First Case Study:

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You are given P&L (profit and loss) responsibility of a segment at Ruby Card Finance Limited. This is like a CEO position.

The company issues credit cards to blue collar workers (like Swiggy delivery boys), SME business owners (like a shop keeper) etc. The segment you are given control of is called ‘Good bureau high volume transactors’.

However, there is a problem - You can see that month on month your loss rates are creeping up in this segment by annualized 100 basis points , and you need to turn around the profitability of this segment in the next three months.

- Q1. SUPER IMPORTANT - List down ALL the questions that you need answers for to successfully craft a strategy to increase profitability of this segment.

Think of the questions in two ways

1) you are asking these questions to customers

2) you are asking this questions to Google (for self research).

You are NOT asking these questions to management.

- Q1. Make a detailed proposal on how you will solve this. Do industry research (or read reports) for the same. Please link/cite the reports you have read to make this proposal. Most importantly, every question that you have mentioned in Q1 should be answered in the proposal.

IMPORTANT: the quality of the questions in Q1 is an important factor for selection. So please dont try to avoid hard questions. Examples of bad questions are "what is a credit card", "what are transactors and revolvers", "how does a credit card make money"

Second Case Study:

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this is a case study analytical question.

You have to submit two things for this:

1) Document which contains answers to each question. Please write a DETAILED answer to each question justifying the answer, the assumptions you have made, etc. Try to follow the "5-Why" technique to answer each question - https://www.isixsigma.com/tools-templates/5-whys/case-study-using-the-5-whys-to-validate-assumption/

2) For all questions, please send your detailed calculations as well. You can send it as a doc file or excel (preferred) or jupyter/R notebook (also preferred).

The Case Study

Analyzing an affinity credit card (special card only available to members of a specific group). Think of it like this - the credit card company is like Citibank and the affiliated group is a company like Indian Oil or Barista. The affiliated group has to pay some fees to credit card company (because the credit card company is providing this service to the group)

Facts:

) average card balance is Rs 1000

) each card has an interest rate of 15%

) membership fee is Rs 20 per card

) loss rate is 3% (NOTE: what are the interpretations of this ? state your assumption CLEARLY when solving )

) Rs 25 operating cost per card

) Rs 10 affiliation fee per card (cost to the group organization itself, so that their members get this awesome card program)

) 6.5% cost of funds (that credit card company must pay to the bank where it gets money)

) bill/statement is issued on 1st of every month

) credit-free period = 15 days from the bill/statement issue date.

Read more at:

//economictimes.indiatimes.com/articleshow/70886651.cms?from=mdr#targetText=General%20formula%20to%20calculate%20interest,x%2012%20month)%2F365.&utm\_source=contentofinterest&utm\_medium=text&utm\_campaign=cppst

There are two scenarios and all the following questions must be answered for both scenarios. There might be some terminology that may not be familiar to you. This is expected. We want to see if you can research and find out about them and then answer these questions.

For the below, two scenarios provide a monthly calculation of profits/losses

Scenario 1:

i) The interest rate is simple interest.

ii) Interest is calculated on a daily basis.

iii) The average card balance is the average end of month balance.

iv) All members are more than a year old.

Scenario 2:

i) The interest rate is compounded quarterly.

ii) Interest is calculated on a monthly basis.

iii) Membership grows at 5% month on month.

iv) Card balance grows at 5% per month for each member.

v) The average card balance is the average end of month balance.

Consider 1000 customers for both the scenario, divide these 1000 customers into following groups(upon your assumption and understanding about the credit lending industry)

1.customers who pay the bill within the credit-free period

2.customers paying 30 days after the last due date

3.customer paying 45 days after the last due date

4.customer paying 60 days after the last due date(remove these customers for the complete calculation of the next month,basically, you are not supposed to provide further credit services to these customers)

Answer the following for both scenarios.

Q1: How much profit % is generated in 1 year?

Q2: The 3% loss rate can either mean either 3% of the outstanding balance defaults or 3% of the borrowers default on their entire balance. If the average balance is increased to $2000, what happens to the loss?

Q3: Is a borrower with a low balance more or less likely to default then a borrower with a high balance? Why ? explain clearly

Q4: The group company has now become unhappy with the credit card provider. it wants to start its own credit card. But for that, it will need to purchase the customers from the current credit card company. If the affilated group offered Rs 20 per account to purchase all the customers from the credit card company, what would there profit be? (assume that we are only talking about 1 year)

Q5: What numbers can the financial institution change to convince the affiliated group not to want to purchase, while still not going into a loss? Give a range of what the new numbers are (min and max)

Q6: What is the extra cost(if any) company will have to incur if the customer delays the payment of the credit card bill after the due date?

Q7: Is it beneficial for the company if the customer pays the credit card bill after the due date? (express your views as a business strategy analyst with a short example)