggest the recovery options available to the shylock.

10.3.5.4 Tools, Equipment, Supplies and Materials
- Writing materials
- Projector
- Computer
- Flip chart/white board
- Stationary

10.3.5.5 References

Charana, D. Q, & Were S. (2018). Influence of Strategic management process on loan Recovery. A case of higher education Loans Board, Kenya. Journal of strategic management. 2(2) 18-31.

Iyer. K. C & Purkayastha, D. (2017). Credit Risk Assessment in Infrastructure Project Finance: Relevance of Credit Ratings. The journal of structural finance. 22 (4), 17-25

Ongena, Steven, Aplha Kara and David. (2017). Securitizat6ion of credit quality (no 2009)

CHAPTER 11: BANK COMPLIANCE

11.1 Introduction of the Unit of Learning/Unit of Competency

Bank compliance is a unit of competency covered in TVET level 6 banking and finance course qualification. This unit specifies the competencies required to do profiling bank customers, verifying bank compliance status, preparing regulators report, reporting bank performance to board, seeking approval of bank products and services and handling interbank relationships. The significance of managing bank compliance according to TVET level 6 banking and finance curriculum is to equip the learner with the knowledge and skills to communication, negotiation, conflict resolution, listening, budgeting, conflict resolution and negotiation techniques, credit and debit recovery principles and techniques, financial delegations and limits applied within organization and specific to role etc. so as to fit in the workplace.

The critical aspect of competency to be covered include: understanding of risk levels, understanding of compliance standards, understanding of regulatory requirement, understanding of prudential guidelines, understanding of International Trade Basis Resources required include: resource implications, methods of assessment, context of assessment and guidance information for assessment.

The unit of competency covers 6 learning outcomes. Each of the learning outcome presents; learning activities that covers performance criteria statements, thus creating trainee's an opportunity to demonstrate competencies stipulated in the occupational standards and content in curriculum. Information sheet provides; definition of key terms, content and illustration to guide in training. The competency may be assessed through written test, demonstration, practical assignment, interview/oral questioning and case study. Self-assessment is provided at the end of each learning outcome. Holistic assessment with other units relevant to the industry sector workplace and job role is recommended.

11.2 Performance Standard

Profile bank customers, check bank compliance status, prepare regulators report, report bank performance to board, seek approval of bank products and services and handle interbank relationships as per the risk profile, bank regulations and bank policy.

11.3 Learning Outcomes

11.3.1 List of Learning Outcomes

a) Profile bank customers
b) Check bank compliance status
c) Prepare regulators report
d) Seek approval of bank products and services
e) Handle interbank relationships

11.3.2 Learning Outcome No. 1: Profile bank customers

11.3.2.1 Learning Activities

Learning Outcome No. 1: Profile bank customers	
Learning Activities	**Special Instructions**
1.1. Classify bank customers as per the risk profile 1.2. Assign customers risk levels as per bank regulations 1.3. Monitor on-boarded customers are monitored as per bank policy	Discussions Oral Presentation Case study illustrations

11.3.2.2 Information Sheet No. 11/LO1: Profile bank customers

Introduction

This learning outcome covers; the classification of bank customer as per the risk profile, types of customer for banks, types of risks that organisations and banks face, different levels of risks that exist, risk mitigation strategies and also countries that have been sanctioned. The outline has also looked at the process of monitoring on-boarded customers as per the policy of the bank.

Definition of key terms

Risks: Are situations that can expose a business or an individual to danger. It can also be defined as the chance that the returns of a business will differ from the actual returns.

Mitigate: This refers to as the activity that is undertaken to reduce or lessen the severity that occurs when a risk occurs.

Content/Procedures/Methods/Illustrations

1.1 Bank customers are classified as per the risk profile

A risk profile is an evaluation carried out to access the willingness and ability of an individual to take risks. Risk profile is very important in determining the appropriate investment strategy or credit allocation. Banks have policies regarding the assessment of a risk profile of a customer. According to the policy, a bank should access the capital adequacy of a customer before profiling the customers. One of the main objectives of banking is making profits. To achieve this objective, the banks around the world are attempting to make their services to be customer centred. By understanding the specific needs of their customers, banks are customizing their services to meet the needs of their customers. Banks have also customized not only their services but also other products that banks are offering.

Customer profiling definition

Customer profiling refers to the process of classifying customers based on the existing facts on their transactional activities. One of the major challenges that banks and other financial institutions face is maintaining customers with high profiles. When banks understand the specific needs of customers, product preferences, purchasing patterns and customer history, it is possible for banks to improve and offer customized products and services.

When customers get customized products and services, they get satisfaction which makes them become loyal customers to the bank. In turn the profits of the bank increase and banks have a high customer retention capacity. All customers have some attributes that can be used to create customer profiles some of the attributes which comprise demographic information such as gender, occupation, age, level of income and education level. Other parameters that can be used to profile customers include financial parameters, purchasing preferences and buying history.

Uses of customer attributes

- They help facilitate customer assessment
- They enable banks create and market suitable products
- Enables banks create a better customer experience
- It helps to customize bank products
- It facilitates in the process of categorizing risks
- Helps in predicting the default rate
- Helps banks to assess the eligibility of a customer for various bank products

Based on the attributes of customers, the bank can classify them into various categories. Some may have more risks and others may be customers with fewer risks. Therefore, they are classified into four different categories as explained below;

a) High value customers

These are customers the bank considers to have low risk due to their net worth. They make large deposits, take huge loans and contribute significantly to the profits of the bank. Such customers receive high quality customer service and banks give them priority and offer timely responses to their grievances. Banks offer incentives to such customers so that they can retain them.

b) Medium value customers

These are customers the bank considers to have medium risks and most of them do businesses with the bank. They are in the process of upgrading to high level customers and contribute significantly to the profitability of the bank. These customers fall into those income earning group of customers and to retain them the banks can provide feasible and attractive products and services specifically for those groups as well as communicate efficiently using the right channel to those customers while addressing their issues.

c) **Low value customers**

Low value customers possess the following features;

- They have a low income.
- They fall into the high risk group of customers.
- Their profit level contribution to the bank is minimal.
- They have a little scope of moving from their level to a higher level.

How banks reduce risk with low value customers

- They can allocate limited resources to such customers
- They communicate to them using the minimum costs

d) **Negative value customers**

These customers have high risks since they incur additional costs to the bank as compared to the profit they generate to the bank. These customers may either be having loans or accounts that are not in operation. Customer profile can be presented on a graph as shown below. It is a graph plotted on profitability against value of customers.

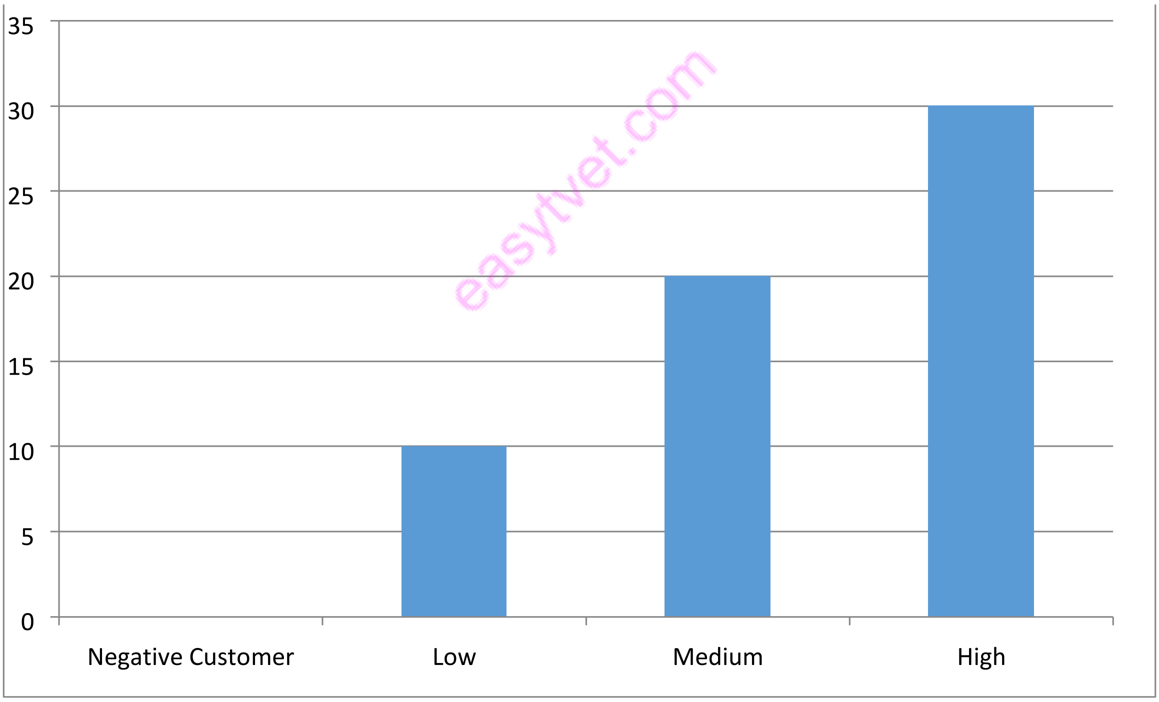


Figure 35: Graph plotted on profitability against value of customers

From the bar graph above, it is evident that high value customers are the greatest profit contributors to the banks and therefore have the least risk. On the other hand, negative customers have zero contribution to the profits that the banks make. Actually they make the bank to incur costs in maintaining their accounts and servicing their needs.

Types of risks

Investors have information that for them to benefit from their investments, they must be exposed to various types of risks in the market. There are two broad categories of risks which are **systematic** and **unsystematic risks**.

a) **Systematic risks:** These are risks that affect the entire system and the entire market. The risk affects all the investments in the market and includes risks like political turmoil, inflation and changes in interest rates. It is difficult or impossible for an individual or businessman to protect their business against these risks.
b) **Unsystematic risks:** It is also known as diversifiable risk and affects only a specific company or organization thus an individual or company has the possibility of protecting themselves against the risks through diversification. Examples of unsystematic risks include strikes; poor management and lawsuits.

There are specific risks that are categorized under these broad categories and include;

- **Credit risk:** This is the risk that occurs when you predict that the person whom the bank has given credit will be unable to repay the principle amount and the interest.
- **Country risk:** This risk occurs when it becomes difficult for that country to honor its debt obligation such as stocks and bonds. A country with a huge fiscal deficit is considered to be more risky.
- **Political risk:** This is a risk that occurs if a government of a country decides to change policies that govern its operations.
- **Interest rate risk:** It is a risk that's likely to occur due to changes and fluctuations in the level of interest rates of a country.
- **Inflation risks:** This is a risk that occurs when the returns of an investment reduce due to general changes in prices of commodities in the market.

Risk mitigation factors

Although risks exist in businesses, there are ways in which the risks can be mitigated or managed so that their impact is not adverse. Risk mitigation is the process of establishing steps which will help to reduce the adverse effects of a risk in case it occurs. When developing a risk mitigation strategy, it is necessary to have clear information and profile of the company.

There are four risk mitigation strategies which include;

a) **Risk acceptance:** This is one of the strategies used although it does not reduce or mitigate the impact of a risk occurring. The strategy becomes an option when it is not possible to apply or use other risk mitigation strategies. Risk acceptance occurs mostly to those risks that have a low possibility of occurring.

b) **Risk avoidance:** This refers to a strategy where a bank undertakes an action that prevents it from exposing itself to a risk. However, this is one of the most expensive strategies as it may limit a bank from carrying out most actions.

c) **Risk limitation:** It is one of the most common risk mitigation strategies and provides some limits to a bank that may expose it to the risk. It can be considered as a strategy that combines risk acceptance and risk avoidance. For instance, when a company or bank feels that a hard disk of their computer may fail, they develop backups.

d) **Risk transfer:** This refers to the process of handing off or transferring the risk to another third party. Some companies transfer risks by outsourcing their services to other companies. Risk transfer helps a company or banks to focus on its core competencies.

1.2 Customers are assigned risk levels as per bank regulations

Bank regulation refers to the requirement and policies that a bank has set to guide it in handling its activities. It also helps to enhance transparency between banks and customers. Banks therefore use the bank regulation to assign risk levels of its customers. Assessing risk levels begins by profiling its customers. There are various risk levels that a bank considers or uses to classify and profile its customers and include the following categories;

a) **Low risk levels:** This is the level at which a bank has a low probability of losing its money or properties in case it lends out to a customer. High level customers fall into the category of customers with low risks since they make huge deposits and engage in numerous transactions with the bank.

b) **Medium risk levels:** This is the level at which the probability of a default occurring is moderate. However, the level may change from point to another. In customer profiling, banks consider income earning individuals to be in medium levels of risk as they also engage the bank with a substantial number of transactions that help the banks in generating some profits. Customers at medium risk level have a reduced credit default rate.

c) **High risk levels:** These are levels of risk that a bank or any financial institution considers to be adverse. While profiling customers, banks profile those customers with few and less value transactions as high risk customers. Due to the classification, the banks do not offer such customers nor do they customize products for such customers. According to the bank regulations, it may be difficult to for such customers to access credit/loan facilities as their repayment model or ability is not guaranteed.

Sanctioned countries

Sanctioning is a process by which one country exerts disapproval with the dealings of another country. When it happens, the relationship between such countries become adverse and no trade/business occurs between such countries. The U.S is one of the countries that sanction other countries. Some of the countries that the U.S has sanctioned include; Burma, Ivory Coast, Cuba, Iran, North Korea and Syria. The U.S has a list of organizations or individuals in such countries that it does not engage with or do business with.

1.3 On-boarded customers are monitored as per bank policy

On-boarded customers: These are customers that have recently opened an account with the bank. The banks take an initiative to monitor their transactions for a period of time to facilitate ease in profiling.

How to monitor on boarded customers

i. Checking their deposit amounts
ii. Assessing the amount of cash they withdraw
iii. Assessing the number of transactions they engage in a day
iv. Checking the mode of deposits either cash or cheque deposits

Importance of monitoring on boarded customers

- Helps the bank to profile the client accordingly
- Helps the bank to check any fraudulent activities
- Gives the bank an opportunity to assess the risk level of the customer in case the customer wants to request for credit

Reasons for monitoring on boarded customers.

- To meet the requirements of Central Bank of Kenya
- To assess and curb any issue of money laundering
- To check if the account has been opened to facilitate terrorism practices through paying terrorist using the account
- To help the account have accountability to the account holder and enable it to profile the customer appropriately

Conclusion

This learning outcome covered; risks, types of risks, risk mitigation factors, sanctioned countries and individuals. It also looked into what customer profiling is and the factors considered in customer profiling.

Further Reading

Read on:

1. Reasons that make countries or individuals to be sanctioned.
2. Negative effects of poor customer profiling by banks.

11.3.2.3Self-Assessment

Written Assessment

1. Which of the following does not form part of the demographic factors used in profiling customers?
   a) Age
   b) Height
   c) Occupation
   d) Gender
2. The following are reasons for profiling an on-board customer. Which is the odd one out?
   a) To meet the CBK requirements
   b) To check the client source of income
   c) To curb money laundering
   d) To prevent terrorism
3. How many broad classifications of risks exist?
   a) One
   b) Two
   c) Three
   d) None of the above
4. Which of the following is not a risk mitigation strategy?
   a) Risk avoidance
   b) Risk transfer
   c) Risk acceptance
   d) Risk mitigation
5. Which of the following countries has been sanctioned by the U.S?
   a) Cuba
   b) Kenya
   c) Uganda
   d) South Africa

6. Which of the following is not a characteristic of low value customers?
    a) They make large bank deposits
    b) They have a low income
    c) They have high risk
    d) They have minimal profit contribution to the bank
7. Which of the following is not a use of customer attributes in profiling?
    a) Assess customer eligibility to products
    b) Predicting default rate
    c) Customizing bank products
    d) Identifying the faith of an individual
8. Summarize the role of monitoring on-boarded customers.
9. Discuss briefly on the differences that exist between low value & high value customers.
10. Give a brief elaboration on the factors that banks use to profile their customers.
11. Analyse how the characteristics of customers help a bank in carrying out profiling process.
12. Provide a brief description of what customer profiling entails.

Oral Assessment

1. Mention the types of risks that exist.
2. State the levels of risks that exist for banks.

Practical Assessment

A multi-credit union wanted to grow its membership through services that it provided. However, there was a very high competition in the industry. The union had to target young and highly valued customers to create a strong foundation to enable it have long-term profitable relationships. To establish its objectives, the union created profiles for its customers and customized the products for their customers.

11.3.2.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip chart/white board

11.3.2.5 References

Platon.Victor. Simon & Constatinesco, A (2014) financial and economic risks to public projects. Procedia Economics and finance 8 no. (2014) 204-2010.

Stari, M. Liciotti, D. Piedicca.R Frontuni, E.,Mancini, A., Contigiani, M. &Zangaretti, P (2016) Robust and affordable customer profiling by vision and radio beacon senior fusion. Pattern recognition letters, 81,30-40.

Tanimoto, S.Shiraki, S. Lwasita,M. Kobayashi, T., Sata, H. &Karani, A (2016) Risk assessment based on users viewpoint for mobile Ad Hoc. Network in 2016 p280-285.

11.3.3 Learning Outcome No. 2: Check bank compliance status.

113.3.1 Learning Activities

Learning Outcome No. 2: Check bank compliance status.	
Learning Activities	**Special Instructions**
2.1 Identify bank regulators as per bank policy	Demonstrations
2.2 Identify bank compliance standards as per regulators guideline	Class discussions
2.3 Check bank compliance status as per the regulatory standards	Case studies

11.3.3.2 Information Sheet No. 11/LO2: Check bank compliance status.

Introduction

This learning outcome covers; what regulatory bodies are objectives of regulatory bodies, the benefits of regulatory bodies and consequences of noncompliance to the guidelines established by regulatory bodies. It also covers the principles and standards of regulatory bodies for banks and the prudential guidelines on banking and compliance status.

Definition of key terms

Regulatory body: This refers to any functional agency which is either a public or government agency that is established to carry out regulatory roles. The body provides requirements, conditions, standards and rules that are used to govern companies in a specific sector.

Compliance: It is the act of upholding and following the specific set of rules and conditions that have been put in place by a regulatory body.

Standard: This is a term used to describe an agreed way or style of doing something. It is a guideline followed in either making a product or providing a service.

Content/Procedures/Methods/Illustrations

2.1 Bank regulators are identified as per bank policy

According to the banking policies of Kenya, the Central Bank of Kenya (CBK) is the regulatory body for banks. It sets regulations, conditions and guidelines that banks should follow while they operate in Kenya.

Bank regulation: This is a form of government oversight that exposes and subjects banks to some requirements or guidelines and restrictions that help in creating transparency in the financial sector between financial institutions and individuals or companies.

With the current network of banking and financial institutions it is necessary that there are regulatory agencies which can help to maintain or control the activities and practices of such institutions. Financial institutions are highly interconnected with the capital markets, insurance sector and banking. With the interconnection of such activities, it is necessary to have a regulatory body for guiding their operations.

Objectives of bank regulations

- Regulations help in mitigating against the risk-level that banks are exposed to.
- Regulations aim at reducing the level of systematic risk which may occur due to the disruption of the state as a result of adverse trading conditions.
- They aim at reducing the misuse of banks which may be used in criminal activities or money laundering activities.
- Regulations aim at protecting the confidentiality of the banking sector.
- To provide a guideline on the sectors that needs credit.
- They help provide rules and regulations of treating customers and how the banks should address the issue of corporate social responsibility.

Principles of regulations

a) Licensing

All banks should be licensed. The regulatory body sets the minimum requirements that a bank is required to have before it is registered and licensed. Before a bank is licensed, various factors are taken into consideration where the intent of the bank is evaluated and the ability of the bank to meet the specified set regulations of the regulating body.

b) Minimum requirements

A banks regulatory body imposes minimum requirements that banks should meet so as to ensure that it works towards meeting its objectives. In most circumstances, the minimum requirements that a regulatory body imposes are closely linked to the risks that a bank may be exposed to. One of the essential minimum requirements that the regulatory body has put for banks is to maintain a minimum capital requirement rate. However, in other nations such as the U.S the banks may have an opportunity to determine the supervisory or regulatory body.

c) Market discipline

One of the requirements of regulatory bodies for banks is that they publicize or disclose their financial information. Disclosing financial information will help creditors and other people depositing to make an assessment of the level of risk they are exposed to and thus make prudent investment decisions. When a bank complies to the financial discipline principle the regulatory body can assess the financial health of the bank.

Regulatory body requirement

a) Capital requirement

Regulatory bodies for banks set and establish a framework and guidelines that guide banks on how they should handle the amount of capital they have in relation to their assets. The minimum capital requirement for banks is influenced globally by the Basel capital accords. This committee sets frameworks that are sensitive to the risks that banks are likely to be exposed to.

b) Reserve need

The regulatory body for banks sets out the minimum reserve that a bank should have to enable it demand bank notes and deposits. The regulatory bodies also use reserve requirements to control the amount of stock of bank notes that banks hold.

c) Corporate governance requirements

The main intention of regulatory bodies establishing this requirement is to ensure that there are good management practices in the banks. Some banks are large and have many branches making it important to check and ensure that all these branches are prudently managed. Some of the corporate requirements include;

- The banks should be locally incorporated
- A bank should be a corporate and therefore it should not be an individual or a partnership
- Should have a specific number of directors
- To have a clear and well established organizational structure
- To have a constitution that guides its activities or an article of association

2.2 Bank compliance standards are identified as per regulators guideline

The regulatory body stipulates the compliance standards of banks. Based on the guidelines that the regulation has provided, all banks need to comply and conform to the standards that have been set by a regulatory body. Some of the standards include, Capital requirement standard, Reserve need standard & good management.

Importance of compliance to standards

- It facilitates easy information processing.
- It helps to facilitate and enhance the level of security.
- Compliance to standards helps in managing risks that a bank may be exposed to.
- It helps to ensure that a bank follows the ethical conduct and other necessary control procedures.
- It enhances the relationship with a regulatory body.

Compliance department

The bank has a compliance department that has various roles which include ensuring that the bank complies with the established laws and regulations. The primary intentions of establishing this department is to enable the bank avoid fines that the government may impose and also protect the banks data and files from loss.

Additionally, the compliance department of a bank works to ensure;

- There is no money laundering
- There is no tax evasion or avoidance
- There are no illegal dealings
- There is no debt flight

Implementation of compliance standards

In order to implement banking compliance standard, an institution should create a culture that aims at complying with the set standards. The management of a bank has a role of ensuring that the culture of compliance has spread among the staff. The management should also provide the right and necessary tools that will facilitate compliance. The compliance department has the following responsibilities;

- To approve compliance policies.
- To inform the management of all the compliance measures.
- To communicate to the bank staff and other service providers about the policy of compliance.
- To disclose any ethical practice as per the banks guidelines.

Consequences of non-compliance

There are grave and adverse impacts for non-compliance which include but not limited to the following:

- Non-compliance will prevent banks and financial institutions from carrying out regulated activities.
- It leads to suspension of firms and individuals from various banking industries.
- Non-compliance will lead to the removal of a banks authorization.
- Banks that fail to comply will be fined for breaching the regulations and laws established.
- Their misconduct will be published which will call for a disciplinary action that impact their reputation negatively.
- Non-compliance can lead to prosecution since it will be considered a criminal offence.

Bank compliance status is checked as per the regulatory standards

For a bank to have an appropriate standing, the bank should have a formal status with the regulatory authority. To ensure that a bank has a formal status, it develops a monitoring tool that reminds them on every time they need to maintain and update information with the regulatory body.

In Kenya, the Central bank of Kenya (CBK) is the regulatory authority of banks and has established guidelines and regulatory standards for banks and other financial institutions. The CBK has established prudential guidelines for banks which all banks must adhere to in their operational practice.

Some of the regulatory standards to ensure the right compliance include:

a) **Financial disclosure and reporting:** Banks should disclose their finances by preparing and publishing their financial statements. Banks should disclose financial statements subject to the guidelines provided by the CBK which is the regulating body. Once the financial statements have been prepared the directors must attest and declare that such financial statements are accurate and indicate the true financial status of the banks.

b) **Credit requirement rating:** Regulatory bodies require banks to have a specific credit rating obtained from a specific credit rating agency and the rating should be disclosed to the creditors and investors. The credit ratings show investors the level of risks that a bank is taking.

c) **Exposure restrictions:** Regulatory bodies may restrict banks from exposing themselves to other counterparties without prudence. Such restrictions prevent banks from exposing equity holders to unnecessary risks.

Conclusion

This learning outcome covered; what regulatory bodies are, bank compliance standards, consequences of non-compliance and prudential guidelines.

Further Reading

1. Read on how regulating bodies deal with banks and financial institutions that comply from the beginning and fail to maintain compliance standards.

11.3.3.3 Self-Assessment

1. The following are objectives of regulatory bodies, which one is not?
   a) To operate minimum operating standards
   b) To mitigate risk levels
   c) To reduce misuse of banks
   d) To protect confidentiality of banks
2. The following are true about a regulatory body, which one is not?
   a) It sets guidelines for operations
   b) It establishes conditions for operations
   c) It creates restrictions for operations
   d) It helps in investments
3. The following are principles of regulations except one. Which is it?
   a) Licensing
   b) Minimum requirements
   c) Market discipline
   d) Non-compliance
4. Which of the following is incorrect about standards of compliance?
   a) Facilitates communication
   b) Enhances security
   c) Managing risks
   d) Engaging in unethical behaviour

5. The following are some requirements of corporate governance except one. Which one is it?
    a) Banks should be locally incorporated
    b) Minimum number of directors be present
    c) Have a constitution
    d) None of the above
6. The compliance department has the following except one. Which one is it?
    a) Ensure money laundering
    b) Ensure no tax evasion
    c) Ensure no illegal dealings
    d) Ensure no debt flight
7. Which of the following is not a consequence of non-compliance?
    a) Denies authorization
    b) Enhances company's reputation
    c) Leads to fines by government
    d) Leads to prosecution
8. Analyse the roles played by regulatory bodies.
9. Summarize compliance standards that regulatory bodies have created for banks.
10. Elaborate on the principle of compliance.
11. Discuss some of the practices used in ensuring compliance.
12. Explain the consequences of non - compliance to regulatory bodies.

Oral Assessment

1. Mention three benefits of compliance.
2. State one consequence of non-compliance.

Practical Assessment

Equity Bank, a Kenyan incorporated bank has been complying with the standards as established by the Central Bank of Kenya regarding the minimum balance. Assuming that the bank has surpassed and is operating below the minimum requirements as stipulated by the CBK, explain some of the consequences the bank is likely to be exposed to.

11.3.3.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip chart/white board

11.3.3.5 References

Ali, A.E.E.S (2015) The regulatory and supervision framework of microfinance in Kenya. Int. J. Soc.sci. Stud, 3,123.

Bleker, S.& Hortensius, D. (2014) ISO 19600.The development of global standard on compliance management. Business compliance, 2. 1-12.

Chiggai, H.I (2016). Effects of intern audit practice on organizational performance. A case of regulatory bodies in Kenya (Doctoral dissertation, KCA university).

11.3.4 Learning Outcome No.3: Prepare regulators report

11.3.4.1 Learning Activities

Learning Outcome No.3: Prepare regulators report	
Learning Activities	**Special Instructions**
3.1 Obtain regulatory data as per bank reports 3.2 Analyse regulatory data as per regulatory requirement 3.3 Compile regulatory data as per regulatory requirement 3.4 Generate the regulatory reports as per regulatory requirements 3.5 Submit the regulatory report as per the regulatory requirements 3.6 Respond to regulatory queries to as per bank procedure 3.7 Report bank compliance performance is reported to board as per bank policy	Lectures Discussions Presentations Illustrations

11.3.4.2 Information Sheet No.11/LO3: Prepare regulators report

Introduction

This learning outcome covers; the different types of regulatory reports, their importance and users of regulatory reports.

Definition of key terms

Regulatory: This is the act of regulating something. Regulation is management of set system according to the rules and regulations that are set.

Report: A report is a document which presents information in an organized format for s specific audience and purpose. Summaries can be presented orally but they must be presented in writing for filing.

Bank reports: It is a report issued by a bank to its depositors document the account balance and activity during the period.

Content/Procedures/Methods/Illustrations

3.1 Regulatory data is obtained as per bank reports

Financial regulation is a form of regulation that subjects financial institutions to certain requirement, restrictions and guidelines, aiming to maintain the integrity of the financial institutions. Aims of regulation include;

- Maintain confidence in the financial system.
- Contribution to maintaining stability in the financial institutions
- Protects the interests and well-being of consumers.

Regulation also ensures fairness in the market preventing other companies from edging out competition by using unfair methods. All money markets and equity markets are regulated by the government.

Importance of obtaining regulatory data

- Prevents market failures
- Ensures government policies and standards in a specific field of activity are met as set

The significance of reports

- They present information for various aspects of the business
- Skills and knowledge of the professionals is sown in the reports
- They help during decision making
- They can also help in problem-solving
- It communicates the planning, policies and other matters regarding organization

Report writing format

- **Title section:** Includes authors name and date of repairing
- **Summary:** This is a summary of the major points, conclusion and recommendations. This is a general overview of the report. It should have all the relevant information
- **Introduction:** This shows the problem and the reason why the report is necessary. Definition of terms is in this section. The arrangement of the report is also included here.
- **Body:** This contains several section that has a subtitle. It is arranged in order of importance with the most important being first
- **Conclusion:** This talks about the components of the whole report
- **Recommendations**: This is what needs to be done to improve the problem or reason for the report writing.
- **Appendices**: This is information for the people of the held. They are technical details to support the conclusions of the report.

Data needs to be collected for analysis then regulatory report writing. The information can be obtained from both the primary and secondary sources. Primary sources include;

- **Interviews and questionnaire for the customers and employees.** This can help to find improvements that can be made in services or products from people that are close to it.
- **Surveys for potential customer.** This is to know why they do not use the products of the said company.
- **Experiments.** This is by trying out new product will be received well in the market.

Secondary data for regulatory report writing will include;

- Reports from other organizations. This will help know the trends of other competitor and the gaps in the market that need to be explored.
- Government regulatory reports for bank. This provides the guidelines to use when coming up with the regulatory.

Advantages of primary data

- Resolves specific research issue
- Likely to be accurate
- Up-to date information
- Researcher has control

Disadvantages of primary data

- It is expensive
- It is time consuming
- Sometimes too large to be carried out

Advantages of secondary data

- Easy access
- Low cost of obtaining it
- Larger sample size

Disadvantages of secondary data

- Not specific to the needs of the researcher
- Lack of control on the data

3.2 Regulatory data is analysed as per regulatory requirement

Regulatory requirement: All applicable approvals, licenses, registrations and authorizations and all other requirements of each applicable regulatory authority. Data analysis being the collection and organizing of data to help the researcher come into the conclusion. The analysis method to be used in a data depends on the nature of the research. There are two types of data;

- Qualitative research. Does not use numbers in the research. It is descriptive in nature.
- Quantitative research. This data is mostly presented in terms of numbers.

In quantitative research there are both descriptive analysis and inferential analysis. Under descriptive analysis there is:

- **Mean:** Finding the numerical average of the data
- **Median:** Finding the mid-point.
- **Mode:** This is the most common value.
- **Percentage:** The ratio as a fraction.

- **Frequency:** The number of occurrences.
- **Range:** The lowest and highest value of the data.

Inferential analysis includes:

- **Correlation:** This is the description of the relation between two variables.
- **Regression:** The prediction of the relationship between variables.
- **Analysis of variance:** Test how groups of data differ.

Qualitative data is analysed using the following methods:

- **Narrative analysis.** This is reformulation of stories told by the respondent to get the context of the experiences.
- **Content analysis.** This is categorizing data using verbal and behavioural natures.
- **Developing and applying codes.** These are short words that represent data, sometimes the data is number for example married, divorced and single.

There are three types of coding:

- Open coding
- Axial coding
- Selective coding

Importance of data analysis

- Helps in highlighting the findings from different sources of data.
- Helps in separating important information from the rest of the data.
- Helps in breaking of human bias.

3.3 Regulatory data is compiled as per regulatory requirement

Data is compiled using various methods so that it is ready for presentation in the regulatory report. Findings of the analysed data can be compiled in;

- **Bar charts and graph.** This is mostly effective if data compiled is from different years. It is easier to see the rise and fluctuation of the data being presented.
- **Line charts.** They are used best to show population.
- **Pie charts.** They work best if they are used to show different components from a total of 100%.
- **Combo charts.** This is a combination of more than one chart. This is important when using different types of data e.g. population and data from different years.
- **Textual.** Data is compiled in paragraphs and texts.
- **Tabular.** Data is compiled in a table that is sometimes attached wit explanation.

Importance of data compilation

- It makes it easier for listeners to follow
- Easier to present
- Easy to use in decision making

3.4 Generate the regulatory reports as per regulatory requirements

Regulatory reporting is the submission of primary or secondary data as required by regulators to evaluate and track the financial and operation status of the financial institution and the compliance of the regulatory Act.

Importance of regulatory report

- Legal protection. Regulatory reporting demonstrates the willingness to follow rules and protects the business from legal threats.
- Improved customer trust. It assures the consumers/customers that they are safe. For example, Bank Regulation Act assures customers that their banks of choices will not have liquidity issues overnight.

Components of a regulatory report

- The title. It should have the author and date of presentation of the report.
- Summary of the findings. Should be summarized and cover every important aspect of the data in the report.
- Data that has been analysed should be available in the report.
- Recommendation for the regulation.
- Raw data for technical teams.

3.5 Submit the regulatory report as per the regulatory requirements

In the Kenya Bank regulatory act of 2015, there are requirements in the commission of the regulatory report. The report should be submitted to the minister for finance and the central bank of Kenya. The information received will be published as a whole or as the minister sees fit. Submitted information will not be published if it discloses the financial affairs of an individual unless there is a written consent, except as provided for the act no person was performing their duties.

Reasons for disclosing information

If it is to a monetary authority or fraud allegations and investigates within or outside Kenya.

3.6 Regulatory queries are responded to as per bank procedure

Bank procedures are policies/standards designed to protect consumer assets while establishing methods for efficient and positive customer service. Regulatory queries are communicated to the Central Bank of Kenya through writing. The Central Bank of Kenya then gives directions on how the matter should be handled. In addition to this it appoints a qualified person to help the institution adjust and incorporate the regulatory report. In some cases, the person is not able to respond to regulatory queries because of the banking act that gives occasion one is allowed to disclose information.

How to respond to regulatory queries

- Make sure you are financially insured by an insurance provider
- Taking the queries with seriousness. Since regulators are already operating with the latest information since they'll take the organizational responses and compare them with the already known information. iii. Keeping things honest and thorough. This will help to alleviate major damage to the organization's own pocket book.

Types of regulatory

There are many classification of regulation in the finance sector especially financial institutions. They include:

- Safety and soundness regulation: This covers issues such as capital adequacy, the quality of an asset and the management.
- Monetary policy regulation: This requiring minimum levels of cash reserves to be a certain amount.
- Credit allocation regulation: This support lending social important factors.
- Consumer protection regulation. It prevents financial institution from discriminating against lenders.
- Investor protection regulation
- Entry and chartering regulation
- Price regulation

Use of regulatory reports

- Financial institutions
- Policy makers
- Lenders and borrowers
- Central Bank of Kenya
- Researchers and academics

3.7 Bank compliance performance is reported to board as per bank policy

According to the Bank Act of 2015 if at any time, the central bank has a reason to believe:

- That the business is not being concluded according to the act.
- The institution or any of its officers are engaging in business that are likely to contravene the act. The Central Bank of Kenya can do the following;
    a) Give advice and make recommendation for the institution
    b) Issue directions in measures to be taken to improve the business
    c) Appoint a qualified person to assist the business in implementation any directions given by item if the central bank determines that:
- A member of the institution has committed a violation of this act. The activities of the said member may have a negative effect to the depositors.

The central bank will direct the member to eliminate the said irregularities. It shall further appoint a complement authority to enforce the directions used. In addition, the CBK can give further directions including:

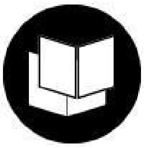
- Suspend further investment by the institution
- Suspend exercise of a non-holding company control of the institution □ Suspend participation of the person.

A company that resources the regulatory report shall comply within the specified amount of time and provide evidence that it has done so.

Conclusion

This learning outcome covered; the different types of regulatory reports, their importance and users of regulatory reports.

Further Reading



1. Read more about the Kenyan Bank regulatory act of 2015

11.3.4.3 Self-Assessment

Written Assessment

1. Which of the following is not a component of report writing?
   a) Conclusion
   b) Literature review
2. Which is a source of primary data?
   a) Interviews
   b) journals
3. Qualitative research is presented in number?
   a) Yes
   b) No
4. Median is finding the average of the data?
   a) Yes
   b) No
5. Which of the following is not a user of regulatory reports?
   a) Students
   b) Banks
   c) Government
   d) None of the above

6. Legal protection is an importance of a regulatory report?
    a) True
    b) False
7. Regression is the relation between two variances. True or False?
    a) True
    b) False
8. Analyse the importance of primary data.
9. Discuss types of regulatory reports.
10. Suggest measures taken by the central bank on institutions that do not incorporate regulatory reports.
11. Elaborate ways of presenting data.
12. Evaluate the components of regulatory reports.

Oral Assessment

1. State the uses of regulatory reports
2. What is inferential data?

Practical Assessment

Study the case of imperial bank Kenya. Then discuss how regulations by the central bank would have prevented its collapse.

11.3.4.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip chart/white board

11.3.4.5 References

Dow, S. (2019) Monetary reform banks and digital currencies internal journal of political economy; 48(2) 153 – 173

Mugenda, O & Mugenda A.G 2003 research methods: Quantitative and qualitative methods revised in Nairobi (2003)

Silverman, M. (2008). Compliances management for public private or non-profit organization. New York. McGraw-Hill

11.3.5 Learning Outcome No. 4: Seek approval of bank products and services

11.3.6.1 Learning Activities

Learning Outcome No. 5: Seek approval of bank products and services	
Learning Activities	**Special Instructions**
5.1 Receive bank product and services proposal as per bank policy 5.2 Submit bank product and services proposal to Central Bank as per regulatory guidelines 5.3 Submit amendments on tariffs CBK as per regulatory guidelines 5.4 Receive CBK feedback as per regulatory guidelines	Oral Assessment Discussion

11.3.5.2 Information Sheet No.11/LO4: Seek approval for bank products and services

Introduction

This learning outcome covers; the different E-banking products and services and their importance offered by banks.

Definition of key terms

E-banking: Is a product designed for the purposes of online banking that enables you to have easy and safe access to your bank account.

Bank: An establishment that is authorize by the government to accept deposits, pay interest, clear checks and make loans.

Content/Procedures/Methods/Illustrations

4.1 Bank product and services proposal are received as per bank policy

How they are received

Bank products and services proposals are received in the following ways:

a) **One step receiving process:** This is where bank products are received directly into the inventory/ customers a/c without going through further quantity or quality control process
b) **Two step verification process:** This step is used to record bank products that have been received by entering the information from the vendors' document
c) **Quantity Control:** This process tells how much of bank products have been received by entering the information from the vendor's documents Bank products:
    - Current accounts
    - Saving accounts
    - Credit accounts

- Debit cards
- Credit cards
- Cheque
- Overdraft
- Personal and business loans

Content of bank products

- Set a goal. Have a goal in mind. What do you hope to gain from content marketing?
- Research your audience and learn more about your target audience.
- Find a partner. The person you want to hire to create the content.
- Best location to place your business.
- Start production.

Procedure of bank product

i. Production process is series of steps that creates a product or service.
ii. Job production: The process of creating a single item. iii. Batch production: The number of items together as batch.
iii. Mass customization: Line that produces unique items to customer specifications this requires advanced technology.
iv. Craft production: Is a product that does not use automation?
v. Service production: Delivery of service is often referred to as production.

4.2 Bank product and services proposal are submitted to Central Bank as per regulatory guidelines

Regulatory guidelines

This means all applicable laws, rules, regulations, orders, requirements & requests in regard to bank policy. Bank products and services are plans or suggestions, especially a formal or written one, put forward for considerations by central bank. The central bank will approve the proposals based on their laws and policies.

How they can be submitted

- They can be submitted inform of written documents to be studied and signed according to their policies.
- They can also be submitted through mails or any other form of electronic measures.
- Proposals of bank products & services can be submitted orally. Where representatives of both parties sit together and discusses it and later comes into a conclusion.

Content of central bank

- What are prudential guidelines?
- How banks are regulated in Kenya.
- How does the central bank regulate commercial bank?
- What is the role of central bank?

Central bank: It is an independent national authority that conducts monetary policy, regulates banks and provide financial services.

Roles of central bank

- Influencing money market and capital market. Controlling the financial markets.
- Collecting statistical data analyses data related to banking currency and foreign exchange.
- Controller of credit has power to regulate the credit creation by commercial banks.
- Lender of last resort; lends money to commercial banks. The central bank provides loans against treasury bills.
- Custodian of cash reserves of commercial banks.
- Bank of issue: To issue note (currency) in every country in the world.

Prudential regulation: It is a type of financial regulation that requires financial forms to control risks and holds adequate capital.

Table 24. Prudential guidelines for institution/Licensed under the banking Act

Table of content	Title	Page
CBK/ PG/01	Licensing of new institutions	2
CBK/ PG/02	Corporate governance	34
CBK/ PG/03	Capital adequacy	82
CBK/ PG/04	Risk classification of Assets and provisioning	125
CBK/ PG/05	Liquidity management	156
CBK/ PG/06	Foreign exchange	178
CBK/ PG/07	Prohibited business	191
CBK/ PG/08	Proceeds of crime and money laundering preventions and combating the financing of terrorism	203
CBK/ PG/09	Appointment, duties and responsibilities of external auditors	242
CBK/ PG/010	Publication of financial statements and other disclosure	253

CBK/ PG/011	Open of new place of business, closing existing place of business or changing location of business	288
CBK/ PG/012	Mergers, amalgamations, transfer of assets and liabilities	310
CBK/ PG/013	Enforcement of banking	322
CBK/ PG/014	Business continuity management	332
CBK/ PG/015	Agent banking	347
CBK/ PG/016	Outsourcing	393
CBK/ PG/017	Representative officers	410
CBK/ PG/018	Voluntary liquidation	440
CBK/ PG/019	Consolidated supervision	447
CBK/ PG/020	Stress testing	457
CBK/ PG/021	Prompt corrective action	467
CBK/ PG/022	Consumer protection	485

Procedure of central bank as per regulatory guideline

The central of bank of Kenya is guided by the following pieces of legislation.

- Constitutional of Kenya 2010
- Central Bank of Kenya Act (2015)
- Banking Act (2015)
- Microfinance Act (2006)
- The national payment system Act (2011)
- Kenya deposit insurance Act (2012)

The objectives of these regulations are:

- Prudential to reduce the level of risk to which bank creditors are exposed.
- Systemic risk reduction to reduce the risk of disruption resulting from adverse trading
- To avoid misuse of bank to reduce risk of banks being use for criminal purposes.
- To protect banking confidentiality credit.

Methods of credit control

- Bank rate
- Open market operations
- Variable cash reserve ratio
- Credit rationing
- Regulating the marginal requirements of security loans

4.3 Amendments on tariffs are submitted to CBK as per regulatory guidelines
Amendments: Is a formal or official charge made to a law, contract, constitutional or other legal documents.

Content of amendment

- Bill of rights
- Freedom of speech of the press of assembly and to petition
- Government action are subject to the first amendment

Tariffs

Types of tariffs

- Export duties
- Import duties
- Transit duties
- Specific duties
- Licenses
- Import quotas
- Voluntary export restrains
- Local content requirement

Importance of amendment

- It exists as law.
- Constitutional can be changed according to the needs and aspirations of the people.

Guidelines of amendment

i. Right to amend
ii. Admissibility of amendment e.g. procedure
iii. Admissibility of amendments other procedural matters procedure for amendments to document
iv. Allow-ability of amendment
v. Allow-ability of amendment in the description

Amendment procedure

A treaty may be amended by the agreement of the parties every party to be a treaty is entitled to participate in the amendment negotiation and become a party to the new amendment. Parties are not required to adopt amendments. In fact, in accordance with the laws of treaties part, the pre-amendment terms remain binding for any party that does not adopt the amendment even in dealing with party that bound by the amendment. Article 14 covers amendment to the convection and to annexes who can propose them the process of submission how they are to be adopted and how they enter into force (para 4, 5, 6).

4.4 CBK feedback is received as per regulatory guideline

How to do tariffs submission

i. By enabling the application of preferential tariffs rates under the agreement and amending the rules
ii. Submission of amendment tariffs are publicly released and published to the parliament websites
iii. Only the company/Firm's names are required on a submission.
iv. Contact details are kept separate
v. Discussion of personal nature of any private information should be done with the clerk of the committee before submitting

CBK feedback: This is the information that is given by the CBK about their decisions either based on credit policies or other general information.

Types of CBK feedback

- Evaluation feedback
- Appreciation feedback
- Coaching feedback

Monetary policy reports

The reports are prepared by the members of the monetary policy committee every six months and submitted to the minister for finance who presents it to the National Assembly the reports outline the activities of the committee in the preceding six months.

Monetary policy statement

The committee prepares the monetary policy statement for the next twelve months. After the statement is submitted from the parliament, every monetary policy statement of the bank is also published in the official government paper, Kenya gazette.

Market perception survey

The monetary policy committee conducts market perceptions survey every two months to obtain feedback on:

- Is the performance of the economy?
- Perceptions by the private sector on access to credit from commercial banks.
- Response by the private sector to monetary policy committee decisions.

Guidelines of central bank

- Ensuring that the institution desists from unethical, inequitable and unfair business practices that negatively affect consumers.
- Overseeing the consumers' protection framework and ensuring that consumer complaints are attended to and addressed expeditiously.
- Ensuring that institutions comply with this guideline.

- Developing appropriate policies and procedures for the agents of the institutional to comply with this guideline.

CBK feedback per guideline procedure

i. Be ready to listen
ii. Use what is appropriate
iii. Restate the feedback to ensure clear communication
iv. React non-defensively
v. Thank the individual providing the feedback

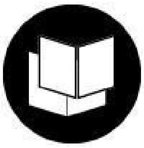
Importance of feedback

- Improves performance.
- Creates a pipeline. Regular feedback on job performance and new skills promotes professional and personal growth.
- Improve retention effective. Feedback contributes to their development and potential advancement.
- Promotes employee loyalty. Providing feedback in a timely and respectful manner with intent of helping others improve and succeed.
- Increases sales. Their ongoing relationships with guests and clients contribute and increased sales for your organizations.

Conclusion

This learning outcome covered; the different E-banking products and services and their importance offered by banks and other banking institutions licensed to receive deposit and make loans. Regulations and guidelines issued by central bank to certain requirements, restrictions.

Further Reading



1. Read on features of a bank

11.3.6.3 Self-Assessment

Written Assessment

1. Which of the following is the most important relationship between banker and customer?
   a) Balee and bailor
   b) World Bank
   c) Agency and principle

2. Which one of the following is not a bank product?
   a) Debit cards
   b) Creditor
   c) Customer
   d) Banker
3. Which one of the following is not a bank role?
   a) Ready to listen
   b) React to loans
   c) Lends money to commercial banks
   d) It does not give out loans
4. Which one of the following is a method of credit control?
   a) Bank rate
   b) License
   c) Import duties
   d) Providing feedback
5. Assets convert into cash is called?
   a) Change
   b) Security loan
6. What is the present liquidity rate of commercial banks?
   a) 16%
   b) 16.5%
   c) 19%
7. Which one is not the characteristics of commercial banks?
   a) Providing loans
   b) Receiving deposits
   c) Issuing of notes and coins
8. Categorize the types of commercial banks.
9. Outline types of accounts in the bank.
10. Suggest different ways you can operate accounts.
11. What do you understand by the term overdraft?
12. Evaluate annual percentage rate.

Oral Assessment

1. What are the different ways you can operate accounts?
2. What is the difference between cheques and demand drafts?

Practical Assessment

On a weekend, the students should visit banks and find out the process of using banking cards e.g. ATM and how to apply loans in the bank.

11.3.5.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip chart/white board

11.3.5.5 References

JE, Johnson, JF Christie, F Wardle (2005). Development and early education.

L Pham, NY Cao, TD Nguyen published 2013 bank products

P. Barker, LM Campbell. Publication 2010. Metadata for learning materials. An overview of existing standards and current developments.

11.3.6 Learning Outcome No.5: Handle interbank relationship

11.3.6.1 Learning Activities

Learning Outcome No. 5: Handle interbank relationship	
Learning Activities	**Special Instructions**
6.1 Facilitate operations of correspondence accounts as per bank policy 6.2 Facilitate exchange of security keys as per counterparty agreements 6.3 Facilitate International trade is facilitated as per correspondence banks guidelines 6.4 Facilitate an interbank account settlement as per regulatory and counterparty requirements.	Lectures Group discussions Class presentations

11.3.6.2 Information Sheet No.11/LO5: Handle interbank relationship

Introduction

This learning outcome covers; the meaning of correspondence banking and its significance in relation to interbank relationships, an outline of their guidelines and services and how to facilitate interbank settlements as per regulatory requirements as well.

Definition of key terms

International trade: This refers to the exchange of capital, goods and services between countries.

Correspondence accounts: These are accounts established by a banking institution (correspondent account/institution bank) to handle financial transactions like accepting deposits, making payments on behalf of and preparation and offering credit letters for another financial institution (respondent account/institution/bank).

Counterparty: Counterparty refers to a party to a contract or party to a financial transaction**.**

Content/Procedures/Methods/Illustrations

6.1 An operation of correspondence accounts is facilitated as per bank policy

Correspondence banking is an essential component of the global payment system for the cross-border transaction. It involves one financial institution/ bank handling financial transactions for another bank/ financial institution. The banking system has facilitated the interbank relations a great deal. The Wolfsberg Group defines correspondence banking as the provision of a current or other liability account and related services to another financial institution including affiliates used for the execution of third party payments and trade finance as well as its own cash clearing, liquidity management and short-term borrowing or investment needs in a particular currency. The following services are carried out in correspondence banking;

- International funds transfer.
- Foreign exchange services.
- Cheque clearing.
- Deposit taking and cash management.
- Preparation of letters of credit.

Correspondence operations must be done as per the bank policies. Bank policies refer to the plans rather recommendations outlined by the reserve bank in the interest of the banking system so as to stabilize the financial sector and enhance economic growth keeping in mind the interest of bank customers and their deposits amongst other bank assets. For operations of correspondence accounts to be facilitated, the following bank policies must be adhered to;

i. The respondent bank must open an account in the books of a correspondent bank.
ii. The two banks must exchange the messages to verify and settle transactions by debiting and crediting the accounts.
iii. Conduct a due diligent for the clients of each bank through the Know Your Customer (KYC) and anti-money laundering (AML) process so as to determine the risk level associated with each account.

Correspondent banking is of different types as described below

Traditional correspondent banking

Here, the respondent bank enters an agreement with the correspondent bank so as to execute payments on behalf of the respondent bank and its customers. The customers of the respondent bank have no direct access to the correspondent bank but they transact daily.

Nested correspondent banking

This is where the banks correspondent relationship is used by a number of respondent banks that is, the respondent bank has no direct account relationship with the correspondent bank but conducts business through their relationships with the banks direct respondent bank.

Payable through accounts

In this type of correspondent banking, the respondent bank allows their customers to access the correspondent account directly and carry out transactions on their own.

The following are benefits derived from operating correspondence accounts;

- It eases accessibility of financial services by banks in different jurisdictions
- Growth in international trade due to increased revenues
- Enhances financial inclusion
- Customers are provided with faster and better services
- Enhanced market diversification.

6.2 Exchange of security keys is facilitated as per counterparty agreements A counter party agreement is a loyalty binding contract documenting acceptance of the counter parties to carry out the financial transactions or be party to the contract. One of the major causes of uncertainty in the financial institutions and banks is entering a commercial engagement with counter parties that don't fulfil their side of the agreement. Counterparty refers to a party to a contract or financial transaction. The respondent and correspondent banks are both counterparties that agree to make cross border transactions for each other. The two must therefore undertake the following as per their agreements before starting operations.

- Conduct customer due diligent
- Establish a screening criterion to identify potential risky transactions so as to come up with a way to mitigate the risks
- Ensure adequate documentation on specific customers and transactions with emphasis on details of each bank and its customers

6.3 International trade is facilitated as per correspondence banks guidelines

Correspondent banking plays a critical role in international trade trough provision of trade finance products with subsequent reduction of the export risks. Those banks however are subject to the stipulated guidelines that outline their operations and service offered. This is important for customer protection and satisfaction. Correspondent bank guidelines are a set of legal framework and guidelines, for operation of both the correspondent and respondent banks in relation to cross border financial transactions. International banking is key to interbank relationships as it entails exchange of capital, goods and services between countries.

In the wake of correspondent banking and the countries response to it, international trade has really advanced as the cross border transfer of funds have been an enhanced enabling financial institutions to access financial services in different currencies and foreign jurisdictions thereby facilitating flow of trade and remittances, credit access etc. and subsequently promoting financial inclusion.

Benefits of international trade

- International trade has led to increased revenues due to the wide range of products being traded different countries.
- It has also fostered peace and goodwill/good working relations with mutual understanding among countries.

- It has reduced trade fluctuations leading to price stability due to the large market size with large supplies and demand.
- It has enhanced efficient production as countries tend to adopt better production methods to cut on costs.
- Resources are efficiently allocated and well utilized as countries opt to produce goods that they have comparative advantage. Promoted financial inclusion.

International trade can be a risky business even in the most established markets. It is faced with different risk challenges as outlined below;

a) **Credit risks:** This is risk that arises due to the lengthy nature of export transactions and is the possibility of debt default by the customer.
b) **Currency risk:** This is a major problem facing international trade and arises due to the use of foreign currency. It is the possibility of financial loss arising from changes in the exchange rates for transactions that have already been entered into and payment is scheduled for the future in foreign currency.
c) **Political risk:** This risk affects commercial transactions in other countries and mostly is as a result of the general political instability and changes in commercial law.

6.4 An interbank account settlement is facilitated as per regulatory and counterparty requirements

Interbank account settlements are accounts arrangements through which funds are transferred between banks for their own account or on behalf of their customers. The settlement must be done in accordance to the regulatory and counter party requirements. The central banks have come to acknowledge inter bank account settlement as an area of strategic interest by becoming increasingly involved in the oversight of operations of settlement systems. Fund transfer process involves two core which are transfer of information between the respondent and correspondent banks and settlement where a fund transfer is reached at after transmitting a payment order requesting transfer of funds to the payee. Settlement is the actual transfer of cash between the payers' bank and payees' bank and is deemed final if it is irrevocable and unconditional. Interbank account settlement is based on transfer of balances of books of the central bank given its status in the monetary systems.

Systems of interbank fund transfer are categorized as;

a) **Net settlement systems:** This entails settlement of fund transfers on a net basis as per the rules and procedures of the system in which case net position is calculated as bilaterally or multilaterally.
b) **Gross settlement system:** It entails transaction by transaction of account settlement systems.

The following are reason why central banks facilitate inter bank account settlement;

i. Central banks help provide accounts to qualified banks in which balances of the central bank money may be held.
ii. The central bank is mandated to maintain financial stability and implement monetary policy.
iii. So as to provide a monetary asset free of default risk used to make interbank transfers and settle obligations in a bid to manage systemic risks.

The following are risks associated with the interbank account settlement process;

- **Liquidity risk:** It is the risk that a counterparty will not settle an obligation for full value when due at an unspecified time in future.
- **Credit risk:** This is risk associated with default of counterparty and is as a result of the lengthy nature of the transactions. Credit risks leads to loss of unrealized gains on unsettled contracts with the defaulter.

Conclusion

This learning outcome covered; the meaning of correspondence banking and its significance in relation to interbank relationships, an outline of their guidelines and services and how to facilitate interbank settlements as per regulatory requirements as well.

Further Reading

1. Read on the market mechanisms and infrastructures that can be used to help mitigate against account settlement risks.
2. Peter Olfich (2012). Business and Economics

11.3.6.3 Self-Assessment

1. Underlying the application of monopolistic completion model is the idea that trade ___________.
    a) Increases market size
    b) Increases consumer choices
    c) Decreases the number of firms in an industry
    d) Allows companies to charge higher prices

2. Identify the trade policy that limits specified quantity of goods to be imported at one tariff rate.
    a) Quota
    b) Specific tariff
    c) Import tariff
    d) All of the above
3. From the following services, which one is not offered by a correspondent bank?
    a) Preparation and offering of credit letters
    b) Accepting deposits of the respondent bank clients
    c) Lender of last resort
    d) Money remittance services
4. International is most likely to generate short term unemployment in?
    a) Import competing industries
    b) Industries that sell only to foreign buyers
    c) Industries in which there are neither imports nor exports
    d) Industries that sell to domestic and foreign buyers
5. Which of the following is not a benefit of correspondence banking?
    a) Promote financial inclusion
    b) Promote availability of financial services by banks in different jurisdictions
    c) Enhanced liquidity risks
    d) Customers enjoy faster and cheaper services
6. The following are roles of central bank in facilitating the interbank account settlement except one. Which one is it?
    a) Maintain financial stability and monetary policy implementation
    b) Lender of last resort
    c) Books of accounts of the counterparty banks must be held with the central bank
    d) Central banks accept deposits of the counterparty banks
7. Which is not a risk associated with international trade?
    a) Credit risk
    b) Translation risk
    c) Political risk
    d) Currency risk
8. Analyse the benefits of international trade
9. Discuss the three types of correspondent banking
10. What do you understand by the term credit risk and elaborate ways of reducing it
11. Suggest reasons why banks carry out due diligence on their customers
12. Elaborate reasons for your recommendations of cross boarder banking

Oral Assessment

1. Who is counterparty?
2. Who is a respondent bank?

Practical Assessment

Maleek is a Malaysian client with a Malaysian bank account. Maleek needs to pay a British supplier with a British bank account quite a large amount of money for the goods provided at his baby on board holdings in Uganda. Elaborate how the transfer of funds will be made through a correspondent account.

11.3.6.4 Tools, Equipment, Supplies and Materials

- Writing materials
- Projector
- Computer
- Flip chart/white board

11.3.7.5 References

Freixas X., Parigi B. & Rochet J.C (2000) Systemic Risk, Interbank Relations and Liquidity Provision by The Central Bank, Journal of Money, Credit and Banking.

Norman, B. Rachel S. & George S. (2011) History of Interbank Settlement Arrangements, Bank of England, London.

Tedeshi G., Mazloumian. A., Gallegati M. Helbing. D. (2012) Bankruptcy Cascades in Interbank Markets, USA.