

EXAMINATION

19 May 2020

Subject F206 – Banking Specialist Applications

Time allowed: Three hours and fifteen minutes

INSTRUCTIONS TO THE CANDIDATE

1. *Ensure that you have your candidate number handy to input as part of the exam.*
2. *Questions are only available in Moodle and may not be printed.*
3. *You are required to submit your answers in this Moodle learning platform only. You MAY NOT use any other computer program (e.g. MS Word or Excel) during the examination.*
4. *You have 15 minutes at the start of the exam in which to read the questions. You are strongly encouraged to use this time for reading only, but notes may be made. You then have three hours to complete the paper.*
5. *Mark allocations are shown in brackets.*
6. *Attempt all questions. Your work is saved automatically during the exam.*
7. *You are required to submit your answers in this Moodle learning platform only.*
8. *At the end of the exam, if you have time left, you may return to your attempt to review and make any changes to your answers. Once you are happy with your answers you need to **Finish all and Submit** your work after which you will NOT be able to make further changes. Take this into account when finishing early - once you have submitted you will not be able to make any more changes to your answers.*
9. *It is the student's responsibility to ensure that all work is submitted BEFORE the end of the exam time. Take this into account when planning your review and submission.*
10. *You should use your scrap paper to work on any calculations where this is appropriate.*

Note: The Actuarial Society of South Africa will not be held responsible for loss of data where candidates have not followed instructions as set out above.

END OF INSTRUCTIONS

QUESTION 1

You are employed as a senior risk specialist at a full-service bank that offers comprehensive financial services to both retail and corporate markets. One of your bank's clients, a large retailer, has just entered business rescue.

- i. Outline with reasons, the commercial banking products that a retailer is likely to utilise. [5]
- ii. The Chief Risk Officer has asked you to evaluate the potential consequence (of this client's entering business rescue) to the bank and prepare a report. Discuss the points you will cover in the report. [20]

[Total 25]

QUESTION 2

Retail XYZ is a large retailer that operates only in South Africa. Their current business is to sell premium food and clothing to middle-and-upper income South Africans. Retail XYZ has always placed a significant emphasis on corporate social responsibility as well as innovation.

Retail XYZ is looking to set up a digital bank, Bank XYZ Digital, with the main aim of offering a full suite of personal banking products- Retail XYZ currently do not offer any financial products such as credit cards. Bank XYZ Digital is aiming to target two separate customer segments – namely its current customer base which are already banked with other banks and expanding beyond this segment to include previously unbanked customers. Initially Bank XYZ Digital will offer savings and personal loans products only.

You have been recruited by Retail XYZ to lead the banking licence application (a normal commercial banking license), as well as to set up the necessary infrastructure to run a digital bank.

- i. In order to launch Bank XYZ Digital, Retail XYZ will need to apply for a banking licence. Discuss the key areas that you would include in order to support the banking licence application and business case. [22]
- ii. Discuss the key areas of infrastructure (physical, people, process) that Bank XYZ Digital will need in order to operate as a Digital Bank. [18]

[Total 40]

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QUESTION 3

- i. Outline the five broad areas of risk that banks manage. [5]
- ii. Provide four examples where models are typically used to quantify and manage these risks in a bank, outlining:
 - a. The typical model form and
 - b. The adverse consequences of model failure in each example. [10]
- iii. Outline model risk and its sources with examples. [12]
- iv. Outline the key considerations in establishing a model risk governance framework. [8]

[Total 35]

[Grand Total 100]

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END OF EXAMINATION