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BFN304: FINANCIAL SYSTEMS

Definitions of financial systems

-The financial system can be precisely defined as a system rules and regulations and set of financial arrangements, institutions, markets, operations and agents
-t is an omnibus term which encompasses the generality of financial intermediaries that operate in the financial sector and the institutional facilities being employed in its operational activities within the economy
-the term also incorporates a system of rules, regulations and operational norms which govern financial transactions and financial flows through and within the economy.
-It also involves the mechanism whereby they relate to one another within the financial sector of an economy and with rest of the world; in the provision of financial services

functions of financial system

1. The financial system provides the necessary market mechanism for mutual interactions between the suppliers of funds and the fund raisers that use the funds for short-term and long-term purposes.
2. It also ensures that necessary operating procedures, rules and regulations are provided for the smooth interactions and transactions within the confines of the system.
3. The system provides facilities for the custody, distribution and marketing of financial assets by the participants.
4. The system ensures the smooth and orderly transfer and delivery of financial instruments among the participants.
5. It has inbuilt mechanism of moderating the pricing regime of financial instruments or securities as well as the cost of raising funds by the users.
6. The financial system ensures adequate stock of money to service the needs of the economy.
7. It facilitates the transfer of money between economic units, which borders on financial intermediation.
8. The financial system also helps to mobilize the collection and storage of savings.

operation of financial system

The financial system operates on the basis of interactions among participants, and above all frequent flows of financial instruments being employed for raising funds by the corporate entities and government institutions in need of finances from the suppliers of surplus funds. The required funds are from the surplus unit of economic being channeled to the users of deficit units of the economy.
In the process of the operations of the financial system, there arises the need for settlement of the funds that are made available by the suppliers of such funds. This constitutes some additional obligation to the funds raisers and users besides the payment of interest and dividends to the suppliers of funds. This essentially ensures self perpetuating system since such funds from incomes to suppliers of funds constitute the primary source for supplementary outflows of funds to those organizations that operate in funds-deficit unit of the economy.

Who Are The Participants In Financial System

The financial system operates on a network of a mechanism of which there are some vital constituents that play strategic role in its structural operations. Therefore, these structural parts of the network constitute the components of a financial system. Such components of the financial system include Primary system participants, Financial markets, Financial intermediaries, Financial instruments, and Financial system regulators. They are the players in the operations of a financial system.

Primary System Participants

These are the primary operators of the financial system in terms of the suppliers of funds and the raisers of funds.

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The former group, as you have observed form earlier discussion in this study unit, refers to those with surplus funds for investment while the latter group involves those participants that are in need of funds with which to enhance the operations of their organizations.

Financial Intermediaries

These are the facilitators of the financial transactions that take place with the financial system. They serve as mediators between funds raisers and suppliers of funds. Therefore, they facilitate the issuance and exchange of financial instruments. Such intermediaries include the following: i) Commercial and merchant banks ii) Specialized banks, e.g., investment banks, development banks; iii) Primary mortgage institutions; and iv) nsurance companies, etc.

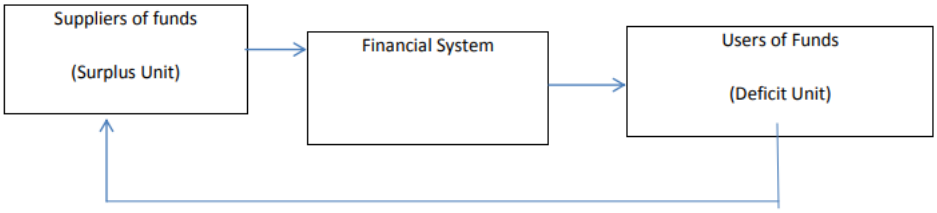
Financial Markets and Financial Instruments

These constitute the network for the transactions of the financial system because these markets provide the necessary framework for carrying out the operations of the system. The financial markets are in two categories, which include the capital market and money market. The money market is used for raising short-term funds for the operations of the funds raisers. The financial instruments being used in this market include: Treasury bills; Treasury certificate;Certificates of Deposits;Bill of Exchange; and Promissory Notes.

Financial System Regulators

There are agencies that regulate the operations of the financial system in free market economies without direct government intervention. The only form of intervention by the government is through the enactment of relevant Acts. Such Acts of Parliament are laws meant to provide equal opportunity or platform for all players, smooth operations, and safeguarding the national interest of the country. Therefore, all the participants in the financial system are under obligations to adhere to them

diagram showing the relationship between Suppliers and Users of Funds



who are the fund raisers

The funds raisers are those corporate entities that are into the production of goods and related services in the real sector of the economy. Therefore, they normally raise funds from suppliers to sustain the operational activities of their companies and institutions. The private sector- entities in particular need such funds with to ensure further investment in their operations.

what are the financial instrument used in the process of f raising funds by cooperate entities and financial institution

Shares, e.g., equity shares and preference shares;
Bonds, e.g., government bonds and corporate bonds;
Treasury bills;
Treasury certificate;
Loan Stock;
Bill of Exchange; and
Promissory Notes.

what are the financial instruments used by capital markets

i) Equity Shares;
ii) Preference Shares;
iii) Government Bonds;
iv) Corporate Bonds;

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v) Debenture Stocks;
vi) Mortgage Loan Stocks;
vii) Equipment Leases;
viii) Hire Purchase; and
ix) Development Loan Stock used by government

Differentiate between funds suppliers and funds raisers in the operations of a financial system.

In categorical terms, the suppliers of funds include the following individuals and institutions:

i) Individuals and household units as savers of surplus funds;
ii) Institutional investors such as insurance companies, etc;
iii) Commercial banks and other types of banks;
iv) Primary Mortgage institutions; and
v) Specialized government agencies in charge of credits on periodic basis

The funds raisers, in categorical terms, include the following entities and institutions:

a) Business enterprises of various categories;
b) Public corporations of government owned companies; and
c) Government such national, regional, state of municipal/local council

definition of international financial system

The international financial system consists of institutions, their customers, and financial regulators that interact and operate act on a global stage. The term is regarded in an allbracing to constitute the various official and legal arrangements that govern international financial flows in the form of loans, investment, payments for goods and services, interest and profit remittances

elements of international financial system

In basic terms, the main elements of international financial system are the surveillance and monitoring of economic and financial stability, and provision of multilateral finance to countries with balance of payments difficulties. Therefore, the organization at the nerve-centre of the system is the International Monetary Fund (IMF). This is because IM, in line with its charter, is bequeathed with the responsibility of ensuring its effective running

who are the Main Players of International Financial System

1) International Financial institutions

These include important financial institutions such as banks, hedge funds whose failure may cause a global financial crisis, the International Monetary Fund and the Bank for International Settlements.

2) Customers of Global financial system

These include multinational corporations, as well as countries, with their economies andgovernment entities, for instance, the central banks of the G20 major economies, finance
ministries, EU, NAFTA, and OPEC, among others.

3) Regulators of Global Financial System

Many of these regulators play dual roles because they operate as financial organizations at the same time. These include International Monetary Fund, Bank for International Settlements, particularly its Global Economy Meeting (GEM), in which all emerging economies' Central Bank governors are fully participating, has become the prime group for global governance among central banks.
Such apex banks' governors include President of the European Central Bank, financial regulators of the U.S.A (the US agency quintet of Federal Reserve, Office of Comptroller of the Currency, Federal Deposit Insurance Corporation, Commodity Futures Trading Commission, Federal Reserve Board, Securities and Exchange Commission, Europe (European Central Bank) and the Bank of China, besides others

mention The network of participants in international financial institutions

The network of participants in international financial institutions includes financial institutional institutions,

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governments, regional institutions and academic institutions. The balkanization of the participants represents a mere estimation, because as you have observed from foregoing discussion that by their nature, multinational players in international financial system

mention and explain the most prominent global international financial institution

1. The International Monetary Fund (IMF)

The International Monetary Fund (IMF) keeps watch over international balance of payments accounts of member states. The IMF has the responsibility of acting as the lender of last resort for members in financial distress such as currency crisis, problems meeting balance of payment when in deficit and debt default. Membership of the Fund is based on quotas, or the amount of money a country provides to the fund relative to the size of its role in the international trading system.

2. International Bank for Reconstruction and Development (IBRD)

The establishment of this international bank otherwise known as World Bank is aimed at providing funding, take-up credit risk or offer favorable terms to development projects mostly in developing countries that couldn't be obtained by the private sector. The other multinational development banks (e.g., ADB, AfDB, etc) and other international financial institutions (e.g., IFC, etc) also play specific regional or functional roles.

3. World Trade Organization

The World Trade Organization settles trade disputes and negotiates international trade agreements in its rounds of talks, which is currently regarded as the Doha Round).

4. Bank for International Settlement (BIS)

The Bank for International Settlement(BIS) which is based in Basel Switzerland is both a bank as well as an intergovernmental organization for central banks worldwide. It has numerous subsidiary bodies, which most importantly include the Basel Committee on Banking Supervision, the Financial Stability Board, and the Bank for International Settlement Joint forum on financial conglomerates. It publishes global bond market capitalization data.

5. The World Economic Forum

The World Economic Forum is a Swiss non-profit foundation based in Geneva which hold meeting annually in Davos

6.Private International Financial Institution

The most prominent private international financial institutions include the following:

i) The Institute of International Finance (IIF) is a trade organization of the world's largest commercial banks and investment banks.

ii) The World Federation of Exchanges (WFE) is in charge of publishing global stock capitalization information in annual reports.

iii) The Global Financial Markets Association (GFMA) consists of European, Asian and North American financial market associations: These are the Association for Financial Markets in Europe (AFME) in London and Brussels, the Asia Securities Industry & Financial Markets Association (ASIFMA) in Hong Kong, and the Securities Industry and Financial Markets Association (SIFMA) in New York and Washington DC.

mention the regional institutions that also participate in international financial system.

i) Commonwealth of Independent States (CIS);

ii) North American Free Trade Agreement (NAFTA);

iii) Euro zone with its ECB or European Central Bank;

iv) EU Department of Internal Market and Services, led by the European Commissioner for Internal Market and Services, which has produced an expert review of Financial Regulation, the Liiskanen report, in 10/2012;

v) EBA or European Banking Authority, which replaced the CEBS or Committee of European Banking Supervisors; and

vi) The European Shadow Financial Regulatory Committee (ESFRC)

what are the perspectives on international financial system

There are three primary approaches to viewing and understanding the global financial system.which are;

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1. Liberal Perspective

The liberal view holds that the exchange of currencies should be determined not by state institutions but instead individual players at a market level. This view has been labeled as the Washington Consensus.

2. Social Democratic Perspective

The social democratic view advocates the tempering of market mechanisms, and instituting economic safeguards in an attempt to ensure financial stability and redistribution. Examples include slowing down the rate of financial transactions, or enforcing regulations on the behavior of private firms.

Neo Marxists Perspective

Neo Marxists Perspective holds the view that the political North comprising the developed countries abuses the financial system to exercise control over developing countries' economies, which promotes inequality between the advanced economies and the less developed nations

what are the various evolutionary phases of the Nigerian financial system

Foundation Phase

This phase was focused on the establishment of institutions and development of necessary legislative framework. The phase is approximately from 1950 to 1970. During this period, the Central Bank of Nigeria (CBN), the apex regulatory authority in the Nigerian financial sector was established. The CBN derives its legal authority from the CBN Act No. 24 0f 1991 (Amended in 1997, 1998, and 1999) and the Banks and Other Financial Institutions Act (BOFIA) No. 25 of 1991 (Amended in 1997, 1998 and 1999) and presently the CBN Act 2007, which preceded the CBN Act of 1958 and Banking Act of 1969 (Prosper, 2011).

Expansion Phase

This expansion phase was directed at availing the public of banking activities and this was facilitated by the increase in network of branches. This involves the expansion of banks branches into the rural and semi areas.The phase also witnessed priority lending to some sector of the economy. This phase takes approximately from 1970 – 1985

Consolidation and Reform Phase

This phase coincided with the Structural Adjustment Programme (SAP), which started in 1986, representing an era in Nigeria's financial sector reform. The monetary authorities relaxed the control and liberalize the sector. There was a deregulation of the economy and many institutions were set-up to regulate the growing financial sector. For example, there was the establishment of Nigeria Deposit Insurance Corporation (NDIC) in 1988, the Security and Exchange Commission (SEC) though established by SEC Act of 1979 but was further strengthened by SED Act of 1989 and Investment and Securities Act No. 45 of 1999

what are the regulatory framework of nigerian financial system

Federal Ministry of Finance (FMF)

The Federal Ministry of Finance is one of the ministries that the affairs of the country generally. The Federal Ministry of Finance in particular has the responsibility of advising the Federal Government on its fiscal operation and therefore, co-operates with Central Bank of Nigeria (CBN) on monetary matters in the country

Central Bank of Nigeria (CBN)

The Central Bank of Nigeria (CBN) as the apex bank is charged with the regulatory authority of the financial system. The Bank was established at the instance of the enactment of the Central Bank of Nigeria Act of 1958 and commenced operations on 1st July 1959.

Nigerian Deposit Insurance Corporation (NDIC)

The Nigerian Deposit Insurance Corporation (NDIC) plays complement role to the CBN in the regulation of the banking institutions in the economy. The Corporation commenced operations effectively in 1989 and it is autonomous of the Central Bank of Nigeria (CBN) in the discharge of its statutory obligations in the country's financial system. Nevertheless, it reports to Federal Ministry of Finance on its activities.

The Securities and Exchange Commission (SEC)

This is formerly called the Capital Issues Commission. The SEC was established by the SEC Act of 27th September 1979, which was further strengthened by the SEC Decree of 1988. It is the apex regulatory organ of the capital market.

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National Insurance Commission (NAICOM)

The National Insurance Commission (NAICOM) has been established to replace the Nigerian Insurance Supervisory Board (NISB). The Commission serves as the watchdog over the operations of the various insurance companies operating in Nigeria. Hence NAICOM is charged with effective administration, supervision, regulation and control of the business of insurance in Nigeria

Federal Mortgage Bank of Nigeria (FMBN)

The Federal Mortgage Bank of Nigeria (FMBN) has been established to replace the defunct Nigerian Building Society, whose assets and liabilities it has inherited

Financial Services Co-ordinating Committee (FSCC)

The Committee has been established in 1998 charged with the primary responsibility to promote safe, sound and efficient financial sector in the country. The membership of the Committee is drawn from the key regulatory and supervisory institutions in the financial system in the country. Therefore, the membership comes mainly from Central bank of Nigeria (CBN), Security and Exchange Commission (SEC), National Insurance Commission (NAICOM), Corporate Affairs Commission (CAC) and the Federal Ministry of Finance. This committee is chaired by the Minister of Finance who co-ordinates the activities of all regulatory institutions in the financial system in the country.

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functions of Federal Mortgage Bank of Nigeria (FMBN)

1. The Bank provides banking and advisory services for mortgage institutions and operations in the country;
2. The Bank undertakes research activities pertaining to housing provision in the country;
3. The Bank is empowered to licence primary mortgage institutions in the country;
4. The Bank is empowered to regulate primary mortgage institutions that operate in the country; and
5. The Bank also acts as the apex regulatory body for the Mortgage Finance Industry.

functions of National Insurance Commission (NAICOM)

The specific functions of the National Insurance Commission (NAICOM) include:

1. Establishment of standards for the conduct of insurance business;
2. Protection of insurance policy holders against unfair practices by insurance companies;
3. Establishment of a bureau to which complaints may be submitted against insurance companies and their intermediaries by members of the public;
4. It ensures adequate capitalization and reserve for the operations of insurance companies in the country;
5. It also ensures good management and high technical expertise in the operations of insurance companies; and
6. The Commission ensures judicious fund placement by insurance companies towards meeting claims by their clients.

functions of The Securities and Exchange Commission (SEC)

i) The Commission approves and regulates mergers and acquisitions of publicly quoted companies;
ii) The Commission also authorizes the establishment of unit trusts;
iii) The Commission also handles;
iv) It has the responsibility of maintaining surveillance over the capital market towards enhancing its efficiency.
v) The Commission issues guidelines for the establishment of Stock Exchanges in different locations of the country due furtherance of the deregulation of The capital market.
vi) The Commission releases guidelines on foreign investment in the

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functions of CBN

It performs many functions in the process of regulating the banking institutions, which include:
i) Promoting monetary stability and a sound financial system;
ii) Acting as banker and financial adviser to the Federal Government;
iii) Acting as banker of last resort to other banks;
iv) Encouraging the growth and development of all financial institutions;
v) Overseeing the overall development of the banking sector; and
vi) Licensing banks and finance companies.

Functions of Nigerian Deposit Insurance Corporation (NDIC)

a) The Corporation supervises the operations of various banks in the economy.
b) It provides deposit insurance and related services for banks;
c) It aids in the promotion of confidence in the banking industry in the country;
d) It is empowered to examine the books and affairs of insured banks and other deposit taking financial institutions
e) It generates funds from licensed banks to provide cover for depositors' money; since such banks are mandated to pay 15/16 of 1 per cent of their total deposit liabilities as insurance premium to the Corporation

what are various banking institutions in the structure of the nigerian financial system

1. Central Bank of Nigeria (CBN)

The CBN is the apex regulatory authority of the financial system. It was established by the Central Bank of Nigeria Act of 1958 and commenced operations on 1st July 1959. The apex bank promotes monetary stability and a sound financial system as well as acting as the banker of last resort to the banks. The Bank also encourages the growth and development of financial institutions. Its enabling law of 1991 empowers the CBN some degree of more flexibility in regulating and overseeing the banking sector and licensing finance companies which was hitherto operated outside any regulatory framework.

The Federal Mortgage Bank of Nigeria (FMBN)

The FMBN took over the assets and liabilities of the Nigerian Building Society. The FMBN provides banking and advisory services, and undertakes research activities pertaining to housing. Following the adoption of the National Housing Policy in 1990, The FMBN is empowered to licence and regulate primary mortgage institutions in Nigeria and act as the apex regulatory body for the mortgage finance industry. The financing function of the Federal Mortgage Bank of Nigeria was carved out and transferred to the Federal Mortgage Finance, while the FMBN retains its regulatory role. The FMBN is under the control of the Central Bank.

National Board for Microfinance Banks (NBFB)

The board was originally established and known as National Board for Community Banks, was to supervise and control the erstwhile community banks. Presently, and at the advent of microfinance banks, the board has the responsibility of supervising and controlling these microfinance banks in the economy.

objectives of The apex bank (CBN)

1. Ensuring monetary and price stability;
2. Issuance legal tender currency in Nigeria;
3. Maintaining external reserves for safeguarding the international value of the legal tender currency;
4. Promoting a sound financial system in Nigeria; and
5. Acting as banker to the Federal Government and
6. Providing economic and financial advice to the Federal Government.

categories of financial institution which are being supervised by the apex in the country

i) Bureaux-de-Change (BDCs)
ii) Commercial Banks
iii) Development Finance Institutions. (DFI's)
iv) Discount Houses

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v) Finance Companies (FCs)
vi) Merchant Banks
vii) Microfinance Banks (MFBs)
viii) Non-Interest or Islamic Banks
ix) Mortgage Banks (PMBs)

what are the various NON BANKING INSTITUTIONS in the structure of the Nigerian financial system

1. Federal Ministry of Finance (FMF)

The Federal Ministry of Finance has the responsibility of advising the Federal Government on its fiscal operations. It also has the responsibility of co-operating with the Central Bank of Nigeria in monetary issues in the economy. In the amendment of 2007regading the laws governing the apex bank, the Central Bank of Nigeria is mandated in its operations to be reporting through the Federal Ministry of Finance to the Presidency.

2. The Nigerian Deposit Insurance Corporation (NDIC)

The NDIC compliments the regulatory and supervisory role of the CBN. It is however autonomous of the CBN and reports to Federal Ministry of Finance. The NDIC effectively took off in 1989 and was set up to provide deposit insurance and related services for banks in order to promote confidence in the banking industry. The NDIC is empowered to examine the books and affairs of insured banks and other deposit-taking financial institutions. Licensed banks are mandated to pay 15/16 of 1% of their total deposit liabilities as insurance premium to the NDIC.

3. Securities and Exchange Commission (SEC)

This is formerly called the Capital Issues Commission. The SEC was established by the SEC Act of 27th September 1979, which was further strengthened by the SEC Decree of 1988. It is the apex regulatory organ of the capital market.

Debt Management Office (DMO)

The Federal Government of Nigeria took a major step in addressing the debt problems recently by establishing an autonomous Debt Management Office (DMO). The creation of the DMO consolidates debt management functions in a single agency, thereby ensuring proper coordination. The DMO centralizes and coordinates the country's debt recording and management activities, including debt service forecasts; debt service payments; and advising on debt negotiations as well as new borrowings

Financial Services Coordinating Committee (FSCC)

This is a committee established to co-ordinate the activities of all regulatory institutions in the financial system. The Committee is chaired by the Federal Minister of Finance.The Committee has been established in 1998 charged with the primary responsibility to promote safe, sound and efficient financial sector in the country. The membership of the Committee is drawn from the key regulatory and supervisory institutions in the financial system in the country

functions of Securities and Exchange Commission (SEC)

The Commission approves and regulates mergers and acquisitions of publicly quoted companies;
The Commission also authorizes the establishment of unit trusts;
The Commission also handles;
It has the responsibility of maintaining surveillance over the capital market towards enhancing its efficiency.
The Commission issues guidelines for the establishment of Stock Exchanges in different locations of the country due furtherance of the deregulation of the capital market.
The Commission releases guidelines on foreign investment in the insurance industry

what are the functions of National Insurance Commission (NAICOM)

Establishment of standards for the conduct of insurance business;
Protection of insurance policy holders against unfair practices by insurance companies;
Establishment of a bureau to which complaints may be submitted against insurance companies and their intermediaries by members of the public;
.It ensures adequate capitalization and reserve for the operations of insurance

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companies in the country;
It also ensures good management and high technical expertise in the operations of insurance companies; and
The Commission ensures judicious fund placement by insurance companies towards meeting claims by their clients.

what are the reforms in the nigerian financial system

The 1986 Reforms

The reform of the foreign exchange market, which until then was also controlled, began in 1986. Indeed, the financial sector reform was a component of the comprehensive economic reforms programmed, Structural Adjustment Program (SAP), which was adopted in 1986. The introduction of the program was on the heels of the rejection of IMF loan package with its conditionalities, a decision that reflected the consensus of a nationwide debate. The main financial sector reform policies applied were deregulation of interest rates, exchange rate and access into banking business. Other reform measures included establishment of Nigeria Deposit Insurance Corporation (NDIC), strengthening the regulatory and supervisory institutions, upward review of capital market deregulation and introduction of indirect monetary policy instruments. Some distressed banks were liquidated while the Central Bank of Nigeria took over the management of others.

The 2004 Reforms

Before the reforms started in 2004, the Nigerian banking sector was still weak and fragmented, often financing short-term arbitrage projects rather than productive private investments. The major problems of many Nigerian banks (Prosper, 2015) can be summarized below. Such problems include:
i) Weak corporate governance, evidenced by high turnover in the Board and management staff, inaccurate reporting and non-compliance with regulatory requirements, falling ethics and de-marketing of other banks in the industry;
ii) Late or non-publication of annual accounts that obviates the impact of market discipline in ensuring banking soundness;
iii) Gross insider abuses, resulting in huge non-performing insider related credits;
iv) Insolvency, as evidenced by negative capital adequacy ratios and shareholders' funds that had been completely eroded by operating losses;
v) Weak capital base, even for those banks that have met the minimum capital requirement, which currently.
vi) stands at N1.0 billion or US$7.53 million for existing banks and N2.0 billion or US$15.06 million for new banks, and compared with the RM2.0 billion or US$526.4 million in Malaysia; and
vii) Over-dependency on public sector deposits, and neglect of small and medium class savers

The 2009 Reforms

According to Prosper (2015), some interdependent factors are believed to have led to the creation of an extremely fragile financial system that was tipped into crisis by the global financial crisis and recession. These factors include;
1. Macroeconomic instability caused by large and sudden capital inflows; major failures in corporate governance at banks;
2. Lack of investor and consumer protection; inadequate disclosure and transparency about the financial position of banks; critical gaps in regulatory framework and regulations; uneven supervision and enforcement;
3. Unstructured governance and management process at the CBN; and weaknesses in the business environment in the country.

what are the Some of the potential levers for the new macro-prudential rules

a) Limiting capital market lending to a set proportion of bank's balance sheet;
b) Prohibiting banks from using depositors' funds for proprietary trading, private equity or venture capital investment; and
c) Adjusting capital adequacy and forward looking capital requirement driven by stress tests by the CBN.

what are financial assets

The financial assets are the financial instruments that are traded in the financial markets such as money market and capital market. These financial assets constitute the documentary evidence through the funds raise secure

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money from the investors and savers who have surplus to part with for the use of corporate entities and government. The financial assets are inherently products of transactions in both the money market and the capital market. Such markets are well established in some economies while they are just being entrenched in some other economies.

types of financial assets

Debt Instruments

These are the financial instruments that are normally used by corporate entities and government to raise funds on the basis of debt obligations. This implies that such financial instruments are repayable by the organizations issuing them for raising funds from the financial markets from their operations. The holders, therefore, are entitled to the funds at maturity dates in addition to the regular income accruing to them on them on the basis of interest payments by the corporate entities and government

Equity Instruments

There are some financial instruments that are being used in the financial markets to raise equity funds by corporate entities. Such financial instruments are essentially Ordinary or Common Shares being used to raise funds to enhance the capital base of corporate organizations.

mention the Various debt instruments being used for financial transactions in money market

i) Treasury Bills;
ii) Treasury Certificates;
iii) Trade Bills;
iv) Commercial Papers; and
v) Certificate of Deposits.

mention the various debt instruments being used for financial transactions in capital market

i) Development Loan Stocks;
ii) Debenture Stocks;
iii) Bonds;
iv) Mortgage Loan Stocks;
v) Leases;
vi) Preference Shares; and
vii) Hire Purchase Contracts.

Characteristics Of Financial Assets

Moneyness

The moneyness of the financial assets implies that they are easily convertible to cash within a defined time and determinable value. The cost of transactions involved in securing funds from them before the maturity date can be likened to agency cost besides the cost of discounting some of them, which reduces their face value. Therefore, these financial instruments are regarded as near money because of the ease with which they can be traded for cash

Divisibility & Denomination

The financial assets are usually made out in denominations depending on the face value that the corporate organizations and institutions that are using them to raise funds from the financial markets. The divisibility of such near money refers to the minimum monetary value in which a financial asst can be liquidated or exchanged for money by the holder.

Reversibility

The financial assets are highly reversible in the sense that they are like deposits in accounts of customers with the banks. This implies that the cost of investing in the financial assets and getting them back into cash is negligible. Hence reversibility of financial assets is often regarded as turnaround cost or roundtrip cost. The most relevant part of the roundtrip cost as associated with financial assets constitutes what is known as the 'bid-ask spread' in which commissions cost of delivery an asset is entrenched. In the well-organized financial market there are market

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makers who take responsibility of assuming risk in associated with the financial assets while making the market or carrying inventory of financial assets.

Cash Flow

This refers to the return that an investor will derive from holding a financial asset, which invariably depends on all the cash distributions that the asset will pay holders. This is expressed in terms of the dividend on shares or coupon yield payments that are associated with bonds. The return on investment in a financial asset is also affected by the repayment of the principal amount for a debt instrument and any expected price variation of the stock.

Maturity Period

In financial parlance, the maturity period refers to the length of time within which the corporate entity or institution that employs a financial instrument to raise funds will use the funds before its payment back to the holders of such instrument. For instance, a bond can be held by a corporate entity for a period of thirty (30) years while that of government can extend to a period of ninety-nine (99) years before their repayment to the holders.

Convertibility

This characteristic implies that a financial asset or instrument can be converted into another class of asset which will still be held by the corporate entity has original used to raise funds for its operations. The conversion can take a form of bond being converted to bond, preference shares being converted to equity shares, and a company bond being converted into equity shares of the company

Currency

Financial assets are normally denominated in currencies of the various countries around the world. This implies financial assets of the Nigerian financial system are denominated in Naira such as Federal Government Loan Stock, Treasury Bills, Treasury Certificate, Shares and Corporate and State Government Bonds. Those financial assets in Japan are denominated in Yen, those in the United States of America are in Dollars, those in United Kingdom are in Pounds Sterling while those in China are in Yuan, etc.

Liquidity

The cost of transactions involved in securing funds from them before the maturity date can be likened to agency cost besides the cost of discounting some of them, which reduces their face value. Hence, these financial instruments are regarded as near money because they are highly liquid in terms of the ease with which they can be traded for cash. Good examples of highly liquid financial instruments include Treasury bills, Treasury certificates, Certificate of Deposits, Bills of Exchange, and shares of blue chip companies, e.g., Shares of Cadbury, First Bank, Guaranty Trust Bank, etc.

Predictable Returns

The return on financial assets must be predictable for the purpose of their being patronized by investors. For instance, the investors should be able to know the percentage of interest that are attached to certain debt instruments before they will be prepared to stake their funds on them. This is because performance of a company cannot be taken for granted due to the mere fact that top management and the boards of directors are known to be manipulating the accounting records of their companies these days. This is more reason why investors are always very skeptical in patronizing financial instruments of some corporate entities due to their antecedents in manipulating their accounting records. The cases of Cadbury in Nigeria and Enron in the US are classical testimonies to the unwholesome accounting practices in the operations of companies around the world.

Tax Status of Returns

The returns on various financial assets are subject to tax status because they are taxable earnings. The tax authorities are interested in collection of taxes on earnings from financial assets as securities which are regarded as incomes for investors. However, the tax status on financial assets varies from one economy to another. The rate of such taxes on financial assets is also subject to variation from time to time depending on the interest of the government which must be adhered to by the tax authorities.

examples of moneyness

Treasury bills, Treasury certificates, Trade bills, Commercial papers, and Certificate of Deposits, among others.

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Differentiate between Variability of Price and Thickness of the Market for financial assets.

a) Variability of Price of financial asset

This is determined by some measure of dispersion in the price. It implies that the greater the variability in price, the greater the probability that the market maker may loose in the bargain. For instance, a speculative stock such as shares will be fraught with much larger short-run variations. On the other hand, Treasury bills, which government securities (or gilt-edged securities) exhibit stable price with less short-run variation.

b) Thickness of the Market for financial asset

The thickness of the market implies the frequency of transactions on a given financial asset. A thin market reflects a financial asset that has few trades on a regular or continuous basis, hence the greater the order flows on it the shorter the time that the asset will be held in the inventory of market makers. Therefore, such financial asset will exhibit smaller probability of an unfavourable price movement while it is in the inventory of market makers.

What are the reasons that may be responsible for terminating financial assets by corporate entities before their stated maturity dates.

i**) Bankruptcy**:- a situation in which the company is being unable to meet its external financial obligations and therefore, declared bankrupt;

ii) Reorganization:- a situation in which the company is restructuring its ownership structure and operations; and

iii)Call Provision:- the financial instrument being associated with call provision

Explain the term Financial Market.

The financial market exists for the purpose of mobilization and intermediation of fund. This implies that through the financial market, funds are transmitted from the surplus sector of the economy to the deficit unit of the economy. The funds as mobilized in this market might be a short term basis or a long term basis, depending on the nature of instrument involved and the method of transaction. The operations of the financial market involve commercial banks, merchant banks, the development banks, finance houses and individuals such as stock brokers and investors. The Financial markets are generally categorized into two namely: the money market for raising short term funds and the Capital market for raising long term funds

explain The money market

The money market is the financial market in which financial instruments are traded with maturity of up to one (1) year. Money markets enable market participants to borrow or lend liquid assets and thereby meet needs for cash or investment of cash. The money market is characterized by availability of liquid assets.These areassets that may be converted into cash quickly, without significant loss of value. Investing excess liquid assets, that is, lending, reduces the opportunity cost of holding cash or cash equivalents. Borrowing short-term funds eliminates disruption that would be caused by temporary cash flow deficits.

what are the most widely traded money market instruments

The most widely traded money market instruments include Treasury bills, Repurchase agreements, Negotiable certificates of deposit, Commercial paper, and Bankers acceptances.

qualities of money market

Liquidity

This describes the ability to convert an asset into cash with relative ease while not significantly depressing its price in the process. It is perhaps the most important quality.

ii) Default risk

This is the risk of non-payment of principal or interest, which must be minimal in order for the security to be considered a safe haven for excess liquidity.

iii) Short time to maturity

This is given that adverse price movements attributable to interest rate changes are smaller for shorter-term assets, which helps ensure that interest rate changes will not affect the security's market value materially.

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explain the instruments of money market.

1. Treasury Securities

Treasury securities are obligations of the government. They are issued to cover government budget deficits (excess of expenditures over revenues) and to refinance maturing government debt. The most common are bills, notes, and bonds. Treasury bills have original maturities of I year or less, while notes are for 1 to 10 years, and bonds have maturities greater than 10 years.

2. Treasury bills (T-bills):

Treasury securities are short-term obligations of the government with original maturities of 1 year or less. Treasury bills and other Treasury securities (with less than 1 year of remaining life) are the most important instruments in money markets.

3. Federal Funds

Federal funds are not formal securities. They are immediately available funds that are loaned or borrowed among financial institutions. Such funds are borrowed between financial institutions, usually for a period of 1 day - overnight.

4. Call money:

These are loaned funds that are repayable upon the request of either party. All transactions go through one of the licensed companies such as in Japanese.

5. Overnight call Money and other short-term deposits

These are traded in inter-bank market, an aspect of the money market (short-term exchange of liquid assets) for banks with no intermediary. Overnight call money and other short-term deposits are the common vehicles, and collateral is rarely required.

6. Repurchase agreement (repo)

This is an agreement between buyer and seller in the sale of securities to reverse the transaction in the future at a specified date and price. These transactions commonly involve Treasury securities, but they may also involve government agency securities. Repurchase agreements are typically as short term in nature as federal funds (or call money).

7. Government agency securities

Securities issued by an agency of the federal government particularly in the U.S. with implicit backing of the federal government. Repurchase agreements are essentially collateralized loans. A financial institution with large holdings of Treasury securities sells some portion of them for a predetermined period of time to obtain liquidity and promises to repurchase the securities at the end of that period.

8. Negotiable Certificates of Deposit

This is a financial instrument issued by a bank documenting a deposit, with principal and interest repayable to the bearer at a specified future date. The negotiable certificate of deposit is a bearer instrument and a term deposit but not demand deposit. Overtime, banks were able to increase the rate paid on negotiable CDs to attract more deposits as the need arose.

9. Banker's acceptance

This is a time draft or postdated instrument payable to a seller of goods, with payment guaranteed by a bank. In these instruments, the credit of the bank substitutes for the credit of the purchaser, and the seller is ensured payment. Further, unlike an open trade credit arrangement (in which the seller provides credit for a period of time), the seller need not wait for payment. A banker's acceptance is immediately negotiable; the seller can either receive discounted payment at the accepting bank or hold the draft until the date of maturity

explain the various instruments being used to raise funds through the operations of capital market in Nigeria.

1. Ordinary Shares

The ordinary share is a unit of capital ownership in a firm in terms of equity investment by the shareholders. The ordinary shares do attract returns at the end of the trading period (normally 12 months). It accords its holders right of ownership in the asset of the firm. The ordinary shareholder can vote in the AGM (Annual General Meeting) of the firm. Currently in a public company no single individual is allowed to own more than 10% of the total issued shares of the firm.

2. Preference Shares

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The preference shares are debt instruments in a firm. The holders of preference share are not owners of the firm since they cannot vote in the AGM of their firm. Preference share attract fixed dividend or interest e.g. 10% preference share of N100,000 will attract a finance interest of N10,000. However, the preference share is also regarded as shares in firm depending on the nature of the preference share/

3.Debentures

These are long term debt securities normally offered for public subscription. They generally attract a fixed rate of return called interest. Most times Debentures are securities in a particular asset of the firm in such case tagged secured debenture. An unsecured debenture is one not secured on any particular asset of the firm. Debentures are mostly sold either at premium or at discount.

4. Development Loan

Stock These are financial instruments that allow the government to borrow money for a long period of time up to 25 years, bearing interest and capital repayment, thereon. The principal amount can only be repaid back to the holder after the maturity date but the interest is normally on periodic basis as contained in the prospectus of the offer. The instrument is normally issued by the central bank on behalf of the government.

5. Bonds

Bonds are sometimes issued with stock warrants attached. Warrants are options to purchase common stock at a specified price up to a specified date. Should the bondholder decide to exercise the option and purchase stock, it is not necessary to surrender the underlying bond. Again, bondholders will exercise their warrants only if the market value of the stock exceeds the specified (exercise) price of the warrant. Bonds are an important source of capital for the federal government, states and municipalities, and private corporations .

6. Mortgages

Mortgages are long-term loans that are secured by real property. They are long-term liabilities collateralized by real property. Commonly, monthly payments are made that fully repay both principal and interest over the term of the loan. Mortgages are issued to purchase real estate. Commercial mortgages are used to finance real estate for business purposes, such as office buildings and shopping malls. These mortgages have consistently grown faster than multifamily-dwelling mortgages and even faster than home mortgages.

definition of capital market

- Capital market refers to a market where the financial institutions mobilize the savings of the people and lend them for long term, period for raising new capital in country.
- Capital Market, in other words, refers to the long term borrowing and lending of capital funds.
- capital market is a market in which financial securities such as stocks, bonds and government loan instrument are bought and sold.
- capital markets refer to financial markets for the buying and selling of long-term debt- or equity -backed securities.

who are the major players of capital market

i) Regular individual investors

These participants in the market account for a small proportion of trading, though their share still plays some significant role in the market. A few wealthy individuals who could afford an account with a broker, but transactions are now much cheaper and accessible over the internet.

ii) Traders

These are the jobbers and stock brokers. The jobbers in highly developed capital markets operate by buying securities with the intention of making profits. They do not transact business on behalf of any investors but behave like real traders who engage inbuying and selling of capital market securities. The profit earned by the jobbers is called the jobbers turn.On the other hand, the stock brokers transact business on behalf of investors who pay commission on volume of transactions done for them by the stockbrokers

iii) Investment banks

Traders in investment banks will often make deals on their bank's behalf, as well as executing trades for their clients. Investment banks will often have a department called capital markets. Staff in such department try to keep

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abreast of the various opportunities in both the primary and secondary markets, and will advise major clients accordingly.

iv) Pension and Sovereign Wealth Funds

These players tend to have the largest holdings, though they tend to buy only the highest grade securities which are safest types of bonds and shares, and often don't trade all that frequently.

v) Hedge funds

These are increasingly making most of the short-term trades in large sections of the secondary markets of advanced economies such as the UK and US stock exchanges, which is making it harder for them to maintain their historically high returns, as they are increasingly finding themselves trading with each other rather than with less sophisticated investors.

categories of capital market

primary market
secondary market

What are the characteristics of the primary market.

- This is the market for new long term capital. The primary market is the market where the securities are sold for the first time. Therefore it is also called New Issue Market (NIM).
- In a primary issue, the securities are issued by the company directly to investors. The company receives the money and issue new security certificates to the investors.
- Primary issues are used by companies for the purpose of setting up new business or for expanding or modernizing the existing business.
- The primary market performs the crucial function of facilitating capital formation in the economy. The new issue market does not include certain other sources of new long term external finance, such as loans from financial institutions. Borrowers in the new issue market may be raising capital for converting private capital into public capital; this is known as 'going public'

Differentiate between the nature of transactions on government securities and that of the corporate securities.

Transactions on Government Securities

When a government wants to raise long term finance it will often sell bonds to the capital markets. In the 20th and early 21st century, many governments would use investment banks to organize the sale of their bonds. The leading bank would underwrite the bonds, and would often head up a syndicate of brokers, some of whom might be based in other investment banks. The syndicate would then sell to various investors. For developing countries, a multilateral development bank would sometimes provide an additional layer of underwriting, resulting in risk being shared between the investment bank(s), the multilateral organization, and the end investors. However, in recent years, it has been increasingly common for governments of the larger nations to bypass investment banks by making their bonds directly available for purchase over the Internet. Many governments now sell most of their bonds by computerized auction.

Transactions on Corporate Securities

When a company wants to raise money for long-term investment, one of its first decisions is whether to do so by issuing bonds or shares. If it chooses shares, it avoids increasing its debt, and in some cases the new shareholders may also provide non monetary help, such as expertise or useful contacts. On the other hand, a new issue of shares can dilute the ownership rights of the existing shareholders, and if they gain a controlling interest, the new shareholders may even replace senior managers. From an investor's point of view, shares offer the potential for higher returns and capital gains if the company does well.

what are the methods of issuing new security

1. Public Subscription

This presupposes that a prospectus is issued. The document contains details of the company issuing the security such as bond or shares, and of the securities themselves. Members of the public can then subscribe to the security, and the borrower or an intermediary on behalf of the borrower will allocate the securities to subscribers on issue

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date by means of a certain process.

2. Private Placing

The securities (e.g., shares or bonds can also be issued through private placing. This method is used when the borrower (or an intermediary on behalf of the borrower) places bonds or shares with certain investors selected by the borrower. The selected investor would then receive a certain amount of bonds or shares at issue date and pay the borrower the issue price for the bonds received.

3. Tender Method

A third method used to issue bonds or shares is known as the "tender" method. The borrower or intermediary will issue a media statement that bonds shares will be issued in the market on a certain date. The details of the bonds shares and the capitalisation of the issue (total nominal amount to be issued) will also be communicated. Interested parties are then invited to tender before a certain date for these bonds.

4. Tap Method

Another method that is used to issue new instruments is known as the "tap" method, whereby not all the shares or bonds are allocated at the first issue through any of the above three methods. If, for instance, the company or borrower wants to issue N1,000,million worth of shares or bonds he can choose to issue only N600 million at the first issue. The borrower or intermediary then starts creating a secondary market for these instruments by buying and selling the issued instruments in the secondary market. This process, where one party buys and sells the same instrument in the market, is known as market making.

what are The principal capital market instruments used for long term funds

(i) Mortgages.
(ii) Corporation bonds.
(iii) State and local government bonds.
(iv) Federally sponsored credit agency securities.
(v) Finance company bonds.
(vi) Commercial banks bonds and commercial paper.
(viii) Corporate stock

categories of capital market instrument

1. Treasury Instruments

All government securities issued by the Treasury department of Govt. are fixed income instruments. They may be bills, notes, or bonds depending on their times to maturity. Specifically, bills mature in one year or less, notes in over one to 10 years, and bonds in more than 10 years from time of issue government securities which confer debt obligations on the government.

2. Government Bonds and Loan Stocks

Government y securities are sold by the apex banks on behalf of the government to support specific programs, but they are not direct obligations of the treasury department. Mortgage bonds are issued and sold for the purpose of using the proceeds to purchase mortgages from insurance companies or savings and loans; and the home loan which sells bonds and loans the money to its banks, which in turn provide credit to savings and loans and other mortgage-granting institutions. Other agencies are the government banks for cooperatives.

3. State and Local Government Bonds

These bonds are issued by local government entities as either general obligation or revenue bonds. General obligation bonds are backed by the full taxing power of the municipality, whereas revenue bonds pay the interest from revenue generated by specific projects. These bonds differ from other fixed-income securities because they are taxexempt. The interest earned from them is exempt from taxation by the government and by the state that issued the bond, provided the investor is a resident of that state. For this reason,these bonds are popular with investors in high tax brackets.

4. Corporate Bonds

Corporate bonds are fixed-income securities issued by industrial corporations, public utility corporations, or railroads to raise funds to invest in plant, equipment, or working capital. They can be broken down by issuer, in terms of credit quality in terms of maturity i.e. short term, intermediate term, or long term, or based on some

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component of the indenture.

what are the he capital market securities and its instruments of transactions.

1. Interest Rate Securities

The interest paid on the nominal amount of capital market securities (called the coupon rate) appears on the certificate received by the holder (the investor) of such a security. This coupon rate is one of the parameters used to determine the consideration paid for the security when traded in the secondary market. Most securities are issued at a fixed coupon rate. Capital market securities are physical certificates and the issuer of the security keeps a register of owners. This register is used by the borrower (issuer) to pay interest to the lender (owner of the security) on the interest payment dates indicated on the certificate. When an instrument is sold to a new owner in the secondary market, the buyer is registered as the new owner on the settlement date of the transaction

2. Zero-rated coupons

These are long-dated securities with many terms to maturity with zero-rated coupons which are capital market instruments issued by borrowers of money such as blue chip firms. These instruments do not earn interest on the capital amount invested by the lender, and are therefore issued and traded at a discount on the nominal value, similar to discount instruments in the money market such as bankers acceptances and treasury bills. The market value (nominal value less discount) of zero or nil-rated coupon bonds depends on the yield that the investor (lender) expects on his investment. The redemption amount, which is the only cash inflow for the investor, is equal to the nominal value of the bond, and is thus known to the investor.

3. Asset-backed Securities

Where an asset exists which represents cash inflow stream such as a normal loan or investment, a bond can be issued to fund this asset. The bond income is then derived or backed by the income stream of the asset. The performance on the bond is then dependent on the asset performance.

what are The main institutional sources of capital market

the respective role of the institutional participants in capital market are;

(i) Insurance Companies

Insurance companies are financial intermediaries. They call money by providing protection from certain risks to individuals and firms. The insurance companies invest the funds in long term investments primarily mortgage loans and corporate bonds.

(ii) Pension Funds

The pension funds are provided by both employees and employers. These funds are now increasing utilized in the provision of long term loans for the industry and government.

(iii) Building Societies

The building societies are now activity engaged in providing funds for the construction, purchase of buildings for the industry and houses for the people.

(iv) Investment Trusts

The investment trust mobilize saving and meet the growing, need of corporate sector, The income of the investment trust depends upon the dividend it receives from shares invested in various companies.

(v) Unit Trust

The Unit Trust collects the small savings of the people by selling units of the trust. The holders of units can resell the units at the prevailing market value to the trust itself.

(vi) Saving Banks

The saving banks collect the savings of the people. The accumulated saving is invested in mortgage loans, corporate bonds.

(vii) Specialized Finance Corporation

The specialized finance corporations are being established to help and provide finance to the private industrial sector in the form of medium and long term loans or foreign currencies.

(viii) Commercial banks

The commercial banks are also now activity engaged in the provision of medium and long terms loans to the industrialists, agriculturists, specialist finance institutions, etc., etc.

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(ix) Stock Exchange

The stock exchange is a market in existing securities (shares, debentures and securities issued by the public authorities). The stock exchange provides a place for those persons who wish to sell the shares and also wish to buy them. Stock Exchange, thus helps in raising equity capital for the industry

what is money market

The money market is a component of the financial market for assets being used for shortterm borrowing of funds by corporate entities and government. This implies that the money market is used for buying and selling of financial instruments with original maturities within a period of one year.

what are the financial instrument used in money market

Treasury bills, Treasury certificates, Commercial papers, Bankers' acceptances, Certificates of deposits, Bills of exchange, Repurchase agreements, Federal funds, Short-lived mortgages, and Asset-backed securities.

Discuss the operations of a money market.

The core of the operations of the money market is the area of interbank lending. The commercial banks normally borrow and lend to each other using commercial papers, repurchase agreements and similar financial instruments. These financial instruments are often benchmarked, that is priced by reference, to the London Interbank Offered Rate (LIBOR) for the appropriate term and currency.

The finance companies typically fund themselves through the issue large amounts of asset-backed commercial paper (ABCP) which is secured by the pledge of eligible assets into an ABCP conduit. Examples of such eligible assets include auto loans, credit card receivables, residential and commercial mortgage loans, mortgage-backed securities and similar financial assets

Mention the participants in money market operations.

These participants include the following.

i) Central banks
ii) Commercial banks
iii) Investment banks
iv) Merchant banks
v) Mortgage banks
vi) Insurance companies
vii) Corporate entities
viii) Mortgage Institutions
ix) Pension Funds Institutions
x) Discount Houses

what are the instruments that are used for transactions in money market.

1. Certificate of deposit

This is for time deposit, commonly offered to consumers by banks, thrift institutions, and credit unions.

2. Repurchase agreements

These are short-term loans, normally for less than two weeks and frequently for one day, arranged by selling securities to an investor with an agreement to repurchase them at a fixed price on a fixed date.

3. Commercial papers

These are short-term issues such as promissory notes issued by company at discount to face value and redeemed at face value

4. Eurodollar deposits

These are deposits made in U.S. dollars at a bank or bank branch located outside the United States.

5. Federal agency short-term securities

These are tenable in the U.S. as short-term securities issued by government sponsored enterprises.

6. Federal funds

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These are tenable in the U.S. as interest-bearing deposits held by banks and other depository institutions at the Federal Reserve, the apex bank in U.S. These are immediately available funds that institutions borrow or lend, usually on an overnight basis. They are lent for the federal funds rate.

7. Municipal notes

These are tenable in the U.S. as short-term notes issued by municipalities in anticipation of tax receipts or other revenues.

8. Treasury bills

They are short-term debt obligations of a national government that are issued to mature in three months.

9. Treasury certificates

They are short-term debt obligations of a national government that are issued to mature in three to twelve months.

10. Money funds

These are the pooled short maturity, high quality investments which buy money market securities on behalf of retail or institutional investors.

11. Foreign Exchange Swaps

This involves exchanging a set of currencies in spot date and the reversal of the exchange of currencies at a predetermined time in the future. This is done within a period that is considerably short-lived such as within days or weeks and probably with months.

12. Short-lived mortgage and asset-backed securities.

These are mortgage loans that have been floated on short-term basis which can be traded in the money market by the holders of the instrument. The asset-backed securities are also short-term instruments that can be traded in the money for cash by the holders

What Are The Functions Of Money Market

a) Facilitates transactions between parties with surplus funds and parties with a deficit.
b) Helps the corporate entities to raise funds with which to enhance their workingcapital.
c) Provides facilities for discounting of financial instruments.
d) Allows corporate entities to hedge against failure in meeting requirements of theiroperational activities.
e) Allow governments to raise funds to meet current expenditure in their operations.
f) Helps the government in implementing monetary policy through the open marketoperations.
g) Operations in the money market help determine short-term interest rates in theeconomy.
h) Enhances the growth and development of the economy

definition of central bank

- According to Vera Smith, central banking is a banking system in which a single bank has either complete control or a residuary monopoly of note issue.
- Shaw defines a central bank as a bank which controls credit.
- Hawtrey opines that a central bank is that which is the lender of last resort.
- According to Day, a central bank is established to help control and stabilise the monetary and banking system in any economy.

what are the Functions of Central Banks

i) The regulation of currency accordance with the requirements of business and the general public for what purpose it is granted either the sole right of note issue or at least a part monopoly thereof;
ii) The performance of general banking and agency for its country;
iii) The custody of the cash reserves of the commercial banks, custody and management of the nation's reserves of international currency.
iv) The granting of accommodation in the form of re-discounts and advances to commercial banks, bill brokers and dealers, or other financial institutions andthe general acceptance of the responsibility of lender of last resort.
v) The settlement of clearance balances between the banks; and

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vi) Control of credit in accordance with the needs of business while carrying out the broad monetary policy adopted by the country.

What Are The Differences Between Central Bank And Commercial Bank

i) The central bank is the apex institution of the monetary and banking structure of the country. The commercial bank is one of the organs of the money market.
ii) The central bank dos not operate as a profit-driven institution but only implements the economic policies of the government. But the commercial bank is a profit-makinginstitution.
iii) The central bank is owned by the government, whereas the commercial bank is owned by private individuals as shareholders.
iv) The central bank is a banker to the government and does not engage itself in ordinary banking activities. The commercial bank is a banker to the general public.
v) The central bank has the monopoly of issuing currency of the country as the legal tender but the commercial bank can issue only cheques o its customers; the currency notes and coins issued by a central bank constitute legal tender. But the cheques are mere near-money.
vi) The central bank is the banker to commercial banks. Therefore, it grants window of opportunity for credits to commercial banks in the form of rediscount facilities, keeps their cash reserves, and clears their balances in cheque settlements. On the other contrary, the commercial bank accepts deposits from the general public and grants loans and advances to the customers.
vi) The central bank controls credit in accordance with the needs and policy of the government and the business and economy generally. The commercial bank creates credit to meet the requirements of business.
vii) The central bank helps in establishing financial institutions so as to strengthen moneyand capital markets in a country
viii) Every country has only one central bank with its offices at important centres in the country. On the other hand, there are many commercial banks with hundreds of branches within and outside the country.
ix) The central bank is the custodian of the foreign currencies of the country while the commercial bank is a dealer in foreign exchange in terms of buying and selling.

What Are The Functions Of A Central Bank

1. Regulator of Currency

The central bank is the bank of issue. It has the monopoly of note issue. Notes issued by it circulate as legal tender money. It has its issue department which issues notes and coins to commercial banks. Coins are manufactured in the government mint but they are put into circulation through the central bank.

2. Banker, Fiscal Agent and Adviser to the Government

Central banks everywhere act as bankers, fiscal agents and advisers to their respective governments. As banker to the government, the central bank keeps the deposits of the central and state governments and makes payments on behalf of governments. But it does not pay interest on government deposits. It buys and sells foreign currencies on behalf of the government. It keeps the stock of gold of the government.

3. Custodian of Cash Reserves of Commercial Banks

Commercial banks are required by law to keep reserves equal to a certain percentage of both time and demand deposits liabilities with thecentral banks. On the basis of these reserves that the central bank transfers funds from one bank to another to facilitate the clearing of cheques Thus the central bank acts at as the custodian of the cash reserves of commercial banks and helps in facilitating their transactions There are many advantages of keeping the cash reserves of the commercial banks with the central bank, according to De Kock. In the first place the centralisation of cash reserves in the central bank is a source of great strength to the banking system of a country.

4. Custody and Management of Foreign Exchange Reserves

The central bank keeps and manages the foreign exchange reserves of the country. It is an official reservoir of gold and foreign currencies. It sells gold at fixed prices to the monetary authorities of other countries. It also buys and sells foreign currencies at international prices.

5. Lender of the Last Resort

De Kock regards this function as a sine qua non of central banking. By granting accommodation in the form of re-

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discounts and collateral advances to commercial banks, bill brokers and dealers, or other financial institutions, the central bank acts as the lender of the last resort. The central bank lends to such institutions in order to help them in times of stress so as to save the financial structure of the country from collapse. It acts as lender of the last resort through discount house on the basis of treasury bills, government securities and bonds at "the front door" The other method is to give temporary accommodation to the commercial banks or discount houses directly through available window

6. Clearing House for Transfer and Settlement

As bankers' bank, the central bank acts as a clearing house for transfer and settlement mutual claims of commercial banks. Since the central bank holds reserves of Commercial banks, it transfers funds from one bank to other banks to facilitate clearing of cheques. This is done by making transfer entries in their account on the principle of book-keeping. To transfer and settle claims of one bank upon others, the central bank operates a separate department in big cities and trade centres. This department is known as the "clearing house" and it renders the service free to commercial banks.

7. Controller of Credit

The most important function of the central bank is to control the credit creation power of commercial bank in order to control inflationary and deflationary pressures within this economy. For this purpose, it adopts quantitative methods and qualitative methods Quantitative methods aim at controlling the cost and of credit by adopting bank rate policy, open market operations, and by variations in reserve ratios of commercial banks. Qualitative methods control the use and direction of credit. These involve selective credit controls and direct action.

Mention and explain the objectives of credit control in the economy.

1) Stabilise the Internal Price Level One of the objectives of controlling credit is to stabilise the price level in the country. Frequent changes in prices adversely affect the economy. Inflationary or deflationary trends need to be prevented. This can by achieved by adopting a judicious policy of credit control

2. Stabilise the Rate of Foreign Exchange

With the change in the internal prices level, exports and imports of the country are affected. When prices fall exports increase and imports decline. Consequently, the demand for domestic currency increases in the foreign market and its exchange rate rises. On the contrary, a rise in domestic prices leads to a decline in exports and an increase in imports

3. Protect the Outflow of Gold

Some central bank holds the gold reserves ofthe country in its vaults. Expansion of bank credit leads to rise in prices which reduce exports and increase imports, thereby creating an unfavourable balance of payments. This necessitates the export of gold to other countries.

4. Control Business

Cycles Business cycles are a common phenomenon of capitalist countries which lead to periodic fluctuations in production, employment and prices. They are characterised by alternating periods of prosperity and depression. During prosperity, there is large expansion in the volume of credit and production, employment and prices rise. Duringdepression, credit contracts and production, employment and prices fall.

5.Facilitates Expansion of Business Entities

An important objective of credit control is the adjustment of the volume of credit to the volume of business. Credit is needed to meet the requirements of trade and industry. As business expands, larger quantity of credit is needed, and when business contracts less credit if needed. Therefore, it is the central bank which can meet the requirements of business by controlling credit.

6. Ensures Growth and Stability

In recent years, the principal objective of creditcontrol isto have growth with stability. The other objectives, such as price stability, foreign exchange rate stability, etc., are regarded as secondary. The aim of credit control is to help in achieving full employment and accelerated growth in the economy without inflationary pressures and balance of payment deficits.

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method of Credit Control

1. Bank Rate or Discount Rate Policy

The bank rate or the discount rate is the rate fixed by the central bank at which it rediscounts first class bills of exchange and government securities held by the commercial banks The bank rate is the interest rate charged by the central bank at which it provides rediscount to banks through the discount window. The central bank controls credit by making variations in the bank rate. If the need of the economyis to expand credit, the central bank lowers the bank rate. Borrowing from the central bank becomes cheap and easy. So the commercial banks will borrow more. They will, in turn, advance loans to customers at a lower rate

2) Open Market Operations

Open Market Operations involve the selling and buying of government securities (such as Treasury Bills and Treasury Certificates) in the open market with the basic aim to regulate money supply in the economy. In the period of inflation, the central banks sell the government securities to the commercial banks and other financial institutions. This reduces their cash lending and credit creation capacities so that inflation can be controlled. On the other hand, during the period of recessions, the central banks buy back government securities from commercial banks and other financial institutions.

3)Repo Rates and Reverse Repo Rates

Repo is a swap deal involving immediate sale of securities and a simultaneous repurchase of those securities at a future date at a predetermined price. Commercial banks and other financial institutions also deposit their funds with the central banks at a certain rate, which is called the Reverse Repo Rate. Repo rates and Reverse repo ratesare used by the central banks to make liquidity adjustments in the financial markets.

4) Cash Reserve Ratio

The quantum of money supply in the economy is also influenced by the cash reserve ratio which is normally determined by the central bank. It is the ratio of a bank's time and demand liabilities to be kept in reserve with the central bank. A high cash reserve ratio reduces the flow of money in the economy and is used to control inflation.

5. Statutory Liquidity Ratio

Under statutory liquidity ratio, it is mandatory for banks to invest a certain percentage of its time and demand liabilities in Government approved securities. The reduction in statutory liquidity ratioenhances the liquidity of commercial banks while an increase in statutory liquidity ratio decreases the liquidity of the banks.

6. Marginal Requirement

Marginal requirement of loan can be increased or decreased to control the flow of credit being granted to a customer of a bank, for example,bank will only grant a certain fraction of the value of the collateral security (e.g., an item of property)being pledged by a loan beneficiary

7. Rationing of credit

Under this method there is a maximum limit placed on loans and advances that can be granted to a particular sector of the economy made, which the commercial banks cannot exceed. The sectors which are being favoured by the central bank can be allocated a higher percentage.

Evolution and Growth of Commercial Banking

The word 'bank' used herein refers to a commercial bank, which is of Germanic origin though some writers attribute its origin to the French word 'Banque and the Italian word 'Banca, which originally refers to a bench for keeping, lending, and exchanging of money or coins in the market place by money lenders and money changers. There was no such word as 'banking' before 1640 from available literature, although the practice of safe-keeping and savings flourished in the temple of Babylon as early as 2000 B.C Chanakya in his Arthashastrawritten in about 300 B.C. mentioned about the existence of powerful guilds of merchant bankers who received deposits, advanced loans and issued hundis(letters of transfer).

The Jain scriptures mention the names of two bankers who built the famous Dilwara Temples of Mount Abu during 1197 and 1247 A.D. The first bank called the 'Bank of Venice' was established in Venice, Italy in 1157 to finance the monarch in his wars. The bankers of Lombardy were very famous in England. But modern banking began with the English goldsmiths only after 1640. The first bank in India was the 'Bank of Hindustan' started in 1770 by Alexander & Co., an English agency house in Calcutta which failed in 1782 with closure of the agency house. But the first bank in' the modern sense was established in the Bengal Presidency as the Bank of Bengal in 1806.

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The next stage in the growth of banking was the goldsmith. The business of goldsmith was such that he had to take special precautions against theft of gold and jewellery. If he seemed to be an honest person, merchants in the neighbourhood stated leaving their bullion, money and ornaments in his care. As this practice spread, the goldsmith started charging something for taking care of the money and bullion. As evidence for receiving valuables, he issued a receipt. Since gold and silver coins had no marks of the owner, the goldsmith started lending them. As the goldsmith was prepared to give the holder of the receipt an equal amount of money on demand, the goldsmith receipts became instruments such as the cheques serving as a medium of exchange and a means of payment.

explain the Functions of Commercial Banks

1) Accepting Deposits

The bedrock of modern banking is revolves around this function. It appears as the oldest function of a bank and the banker used to charge a commission for keeping the money in its custody when banking was developing as an institution. Nowadays a bank accepts three kinds of deposits from its customers. The first is the savings deposits on which the bank pays small interest to the depositors who are usually small savers.

2) Advancing Loans

One of the primary functions of a commercial bank is to advance loans to its customers. A bank lends a certain percentage of the cash lying in deposits on higher interest rate than it pays on such deposits

iii) Overdraft

A bank often permits a businessman to draw cheques for a sum greater than the balance lying in his current account. This is done by proving the overdraft facility up to a specific amount to the businessman

iv) Discounting bills of Exchange

If a creditor holding a bill of exchange wants money immediately, the bank provides him the money by discounting the f exchange. It deposits the amount of the bill in the current account of the Icier after deducting its rate of interest for the period of the loan which is not more than 90 days

3) Credit Creation Credit

creation is one of the most important functions of the commercial bank like other financial institutions, they aim at earning profits. For this purpose, they accept deposits and advance loans by keeping a small cash in reserve for day-to-day transactions. When a bank advances a loan, it opens an account in the name of the customer and does not pay him in cash but allows him to draw the money by cheque according to his needs

4) Financing Foreign Trade

A commercial bank finances foreign trade of its customers by accepting foreign bills of exchange and collecting them from foreign banks. It also transacts other foreign exchange business and buys and sells foreign currency.

5) Agency Services

A bank acts as an agent of its customers in collecting and paying cheques, bills of exchange, drafts, dividends, etc. It also buys and sells shares, securities, debentures, etc. for its customers. Further, it pays subscriptions, insurance premiums, rent, electricity and water bills, and other similar charges on behalf of its clients. It also acts as a trustee and executor of the property and will of its customers. Moreover, the bank acts as an income tax consultant to its clients.

6) Miscellaneous Services

Besides the above operational services, the commercial bank performs a number of other services. It acts as the custodian of the valuables of its customers by providing them lockers where they can keep their jewellery and valuable document. It issues various forms of credit instruments, such as cheques, drafts, travelers' cheques, etc. which facilitate transactions.

what are the following ways in which commercial bank advances loans

i) Cash Credit

The bank advances loans to businessmen against certain specified securities. The amount of the loan is credited to the current account of the borrower. In case of a new customer a loan account for the sum is opened. borrower can withdraw money through cheques according to his requirement but pays interest on the full amount.

ii) Call Loans

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These are very short-term loans advanced to the bill broker for not more than fifteen days. They are advanced against first class bill of securities. Such loans can be recalled at a very short notice. In normal times they can also be renewed.

iii) Overdraft

A bank often permits a businessman to draw cheques for a sum greater than the balance lying in his current account. This is done by proving the overdraft facility up to a specific amount to the businessman. But he is charged interest only on the amount by which his current account is actually overdraft and not by the full amount of the overdraft sanctioned to him by the bank.

iv) Discounting bills of Exchange

If a creditor holding a bill of exchange wants money immediately, the bank provides him the money by discounting the f exchange. It deposits the amount of the bill in the current account of the Icier after deducting its rate of interest for the period of the loan which is not more than 90 days. When the bill of exchange matures, the bank gets its payment from the banker of the debtor who accepted the bill.

explain the balance sheet of commercial bank

The balance sheet of a commercial bank provides a picture of its functioning. It is a statement which shows its assets and liabilities on a particular date at the end of one year.

what are the Composition of the Bank Assets

i) Liquid Cash

The first item on the assets side is the cash in liquid form consisting of coins and currency notes lying in reserve with it and in its branches. This is a certain percentage of its total liabilities which it is required to keep by law.

ii) Balances with Central bank & other Banks

The second item is in the form of balances with the central bank andother banks. The commercial banks are required to keep a certain percentage on their time and demand deposits with the central bank.

iii) Money at call and short notice

The third item, money at call and short notices relates to very short-term loans advanced to bill brokers, discount houses an acceptance houses. They are repayable on demand within fifteen days

iv) Bills discounted and purchased

The fourth item of assets relates to bills discounted and purchased. The bank earns profit by discounting bills of exchange and treasury bills of 90 days' duration. Some bills of exchange are accepted by a commercial bank on behalf of its customers which it ultimately purchases.

v) Investment in Securities/Bonds/Industrial shares

The fifth item, investments by the bank in government Securities, state bonds and industrial shares, yields fixed income to the bank. The bank can sell its securities when there is need for more cash.

vi) Loans and Advances

The sixthitem relating to loans and advances is the most profitable source of bank assets as the bank charges interest at a rate higher than the bank rate. The bank makes advances on the basis of cash credits and overdrafts and loans on the basis of recognised securities.

vii) Liabilities to the bank's customers

In the seventh item are included liabilities of the bank's customers which the bank has accepted and endorsed on their behalf. They are the assets of the bank because the liabilities of customers remain in the custody of the bank. The bank charges a nominal commission for all acceptances and endorsements which is a source of income.

iii) Value of Fixed assets of the bank

The eighth item relates to the value of permanent assets of the bank in the form of property, furniture, fixtures, etc. They are shown in the balance sheet after allowing for depreciation every year. The last item includes profits retained by the bank after paying corporation tax and profits to shareholders.

what are the Composition of the Bank Liabilities

i) Share Capital of the bank

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Of the liabilities, the share capital of the bank is the first item which is contributed by its share holders and is a liability to the bank but represents claim to the numerous shareholders.

ii) Reserve Funds

The second item is the reserve fund. It consists of accumulated resources which are meant to meet contingencies such as losses in any year. The bank is required to keep a certain percentage of its annual profits in the reserve fund. The reserve fund is also a/liability to the shareholders.

iii) Time and Demand deposits

The third item comprises both the time and demand deposits. Deposits are the debts of the bank to its customers. They are the main source from which the bank gets funds for investment and are indirectly the source of its income. By keeping a certain percentage of its time and demand 'deposits in cash the bank lends the remaining amount on interest.

iv) Borrowings from other Banks

Borrowings from other banks is the fourth item. The bank usually borrows secured and unsecured loans from the central bank. Secured loans are on the basis of some recognized securities, and unsecured loans out of its reserve funds lying with the central bank.

v) Bills Payable

The fifth item bills payable refers to the bills which the bank pays out of its resources.

vi) Bills for Collection

The sixth item relates to bills for collection. These are the bills of exchange which the bank collects on behalf of its customers and credits the amount to their accounts. Hence it is a liability to the bank.

vii) Acceptance & Endorsement of Bills of Exchange

The seventh item is the acceptance and endorsement of bills of exchange by the bank on behalf of its 'customers. These are the claims on the bank which it has to meet when the bills mature.

viii) Contingency Liabilities

The eighth item contingent liabilities relates to those claims on the bank which are unforeseen such as outstanding forward exchange contracts, claims or acknowledged debts, etc

ix) Profit Payable to Shareholders

In the last item, profit and loss, are shown profit payable to the shareholders which are a liability on the bank. The various items of the balance sheet as shown in Figure I portray conservative indicator of the assets and liabilities of commercial banks. The balance sheet of a particular bank shows its financial soundness

what are the Role of Commercial Banks in a Developing Country

1. Mobilising Savings for Capital Formation

The commercial banks help in ; mobilizing savings through a network of branch banking. People in developing countries have low incomes but the banks induce them to save by introducing variety of deposit schemes to suit the needs of individual depositors. They also J mobilise idle savings of the few rich. By mobilising savings, the banks channelize them into productive investment.

2. Financing Industry

The commercial banks finance the industrial sector in a number of ways. They provide short-term, medium-term and long-term loans to industry.

3. Financing Trade

The commercial banks help in financing both internal and external trade. The banks provide loans to retailers and wholesalers to stock goods in which they deal. They also help in the movement of goods from one place to another by providing all types of facilities such as discounting and accepting bills of exchange, providing overdraft facilities, issuing drafts, etc

4. Financing Agriculture

The commercial banks help the large agricultural sector indeveloping countries in a number of ways. They provide loans to traders in agricultural commodities. They open a network of branches in rural areas to provide agricultural credit. They provide finance directly to agriculturists for the marketing of their produce, for the modernisation and mechanisation of their farms for providing irrigation facilities, for developing land, etc

5. Financing Consumer Activities

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People in underdeveloped countries being poor and having low incomes do not possess sufficient financial resources to buy durable consumer goods. The commercial banks advance loans to consumers for the purchase of such items as houses, scooters, fans, refrigerators, etc. In this way, they also help in raising the standard of living of the people in developing countries by providing loans for consumptive activities.

6. Financing Employment Generating Activities

The commercial banks finance employment generating activities in developing countries. They provide loans for the education of young people studying in engineering, medical and other vocational institutes of higher learning. They advance loans to young entrepreneurs, medical and engineering graduates, and other technically trained persons in establishing their own business

7. Help in Monetary Policy

The commercial banks help the economic development of a country by faithfully following the monetary policy of the central hank. In fact, the central bank depends upon the commercial banks for the success of its policy of monetary management in keeping with requirements of a developing economy.

what is merchant banking

Merchant Banking involves the operations of a bank that combines banking services and consultancy services. Merchant banks also provide consultancy to their clients in areas such as financial, marketing, managerial and legal matters. Consultancy services are fundamentally on advisory in nature because they provide advice, guidance and service for some fee. In the process of their operations, merchant banks help businessmen to start business enterprises, help to raise finance for their operations, help to expand and modernise the business, help in restructuring of a business. Merchant banks also help to revive sick business entities, and help companies to register, buy and sell shares at the stock exchange

Discuss the evolution of Merchant Banking citing the role played by Lombardy Grain Merchants

The original banks were merchant banks as engaged in by the Italian grain merchants which first evolved in the Middle Ages. The growth of the Lombardy merchants and bankers in importance based on the strength of the Lombardy plains cereal crops; many displaced Jews fleeing Spanish persecution were attracted to the trade. They brought with them ancient practices from the Middle and Far East Silk Routes. They were originally intended to finance long trading journeys; nevertheless, they applied these methods to finance grain production and trading. Traditionally, Jews could not hold land in Italy, so they entered the great trading piazzas and halls of Lombardy, alongside local traders, and set up their benches to trade in crops. Since they were strategically placed, they had one great advantage over the locals because of the issue of usury. Christians were strictly forbidden the sin of taking usury, defined as lending at interest and Islam too makes similar condemnations of usury. The Jewish newcomers, on the other hand, could lend to farmers against crops in the field, a high-risk loan at what would have been considered usurious rates by the Church; but the Jews were not subject to the Church's dictates Merchant banking progressed from financing trade on one's own behalf to settling trades for others and then to holding deposits for settlement of "billette", or the notes written by the people who were still brokering the actual grain. And so the merchant's "benches" (bank is derived from the Italian word for bench, banca, as in a counter) in the great grain markets became centers for holding money against a bill (billette, a note, a letter of formal exchange, later a bill of exchange and later still a cheque). In the intervening period of time, the deposited funds by the grain merchants were intended to be held for the settlement of grain trades, but often were used for the banca's own trades. The term bankrupt is a corruption of the Italian bancarotta, or broken bench, which is what happened when someone lost his traders' deposits. Being "broke" has the same connotation as bankrupt./

discuss the Role of Moneychangers in Medieval Trade Fairs in Europe

A strategic manner in discounting interest to the depositors against what could be earned by employing their money in the trade of the bench soon developed; in short, selling an "interest" to them in a specific trade, thus overcoming the usury objection. Once again this merely developed what was an ancient method of financing long-distance transport of goods. Medieval trade fairs, such as the one in Hamburg, contributed to the growth of banking in a curious way: moneychangers issued documents redeemable at other fairs, in exchange for hard currency. These documents could be cashed at another fair in a different country or at a future fair in the same

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location. If redeemable at a future date, they would often be discounted by an amount comparable to a rate of interest. Eventually, these documents evolved into bills of exchange, which could be redeemed at any office of the issuing banker. These bills made it possible to transfer large sums of money without the complications of hauling large chests of gold and hiring armed guards to protect the gold from thieves.

what are the functions of merchant banking

1. Raising Finance for Clients

Merchant banks help their clients to raise finance from both domestic and international markets for aiding entrepreneurs in starting new businesses and projects. They also help to raise funds for their clients for expansion or modernization of business operations.

2. Brokerage Business

Merchant banks participate in stock brokerage business by helping their clients to buy and sell shares. In addition, they engage in conducting research on equity shares and thereby advise their clients on which shares to buy, the amount of funds to invest and appropriate time to sell holdings of shares.

3. Project Management

Merchant banks help their clients in managing their project investments. This the merchant bank do by advising about location of a project, preparation of project report, conducting feasibility studies, making olans for financing of projects, securing sources for project funding, and advising about concessions and incentives from the government.

4. Provide Services on Corporate Reconstruction

Merchant banks do offer advice on expansion and modernisation of business entities.They also give expert advice on mergers and acquisitions, amalgamations and takeovers, diversification of business, foreign collaborations and joint ventures, and technological upgrading in their clients' operations, among others.

5. Managing Public Issues of Companies

Merchant banks also perform function of advising and managing public issue of shares for companies particularly in areas of: advising on the timing of the public issue; advising on the size and price of the issue; acting as managers to public issues; helping in accepting applications and allotment of securities; helping in appointing underwriters and brokers to public issues; listing of shares on the stock exchange, among others.

6. Handling Government Consent for Industrial Projects

Merchant banks help corporate entities to handle formalities towards securing government permission to start projects as well as for expansion or modernization activities, as the case may be.

7. Render Advice on Business Opportunities

Merchant banks render assistance to small companies and entrepreneurs about business opportunities, government policies, available incentives and concessions as well as helping them to take advantage of such opportunities.

8. Services to Public Companies

Merchant banks offer varied services to public-sector companies and public utilities in raising long-term capital, marketing of securities, foreign collaborations and arranging long-term finance lending institutions.

9. Revival of Sick Industrial Organizations

Merchant banks help in reviving failing industrial undertakings and engaging in Board for Industrial and Financial Reconstruction (BIRD). In addition, merchant banks plans and execute full revive package for such failing companies.

10. Portfolio Management

Merchant banks their clients to manage their investment portfolios so as to ensure safety, liquidity, and profitability. They also offer expert guidance on investment decisions to their clients.

11. Money market Operation

Merchant banks deal in and underwrite short-term money market instruments such as Government Bonds, Certificate of Deposits issued by large corporate entities and financial institutions, commercial papers issued by large corporate firms, Treasury Bills and Treasury Certificates issued by the apex bank on behalf of the Government.

12. Leasing Services

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Merchant banks also deal in equipment leasing business by serving to guarantee lease contracts or buying and supplying equipment to companies on leasehold basis. Lease involves a contract between the owner of equipment called lessor and lesee in which the former party allows the latter to use the asset for a certain period of time for the payment of rental charges.

13. Financial Management Services

Merchant banks also help their clients in the management of interest on debentures and loans, and dividends on shares in terms of negotiation on such interest payments, timing, rate and frequency of payments of dividends.

14. Corporate Restructuring

Merchant banks also help their clients to restructure their operations such as divestment or sale of existing business units (e. g., those classified as Dogs or Question Marks in BCG Matrix), vertical and horizontal combinations, and diversification of business operations, among others.

explain development bank

Development banks include multibillion-dollar entities like the World Bank, but most are smaller regional and local lenders spread throughout the world. They exist to fund projects that improve the material well-being of people, particularly those living poverty.

what are the kinds of development banks

There are two kinds of development banks:

1. Community development banks are local banks that deal primarily with individuals and small organizations in their immediate area. They are private, nongovernment institutions and may be affiliated with commercial banks.
2. Regional development banks, also known as multilateral development banks,

operate in various parts of the world through the support of national governments.

explain the term Community Development Bank

community banks are by and large profit-making institutions, with additional, nonprofit functions. They are almost always established by individuals and organizations rooted in the community they wish to serve. They often evolve from a grassroots community development project. For example, a recent Newark, New Jersey, housing association, initially financed by charities and government subsidies, is now a development bank. By injecting depressed urban and rural areas with much needed.

The community development bank idea is not new. In fact, providing financial services to the entire community, including impoverished people, is what small banks used to do. Small banks and credit unions, however, are struggling for survival nowadays, especially since the banking industry was deregulated in the 1980s. As a result of the intensification of competition among banks, they are reluctant to establish branches in areas that entail unusually high risk and the expectation of low returns. Most banks would be unwilling to invest in community services or provide loans to nonprofit institutions at the rate that they do, it not that the federal Community Reinvestment Act of 1977 (CRA), which stipulates that commercial banks must provide credit services to all segments of the community in which they are located. This still does not make them development banks, but it does mean that all banks since 1977 have some development functions. Amendments to the CRA in the mid-1990s strengthened its requirements that banks document how they benefit their communitie

explain regional development banks

regional development banks have tended to deal with governments, both as backers and as clients, but this has been changing. They also raise a great deal of their capital through financial markets, such as by issuing bonds, and like all banks, through the successful performance of their assets.

Regional development banks finance a wide number of projects, ranging from construction of hydroelectric plants to deployment of fiber-optic cable. Many are also actively engaged in advancing social policies that promote freedom and human rights. The trend in development loans has been toward greater private-sector involvement. Many of the most prominent development banks, including the World Bank and the NADBank, are dealing more with private lending institutions and securing funds for ambitious private-sector projects. In this role the development banks have used their influenceut not necessarily their reserveso secure private funding for worthy

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causes. Contributing some capital along the way, the banks also take on the functions of economic advisers and investment bankers. These efforts to align development banks better with commercial interests and practices have been well received, and stand in contrast to the banks' former image as lethargic financiers of government works projects.

mention the various regional development banks in various regions around the world

1. African Development Bank (AfDB);
2. Asian Development Bank (ADB);European Investment Bank (EIB);
3. Inter-American Development Bank (IDB);
4. North American Development Bank (NADBank); and
5. International Bank for Reconstruction and Development (IBRD) or World Bank

what is Universal banking

Universal banking refers to a banking system that combines the commercial banking, investment banking (asset management, trading, and underwriting), development banking, insurance operations and many other financial activities. It is a financial banking system in which all financial products are available under one roof. This implies that a universal bank is a bank that performs commercial bank functions in addition to other functions in areas of merchant banking, mutual funds, factoring, credit cards, housing finance, car loans, retail loans, and insurance services, among others. Therefore, it is known as a financial services supermarket. Universal banking is best suited for very large banks because such banks provide a lot of funds for the operations of many companies and therefore, they are bound to take part in the corporate governance management of these companies. As large banks, these banks have a large of number of branches within the country where it operates and even all over the world. Hence they provide many different financial services to their clients.

what are the advantages of universal banking

1. Universal banking creates in economies of scale in operations because it results in lower costs with higher output of operations while ensuring better products and services.
2. It ensures efficient resource utilisation because the bank makes use of its structure to render diverse form of banking operations such as investment banking, merchant banking services, and insurance services, among others, and by implications diversifying risks in its operations.
3. Universal banks are known to invest their client's money in different types of Mutual funds and also venture into the share market as well as equity holdings and therefore, they can also manage their client's varied investments profitably.
4. Since universal banks diversify their activities they can utilise the inancial expertise at their disposal to provide different financial services including the overhead cost for their operations since their diverse operations are provided under one roof, by using the same structure.
5. The universal banks can easily market (sell) all their financial products and services through their many branches. They can ask their existing clients to buy their other products and services.
6. Universal banking offers all financial products and services under one roof. Onestop shopping saves a lot of time and transaction costs. It also increases the speed or flow of work. So, one-stop shopping gives benefits to both banks and their clients.
7. Universal bank provides an ideal solution for an investor’s quest to have access to varied investment options, thus saving a lot of time and cost for the investment.

what are the disadvantages of universal banking

1. Since universal banking is done by very large banks, their failure will have ripple effects on the banking industry and the whole economy. It can also affect the world economy in the case of such bank a multinational corporation operating in different countries around the world.
2. Such universal banks are very large, and therefore, they can easily get involved monopoly operations in the banking industry with many harmful effects on the other banks, and the public and the economic development of the country

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3. In combining commercial and investment banking can create conflict of interest. Because some banks may give more importance to one type of banking and give less attention to the other type of banking, which does not make commercial sense.
4. Universal banks may be tempted to take excessive risks, and therefore, there would arise operational problems as evidenced in the case of Nigerian environment, which informed the cancellation of such banking practice by the Central Bank of Nigeria.
5. Such banks may be focus their operations on unrelated areas while diverting depositors funds to such businesses which may not be in the interest of the depositors because of possible loss of investment by the banks.
6. The banks may be tempted to engage in unsound loans to share up the price of their shares which negates sound financial practices.
7. Such banks may be using depositors' funds in purchasing the shares of their subsidiaries in order to enhance their financial position whereas such companies may be operating on weak fundamentals. 8. The officials of such banks may be tempted to press their banking customers into investing in securities which the banks themselves were under pressure to sell due to their own pecuniary stake in the transaction.
9. Such banks may be tempted to use their own assets for securities of companies with weak operational fundamentals with consequent risk to the bank depositors' funds.

what is rural banking

rural bank is a financial institution that helps rationalize the developing regions or developing country to finance their needs specially the projects regarding agricultural progress. Rural banking is the process of conducting banking transactions out in the country where bank branches are too far away to be of use The services provided by a commercial bank and those of the rural bank are the same. The rural bank provides bank accounts, accept deposits, grant loans etc. to its customers. The only difference between the two is the population they serve. Commercial banks serve the general population of the country that live in cities and towns whereas the rural banks serve the customers from the rural villages of the country. Rural banking is a common practice in places where banking institutions are few and far between and people who need to carry out banking transactions may have difficulty finding a way to do so.

What are the services being provided by a Rural Banking?

Rural banking attempts to offer all the basic banking services that people living in rural areas need such as identified and explained as follows.
1. Cash deposits are one of the most common services, since these occur on a regular basis and must often be done in person.
2. Loan and loan repayment services are also offered for those who cannot make their payments in any other way

What are the reasons for the introduction of Rural Banking in Nigeria?

The objectives of the scheme among others include the following:
i) Introduction of a banking habit among the rural dwellers;
ii) Mobilization of savings from the rural areas for the purpose of channeling same to profitable portable ventures;
iii) Creation of credit by way of equity and loans for small scale industries;
iv) Development of agriculture and agro-allied industries in the rural areas; and
v) Reducing to a comfort size, the drift of young men and women from the rural to the urban areas.

What are the incentive reasons for the introduction of Rural Banking in Nigeria?

a) Waiving the requirements for feasibility survey report as a prerequisite for the establishment of rural bank branches;
b) Allowing the banks the monopoly of providing banking services in the allocated centres for a period of three years; and
c) Allowing the banks to write off the capital cost of erecting office blocks and staff quarters within three years

What are the reasons for the failure of Rural Banking in Nigeria?

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a) Government promoted the scheme when the country was managed on the basis of regulated economic system in place of free market system. When the government introduced the economic liberalization policy, the continued existence of the rural banking scheme became jeopardize;
b) The rural banking scheme was unprintable in its operations because of the fixed overhead cost that could not be sustained by its returns;
c) Most of the branches of the banks in the rural areas was discovered to be serving as conduit pipe for channeling rural savings to the urban areas;
d) The emergence of the community baking scheme, which was designed by owned and operated by the communities, crippled the needed patronage for the rural branches of commercial bank

what are the features of marketing of banking services

i) Banking product cannot be seen or touched like manufactured products (intangibility)
ii) In marketing banking products, the product and the seller are inseparable; they together define the banking product (inseparability)
iii) Banking products are products and delivered at the same time; they cannot be stored and inspected before delivering (perishability)
iv) Standardization of banking product is difficult (variability)

Identify the requirements for strategic marketing of bank services.

i) Identifying customers' financial needs and wants;
ii) Developing appropriate banking services to meet these needs;
iii) Pricing for the services so developed;
iv) Setting up suitable outsells / banks branches; and
v) Advertising to promote the services to the existing as well as prospective customers.

what are the requirements for strategic marketing of bank services.

There are essential considerations that are required to push the services through to the acceptance of the bank customers. Such essentials include the following:
i) Existing bank services;
ii) Development in the economy;
iii) Available technology;
iv) Desires of the banking public;
v) Nature of bank convenience services;
vi) Global economic outlook;
vii) Socio-economic relations among nations;
viii) Development in international trade;
ix) Demand of international finance; and
x) Government economic and monetary policies.

What are the reasons for marketing of bank services?

1. Awareness among Customers

Modern technology has made customers aware of the developments in the economic environment, which includes the financial system. Financial needs of the customers have grown multifold into various forms like quick cash accessibility, money transfer, asset security, increased return on surplus funds, financial advice, deferred payments etc.

2. Quality as a Key Factor

In relation to the dynamic nature of the economy, in terms of the opening up of the various sectors of the economy, fast change has been experienced in every activity, and banking has been no exemption. Quality is the watchword in the competitive world, which is market driven and banks have had to face up to this emerging scenario. Moreso, the essence of quality services has to be demonstrated to the banking public in order to win

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their patronage by the banks

3. Growing Competition

Increased completion is being faced by the Indian banking industry from within the system with other agencies both, local and foreign, offering value added services. Competition is no more confined to resource mobilization but also to lending and other areas of banking activity.

4. Technology Advances

Technological innovation has resulted in financial product development especially in the international and investment banking areas. The western experience has demonstrated that technology has not only made execution of work faster but has also resulted in greater availability of manpower for customer contact.

definition of an investment company

An investment company is a body corporate whose main business is holding securities of other companies purely for investment purposes. The investment company invests money or funds on behalf of its shareholders who in turn share in the profits and losses of its operations.

Explain the mode of operation as an investment company

The money or funds being used to buy stocks issued by other corporations by investment companies is obtained from the proceeds of the sale of the investment securities issued by the investment company to their stockholders, along with any profits generated by the portfolio of the company itself.

The basic process for an investment company involves pooling the funds received from the sale of its own investment securities, and using those funds to secure other securities that are projected to earn a significant return within the amount of time desired.

An investment company may choose to focus on specific types of investments associated with a given industry, or take the approach of diversifying the investments as a means of insulating itself from downturns in one particular area of the market. As with individual investors, the strategy employed by the investment company depends greatly on the financial goals of the company and the amount of risk it is willing to assume in order to secure the right securities.

The return being generated by the investment company, from the stock and other securities it purchased from other companies, provides the funding it needs to pay dividends to its shareholders or security holders. The shareholders of investment companies can always anticipate a steady flow of dividends, as long as the companies are performing well, on the basis of the provision that apply to the issuance of the shares.

what are the types of investment company

1. Mutual Funds (Open-End Management Investment Companies)

This type of investment company makes use of mutual funds as its primary investment strategy. It is the type of professionally managed collective investment scheme that pools money from many investors to purchase securities. Mutual Fund is most commonly applied only to those collective investment vehicles that are regulated and sold to the general public. They are sometimes referred to as investment companies or registered investment companies. Most mutual funds are open-ended investments, which imply that investors can buy or sell shares of the fund at any time.

2. Closed-End Management Investment Companies (Closed-end Funds)

This type of investment company focuses on securing closed-end in order to generate returns. As compared to the mutual fund company which makes use of mutual funds s its primary investment strategy. In some instances, the company may use of a variety of approaches which may include a combination of closed-end and mutual fund opportunities.

3. Unit Investment Trusts

This is a form of collective investment that is constituted under a trust deed. Unit trusts are pen-ended investments. Hence the underlying value of the assets is always directly represented by the total number of units issued multiplied by the unit price less the transaction or management fee charged and any other associated costs. Each fund has a specified investment objective that determines the management aims and limitations

4. Face-Amount Certificate Company

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This is a regulated investment company that pays a stated amount to certificate holders on a stated maturity date. In other words, it is a financial institution that sells shares to individuals and invests in securities issued by other companies A face-amount certificate company is a company that borrows from investors and offers its assets or other securities as collateral. The amount, the face value, is the principal on which the investor will earn interest from the company

5. Private Investment Funds

These are simply private companies that make investments in stocks or bonds, but are limited to a number of investors which is than a hundred. They are private and are not regulated by the Securities and Exchange Commission. These funds are often composed of very wealthy investors.

what is an insurance company

Insurance companies are business organizations that carry on business in order to bear the risks of other companies in any economy. Therefore, they are called risk bearers. The insurance companies also bear the risk that individuals are willing to pay to avoid; such as risk of death, disability, property loss, litigation, and investment fluctuation, among other risks

what are the pre-occupations of insurance companies.

1) Create proper policy language, and most insurance policies must be approved by the National Insurance Commission. They also typically follow either an ISO or AAIS standard in their operations

2) They need to know how to rate the risks so they know how much premium to charge. They use actuarial studies for this. This is in consideration of the fact that some other companies can simply buy their rates

3) Then they need to select the right risks (policy holders), and avoid the wrong policy holders. Like, for example, with auto insurance they may decline to insure people with drunk driving convictions. In other words, they need to create some underwriting standards.

4)Insurance companies also have to issue the policies and collect the premiums. Many insurance companies use independent agents to sell their insurance policies.

5) After that, they have to be ready to handle any claims or losses. They will need experienced claims adjusters to investigate, analyze, evaluate, and settle or defend all the claims.

6) Sometimes smaller insurance companies will buy re-insurance to protect against excessive losses. And they pay a premium for that re-insurance.

7) At the end of the year, they will calculate their underwriting ratio in considerationsof: for every amount of money they received in premiums, how much did they pay out in either claims or administrative expenses;if they had a bad year, they may need to reevaluate their functions;because if they paid out much more than they have taken in, they cannot stay in business

what are the common characteristics of risks insured by insurance companies.

1. Large number of similar exposure units

Since insurance operates through pooling of monetary resources, the majority of insurance policies are provided for individual members of large classes, allowing insurers to benefit from the law of large numbers in which predicted losses are similar to the actual losses

2. Definite loss

The loss takes place at a known time, in a known place, and from a known cause. The classic example is death of an insured person on a life insurance policy. Fire, vehicles accidents, and worker injuries may all easily meet this criterion. Other types of losses may only be definite in theory. Occupational diseases, for instance, may involve prolonged exposure to injurious conditions where no specific time, place, or cause is identifiable

3. Accidental loss

The event that constitutes the trigger of a claim should be fortuitous, or at least outside the control of the beneficiary of the insurance. The loss should be pure, in the sense that it results from an event for which there is only the opportunity for cost. Events that contain speculative elements, such as ordinary business risks or even purchasing a lottery ticket, are generally not considered insurable.

4. Large loss

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The size of the loss must be meaningful from the perspective of the insured. Insurance premiums need to cover both the expected cost of losses, plus the cost of issuing and administering the policy, adjusting losses, and supplying the capital needed to reasonably assure that the insurer will be able to pay claims.

5. Affordable premium

If the likelihood of an insured event is so high, or the cost of the event so large, that the resulting premium is large relative to the amount of protection offered, then it is not likely that the insurance will be purchased, even if on offer. Furthermore, as the accounting profession formally recognizes in financial accounting standards, the premium cannot be so large that there is not a reasonable chance of a significant loss to the insurer

6. Calculable loss

There are two elements that must be at least estimable, if not formally calculable: the probability of loss, and the attendant cost. Probability of loss is generally an empirical exercise, while cost has more to do with the ability of a reasonable person in possession of a copy of the insurance policy and a proof of loss associated with a claim presented under that policy to make a reasonably definite and objective evaluation of the amount of the loss recoverable as a result of the claim.

7. Limited risk of catastrophically large losses

Insurable losses are ideally independent and non-catastrophic, meaning that the losses do not happen all at once and individual losses are not severe enough to bankrupt the insurer; insurers may prefer to limit their exposure to a loss from a single event to some small portion of their capital base

types of insurance products

1. Auto insurance

Automobile insurance protects the policyholders against financial loss in the event of an incident involving a vehicle they own, such as in a traffic collision. The coverage of the policy generally includes: property coverage, for damage to or theft of the car; liability coverage, for the legal responsibility to others for bodily injury or property damage; and medical coverage, for the cost of treating injuries, rehabilitation and sometimes lost wages and funeral expenses

2. Gap insurance

Gap insurance covers the excess amount on a auto loan in an instance where your insurance company does not cover the entire loan. Depending on the company's specific policies it might or might not cover the deductible as well. This policy is designed for use by those who put low down payments, have high interest rates on their loans, and those with 60-month or longer terms. Gap insurance is typically offered by a finance company when the vehicle owner purchases their vehicle, but many auto insurance companies offer this coverage to consumers as well.

3. Income protection insurance

Under this type of coverage, there are some constituent policies such as enumerated below. i) Disability insurance policy Disability insurance policies provide financial support in the event of the policy holders becoming unable to work because of disabling illness or injury. It provides monthly support to help pay such obligations as mortgage loans and facility associated with credit card.

ii) Long-term disability insurance

Long-term disability insurance covers an individual's expenses for the long term, up until such time as they are considered permanently disabled and thereafter Insurance companies will often try to encourage the person back into employment in preference to and before declaring them unable to work at all and therefore totally disabled.

iii) Total disability insurance

Total disability insurance provides benefits when a person is permanently disabled and can no longer work in their profession, often taken as an adjunct to life insurance.

iv) Workers' compensation policy

Workers' compensationinsurance replaces all or part of a worker's wages lost and accompanying medical expenses incurred because of a job-related inju

4. Casualty insurance

Casualty insurance is a policy that insures against accidents, not necessarily tied to any specific property. It is a broad spectrum of insurance that a number of other types of insurance could be classified, such as auto, workers

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compensation, and some liability insurances.

5. Life insurance

This policy also known as life assurance policy provides a monetary benefit to a decedent's family or other designated beneficiary. It may specifically provide for income to an insured person's family, burial, funeral and other final expenses. Life insurance policies often allow the option of having the proceeds paid to the beneficiary either in a lump sum cash payment or an annuity. In most states, a person cannot purchase a policy on another person without their knowledge.

6. Property insurance

Property insurance provides protection against risks to property, such as fire, theft or weather damage. This may include specialized forms of insurance such as fire insurance, flood insurance, earthquake insurance, home insurance, inland marine insurance or boiler. The term property insurance may, like casualty insurance, be used as a broad category of various subsidiary types of insurance such as aviation insurance, crop insurance, and fidelity bond policy, etc

7. Marine insurance

Marine insurance and marine cargo insurance cover the loss or damage of vessels at sea or on inland waterways, and of cargo in transit, regardless of the method of transit. When the owner of the cargo and the carrier are separate corporations, marine cargo insurance typically compensates the owner of cargo for losses sustained from fire, shipwreck, etc., but excludes losses that can be recovered from the carrier or the carrier's insurance.

8. Liability insurance

Liability insurance is a very broad superset that covers legal claims against the insured. Many types of insurance include an aspect of liability coverage. For example, such policy will normally include liability coverage which protects the insured in the event of a claim brought by someone who slips and falls on the property; automobile insurance also includes an aspect of liability insurance that indemnifies against the harm that a crashing car can cause to others' lives, health, or property

Health Insurance

This policy pays all or some of costs of medical treatment, indemnity or fee-for-service plans, and managed care by health management organizations (HMOs), and involves restricting provider choice and reimbursementsfor-profit, nonprofit, government providers.

11.Liability Insurance

This policy insures against risk of litigation (attorney's fees, settlements, jury awards).
The time and size of claims are also unpredictable.

12.Disability Insurance

This policy insures against loss of ability to work in current or any occupation; short-term or long-term. The time and size of claims are more predictable, like life insurance

13.Long-term Care Insurance

This policy pays all or some of costs for long-term nursing home care or in-home care for aged/disabled.

Structured Settlements

This policy involves fixed payments over time due to disability or damages from a
lawsuit. It is managed by life insurance companies

15.Guaranteed Investment Contracts (GICs)

Under this policy, a firm pays single premium and the insurer guarantees annual rate of return, for example, 12% of the amount of the single premium for certain period of time such as five years. The period ranges from one to twenty years typically. At end of period, premium and interest is paid out

16.Annuities

Under this policy, insurance company invests generated premiums in stock or bond portfolio earning a return for the investors. Premiums are paid over time or in lump-sum. The annuity payments are fixed or variable, often life-contingent. The income and capital gains are not taxable until withdrawn by investor. The policy involves some guarantee of return and principlecompared to mutual fund

what are the benefits of insurance policies

1. Insurance provides security and safety against some losses

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In case of life insurance payment is made when death occurs or the term of insurance is expired. Similarly, the property of insured is secured against loss on a fire in fire incident, against the loss at damage, destruction or theft of property and goods, etc.

2. Insurance policy affords the insured (companies and individuals) some peace of mind

Hence there is the popularly held believe that "the security wish is the prime motivating factor" in insurance. The security obliterates fear and uncertainty. Basically, occurrences such as fire, windstorm, automobile accident, damage and death are almost beyond the control of human beings and the happenstance in any of these events may frustrate or weaken the human mind.

3. The Insurance policy protects mortgaged property from being confiscated by the mortgagor

For instance, at the death of the owner of the mortgaged property, the property is taken over by the lender of funds and the family will be deprived of the uses of the property. On the otherhand, the mortgagee wishes to get the property insured because in the event of damage or destruction of the property, he will lose his right to get the loan repaid

4. Insurance policy eliminates dependency problem

At the instance of death of the husband or father, the suffering of the family knows no bound. Similarly, at the instance of the destruction of property and goods, the family would also suffer. For instance, such occurrence reduces standards of living and members of such family may resort to begging from their relatives,neighbours or friends.

5. Generally insurance encourages some form of compulsory saving

Most insurance policies combine the programs of insurance and savings. The saving with insurance has certain extra advantages such as:

i) systematic saving is possible because regular premiums are required to be compulsorily paid. The saving with a bank is voluntary and one can easily omit a month or two and then abandon the program entirely;

ii) In insurance the deposited premium cannot be withdrawn easily before the expiry of the term of the policy. As contrast to this, the saving which can be withdrawn at any moment will finish within no time;

iii) The insurance will pay the policy-money irrespective of the premium deposited while in case of bank-deposit, only the deposited amount along with the interest is paid. The insurance, thus, provides the wished amount of insurance and the bank provides only the deposited amount

iv) The compulsion or force to premium in insurance is so high that if the policyholder fails to pay premiums within the days of grace, he subjects his policy to void and may get back only a very nominal portion of the total premiums paid on the policy

6. Life insurance provides profitable investment Individuals who may be unwilling or unable to handle their own funds would be pleased to find an outlet for their investment in life insurance policies. Endowment policies, multipurpose policies, deferred annuities are certain better form of investment

7. Life assurance enhances fulfillment of the needs of a person The needs of a person are divided into

a) family needs,

b) old-age needs,

c) re-adjustment needs,

d) special needs,

e) the clean-up needs. T

aking policy for life assurance by an individual provides him the opportunity to fulfill his needs.

What is Islamic banking?

Islamic banking involves a system of banking activities or banking operations that are carried out based on the provisions of Islamic law couched as Shariah. The operations of such banking system are also guided by theprinciples of Islamic economics

Fundamentally, Islamic law prohibits the collection and payment of interest (usury), which is also commonly called riba in Islamic discourse. Hence, Islamic banking is popularly referred to as profit and loss sharing bank system. Furthermore, transactions, instruments and contracts under the Islamic financial system do not permit gambling, dealings in pork, alcohol, ammunition, pornography and any other products and goods that are not compliant with the Sharia rules and principles.

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what are the peculiarities of Islamic banking system

1. Prohibition of Interest

The most essential feature of Islamic banking is that it is interest-free. Islamic banks neither charge nor pay interest. Islam prohibits Muslims from taking or giving interest called riba regardless of the purpose for which such loans are made and regardless of the rates at which interest is charged.

2. Low Consumer Lending

Since Islamic banks do not charge interest rates, consumer loans are therefore unattractive since there is no profit to be derived in form of interests on the loans. Hence, Islamic banks deliberately avoid consumer lending.

3. Profit and Loss Sharing

A basic principle of Islamic banking is the sharing of profit and loss. Profit is lawful in Islam. The Islamic bank's primary objective is to earn profits. However, profit and loss sharing by Islamic banks is emphasized in a different way. Al-Arabi (1966) advances the idea that the bank could advance not only the capital procured through deposits but also the capital of its own shareholders on a profits-sharing basis

4. High Real Sector Investing

Investment activities of Islamic banks have been favourably skewed towards the real sectors of the various economies in which they operate. Their investment activities usually border on equity financing, trade financing and real estate investments. In practice, Islamic banks have been concentrating on short-term trade finance which is less risky. This is more pronounced during the earlier years of an Islamic bank's operation

5. Mortgage Financing

Islamic banks also participate in mortgage transactions by purchasing and reselling properties on a deferred payment basis. The bank buys a property from a seller and resells it to a buyer at a profit, while allowing the buyer to repay in installments

6. Leasing Financing

Leasing is another real sector investment option frequently utilized by Islamic banks. Under this investment mode, the banks would buy equipments and machineries and lease them out to their clients who may opt to buy the items eventually, in which case the periodic payments will consist of two components, that is, rental for the use of the equipment and installment payment towards the purchase price.

Mention and explain the Islamic banks' modes of financing.

1) Investment Financing

Islamic banks' modes of investment financing are participatory arrangements between banks and entrepreneurs. They reflect the Islamic view that the borrower must not bear all the risk or cost of a failure, resulting in a balanced distribution of income and thus not allowing monopolists to control the economy to the detriment of the consumers

2)Trade Financing

Islamic modes of trade financing are as follows:

(i) Mark-up Trade Financing

The bank buys an item for a client and the client agrees to repay the bank the price and an agreed profit later on.

(ii) Leasing

The bank buys an item for a client and leases it to him for an agreed period and, at the end of that period, the lessee pays the balance on the price agreed at the beginning and becomes the owner of the item.

(iii)Hire Purchase

The bank buys an item for the client and hires it to him for an agreed rent and period, and, at the end of that period, the client automatically becomes the owner of the item.

(iv) Sell-and-buy-back

A client sells one of his properties to the bank for an agreed price payable now on condition that he will buy the property back after a certain time for an agreed price.

(v) Letters of Credit

The bank guarantees the import of an item, using its own funds, for a client on the basis

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of sharing the profit from the sale of the item on a mark-up basis. The possibility of interest involvement when dealing with a non-Islamic foreign bank in this regard is eroded by having excess liquidity with the bank.

3) Lending

(a) Loans with a Service Charge

The bank lends money without interest but covers its expenses by levying a service charge not exceeding the proportionate cost of the operation, excluding the cost of funds and provisions for bad and doubtful debts. Prospective borrowers are required to pay thischarge on each application, regardless of the amount required, the term of the loan or
whether the application is granted or rejected.

(b) No-cost Loans

The bank sets aside a part of its funds to grant no-cost loans to needy persons such as small farmers, entrepreneurs, producers, etc. and to needy consumers. In Pakistan, these are qard-e-hasana loans given on compassionate ground.

(c) Overdrafts

Islamic banks usually provide overdrafts, subject to a certain maximum, free of charge.

iv) Other Financial Services

Islamic banks provide numerous other financial services such as money transfers, bill collections, and trade in foreign currencies at spot rate. In fact, Islamic banks are able to provide nearly all the services that are available in conventional banks. However, all these services are provided strictly on a commission or charge basis

what are the differences between Islamic and Conventional banks

1) Prohibition of Interest Islamic banks

neither charge nor pay interest on loans. Their lending is principally of the murabaha cost-plus or mark-up mode. As a result, they experience a high rate of borrower delinquency, since their lending terms are less stringent than those of the conventional banks. Murabaha payments have often been held up because late payments cannot be penalized, in contrast to the interest system in which delayed payments would automatically mean increased interest payments.

2) Emphasis on Islamic Principles of Morality

Islamic banks operate in accordance with the rules of Shariah known as Fiqh alMuamalat Islamic rules on transactions. These rules place a premium on morality, as it relates to Islam. By virtue of the Shariah, Islamic banks are prohibited from investing in businesses that are considered immoral, or haraam e.g. businesses that sell alcohol or pork, gambling, and businesses that produce media such as gossip columns or pornography

3) Emphasis on Project Viability

One of the main selling points of Islamic banking, at least in theory, is that, unlike conventional banking, it is concerned about the viability of the project and the profitability of the operation but not the size of the collateral. Islamic banks place less emphasis on collaterals than conventional banks

4) Variation in Returns on Deposits

For Islamic banks, there tends to be a wider variation of rates of return. Furthermore, while conventional banks guarantee deposits and their rates of return, Islamic banks, working on the principle of profit and loss sharing, cannot guarantee any fixed rate of return on deposits.

5) Higher Liquidity Risk

Due to their specialization in equity and trade financing, Islamic banks tend to have higher levels of liquidity risk than their conventional counterparts. However, this is highly dependent on the stability of the economy. If the economy is stable, the risk would be minimized and vice-versa.

6) Lower Solvency Risk

Due to their specialization in equity and short-term trade financing, Islamic banks tend to have lower levels of solvency risk than their conventional counterparts. This is because their solvency is tied to the solvency of all the trading institutions they have business affiliations with. This implies that Islamic banks are also highly dependent on the stability of the economy

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Name any five global financial institutions known to you.

The International Monetary Fund (IMF)
International Bank for Reconstruction and Development (IBRD)
World Trade Organization
Bank for International Settlement (BIS)
The World Economic Forum

State three main players in the International Financial System.

International Financial institutions
Customers of Global financial system
Regulators of Global Financial System

Briefly describe the events that characterized the following phases in the evolution of the Nigerian financial system:

i.Foundation phase and .ii. Expansion phase.

Foundation Phase

This phase was focused on the establishment of institutions and development of necessary legislative framework. The phase is approximately from 1950 to 1970. During this period, the Central Bank of Nigeria (CBN), the apex regulatory authority in the Nigerian financial sector was established. The CBN derives its legal authority from the CBN Act No. 24 0f 1991 (Amended in 1997, 1998, and 1999) and the Banks and Other Financial Institutions Act (BOFIA) No. 25 of 1991 (Amended in 1997, 1998 and 1999) and presently the CBN Act 2007, which preceded the CBN Act of 1958 and Banking Act of 1969 (Prosper, 2011)

Expansion Phase

This expansion phase was directed at availing the public of banking activities and this was facilitated by the increase in network of branches. This involves the expansion of banks branches into the rural and semi areas.The phase also witnessed priority lending to some sector of the economy. This phase takes approximately from 1970 – 1985 (Prosper, 2011).

Mention any five institutions that regulate the Nigeria financial system.

Federal Ministry of Finance (FMF)
Nigerian Deposit Insurance Corporation (NDIC)
The Securities and Exchange Commission (SEC)
Debt Management Office (DMO)
National Insurance Commission (NAICOM)

What is a financial market?

financial market refers to the type of market that is being used to deal in financial instruments. Some of these instruments are used for raising short term funds before being repaid back to the investors

State and briefly describe any three qualitative characteristics of money market instruments

i) Liquidity

This describes the ability to convert an asset into cash with relative ease while not significantly depressing its price in the process. It is perhaps the most important quality.

ii) Default risk

This is the risk of non-payment of principal or interest, which must be minimal in order for the security to be considered a safe haven for excess liquidity.

iii) Short time to maturity

This is given that adverse price movements attributable to interest rate changes are smaller for shorter-term assets, which helps ensure that interest rate changes will notaffect the security's market value materially.

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Outline any three functions of the money market.

a) Facilitates transactions between parties with surplus funds and parties with a deficit.
b) Helps the corporate entities to raise funds with which to enhance their working capital.
c) Provides facilities for discounting of financial instruments

Mention any three functions of each of the following: i. Central Bank ii. Commercial Banks iii. Merchant Banks.
functions of central bank

i) The regulation of currency accordance with the requirements of business and the general public for what purpose it is granted either the sole right of note issue or at least a part monopoly thereof;
ii) The performance of general banking and agency for its country;
iii) The custody of the cash reserves of the commercial banks, custody and management of the nation's reserves of international currency

functions of central bank

Commercial banks perform a variety of functions in the course of their operations which can be identified in various forms such as listed below:
(1) accepting deposits;
(2) advancing loans;
(3) credit creation;

functions of merchant bank

Raising Finance for Clients
Brokerage Business
Project Management

State any three merits of Universal banking.

1. Universal banking creates in economies of scale in operations because it results in lower costs with higher output of operations while ensuring better products and services.
2. It ensures efficient resource utilisation because the bank makes use of its structure to render diverse form of banking operations such as investment banking, merchant banking services, and insurance services, among others, and by implications diversifying risks in its operations.
3. Universal banks are known to invest their client's money in different types of Mutual funds and also venture into the share market as well as equity holdings and therefore, they can also manage their client's varied investments profitably.

Explain briefly the concept of "permissibility" in Islamic banking.

This is couched in Islamic jurisprudential maxim which holds that "the basic presumption is that all transactions are permissible unless they are prohibited by a text" in the Islamic holy book (the Quran). This is indicative of the fact that all the banking transactions are permitted but with some variations such as sharing of profit and loss.

Briefly differentiate Islamic banking from conventional banks in relation to:
i. Interest payment/receipt ii. Principles of morality iii. Liquidity risk.

Emphasis on Islamic Principles of Morality

Islamic banks operate in accordance with the rules of Shariah known as Fiqh alMuamalat Islamic rules on transactions. These rules place a premium on morality, as it relates to Islam. By virtue of the Shariah, Islamic banks are prohibited from investing in businesses that are considered immoral, or haraam e.g. businesses that sell alcohol or pork, gambling, and businesses that produce media such as gossip columns or pornography.

Higher Liquidity Risk

Due to their specialization in equity and trade financing, Islamic banks tend to have higher levels of liquidity risk than their conventional counterparts. However, this is highly dependent on the stability of the economy. If the economy is stable, the risk would be minimized and vice-versa.

Prohibition of Interest

Islamic banks neither charge nor pay interest on loans. Their lending is principally of the murabaha cost-plus or

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mark-up mode. As a result, they experience a high rate of borrower delinquency, since their lending terms are less stringent than those of the conventional banks. Murabaha payments have often been held up because late payments cannot be penalized, in contrast to the interest system in which delayed payments would automatically mean increased interest payments

Briefly describe the concept of rural banking

rural bank is a financial institution that helps rationalize the developing regions or developing country to finance their needs specially the projects regarding agricultural progress. Rural banking is a common practice in places where banking institutions are few and far between and people who need to carry out banking transactions may have difficulty finding a way to do so. Rural banking is the process of conducting banking transactions out in the country where bank branches are too far away to be of use

Mention three government incentives to participating commercial banks aimed at encouraging the development of rural banking in Nigeria

a) Waiving the requirements for feasibility survey report as a prerequisite for the establishment of rural bank branches;
b) Allowing the banks the monopoly of providing banking services in the allocatedcentres for a period of three years; and
c) Allowing the banks to write off the capital cost of erecting office blocks and staff quarters within three years.

Outline any five objectives of rural banking.

i) Introduction of a banking habit among the rural dwellers;
ii) Mobilization of savings from the rural areas for the purpose of channeling same to profitable portable ventures;
iii) Creation of credit by way of equity and loans for small scale industries;
iv) Development of agriculture and agro-allied industries in the rural areas; and
v) Reducing to a comfort size, the drift of young men and women from the rural to the urban areas.

State briefly any four factors responsible for the failure of rural banking in Nigeria.

a) Government promoted the scheme when the country was managed on the basis of regulated economic system in place of free market system
b) The rural banking scheme was unprintable in its operations because of the fixed overhead cost that could not be sustained by its returns;
c) Most of the branches of the banks in the rural areas was discovered to be serving as conduit pipe for channeling rural savings to the urban areas;
d) The emergence of the community baking scheme, which was designed by owned and operated by the communities, crippled the needed patronage for the rural branches of commercial bank

Enumerate five features of Islamic banking

Prohibition of Interest
Low Consumer Lending
Profit and Loss Sharing
High Real Sector Investing
Mortgage Financing

Highlight five of the assets of a commercial bank 7½marks

Liquid Cash
Balances with Central bank & other Banks
Money at call and short notice
Bills discounted and purchased
Investment in Securities/Bonds/Industrial shares

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What is universal banking?. Mention five of its advantages

Universal banking refers to a banking system that combines the commercial banking, investment banking (asset management, trading, and underwriting), development banking, insurance operations and many other financial activities. It is a financial banking system in which all financial products are available under one roof.

advantages

1. Universal banking creates in economies of scale in operations because it results in lower costs with higher output of operations while ensuring better products and services
2. It ensures efficient resource utilisation because the bank makes use of its structure to render diverse form of banking operations such as investment banking, merchant banking services, and insurance services, among others, and by implications diversifying risks in its operations./
3. Universal banks are known to invest their client's money in different types of Mutual funds and also venture into the share market as well as equity holdings andtherefore, they can also manage their client's varied investments profitably.
4. Since universal banks diversify their activities they can utilise the inancialexpertise at their disposal to provide different financial services including theoverhead cost for their operations since their diverse operations are provided underone roof, by using the same structure.
5. The universal banks can easily market (sell) all their financial products andservices through their many branches. They can ask their existing clients to buytheir other products and services

State four objectives of rural banking

i) Introduction of a banking habit among the rural dwellers;
ii) Mobilization of savings from the rural areas for the purpose of channeling same toprofitable portable ventures;
iii) Creation of credit by way of equity and loans for small scale industries;
iv) Development of agriculture and agro-allied industries in the rural areas

Enumerate four features of banking products

i) Banking product cannot be seen or touched like manufactured products (intangibility)
ii) In marketing banking products, the product and the seller are inseparable; theytogether define the banking product (inseparability)
iii) Banking products are products and delivered at the same time; they cannot be storedand inspected before delivering (perishability)
iv) Standardization of banking product is difficult (variabil

Identify five differences between central and commercial bank

i) The central bank is the apex institution of the monetary and banking structure of the country. The commercial bank is one of the organs of the money market.
ii) The central bank dos not operate as a profit-driven institution but only implements the economic policies of the government. But the commercial bank is a profit-makinginstitution.
iii) The central bank is owned by the government, whereas the commercial bank is owned by private individuals as shareholders.
iv) The central bank is a banker to the government and does not engage itself in ordinary banking activities. The commercial bank is a banker to the general public.
v) The central bank has the monopoly of issuing currency of the country as the legal tender but the commercial bank can issue only cheques o its customers; the currency notes and coins issued by a central bank constitute legal tender. But the cheques are mere near-money

Indicate five major regional development banks

1. African Development Bank (AfDB);
2. Asian Development Bank (ADB);European Investment Bank (EIB);
3. Inter-American Development Bank (IDB);

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4. North American Development Bank (NADBank); and
5. International Bank for Reconstruction and Development (IBRD) or World Bank

State five functions of merchant banks

1. Raising Finance for Clients
2. Brokerage Business
3. Project Management
4. Provide Services on Corporate Reconstruction
5. Managing Public Issues of Companies

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