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MANAGING RISK OF HIRE PURCHASE FINANCING AT SNF BANK

Siew Goh Yeok, Nora Azureen Abdul Rahman, Norhafiza Nordin

This case was written by Siew Goh Yeok, Nora Azureen Abdul Rahman and Norhafiza Nordin, Universiti Utara Malaysia. It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

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Institute for Management and Business Research (IMBRE)
Universiti Utara Malaysia
Tel : +604 – 928 7607/7608/7609 | Fax: +604 – 928 7611
<http://www.imbre.uum.edu.my>

Introduction

In January 2009, Mr. Ben Gan was appointed as the new Head of Hire Purchase Financing Division of SnF Bank. He had vast experience in the banking industry and the top management of SnF Bank was very confident that he could bring the hire purchase financing division out of its problems. In his first meeting with the top management of the bank, Mr. Ben Gan was briefed on the current situation of the division where he considered as facing serious credit risk problem as evidenced by its high non-performing loans and default accounts. The top management had instructed him to investigate the causes of the problems and came out with good remedial strategies to overcome the problem. "This division is one of the most important divisions of the bank and loans from this division constituted for more than 30 percent of total loans of the bank. The rising non-performing loans and default account is not good for the bank as it will deteriorate the bank's profit, decrease the confidence of the stakeholders and will eventually affect the survival of the bank. So, that is why I hired you. I want you to investigate the root of the problems and solve them", said the Chief Executive Officer (CEO), who chaired the meeting, in the presence of Mr. Ben Gan.

Sitting in his office after the long meeting, Mr. Ben Gan started designing his work plan. He could feel the challenge awaiting him, and need to structure his plan well in order to solve the hire purchase financing division's problems. He believed that he should start his work with a thorough analysis of the situation before coming out with strategies to overcome the problems.

OVERVIEW OF SnF BANK

SnF Bank is a locally incorporated bank, headquartered in Kuala Lumpur, Malaysia. A wholly owned subsidiary of SnF Holdings Berhad, which is listed on Bursa Malaysia, it offers both retail and corporate banking services. Started operations in January 2001 following the merger of two banks, it then became the subsidiary of SnF Holding Berhad as a result of its merger with SnF Finance Berhad in June 2005. Currently, it has 100 branches all over the country and always ready to offer the best services in order to fulfil the needs of its customers. The banking business can be divided into the consumer banking and business banking. The consumer banking consists of products and services such as deposit, loans, cards, hire purchase, bank assurance, unit trust and remittance while the business banking includes business loan, trade finance, small and medium (SME) business and contract financing.

HIRE PURCHASE FINANCING

Hire purchase financing (HPF) has been a common form of financing offered by banks to customers for the acquisition of motor vehicles. HPF involves three parties, namely the dealer, the hirer and the hire purchase owner. The dealer refers to the supplier of the goods. The hirer is the customer who acquired the goods on hire purchase while the hire purchase owner is the financier who provides the fund to acquire the goods. The contract that binds the three parties is called the Hire Purchase Agreement. During the tenure of the agreement, the hirer can freely use the goods, but the ownership of goods is still with the hire purchase owner until the hirer has fully paid down the amount financed. The hire purchase business is governed by the Hire Purchase Act 1967 Act 212. HPF has been commonly used by car dealers, credit and finance companies to finance the motor vehicles. However, after the merger of finance companies with banks, banks today handle the bulk of the HPF of motor vehicles. Unlike housing loan, HPF of motor vehicles is a risky business because the bank is financing a depreciating asset.

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- **04-928 7605 / 7609 (CDR Secretariat)**
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