CHARTERED INSTITUTE OF BANKERS GHANA
EXAMINER'S REPORT FOR BANKING OPERATIONS: REGULATION, MARKET PRACTICE AND TREASURY MANAGEMENT FOR APRIL 2021 SITTING

STANDARD OF PAPER

The standard of the Paper was high and appropriate for the level being assessed. It involved covering the syllabus in full and reading around the syllabus topics both provided by textbooks and discussed as topical issues in the media and from regulatory sources. It required general banking knowledge and application of such as required. For candidates who did not cover the syllabus, it may appear to be a difficult paper.

GENERAL COMMENTS ON PERFORMANCE OF CANDIDATES

Candidates performed poorly during this sitting underscoring their lack of preparation for the sitting. Obviously, comments made by the examiner in the 'meet the examiner' sessions went unheeded. Candidates who resorted to question spotting would also have been badly disappointed. There is no substitute for adequate exam preparation through detailed coverage of the syllabus and good exam technique.

The overall pass rate was just under 30% which was quiet disappointing. Most candidates who attempted Q5 (82%), failed to score on that question on FX Risk, with some scoring as low as 2 out of 20, thus bringing their overall score below the pass mark of 51. Only 4% of candidates who attempted Q5 passed that question with an average of 6/20 marks.
94% attempted Q1 with 52% pass, 40% tackled Q2 with 48% pass, 71% took on Q3 with only 29% pass, 15% attempted Q4 with 40% pass and 99% taking on Q6 with 55% pass.

The following are some inhibitions to candidates' performance:

- Not answering questions as set, therefore deviating, sometimes completely.
- Not Paying close attention to the requirements of the question, especially questions with sub-parts.
- Unnecessary long introductions to the answers. These are not covered in the marking scheme.
- Legibility of handwriting. The easier the answer can be read, the more likelihood of earning marks.
- Repeating the questions on the answer script, thus wasting time.
- Inappropriate use of terminology.

Candidates are expected to do much better by paying close attention and reading the questions thoroughly before attempting an answer.

QUESTION BY QUESTION ANALYSES ON PERFORMANCE

Q1) This was on Bank Liquidity.
The first part demanded of students how Banks come by the liquidity they need to run their operations, yet most candidates veered into how the liquidity is applied or used. In fact, a sizeable number of candidates failed to mention ‘’raising of deposits’’ as a fundamental means of raising liquidity for Banks.

The second part of (a) asked how Bank Liquidity is affected. Here, candidates were to explore the practices, commissions or omissions that cause a reduction in available funds at the disposal of Banks or what reduces or inhibits the funds that have been raised in the first part of (a). An understanding of this requirement earns you up to 10marks. Obvious points like ‘customer deposit attrition’ and NPL’s were missed by most candidates.

Part (b) required candidates to show an understanding of how Banks would correct a challenging liquidity situation. Once again, many missed obvious points like ‘disposing of liquid assets’ and ‘short-term borrowing’ or even embarking on a deposit drive for fresh deposits.

Q2)
This was mainly on Loans issued by Banks.
Part (a) was a theoretical question on loan classification, which many candidates were able to answer but not satisfactorily thereby missing crucial marks. Eg, which loans make the OLEM category? There was the need to identify the category properly by name, the default period, the percentage of Provision stipulated for that default period, and the attributes of loans in this category, like the adequacy of security provided and lack of financial information needed.

Part (b) required candidates to suggest how Banks would address a deteriorating loan book. Here knowledge of theory and/or practice would score handsomely. Still some candidates failed to recognize that ‘Recoveries’ and ‘Restructuring’ are part of addressing the challenge. Better scripts mentioned how proper Credit Risk Management and Monitoring helps to alleviate the phenomenon.

Q3)
Q3 was more on current issues but related to topics that dealt with Capital, Deposits (CRR) and Interest Rates (MPR). 71% of candidates attempted this question but only 29% passed. Failure to do justice to this question also made a number of candidates fail the paper overall.

For instance, with the drop in the MPR, Candidates were to explain what the MPR is, its effect on general Bank interest rates and the economy and what a drop in the rate therefore, would suggest. Better candidates mentioned how the drop was expected to

cause a drop in Bank lending rates and interbank borrowing rates, and possible uptick in lending to stimulate the economy.
On the issue of Capital, many candidates failed to distinguish between required Capital of the Bank, and the use of the buffer instituted by the Regulator.
There was a requirement to state what the impact of this central Bank action on Banks' profit would likely be, which many candidates failed to address, for easy marks.
On CRR, many candidates failed to explain why the Regulator requires the ratio, and its link to the capacity of Banks to lend. Many candidates confused this with Capital requirements of a Bank, while many others assumed the freed up liquidity could be invested in Government securities thereby defeating the purpose for which the Central Bank reduced the ratio in the first place – which is to stimulate the economy.

Q4)
This question was a theoretical question on financial or money market instruments.
Very few candidates (15%) attempted this question which was surprising considering that money market instruments are treated thoroughly in the textbooks. 40% of those who attempted passed.
Most candidates failed to explain what the various bonds are and the differences between them, let alone what they are used for.
Other instruments like Repos were dealt with but not satisfactorily. There was the need to distinguish each of them by highlighting their attributes clearly. For instance, in using Repos, many candidates failed to mention the role of securitization.

Q5)
This question was on what constituted FX Risk, the nature of FX exposures and how to mitigate the risk. In the meet the examiner sessions, candidates were encouraged to study the various risks inherent in the banking business and their mitigants, as this was going to be a regular feature in future exam diets.

Only 4% of the 82% of candidates who attempted this question passed, with an average of 5/20 score, resulting in a number of Fail B results.

The definition of FX risk was a straight one. The kind of FX exposures seemed to be the challenge for most of the candidates except a few, namely Transaction, Translation and Economic exposures. Even without having the appropriate labels, certainly candidates could have explained what constituted Transaction risk. Besides, a number of them failed to suggest any ways to mitigate FX Risk which is quiet alarming, thus failing to even mention hedging products like Forwards and other derivatives like Options or Swaps.

Arguably, the distinction between the Trading and that of the Banking book seemed a real challenge and that carried 6 marks, but notwithstanding that, candidates could have dealt with the other parts of the question well to score good marks. As usual the more prepared candidates did justice to the question indicating how the Banking book transactions are mainly held to maturity while of that of the Trading book are held for sale, while some even remarked how the Trading book is marked to market on a daily basis. Reference should be made to the answer guidelines provided.

Q6)
This question deals with the structures of the Treasury of a Bank, specifically concerning the role of the Front and Back Office of the Treasury of a Bank.
Once again, this could have been dealt with, applying knowledge from theory and / or practice. This area has been examined in the past and should have presented candidates with an opportunity to earn relatively easy marks. All the candidates except one, attempted this question with 55% obtaining a pass.

The Front Office, as the name suggests deals with the customer engagement, negotiation and deal entry among others, while the Back office deal with the Confirmation, Settlement and Reconciliation issues emanating from what has begun from the Front Office. Some candidates confused this with customer service / back office roles or Operations in the branches.

Additionally, many students failed to explain adequately why the two are segregated, underscoring the poor preparation for the exam. Many scripts failed to identify the 'maker-checker rule' or the 'four eyes rule' which is very fundamental in Banking. This is at the core of prevention of fraud and errors, which could be costly in a high stakes environment like the Treasury.

CONCLUSION

Many more candidates could have passed with the right exam technique, adequate preparation by being thorough with the topics being studied, and paying of attention to the requirements of the questions involved.
For instance, it is disheartening at this level, not to know how many questions you are to answer from each section nor to read the instructions on the cover of the exam paper to know what is required of you.
There is a reason why the marks you earn are alloted to each sub or main question. Use them.