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KIRIRI WOMEN'S UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2024/2025 ACADEMIC YEAR
FIRST YEAR, FIRST SEMESTER EXAMINATION
FOR THE DIPLOMA IN BANKING AND FINANCE

Date: 8th August, 2024
Time: 8.30am –10.30am

DBF 1101 LAW RELATING TO BANKING

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Explain the following terms in relation to the banker- customer relationship
- i) Banker's lien (2 Marks)
 - ii) Duty of safe custody (2 Marks)
 - iii) Duty to honor cheques (2 Marks)
 - iv) Duty of skill and care (2 Marks)
 - v) Duty to collect cheques (2 Marks)
- b) Harry Masumbuko held an account with Red bank ltd until his demise early this month. Subsequent to this, red bank received a notice of death of Harry Masumbuko
With reference to above scenario advice the actions the bank should take in the following instances
- i) On receipt of cheques to be credited to the account (2 Marks)
 - ii) On receipt of Garnishee order from court of competent jurisdiction (2 Marks)
 - iii) On presentation of cheques drawn on the account to third parties (2 Marks)
- c) A bank might write off a loan when it considers a loan irrecoverable
Required: Explain four instances where the bank might consider a loan irrecoverable (4 Marks)
- d) Describe risk based supervisory approach to regulation (2 Marks)
- e) You are the branch manager of excel commercial bank. Faidika Limited Liability Company has approached you with an intention to open an account at your branch. outline any four types of information that you could require from the company before opening the account (4 Marks)
- f) differentiate between bills of exchange and promissory note (4 Marks)

QUESTION TWO (20 MARKS)

- a) Differentiate between “money laundering “and “terrorism financing” (4 Marks)
- b) Discuss four qualities that the central bank might consider in determining the professional and moral suitability of the person proposed for appointment as a director of a bank (4 Marks)
- c) A few years ago customs service investigation exposed the widespread use of insurance products for laundering by international drug traffickers. The investigation revealed that some us80 million in drug money was laundered through life insurance policies
Required: highlight six red flags in money laundering and terrorism financing risks I the insurance industry (6 Marks)
- d) With regard to customers’ accounts, describe three types of special customers (6 Marks)

QUESTION THREE (20 MARKS)

- a) With reference to consumer protection assess four requirements to be satisfied by the bank whenever it is discharging its duty of fairness to a customer (8 Marks)
- b) State four duties of a governor of the central bank of Kenya (4 Marks)
- c) Discuss four approaches of regulation that are used in supervising the banking sector in Kenya (8 Marks)

QUESTION FOUR (20 MARKS)

- a) Customers are protected from any breach of rights that might arise by use of the powers of the credit reference bureaus (CRB). Elaborate clearly three rights customers enjoy when taking credit facilities from commercial banks (6 Marks)
- b) Describe procedures followed by an institution that intends to voluntarily liquidate itself (5 marks)
- c) The banks obligation to honor cheques extinguishes on receipt of a garnishee order from the court. A garnishee order is issued in two parts.
Required: summarize the two parts that are contained in a garnishee order (6 Marks)
- d) For security purposes, a cheque is crossed, enumerate three types of cheque crossing(3 Marks)

QUESTION FIVE (20 MARKS)

- a) Collateral is a security that a customer requires to secure a loan. Assess four characteristics of a good collateral (8 Marks)
- b) in context of banking highlight four examples of liquid assets (4 Marks)
- c) when opening account with a commercial bank, the banker needs to carry out KYC summarize four principles of “Know your customer” (KYC) policy (4 Marks)
- d) Explain two reasons why banks may ask for referees when opening account for a new customer (4 Marks)