TUTORIAL KIT
OMEGA SEMESTER

PROGRAMME: BANKING AND FINANCE

COURSE: BFN 221

NIGERIAN BANKING AND FINANCIAL ENVIRONMENT

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BFN 221: NIGERIAN BANKING AND FINANCIAL ENVIRONMENT

QUESTION ONE

There are many symptoms of bank distress often overlooked, outline and discuss them.

QUESTION TWO

Briefly discuss role of Nigerian Deposit Insurance Corporation in the Nigerian Financial System.

QUESTION THREE

Discuss the features of Finance Houses

QUESTION FOUR

(a) Mention and briefly explain the institutions that enable investors to diversify their investment.

(b) The financial institution can be classified into three levels. List and explain them.

QUESTION FIVE

(a) What was the position Pre-Pension Reform Act?

(b) What are the objectives of the Pension Reform?.

QUESTION SIX

Discuss the Benefits of the Scheme

QUESTION SEVEN

Discuss the Role of National Pension Commission

QUESTION EIGHT

Discuss the challenges of the Primary Mortgage Institutions.

QUESTION NINE

List the requirements for investors to operate a credit bureau.

QUESTION TEN

List the characteristics and explain the services perform by Non-Bank Financial Institutions.

QUESTION ELEVEN
Briefly explain the structure of the Nigerian financial system. Discuss three of them.

QUESTION TWELVE
Write short notes on the following:
(a) Manufacturers Association of Nigeria (MAN)
(b) Nigerian Association of Small Scale Industrialists (NASS)
(c) Nigerian Export-Import Bank (NEXIM)
(d) Nigerian Association of Chambers of Commerce and Industry (NACCIMA)

QUESTION THIRTEEN
Discuss the role financial intermediaries

QUESTION FOURTEEN
Discuss the problem /Challenges of the Nigerian Financial System

QUESTION FIFTEEN
Discuss Functions of Nigerian Stock Exchange

QUESTION SIXTEEN
Discuss the drawbacks of the Nigerian Stock Exchange

QUESTION SEVENTEEN
Discuss why the Nigerian Money market is still undeveloped

QUESTION EIGHTEEN
Discuss Features of Hire Purchase and how can government improve their performance

QUESTION NINETEEN
Outline and discuss the components of Internal Environment

QUESTION TWENTY
Discuss the environment in which the finance manager operates.

QUESTION TWENTY-ONE
Which economic areas or institutions do you consider as relevant environment for the Finance Manager?

ANSWERS

QUESTION ONE

There are many symptoms of distress, which are often overlooked. These include:

a) Persistent lateness in submitting required returns/accounts to the regulatory authorities.
b) Rapid staff turnover.
c) Frequent change in the top management of the bank.
d) Persistent liquidity problems (less than the prescribed 30%) attracting CBN penalties.
e) Higher offered deposit rates than market rates.
f) Frequent change of auditors who had refused to compromise.
g) Market gossip and/or petitions and anonymous letters.
h) Chief executive officers who are less than 42 years old (see research report to NDIC on predicting distress in Nigeria 1993)
i) Top management with less than ten years cognate banking experience at the managerial level.
j) Chief executive and board of directors' expenses higher than ten percent of operating expenses.
k) Chief executive who have changed jobs at least twice in the last three years.
l) Offer of up-front interest to depositors and subsequent advice to roll redemption over after maturity.
m) Where management and ownership are not separated.

QUESTION THREE

(a) Some of the features of finance houses are:

i. bulk of their loans are unsecured and given to very risky enterprises with high interest rates on borrowed funds
ii. the loans, though given for short periods, can be and are renewed frequently and thus become long-term loans
iii. the deposits of finance companies are not protected by Nigeria Deposit Insurance Corporation (NDIC)
iv. As there is no exchange of communication between different corporations, it is possible for a person to borrow from more than one finance company. The ultimate solution to the problem posed by financed corporations and lending companies is for commercial banks themselves to offer effective competition to these finance companies.

QUESTION FIVE

(A) Pre Pension (a) Reform Act was faced with:

(a) Unfunded and inadequate budget allocation
(b) Unsustainable outstanding pension liabilities estimated at N1 trillion in the public sector.
(c) Demographic shifts and aging made defined benefits scheme unsustainable.
(d) Many workers not covered by any form of retirement benefits arrangements pension schemes had been largely unregulated with highly diversified arrangements were' resignation' than retirement scheme.

(B) The **OBJECTIVES** of the Pension Reform Act 2004 is expected to achieve the following:

(i) Promote saving culture
(ii) Promote wider coverage of pension scheme.
(iii) Ensure transparency and efficiency in the management of pension funds.
(iv) To empower the employee.
(v) To pave way for the growth of a sustainable pension scheme that employees can rely on.
(vi) Establish strong regulatory and supervisory framework.
(vii) Establish uniform rules, regulations and standards for administration of pension matters.

QUESTION SEVEN

i. This is the apex body that is in charge of regulating and supervising the Pension Scheme.
ii. The body will formulate, direct and oversee the overall policy on pension matters in Nigeria; approve licence and supervise PFA, PAC and other institutions relating to pension matters.
iii. To meet up with the demands of its clients, the body will maintain a National Data Bank on pension matters.
iv. The body will receive and investigate complaints against Pension Asset Custodian, Pension Fund Administrator and Employer
v. Membership include Nigeria Labour Council, National Employer Consultative Association and National Union of Pensioners, Securities Exchange Commission, Central Bank of Nigeria and Ministry of Finance.

QUESTION NINE

From the CBN Banking Supervision and Annual Report (2008), investors wishing to operate credit bureau shall satisfy the following licensing conditions:

(a) Submit a formal application and detailed feasibility report with a non-refundable application fee of N250,000.

(b) A minimum capital requirement of N500 million to be deposited in an escrow account with the CBN; 50 percent of which will be returned on grant of Approval-in-Principle, while the balance of 50 percent with accrued of final license

QUESTION ELEVEN

The Nigeria Financial System consists of the regulatory authorities, the financial markets, the development finance institutions and other financial institutions. They are elaborated below:

The Components of the Structure of the Nigerian Financial System

(1). THE REGULATORY/SUPERVISORY AUTHORITIES

The regulatory/supervisory authorities are very crucial for the functioning and orderly development of the financial system. In Nigeria, the regulatory authorities are the Central Bank of Nigeria (CBN), the Federal Ministry of Finance (FMF), the Nigeria Deposit Insurance Corporation

(NDIC), the Securities and Exchange Commission (SEC), and the National Insurance Commission (NAICOM). Students are expected to discuss the following;
(a) The Central Bank of Nigeria (CBN)
(b) The Nigeria Deposit Insurance Corporation (NDIC)
(c) The Securities and Exchange Commission (SEC)
(d) The Federal Ministry of Finance (FMF)
(e) The National Insurance Commission (NAICOM)
(f) Financial Services Regulation Coordinating Committee

QUESTION THIRTEEN

Financial intermediaries perform the following functions:

i. help in reducing transaction costs
ii. facilitate payment system
iii. assist in information monitoring and processing
iv. they help in asset and liability transformation

Other primary functions of intermediaries are:

i. Origination: Origination involves the primary activities associated with the creation of a new financial claim.
ii. Servicing: Servicing means the collection and payment of principal and interest on assets and liabilities.
iii. Brokerage: Brokerages involve two very significant information-processing functions. It includes identifying potential buyers and sellers of various financial claims the intermediary is interested in, and gathering information relating to particular claim.
iv. Market-making: In marketing-making, the intermediary establishes prices for financial claims it wishes to buy or sell.
v. Portfolio management: The portfolio risk management function refers to the selection of assets and liabilities the firm chooses to purchase or issue.

QUESTION FIFTEEN

The Nigerian Stock Exchange (NSE) perform the following functions

a. it creates a continuous market for immediate sale or purchase of securities at prices determined by forces of demand and supply
b. provides funds from new issues to finance industrial investments
c. provide economic indicator and shows the public’s perception of the future of the country’s economy
d. enable a wider distribution of primary securities issues
e. gives publicity to companies through quotations, annual reports etc
f. restore public confidence in financing and investment through the rules and regulations on the stock exchange.

QUESTION SEVENTEEN

Discuss why the Nigerian Money market is still undeveloped

Answer - The following reasons can be adduced:

The Money Market: The money market helps to facilitate the raising of short-term funds for the deficit sectors of the economy from the surplus sectors. It has helped in the following ways:

a. financing trade and commerce
b. investment of short-term funds of commercial banks
c. Raises short-term funds in the money market by way of treasury bills. In the absence of money market, government would have raised short-term funds through fiat money or borrow from the central bank, and both methods would have resulted in inflation.

Despite these advantages, one can safely say that the Nigerian Money Market is still in an undeveloped state because of the following reasons.

i. Non-availability of proper credit instruments. There is absence of continuous supply of highly acceptable negotiable securities – bills of exchange, treasury bills, treasury certificates etc. these are prerequisite for the evolution of an organized and developed money market
ii. there is absence of a number of sub-market (bill market, treasury bill market, call money market) like it is done in the developed money market
iii. Non-availability of ample resources like developed money market, like London and New York, attract funds from all over the world, undeveloped money markets (Nigeria) cannot because of political instability and absence of stable exchange rates.

There are other factors which have slowed down the development of the Nigerian financial system. They are;

1. Changes in monetary policy - changes in reserve, cash and liquidity raios.
2. Banking regulation and deregulation-Inconsistent policies e.g restriction of banks from taking government funds as deposit and interest rates deregulation.
3. Nigerian enterprises promotion decree – Limit the participation of foreigners in certain businesses.
4. Structural adjustment programme etc

QUESTION NINETEEN

The following reasons can be adduced:

The following reasons can be adduced:

Internal Environment: This consist of the company i.e. other units within the company itself viz Corporate philosophy, profitability, top management (style of management), Structure of the banking organization – (Centralization, decentralization), equipment, funds (finance), accounting, research, facilities etc. Others are Suppliers and creditors, Marketing intermediaries, Customers, Competition in the public: financial public, media, public etc. The (4) P's of product, price, promotion and place (distribution). The internal variables are the controllable variables, which can be combined in varying proportions by the marketing manager to achieve stated objectives.

QUESTION TWENTY-ONE

Economic Environment: The business of banking is very much affected by economic conditions in the bank's market area. The prosperity of customers, disposable income, inflation, interest e.t.c affects the banks performance. The economic factor pertains to the income, expenditure and resources that directly impact on the operations of the banking sector. Of particular concern to banks is the state of the economy, whether it's inflationary or recessionary. The bank markers must deal with on a daily basis the interest rate to attract depositors. During inflation, a period of rapid price increase, more money/savings can be made to the banks but at recession, consumers have less money to spend which makes saving difficult. Banks therefore must study the following: Inflationary period- to conserve money; Recessionary period to make money available to business with high interest rate; Study customer income; Monitor consumers spending pattern; Disposable income etc