NATIONAL OPEN UNIVERSITY OF NIGERIA

SCHOOL OF MANAGEMENT SCIENCES

COURSE CODE: BFN 104

COURSE TITLE: ELEMENT OF BANKING

NATIONAL OPEN UNIVERSITY OF NIGERIA

14/16 Ahmadu Bello Way, Victoria Island, Lagos

COURSE DEVELOPMENT

ELEMENT OF BANKING

COURSE NO: BFN104

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COURSE GUIDE

1.0 INTRODUCTION

This course, BFN104 Element of Banking in Bachelor's in Banking and Finance has been designed to give you self instruction on the basics of Banking. It teaches you development in Banking in Nigeria.

2.0 COURSE AIMS

The aim of this course is to introduce you to the basics of banking processes and the component in Nigeria. It also aims at encouraging you to acquaint yourself with the nature and principles of Banking.

3.0 COURSE OBJECTIVES

By the end of this course, you should be able to:

1) Explain the business of Banking
2) Explain Banking System in Nigeria;
3) identify non-Bank Financial Institution
4) Highlight the establishment of Micro-Finance Bank in Nigeria

4.0 WORKING THROUGH THIS COURSE

This course, BFN104, expects you to do a lot of reading in order to cover the materials in the course material. It implies that you should devote much time to this course by reading through this material and getting more information from numerous texts and journals. These abound in every library and from the internet. The course material has been made easy to read and user-friendly. However, you will need to attend the tutorial sessions where your Facilitator would direct and provide you with more information. You will need to work in groups with other students in order to discuss, compare notes and thoughts as well as to exchange and share ideas. Below are the lists of all the components of the course:

5.0 COURSE MATERIALS

The National Open University of Nigeria will provide you with the following items:

- Course Guide
- Study Units
- TMA Assignment File for continuous assignment.

In addition, at the end of every unit, is a list of texts for your references and for further reading. It is not compulsory for you to read all of them. They are only essential supplements to this course material.

6.0 STUDY UNITS

The study units in this course are as follows:

MODULE 1

Unit 1 Business of Banking
Unit 2 Development of Money
Unit 3 Historical Development of Banking
Unit 4 Central Bank of Nigeria
Unit 5 Nigeria Banking Structure
Unit 6 E-Banking System

MODULE 2

Unit 1 Commercial Banking System
Unit 2 Merchant Banking System
Unit 3 Development Banking System
Unit 4 E-Banking system
Unit 5 Non-Bank Financial Institutions
Unit 6 Micro-finance Banking Institutions

MODULE 3

Unit 1: Bank Lending
Unit 2: Interpreting the Accounts of Customers
Unit 3: Negotiable Instruments-Bills of Exchange
Unit 4: Negotiable Instruments-Cheques and Promissory Notes
Unit 5: Manpower Development in Banking and Finance

7.0 ASSIGNMENT FILES

You will find the assignment questions for each tutor marked assignment (TMA) in the folder labeled "Assignment File." You will find the details of the work.

8.0 ASSESSMENT

There are two aspects to the assessment of the course: first is the tutor-marked assignment; and secondly, the examination. Within each unit are self-assessment exercises, which are aimed at helping you to check your assimilation as you proceed. Try to attempt each of the exercises before finding out the expected answers from lecture. In tackling the assignments, you are advised to be sincere in attempting the exercises; you are expected to apply information, knowledge and techniques gathered during the course.

9.0 TUTOR-MARKED ASSIGNMENT (TMAS)

This is your continuous assessment and accounts for 30% of your total score. You are expected to answer at least four TMA's, three of which must be answered and submitted. However, it is desirable in all degree level education to demonstrate that you have read and researched more widely than the required minimum. Using other references will give you a broader viewpoint and may provide a deeper understanding of the subject.

10.0 FINAL EXAMINATION AND GRADING

With this examination written successfully, you have completed your course in Basic research and one believes you would apply your knowledge (new or up-graded) in your project. The 'end of course examinations' would earn you 70% which would be added to your TMA score (30%). The time for this examination would be communicated to you.

11.0 HOW TO GET THE BEST FROM THIS COURSE

In distance learning, the study units are specially developed and designed to replace the conventional lectures. Hence, you can work through these materials at your own pace, and at a time and place that suits you best. Visualize it as reading the lecture.

This is one of the great advantages of distance learning. You can read and work through specially designed study materials at your own pace, and at a time and place that suits you best. Think of it as reading the lecture that a lecturer might set you some readings to do, the study unit will tell you when to read other materials. Just as a lecturer might give you an in-class exercise, your study units provide exercises for you to do at appropriate points.

Each of the study units follows a common format. The first item is an introduction to the subject matter of the unit, and how a particular unit is integrated with the other units and the course as a whole.

Next is a set of learning objectives. These objectives allow you to know what you should be able to do by the time you have completed the unit. You should use these objectives to guide your study. When you have finished the unit, you must go back and check whether you have achieved the objectives. If you make a habit of doing this, you will significantly improve your chances of passing the course.

The main body of the unit guides you through the required reading from other sources. This will usually be either from a ***Reading Section*** of some other sources.

Self-tests are interspersed throughout the end of units. Working through these tests will help you to achieve the objectives of the unit and prepare you for the assignments and the examination. You should do each self-test as you come to it in the study unit. There will also be numerous examples given in the study units, work through these when you come to them too.

The following is a practical strategy for working through the course. If you run into any trouble, telephone your tutor. Remember that your tutor’s job is to help you. When you need help, don’t hesitate to call and ask your tutor to provide it.

(1) Read this course guide thoroughly.

(2) Organize a study schedule. Refer to the course overview for more details. Note the time you are expected to spend on each unit and how the assignments relate to the units. Important information e.g. details of your tutorials, and the date of the first day of the semester will be made available. You need to gather all this information in one place, such as your diary or a wall calendar. Whatever method you choose to use, you should decide on and write in your own dates for working on each unit.

(3) Once you have created your own study schedule, do everything you can to stick to it. The major reason that students fail is that they get behind with their coursework. If you get into difficulties with your schedule, please let your tutor know before it is too late for help.

(4) Turn to unit 1 and read the introduction and the objectives for the unit.

(5) Assemble the study materials. Information about what you need for a unit is given in the 'Overview' at the beginning of each unit. You will always need both the study unit you are working on and one of your references, on your desk at the same time.

(6) Work through the unit. The content of the unit itself has been arranged to provide a sequence for you to follow. As you work through the units, you will be instructed to read sections from your set books or other articles. Use the unit to guide your reading.

(7) Review of the objectives for each study unit and confirm that you have achieved them. When you are confident that you have achieved a unit's objectives, you can then start on the next unit. Proceed unit by unit through the course and try to face your study so that you keep yourself on schedule.

(8) After completing the last unit, review the course and prepare yourself for the final examination. Check that you have achieved the unit objectives (listed at the beginning of each unit) and the course objectives (listed in the Course Guide).

12.0 SUMMARY

This course BFN104 is designed to give you some knowledge which would help you to understand Element of Banking as applied to the Banking and Finance sector in Nigeria. After going through this course successfully, you would be in a good position to pass your examination at the end of the semester and use the knowledge gained to apply in the principles of banking and finance as a banker, financial expert and manager. You will be able to contribute to the development of scholarly thoughts in banking and finance as it affects economic development.

We wish you success in this interesting course and hope you will use what you have learnt in this course to apply to knowledge.

We also hope you would appreciate the unique role and opportunity you have to make a difference in using the knowledge derived from this course in solving problems. We, therefore, sincerely wish you the best as you enjoy the course. GOOD LUCK.

MAIN CONTENT

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Content Editor

Dr Idrisu: Programme Leader

MODULE 1

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BFN 104 ELEMENTS OF BANKING

MODULE 1

UNIT 1 BUSINESS OF BANKING

CONTENT

1.0 INTRODUCTION

One obtains with a small expenditure of either time or money, a general knowledge of business of banking. For this level of studies, information gotten is adequate for any further studies require larger work in the business of banking.

2.0 OBJECTIVES

At the end of this unit, you shall be able to:

- State the origin of Banking
- Explain the meaning of Banking
- Define bank and Banking Business
- List the functions of Central Bank of Nigeria

3.0 MAIN CONTENT

3.1 The Business of Banking

The term bank is derived from the Italian word bancho (Meaning bench) as the Jews in Italy kept benches in the market-place, where they exchanged money and bills. When a banker failed, his bench is broken by the populace; and we derive the term bankrupt from this circumstance.

3.2 The Concept of Banking

Today, the term, bank, means different things to different people in different economies. In order to reconcile the divergent views on the meaning and characteristics of banks, the banking laws in each economy provides operational definition and functional classification which governs banking practices in the economy. In practical terms, a bank means what the operating banking law in an economy defines as a bank (Ezeuduji, 2000:8). To many people, a bank refers to an institution which accepts deposits from the public and in turn advances loans by creating credit. It is different from other financial institutions in that they cannot create credit though they may be accepting deposits and making advances. Economists on their part have defined a bank in various capacities, some emphasizing its various functions.

However, a bank has been defined broadly as any financial institution that accepts, collects, transfers, pays, exchanges, lends, invests, or safe- guard money for its customers. This broader definition includes many other financial institutions that are not usually thought of as banks but which nevertheless provide one or more of these broadly defined banking services. Summarizing these definitions a bank is simply an institution which accepts deposits from the public and in turns advances loans by creating credit.

Self assessment exercise
In your own words explain the Concept of Banking

Banks are divided into private and public. A private bank are few owners and they attend personally to it management. A public bank has many owners, and they elect from their selves a certain number who are entrusted to manage/administer the bank in the day-to-day activities. The business of banking is mainly to receive deposits of money, with without interest in working advances of money mainly in discounting bills and in transmission of money from one place to another Discounting of bills yields interest – wan, cash credits and overdraft accounts. Etc. The profits of a bank are the portion of its total receipts which include discount, interest dividends, and commission – which all things being equal exceeds the amount of the expenses

Self assessment exercise
The word ‘Bank’ is derived from which country?

3.2 Bank and Banking Business

Before proceeding refer to definitions of a bank and banking business according to abrogated 1969 banking Decree: which state thus: A bank is any person who carries on banking business and includes commercial bank, “Acceptance House, Discount House and Financial Institutions”

Banking business is defined by the same section of the decree as: business of receiving monies from outside services as deposits irrespective of the payment of interest of granting of money loans and acceptance credits etc. From the stated definition, there are categories of banks and the nature of their liabilities and operation for effective and efficient banking functions in Nigeria adequate rules and regulations are to be put in place for the system to be stable.

3.3 The Central Bank of Nigeria

CBN is the apex of the Nigerian banking system – hence controlling the sector. The enforcement of the rules and regulation fall on the CBN just to sustain the stability of the banking system and to sustain meaningful relationships. The areas of regulations include: Capital base statutory reserves, bank size distribution, bank Distribution, Bank Obligations Debtor/Creditor relationship, Relationship from contract and relationship between Bank and shareholders.

Self assessment exercise

State three area of regulatory financial institution by CBN

4.0 CONCLUSION

You have learnt in this unit what bank and banking business are in a nutshell. The definition of bank and banking as it relates to a nation. The business of banking was stated to include mainly to receiving deposits of money and distributing to where money is needed.

5.0 SUMMARY

You learnt of the state of origin of Banking, explain the single meaning of Banking, define bank and Banking Business and listed the relationship between CBN and other banks

6.0 TUTOR-MARKED ASSIGNMENT

1. Explain the origin of banking.
2. State the relationship between CBN and other banks
3. Define bank and Banking Business

7.0 REFERENCES/FURTHER READING

Adekanya,F (1986). *The Elements of Banking in Nigeria*:3rd Edition. Lagos; F and A Publishers.

Ezeuduji,F.U.(2000).*'Historical Perspectives in Banking Practices Worldwide.'*Abuja; CBN Bullion vol.24No.4.

Gilbart, J. W. (2014*) The Elements of Banking* (goggle)

Mbat, D. O. (1995) *Money, Banking and Financial Markets: An Introduction*

Odetunle, T. (2010), *Essentials of Banking & Monetary System in Nigeria (A Text on Elements of Banking) Lagos Nigeria Jaytees Publishers*

UNIT 2 DEVELOPMENT OF MONEY

CONTENTS

1.0 INTRODUCTION

In this unit, you will learn of the development of money abinitio. The origin and evolution of money, types of money will be discussed, listing the qualities and functions of money in a modern economy.

2.0 OBJECTIVES

At the end of this unit, you shall be able to:

- State the origin money
- Name the types of money
- List the qualities of money
- State the functions of money

3.0 MAIN CONTENT

3.1 Evolution of Money

The origin of money dates back to centuries spanning the existence man. Anyanwaokoro (1999: 6-10) discussed six major stages of monetary evolution 'which follows:

- The era of¯no-specialization
- The era of direct exchange (barter system).

- The era and commodity money
- The era of full-bodied money (currency notes and coins)
- The era of token money and credit money, and electronic cashier Motley era.

We shall dices monetary evolution (origin) in the following stages:
The era of spherical adventure (nomadic)
The era of subsistence (autarky or no exchange)
The era of Barter system (direct exchange)
The era of money exchange-commodity money (indirect exchange)
The era of money exchange-full bodied money
The era of token or credit money
The era of e-money (electronic and cashless)

i. The era of spherical adventure (nomadic) - this era was marked by the movement of man from one end of the earth to the other. At last, he discovered that most of the fruit seeds *he* had dropped in the past had germinated and grown into new fruits producing trees. This discovery marked *the* beginning of agriculture. The beginning of agriculture influenced ownership, possession and control. Thus, marked the end of this era and opened the door for the subsistence era.

ii. The Era of subsistence (Autarky or No Exchange) - The era of subsistence was marked by the simple ownership, possession and control of the natural resources. However, man discovered over time that whatever he personally owned, possessed and controlled in the expanding family could not be enough for him. This development gave rise to the emergence of direct exchange *(the* thought that he could *have* what others had in exchange for his own) as discussed below.

iii. The Era of Barter system (Direct Exchange) - This era of barter system (direct exchange) was marked by the exchange of goods and services for goods and services within and among the expanding families. The system had no room for any medium of exchange as the people exchanged the goods and services at their disposal with what the other party had for exchange. For instance, if a man who had a goat needed a bag of orange, he could directly exchange his goat for the bag of orange without recourse to any medium of exchange.

    The barter system posed some problems which include the double coincidence of wants. The problem of double coincidence of wants arises in a situation *where* for example, Mr. Okeke who *needed to* take orange suddenly discovered that the orange seller does not want" his cashew. The orange seller wanted mango. There is double coincidence of wants because Mr. Okeke will need to find somebody that ha$_{i}$l 4991190 who needed cashew This will enable him to get orange. The other problems of baiter system were storage, transportation, lack of standard for payment, etc.

iv. **The Era of Money Exchange-Commodity money (Indirect Exchange) -** This era actually came to resolve of the problems posed by the barter system. The barter system was characterized by problems of double coincidence of wants, storage, transportation, etc. Unlike the barter system, the money exchange-commodity money era identified and designated few commodities to serve as medium of exchange. The items used in different countries include cotton, grains, cattle, salt, oxen, slaves, cloth, sheep. In Rome, sheep was as a medium of exchange while slaves were accepted in Egypt.

Some scholars argue that these commodities were accepted as the medium of exchange at this era because they were the most priced and sought after by the buyers of goods. Hence, people who had such designated commodities spent less time to have them exchanged for other commodities.

v. **The Era of Money Exchange - Full bodied Money**

Although the eras of money exchange - commodity money-the problem of double coincidence of wants of barter, it could other associated problems such as transportation of corn storage, etc. The era of money exchange-full bodied provided solution to some of the persistent barter system problems. Money exchange-full bodied money era was when metals and subsequently used as money. Iron was the first metal used. But with effluxion of time, gold, silver, copper were introduced to replace iron because the latter was prone to rusting and very bulky to convey from place to place. The gold was replaced by cheaper metals such as silver and copper. At this era, the face and intrinsic values of money equal.

The paper money

The origin of paper, money (notes) could be traced to the goldsmiths of the middle ages in England. These Goldsmiths end held gold and other valuable deposits for merchants whom they issued warehouse receipts as evidence of the value and item held for them. The receipts issued by the Goldsmiths were mere bearer instruments that required the latter to oblige the bear to the value of the receipt.

vi. The Era of Token or credit Money

The Seventeenth Century England was characterized by sustained pressure on gold resources. The monetary authorities then were compelled to mint cheaper metals such as silver, copper for use as coins. They also printed paper money (fiduciary issue) that were not fully backed by gold. These notes that had little or no gold (commodity) backing are called token money. The intrinsic value of the money is represent any commodity is a good example of taken or credit money. Culbertson in Anyanwokoro (1999:12) said that credit money falls those two classes-those issued by the government (paper money) and those created by banks (bank notes and demand deposits).

vii. The Era of E-Money (Electronic and Cashless)

The token or credit money era proceeds the present era of e-money - though the e-money era has not foreclosed the use of notes and coins, cheques and other credit instruments in transaction, it strictly de-emphasizes the use cash in making payments in both local and international transactions. E-money is simply the application of electronic devices to electronic devices to effect payments arising from business transactions without the use of cash.

In Nigeria, the concept of e-money was introduced in 1996 when the Central Bank of Nigeria granted approval to the then All States Trust Bank Plc to offer ESCA smart card product (Onyia and Egungwu, 2004:11). Even the developing economies of the world are predominantly trapped in poverty which compels them to operate cash based System; the emergence of a global system is a matter of time.

Self assessment exercise

State the origin money

3.2 Types of Money

The types of money may be discussed as follows:

i. **Commodity Money:** Commodity money is that money represented by commodities such as grains, salt, cloth, slaves whose demand amongst other commodities are perfectly inelastic. These commodities served as the medium of exchange.

ii. **Full - bodied money:** Money is said to be full - bodied if its face and intrinsic values are equal. Commodities such" as grains, cloth, oil could not serve as full - bodied money because they cannot *be* converted into another state without loss in value and also the fact that they retained many shortcomings of the barter system. However, commodities such as copper, silver and gold are very good examples of full - bodied money.

iii. **Pure Money:** By pure money, we refer to the currency in circulation (notes and coins) plus bank deposits. Bank deposits include the money kept in savings, demand and time accounts.

iv. **Token Money:** Token money is money that is acceptable to the masses on the strength of government imprints on it. Generally, the intrinsic value of -a token money is less than the face value.

v. **Fiat Money:** Fiat money is simply an irredeemable and inconvertible money that derives its power to circulate from the government backing. We have said that money is "what *the* law says it is". This legal definition of money applies in the main to fiat money. That is to say that whatever the government of the clay designates as money in a system automatically becomes the legal tender. It could be a piece of cloth, piece of paper, etc.

vi. **Quasi or near money:** Quasi or near money are those money market instruments that can be easily converted into cash without loss in value. These include treasury bills, treasury certificate, etc.

vii. **Fiduciary Issues:** Fiduciary issues as money do not have commodity or gold backing. They are acceptable as money on the belief that they are redeemable by the monetary authorities (government).

viii. **Convertible Money:** Money is said to be convertible if it could be acceptable in any part of the world. Convertible money is an internationally acceptable currency that can be used to effect cross exchange transactions currencies such as the American Dollar, British Pound Sterling, Japanese yen are good example of convertible money. American dollar, British Pound Sterling, Japanese *yen* are good examples

3.3 Qualities/Characteristics of good Money

i. **General Acceptability:** One of the three major definitions of money insists that it must serve as a medium of exchange. Therefore, good money is that which must serve as a medium of exchange and be generally acceptable to people as a medium of exchange. Money in whatever denomination, colour; size, quality should be 'acceptable to the *people* at any time and place for the purpose of exchange of goods and\ or services

ii.

iii. **Divisibility:** This is another good quality of good money. It simply means that the money is capable of being divided into various amounts and values without loss of value and time. Divisibility is made possible by the minting and printing an existing currency into various denominations.

iv. **Durability:** Money is used every second, minute and hour to effect payments all over the world. This exposes money to condition of continuous wear and tear. A good money should be durable in texture and composition to be able to weather the storm of wear and tear.

v. **Homogeneity:** This implies that a fifty naira note used in Lagos state should be identical to the one used in Benue state of Nigeria.

vi. **Cognize-ability:** This implies that the money should be capable of being recognized at any time, place by both the adults and children. For instance, any denomination of a country's currency should be recognized by simple sight and touch.

vii. **Relative Scarcity:** Money should be relatively scarce A thing that can serve as money must be worked for and not subject to pick as you wish phenomenon.

viii. **Stable In Value:** Despite the ever changing dynamics of the economy, money should be reasonably stable in value. Money is stable in value when its worth of note tied to the whims of inflation.

ix. **Portability:** Money should be issued in convenient sizes and shapes to ease transfer from one place to another.

3.4 Functions of Money

The Classical writers posit that money is demanded because of its use as medium of exchange. On the other hand, the Keynesian school argues the money is demanded because of its function as a store of value. Although the two schools of thought differ as to the reason why people demand money, they succeeded in identifying the two functions of money. The other functions of money are as standard for deferred payment and unit of account. Let us take them one at on time.

i) **Medium of Exchange -** According to the classical writers, money primarily serves as a medium exchange thus eliminating the problems posed by the barter system. The fact that there's something that could be acceptable as a medium of exchange for goods and/or services created room for specialization. This is because people were sure that whatever they produced could be bought by others without any loss of time and value.

ii) **Unit of Account -** The use of money to measure the worth or value of item is another primary function of money. As unit of account, money is a common numeric denominator to ascertain value, weight and Worth of an item say a house. The monetary equivalent of the house is simply the value of the house. It is on the basis of such established value that the house may be compared to another item or thing.

iii) As a standard for **deferred payment**. Anything that serves as both medium of exchange and unit of account can easily be taken as a standard for deferred payment. The use of money as medium of exchange and an item through which the values of other items could be ascertained has given reason for people to enter into future contracts, bids, and agreements. This is because they are very hopeful that:

(a) What they will receive in money will be acceptable as a medium of exchange
(b) The value of the contract, bid, and agreement could determine in the present.

iv) **Store of Value -** Imagine what could happen to a farmer who has just harvested all his commercial crops and would want to invest half of the value of the output on farm inputs for the coming season. The farmer will be in for trouble if he must store these harvests now so as to exchange them for farm tools in some months from hence. The harvests will obviously rotten and perish.

The emergence of money has made it possible for such a farmer to dispose of the output to buy his farm tools whenever he desires. In this case; the farmer stores his value in money and not in perishable farm outputs.

Self assessment exercise
List the functions of money.

4.0 CONCLUSION

Before the advent of money, goods exchanged for goods – which is the term trade by barter. Money evolved from commodity to full-fledged money which had characteristic to serve as medium of exchange. This quality enabled it to function as money.

5.0 SUMMARY

At the end of this unit, you learnt to state the origin money, name the types of money, list the qualities of money and state the functions of money.

5.0 TUTOR-MARKED ASSIGNMENT

1. Name the types of money.
2. List the qualities of money.
3. State and explain the functions of money.

6.0 REFERENCES/FURTHER READING

Gilbart, J. W. (2014) *The Elements of Banking* (goggle)

Mbat, D. O. (1995) *Money, Banking and Financial Markets: An Introduction* Calabar University of Calabar Press.

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UNIT 3 HISTORICAL DEVELOPMENT OF BANKING

CONTENTS

1.0 INTRODUCTION

The historical development of Banking in Nigeria is linked with the increase in the intensity of international trade between Nigeria and Britain. It is worthy of note that the establishment of bank assisted in facilitating, trade transactions. This was because Nigeria had a major trade relationship with a country which as her colonial master. This created the enabling environment for the importance and usefulness of banking for many years. Banking in Nigeria started in 1892 with the establishment of a branch of African Banking Corporation in Lagos[5].

2.0 OBJECTIVES

At the end of this unit, you shall be able to:

- Discuss the establishment banks and other Financial Institutions
- Note their importance

3.0 MAIN CONTENT

3.1 Establishment of Commercial Banks

With an increase in the intensity of international trade between Nigeria and Britain, the establishment of a bank to assist and facilitate, trade transactions was imperative. This was because Nigeria had a major trade relationship with a country which had already known the importance and usefulness of banking for many years. Banking in Nigeria started in 1892 with the establishment of a branch of African Banking Corporation in Lagos[5].

The main function of the bank was that of importing and distributing silver coins from Royal Mint and implicitly regulating their circulation[6]. The activities of the bank with respect to import of coins were monopolistic in nature. This was because other institutions had to pay a premium of 1 per cent for any importation[7].

In 1893, barely a year from its establishment, the African Banking Corporation (ABC) was folded up and its interests therein transferred to Elder Detester and Company". *The* vacuum in banking activities left by African Banking Corporation was filled in 1894[9] when an office of the British Bank for West Africa (now First Bank) was established in Lagos.

The functions of BBWA were the same as the defunct African Banking Corporation but it recorded greater successes than its predecessor. The bank helped a lot in providing the needed banking services to both the colonial government and the agricultural producers, who were the major exporters. Through the import/export services offered by the bank, the tempo of trade transactions was increased. The establishment of this bank also helped in sending to Nigeria the wealth of experience in banking operations which was already in an advanced stage in Britain and the same time improve the conditions then inherent in the economy for a take-off of a near complete monetary type of economy. This was because, when the West African Currency Board (WACB) was established, the BBWA beanie its main currency agent which took charge of the WACB currency, receiving, storing and issuing of wins tendered in, exchange for drafts on London

Another commercial bank of British origin was established in 1925. The Barclays Bank D.C.O. (Dominic, Colonial and Overseas) as it was then called her helped in developing the banking base of the economy. One may be pied to ask whether these banks had interest and confidence in both the Nigerian economy and the indigenous business affairs.

The first of these banks - ABC - did not have much confidence in the Nigerian economy as it had in the South African economy. This was because of a combination of many factors - weather, mosquitoes, social unrest due to resistance by the Nigerian ruling kings, Obas and Chiefs, to the penetration of Europeans into their kingdoms and the seasonal nature of the export crops.

Moreover, the Nigerian indigenous businessmen up to recent periods suffered from lack of financial assistance from the expatriate banks.

There was therefore, the need to establish indigenous banks to stimulate and facilitate indigenous participation in the process of economic development in terms of the diversification of the productive pattern of the economy which was mainly agricultural.

The export-based agricultural production was dominated by large foreign panics which operated on large scale basis - the plantation system. The scale export oriented productions were mainly restricted to export crops palm Oil, palm kernel and rubber. It is on record that as far back as 1917 the BBWA had granted loans to the export crop farmers[11] which might have been these foreign companies. The bank however, faced stiff competition with the major trading companies in respect of credit operations to producers since they had a more extensive network of branches than the BBWA.

The first indigenous bank to be established as an attempt to bring indigenous businessmen into the helm of economic activities in Nigeria was the Industrial and Continental Bank (ICB) established in 1929. The bank however failed in 1930 because of inadequate capital base, poor management and stiff competition with the well established and experienced expatriate banks and trading corporations which diversified into financing business. In 1930, a group of other enterprising Nigerians founded the Mercantile Bank which went into liquidation in 1936 barely five years front its establishment because of the same factors that caused the failure of the first indigenous bank. In 1933, a third indigenous bank was established by name the National Bank of Nigeria.

In 1945 and 1947, the Agbonmagbe (now Wema Bank) and the African Continental Bank were established, respectively. These last groups of banks were able to sustain themselves irrespective of competition with the well managed expatriate banks. It may be that they learnt from and overcame the difficulties that befell the earlier ' established indigenous commercial banks. The same banks are in existence today although some exist with other names and some attendant problems. The survival of indigenous banks may not be attributed entirely to their management efficiency but also on patronage by the different regional governments and quasi-government agencies. The popular client/patrons of the African Continental Bank were, for example, the Eastern Region Finance Corporation and Marketing Board; that of the National Bank of Nigeria Was the Nigerian Marketing Board (appointed bankers to the board in September. 1950), and that of the Agbomagbe Bank was the Western Region Marketing Board.

Self assessment exercise

Briefly explain what necessitated the establishment of banks in Nigeria.

3.2 Other Financial Institutions

Not only commercial banks were established in 'order to promote economic activities, but also in existence, were other institutions which serve the purpose of financing the economy. One of these institutions has Alit Wei' African Cocoa Control 13ord (WACCB) set up in .1939 'but later on was converted into West African Produce Control Board it 1942. The main function of the board was that of promoting economic security if the producing areas through the maintenance of stable prices. Through this type of stabilization policy, forced savings and vans were made by the producers and these savings were used in financing government project.

7.0 CONCLUSION

It was noted that Banks where established because of the influence of British- our colonial masters and the trading that took place then.

8.0 SUMMARY

The establishment of banks and other financial Institutions where discussed and their importance.

9.0 TUTOR MARKED ASSIGNMENT

1) Discuss the establishment banks and other Financial Institutions.
2) What is the importance of financial institutions in a developing economy like Nigeria?

10.0 REFERENCES/FURTHER READING

Gilbart, J. W. (2014) *The Elements of Banking* (goggle)

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UNIT 4 THE CENTRAL BANK OF NIGERIA

CONTENTS

1.0 INTRODUCTION

A Central Bank is a state (national) bank established to keep a country's financial system under control and close supervision. It is the apex of all financial institutions in the country. It is normally a government bank but not managed by government. It plays a regulatory function.

2.0 OBJECTIVES

At the end of this unit, you shall be able to:

- Narrate the genesis of the Central Bank of Nigeria
- Draw the Organogram of Central Bank of Nigeria
- State the functions of the Central Bank of Nigeria

3.0 MAIN CONTENT

3.1 GENESIS OF THE CENTRAL BANK OF NIGERIA

The establishment of the West African Currency Board (WACB) provided the base for a monetary type of economy in Nigeria. Its powers

were however limited, it was completely devoid of powers to control the quantity of money within its area of control. The inability of the Board to control the supply of money created the need for establishing a Central Bank in Nigeria.
The Board was not also in a position to develop indigenous financial markets which is normally the responsibility-of a Central Bank and which also constitute very important forum in the process of mobilization and allocation of scarce financial resources.

In the absence of financial markets, savings that accrued to financial and government Institutions (Federal, Regional and Local) were always invested in London. This meant that there was a free flow of funds from Nigeria to the London financial markets. These were scarce funds that could have been used in developing the local. Function economic and social infrastructures. Here again, the function of controlling the flow of funds between Nigeria and other countries was not performed by an appropriate institution like the Central Bank and hence a necessity for such a bank.

In spite of the clear need for a Central, Bank, propositions and reports for the establishment of such a bank in Nigeria met with a not so straight forward by the opposition by the colonial authorities and half-hearted study reports by the Initial persons or persons (independent or appointed), that studied the possibilities and advantages of establishing such an institution in Nigeria.

The Firm of such reports in favour of the establishment of a Central Bank in Nigeria came from Dr. Mar during the Second World War. Dr. Mar's research into the Nigerian monetary system resulted in his recommending the establishment of a Central Bank of Nigeria with the following functions[17]:

a) variation of liquid ratios of the commercial hank;
b) lender of last resort;
c) control of rates of interest;
d) open market operations;
e) Advising the government on pound sterling exchange rate.

Dr. Mar however, concluded that establishing a Central Bank in Nigeria presupposed the presence of a stock exchange market which was not in existence. Thus the possibility of establishing such an institution within short time period was remote. From 1951 to 1955, there were three other reports namely:
(a) Newlyn and Rowan report;
(b) Fisher report and
(c) IBRD report;
All these reports covered the possibility of establishing a Central Bank

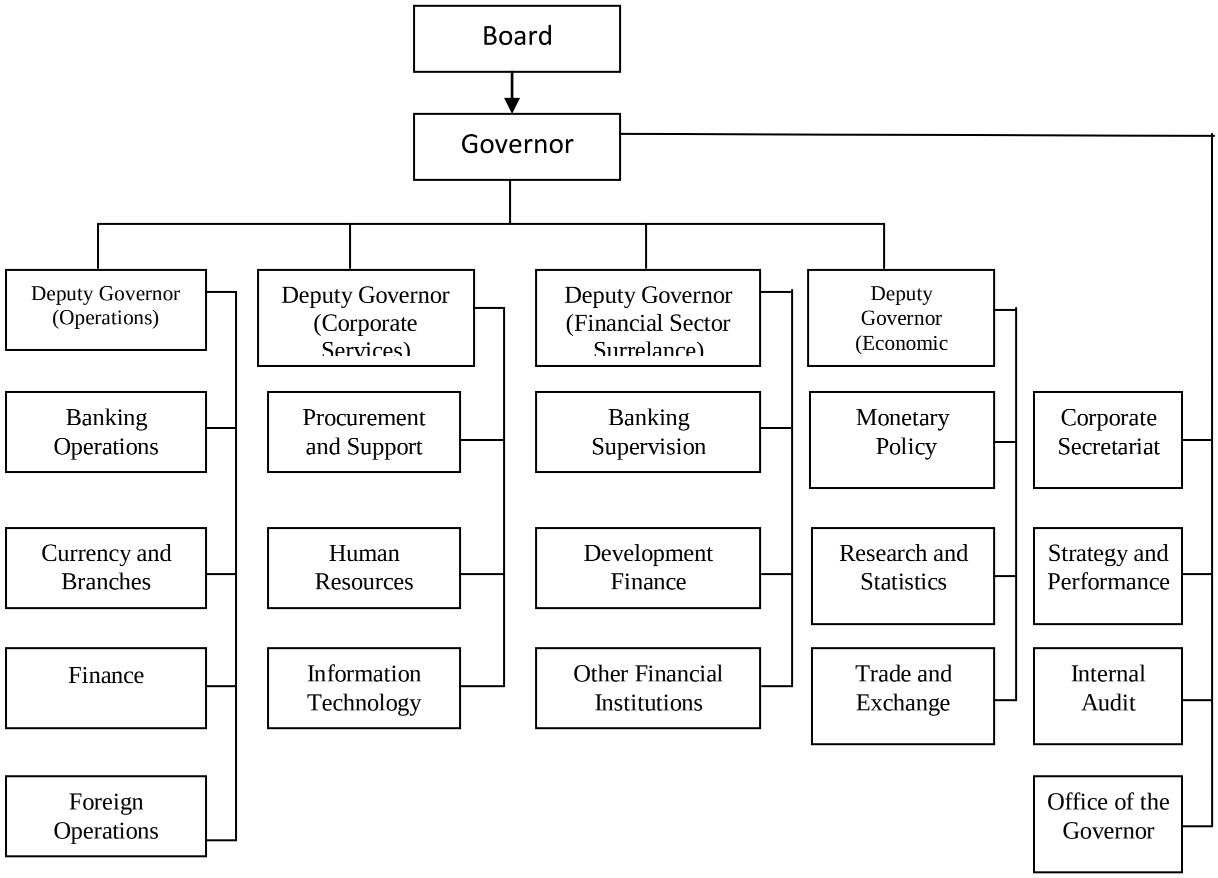
in Nigeria. The Newlyn and Rowan report published in 1953 recommended among other things, a reorganization of the West African Currency Board to create the possibility for it to make fiduciary issues, adopt measures aimed at reducing transfer costs charged by banks, and the Africanization of the Board itself. They were however tacitly against the establishment of a Central Bank in Nigeria. This was because they thought the Central Bank in Nigeria was not in a position to promote economic stability through monetary management since such, stability, according to them, was highly influenced by external factors. One may at this juncture be tempted to ask whether there is any sovereign state that is completely isolated from external influences. The answer is no, a priori, without any analysis. The Newlyn and Rowan report however came to a conclusion that a Central Bank was needed in Nigeria before the possible attainment of independence.

Indigenous contributions in favour of the establishment of a Central Bank in Nigeria started to gather momentum when Dr. K.O. Mbadiwe, a parliamentarian, moved a motion in the House of Representatives to that effect on 21st March, 1952. A debate on the motion took place on 9th April, 1952 but the highlight of the debate came from the contribution offered by the Secretary of finance, Honourable E. Hunsworth, C.M.G. According to hint, .the government had the following three points of objection to the establishment of a Central Bank in Nigeria:

(a) The WACB was functioning well;
(b) A Central Bank in Nigeria could have increased inflation instead of controlling it;
(c) Such a bank could not function properly without financial markets (money and capital). Irrespective of this opinion, there was a consensus on the possibility of establishing a Central Bank in Nigeria and Mbadiwe's motion was passed with some amendments. In November 1952, J.L. Fisher, an adviser to the Bank of England visited Nigeria and later on published a report concerning the establishment of a Central Bank. The last report (excluding Loyness report and recommendations that gave a final impetus to the establishment of a Central Bank in Nigeria), was that submitted by International Bank for Reconstruction and Development (1BRD). This report, although upheld some of the observations of Newlyn and Rowan’s report recommendation for immediate possible establishment of a Central Bank on the Political development and IBRD’s report was concluded with the fact that: Nigeria, and other British West African colonies, were heading towards self-rule and as independent Countries with almost different economic and social structures could not be controlled by One Central monetary authority - WACB. In the final analysis and conclusion, IBRD's report proposed a state bank for Nigeria with somewhat limited functions.

A few year after 1BRD's report, J.B. Loyness, an adviser to the Bank of England, was asked by the colonial government to undertake a research study With the main objective of determining appropriate steps and methods of a establishing a Central Bank in Nigeria. Sir Loyness undertook his research study within the framework of pre-stated guidelines and came up with a report in 1957. The report supported the establishment of a Central Bank in Nigeria but without limited functions. This was because Loyness thought that a Central Bank was to be for all times and therefore its functions could not be limited the initial just because the initial conditions favoured such limited functions. Loyness' report however culminated to the passing of a bill in the Parliament establishing the Central Bank of Nigeria. A Central Bank with limited functions did not cause any- concern to the Nigerian authorities because according to the Minister for Finance, the basic objectives of all monetary and financial authorities must be directed to facilitate at any time, the desired economic development. The statute of the Central Bank of Nigeria was passed in 1958 but the actual operations of Central Bank started on 1st July, 1959. On that day, and for subsequent periods (determined and fixed by the CBN), the Bank successfully exchanged the then WACB currency in circulation With the legal tender currency of the Bank in the denomination of pounds (t), shillings and pennies. Since 1959, the Central Bank of Nigeria has progressively (through different forms of legislation) assumed the full responsibilities of monetary management in Nigeria.

3.2 ORGANIGRAM OF CENTRAL BANK OF NIGERIA (CBN)



* The Board, Headed by the Governor
* Directorates, Headed by Deputy Governors
* Departments, Headed by Directors

Source: Central Bank of Nigeria, 2007

3.3 FUNCTIONS OF THE CENTRAL BANK OF NIGERIA (CBN)

CBN Ordinance of 1958 subsequent amendments base the functions of the CBN as follows:

1) Issuance of legal tender currency notes and coins in Nigeria.
2) Maintenance of Nigeria's external reserves to safeguard the international value of the nation's currency.
3) Promotion and maintenance of monetary stability and a sound and efficient financial system in Nigeria.
4) It acts as banker and financial adviser to the Federal Government of Nigeria.
5) Acting as a banker and lender of last resort to banks
6) Acting as the apex regulator and supervisor of all financial activities in Nigeria

Self assessment exercise

4.0 CONCLUSION

We were able to conclude that a Central Bank is a state (national) bank established to keep a country's financial system under control and close supervision. It is the apex of all financial institutions in the country. It is normally a government bank but not managed. It serves as a regulatory bank in the country.

5.0 SUMMARY

The unit describes the genesis of the Central Bank of Nigeria and shows the Organogram, stating its functions in the nation's economy

6.0 TUTOR MARKED ASSIGNMENT

1) Narrate the genesis of the Central Bank of Nigeria

2) State the functions of the Central Bank of Nigeria

7.0 REFERENCES/FURTHER READING

Gilbart, J. W. (2014) *The Elements of Banking* (goggle)

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UNIT 5 THE NIGERIA BANKING STRUCTURE

CONTENTS

1.0 INTRODUCTION

In this unit, you will be introduced to the Nigeria Banking Structure and the component there of. This component is made up of Central, commercial, merchant, development/specialized banks and other quasi – financial institutions performing banking activities.

2.0 OBJECTIVES

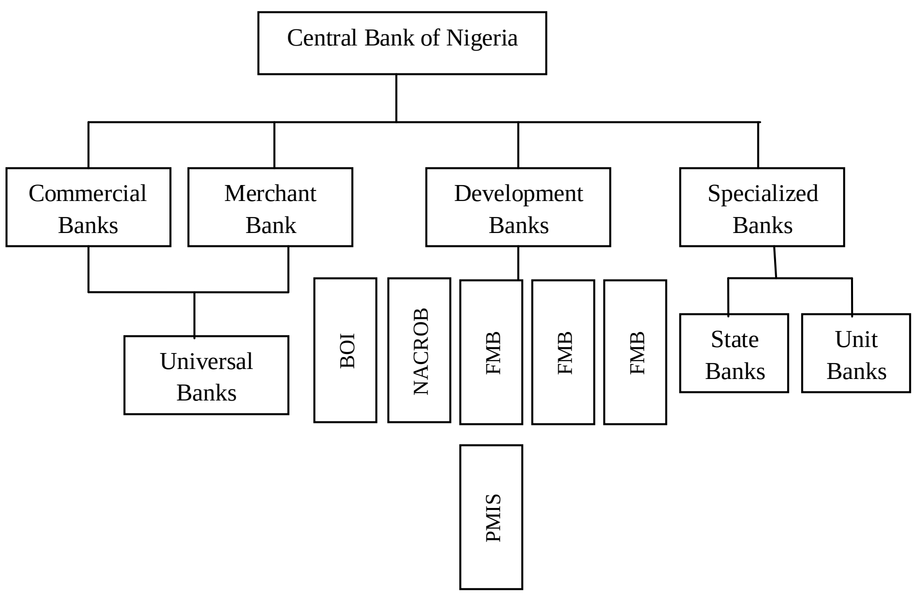
At the end of this unit, you shall be able to:

- Draw the structure of Nigeria Banking System
- Identify the component of the system

3.0 MAIN CONTENT

Nigeria Banking System is as shown in the organizational chart below in figure 1 with brief explanations to highlight the sections and development as the economy expands.

Figure 1 Nigeria Banking System



3.1 Commercial banks are very bivalent in any economy because they tee structured to provide working capital loans to the deficit sectors of economy They do hardly lend money on medium and long - term because of the character of their liabilities. Banking developed from the activities of the Gold Smith in the 18th Century England. This noble profession and practice that thrives on trust has developed within the contest of the following principles which will be discussed extensively in module 2 of the course material.

3.2 Merchant banking occupied a very important position in the banking system of many economies of the world. It is a bridge between the traditional financial services rendered by the commercial banks and the development banks. The merchant banking system is designed to provide mainly medium-term funds and if ever, long-term to the economy.

3.3 A development Bank is a financial institution primarily designed to provide medium to long-term credits to the economy. Generally, development banks do not operate chequering accounts of commercial banks nor engage in wholesale activities of the merchant banks. The development banks are well - structured to offer financial assistance and advice on projects whose gestation period are characteriscally long-term in nature. Infect, development banks cover the gap between the short/medium projects and log-term projects. Development Banks serve too as specialized banks which are established for specified purposes in the economy. Their functions are therefore aimed at developing those sectors which they are established for. However, they perform two broad functions which include the banking functions and the development functions: They raise bilateral and multilateral loans from international aid agencies like the United States Agencies for International Development (USAID), from international donor agencies like the World Bank and from their own governments.

3.4 Specialized Banks

Specialized banks are established in Nigeria to carter for the financial needs of some segments of the society.

On the whole the Nigerian Banking System is dynamic and it evolves as the socio-economic sphere of the Nigeria develops.

Self assessment exercise

List the component of the Nigeria Banking System

4.0 CONCLUSION

The Nigerian Banking System is dynamic and revolves around socio-economic development of the nation.

5.0 SUMMARY

The Nigerian Banking System has Central Bank of Nigeria as the apex bank as shown in the organogram, the commercial banks, merchant banks, development banks and other specialized banks that are established as per exigency- like microfinance banking institutions.

6.0 TUTOR- MARKED ASSIGNMENT

1) List the characteristic a development bank.
2) Describe a merchant bank.

7.0 REFERENCES/FURTHER READING

Adekanya,F (1986). *The Elements of Banking in Nigeria*:3rd Edition. Lagos; F and A Publishers

Ezeuduji,F.U.(2000).*'Historical Perspectives in Banking Practices Worldwide.'*Abuja; CBN Bullion vol.24No.4.

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UNIT 6 E-BANKING SYSTEM

CONTENTS

1.0 INTRODUCTION

In this unit, you will learn of the modern ICT based banking the E- Banking which is the in thing in this period to fasten the flow and administration of banking. This system involves banking without physical appearance at the branch, cashless banking, wired and wireless banking.

2.0 OBJECTIVES

At the end of this unit, you shall be able to:

- Explain the meaning of E-Banking
- Identify the nomenclatures basic to E-Banking
- State E-Banking tools
- List features of ATM Service and other related Banking

3.0 MAIN CONTENT

3.1 E-Banking

E-Banking refers to the effective deployment of ICT by banks. The fact that a bank uses computers does not qualify it as an E-bank. E-banking is the use of infrastructure of the digital period to create opportunities – locally or globally. E-banking assist in lowering of transaction costs and create new types of banking opportunities that address barriers of time and distance. You will agree that banking opportunities are local, global and immediate in E-banking. It can also be defined as the automated delivery of new and traditional banking product and services directly to customers through electronic interactive communication channels and other technology infrastructure with the following nomenclatures thus:

- Banking without physical appearance at the branch
- Cashless banking
- Wired and wireless banking

E-banking Tools/Channels are:

- Plastic cards
- Personal computers
- Telephone
- Mobile phones
- Internet
- Automated Teller Machines (ATMs)
- Point-of-sale or point-of-interaction machines

3.2 Automated Teller Machine (ATM)

An Automated Teller Machine is a computerized telecommunication device that provides the customers of finanacial transactions in a public space without the need for a human clerk or bank teller.

3.2.1Features of ATM Services

- Cash withdrawal
- Balance inquiry
- Mini statement request
- Fund transfer
- PIN Change

3.3 Mobile Banking

Mobile banking (also known as M-Banking), m-banking, SMS Banking, etc) is a term used for performing balance checks, account transactions, payments etc. via a mobile device such as a mobile phone.

Mobile Banking product provides basic banking services to customers from their mobile phones. It is an SMS- driven platform which facilitates access to banking services using cell phones through text messages.

Self assessment exercise
List E-Banking tools in a branch of a bank.

4.0 CONCLUSION

From the unit, you have learned of the modern ICT based banking the E- Banking which is the in thing in this period to fasten the flow and administration of banking. This system involves banking without physical appearance at the branch, cashless banking, wired and wireless banking.

5.0 SUMMARY

The summary of this unit include: E-Banking, Automated Teller Machine (ATM), Features of ATM Services and Mobile Banking

6.0TUTOR MARKED ASSIGNMENT

1) Explain the meaning of E-Banking
2) List features of ATM Service and other related Banking

7.0 REFERENCES/FURTHER READING

Gilbart, J. W. (2014) *The Elements of Banking* (goggle)

Mbat, D. O. (1995) *Money, Banking and Financial Markets: An Introduction* Calabar University of Calabar Press.

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MODULE 2

UNIT 1 COMMERCIAL BANKING SYSTEM

CONTENTS

1.0 INTRODUCTION

Commercial banks are very bivalent in any economy because they tee structured to provide working capital loans to the deficit sectors of economy. They do hardly lend money on medium and long - term because of the character of their liabilities. Banking developed from the activities of the Gold Smith in the 18th

Century England. This noble profession and practice that thrives on trust has developed within the contest of the following principles:

i. The Fractional reserve principle
ii. The public confidence principle
iii. The principle of maturity transformation lie use of short – term deposits to finance long - term loans in the anticipation that new deposits win be made by customers)
iv. The principle of buy low – sell high (obtain cheap deposit to lend at high interest rates). In addition to the above, the basic principles of banking include:

- Maintenance of Liquidity and profitability.
- Paying and receiving cheques.
- Taking deposit, etc.

2.0 OBJECTIVE

At the end of this unit, you shall be able to:

- Define a Commercial Bank
- Draw an Organizational Structure of a Commercial Bank
- Analysis of the balance sheet items
- State the functions of Commercial Banks

3.0 MAIN CONTENT

3.1 Meaning and Definition of a Commercial Bank

Ozoani, G.C. defines "a bank as an institution that accepts deposits-of money from the public withdrawable by cheque and used for lending". John Paget defines "a bank on the basis of functions performed by the bank. Nobody can be a banker who does not:

i. Take deposit accounts,
ii. Take current account,
iii. Issue and pay cheques, and
iv. Collect cheques - crossed and uncrossed for its customers

The Banking Regulation Act of India, 1949 defined a bank "as the accepting for the purpose of lending or investment of deposits of money from the public repayable on demand or otherwise and withdrawable by cheque draft, and order or otherwise".

In Nigeria, the Banks and other Financial Institutions Act (BOFIA) 1991 (as amended) defined banking as "the business of receiving deposits on current account, savings account or other similar accounts, paying or collecting cheques drawn by or paid in by customers, provision of finance or such other business as the Governor may by order published by gazette designated as banking business". The adoption in 1999 and subsequent introduction of the universal banking system has brought another dimension to the definition of a bank or banking business in Nigeria.

Section 61 of the BOFIA 1991 (as amended) defined banking as "the business of receiving deposits on current account, savings or other accounts; paying or collecting cheques drawn or paid in by customer; of provision of finance, consultancy and advisory services relating to corporate and investment matters; making or managing investment on behalf of any person; and the provision of insurance marketing services as the Governor of the Central Bank of Nigeria may be Gazette designate as banking business". As a matter of fact, any institution that carries its activities within the confines of the two latter definitions is simply a bank and for that matter a commercial bank.

3.2 Organizational Structure if a Commercial Bank

The structural pattern or interface of a commercial bank will depend on such issues as size, policy and economic realities on ground. Some banks are structured along regional basis. In this case, in addition to the head offices are the regional or Zonal offices and then the branches/cash centers. The head office is managed by a Chief executive/Managing Director and surrounded by Directors and / or Executive Directors of various functional and sub - functional departments (Legal, Administration, Finance, Inspection, Credit, Information Technology' etc).

The regional offices are managed by managers who may be in the rank of Deputy or Assistant General Managers. Regional offices report to the head office. The branches and cash centres are managed by officers who in turn report to regional offices. A bank may also be structured on the basis Head Office and then the branches/cash centres. In both regionally structured and non-regionally structured arrangements, the managements are responsible to the Board of Directors.

Self-assessment exercise

Draw an Organizational Structure of a Commercial Bank

3.3 The Commercial Bank/ Balance Sheet

A hypothetical balance sheet of a commercial bank is shown below:

Balance sheet of Mumo Bank Plc as at 30th September, 2005

Application of funds:	(N)	(N)
Cash and near cash assets	xxx	
Investments	xxx	
Loans and advances	xxx	
Other assets	xxx	
Deferred charges	xxx	
Fixed assets	<u>xxx</u>	xxx
Sources of Funds:		
Deposits and ancillary accounts	xxx	
Taxation	xxx	
Dividends	xxx	
Other liabilities/charges	xxx	
Debenture stock	xxx	
Share capital	xxx	
Statutory reserves	xxx	
Other reserves	xxx	
Retained profits	<u>xxx</u>	xxx

Acceptances, guarantees and other obligations on behalf of customers
and liabilities of customers arising thereof xxx

3.3.1 Analysis of the balance sheet items

Application of funds

i) Cash
This comprises notes and coins in the till that is tied to satisfy both cash reserves requirements and customers requests for money.

ii) Near Money Assets (short tern funds)
These are mainly market instruments such as treasury bills, treasury certificates, money at call, stabilization securities. They also include current account held at CBN and Inter-Bank placements.

iii) Investment
These are placements mainly in the capital market. They include bonds, stocks, shares, etc

iv. Loans and Advances
These are financial accommodation to customers.

v. Other Assets and Deferred Charges
These include inter-branch claims, prepayments, interest and fees receivable, etc.

vi. Fixed Assets
Fixed assets include land and building, machinery and equipment, furniture and fittings, other moveable assets such as vehicles.

Sources of Fund

i) Deposits and Ancillary Accounts
These include savings, demand and time deposits. It also includes domiciliary accounts.

ii) Taxation
Tax liability of the bank not been remitted to the relevant tax authority.

iii) Dividends
Dividends approved for shareholders but not yet appropriated.

iv) Other Liabilities and Charges
These include interest charges due to customers and other

liabilities not yet liquidated.

v) Debenture Stock

Debenture is a debt instrument. It is issued by the bank to raise capital.

vi) Share Capital

This represents the equity (ordinary share) interest of the Share holders that is issued and fully paid. Preference sharp ray also be issued as part of equity.

vii) Statutory Reserves

This is the balance compulsorily required by the monetary authorities to be reserved by the banks.

viii) Other Reserves

These include other non-statutory reserves which may include special, redemption, revaluation, etc.

ix) Retained Profit

This is part of profit after tax not appropriated as dividend.

x) Acceptances, Guarantees, etc.

These include instruments consisting claim on the bank that must be made good on maturity. They include instruments accepted, guaranteed by the banks on behalf of customers. These items appear on the asset side of the balance sheet because as they constitute claim on the bank by third parties, they also impose claims on the customer in favour of the bank.

xi) Contingent Liabilities

This represents expenses that may arise from litigations and disagreements.

Self assessment exercise

State sources of funds of a commercial bank

3.4 Functions of Commercial Banks

The introduction of the Universal banking system has delimited the functions of commercial banks in Nigeria. The post Universal functions Include:

i. Mobilization of Funds

The commercial banks primarily mobilize savings, demand, time deposits from the surplus unit of the economy.

ii. Financial Intermediation

A certain percentage of the mobilized funds is channeled to the deposit unit of the economy for development purposes.

iii. Lending

The commercial banks offer financial accommodation to customers and non-customers alike inform of loans and advances.

iv. Implementing Standing Orders

Banks carry out various instructions of their customers to debit their accounts at various intervals (weekly, monthly, etc) for specific purposes.

v. Safekeeping of Valuables

Banks undertake to keep such valuables as jewelries, bangles, trinkets, certificates, etc for customers.

vi. Status Report

Commercial banks do cooperate with other banks to release status report on customers if such request is made. However, this is done in absolute caution to avoid the violation of the duty of secrecy obligation owed every customer.

vii. Insurance Marketing

The commercial banks now engage in underwriting of risks and insurance marketing though mainly through their subsidiaries.

viii. Issuance of Travelers' Cheques and other Settlements Systems

Banks facilitate trade and commerce through the issuance of travelers' cheques, letter of credit, and provision of ATMS, credit and debit cards.

ix. Other Services

The other functions rendered by commercial banks include unit trusts, Trustship account, and Pension funds management financial consulting, etc.

x. Payment and Collection of Cheques

The commercial banks pay and collect instruments to and for their customers respectively.

4.0 CONCLUSION

In this unit it was concluded that Commercial banks are very bivalent in any economy because they are structured to provide working capital loans to the deficit sectors of economy

5.0 SUMMARY

In this unit you learnt of the meaning and definition of a Commercial Bank, organizational Structure of a Commercial Bank and the Commercial Bank balance sheet as well as analysis of the balance sheet items including the functions of Commercial Banks.

6.0 TUTOR MARKED ASSIGNMENT

1) Analysis of the balance sheet items
2) State the functions of Commercial Banks

7.0 REFERENCES/FURTHER READING

Gilbart, J. W. (2014) *The Elements of Banking* (goggle)

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UNIT 2 MERCHANT BANKING SYSTEM

CONTENTS

1.0 INTRODUCTION

Merchant banking occupied a very important position in the banking system of many economies of the world. It is a bridge between the traditional financial services rendered by the commercial banks and the development banks. The merchant banking system is designed to provide mainly medium-term funds and if ever, long-term to the economy.

The origin of this banking system could be traced to the activities of merchants in the 18th Century England. Ugwuanyi (1991: 182) gave an insight into the activities of these merchants in England thus: "these merchants, who were large and well established traders, sometimes were able to grant trade credit and financial services to their customers by accepting bills of exchange drawn by, or on their customers". He added that for this service of agreeing to be paid in future, or for using his name the merchants receive some money (discounting). This dual role of the merchants selling of goods and offering of special financial services, with time metamorphosed to a special type of banking that is known today as merchant banking.

Ezeuduji (2000: a) reinforced the above views when he added that the activities of immigrant merchants in 13ritain in the eighteenth century led to the growth of merchant banks. The merchants were considered so reliable that their acceptance of bills of exchange added value to them. He contended that their expertise was beyond the business of acceptance of credit and including long-term finance for projects abroad. These activities were subsequently expanded and formalized into merchant banking business. In essence, merchant banking spans over 200 years.

2.0 OBJECTIVES

At the end of this unit, you shall be able to:

- Define Merchant Bank
- Discuss Organizational Structure of Merchant Banks
- List the Functions of Merchant Banks
- State the Sources of Funds to Merchant Banks

3.0 MAIN CONTENT

3.1 Meaning and Definition of a Merchant Bank

Generally, merchant banks are designed to provide medium to long-term finances to the economy. They are not actually structured to provide short- term finances considered a primary function of the commercial banks whose liabilities are characteristically short-term in nature.

The Banking Amendment Act 1979, defined "a merchant bank as any person in Nigeria, who is engaged in wholesale, banking, medium and long-term financing, equipment leasing, debt factoring, investment management, issue and acceptance of bills and management of unit Trusts".

3.2 Organizational Structure of Merchant Banks

The Merchant banking system was fashioned after the unit banking system of the American Commercial Banking System. The Merchant Banks run unit banking system that does not permit the opening of branches outside the head office.

A merchant best is run by a team of management that is responsible to the Board of Directors. The Managing Director oversees the day-to-day activities of the bank which includes the supervision of the key functional departments such as: Banking, Portfolio Management, Operations, Treasury and Corporate Finance Services.

Self assessment exercise
Discuss Organizational Structure of Merchant Banks

3.3 Functions of Merchant Banks

The functions of merchant banks may be grouped into five as follows:

1. Portfolio Management Function
Merchant banks do undertake to manage the portfolio of investments of some investors at a fee for such services.

2. Banking Function
The Banking function include

i) Mobilization of deposits from both the private and public sectors of the economy.
ii) Granting of loans/advances to individuals, corporate bodies and the government.
iii) Equipment leasing. This involves the purchasing and leasing of equipment for rental fees to the bank.
iv) Loan Syndication (Consortium lending)
Loan syndication involves the coming together of banks or group of banks to provide credit to a customer. Syndication arises if the project to be funded is risky for a single bank, amount involved is enormous, there is need for loan portfolio diversification and the amount required exceeds the legal lending limit of one bank.

3. Corporate Finance Services
The corporate services include acting as issuing house to issuers, assisting in private placement, stockbrokerage services, investment and advisory services.

4. Treasury Services
The merchant banks do invest in money market instruments such Treasury Bills, Treasury Certificates, etc. They also issue short-term instruments such as certificates of deposits commercial papers etc.

5. Operation's Services
This includes the remittance and receipt of funds for their customers at

both local and international levels. Merchant banks also open letters of credit and accept bills on behalf of their customers in favour of foreign creditors and issued by the creditors respectively.

3.4 Sources of Funds to Merchant Banks

The main sources of funds to merchant banks include:

i. Share Capital

Funds are raised through the issuance of shares subscribed to by the individuals, bodies corporate and governments.

ii. Statutory Reserve

The funds statutorily required to be, transferred from profit to reserve account is available for use 'by the banks.

iii. Interest arising from credit facilities and other charges

The cost of funds provided to borrowers as well as various charges for services rendered form part of merchant banks' funds.

iv. Retained Profit

This is the percentage of net profit retained for future expansion. Retained profit remains part of shareholders equity.

v. Debentures Merchant banks raise money through the issuance of debentures.

vi. Mobilized Deposits

The huge deposits mobilized from the economy forms part of merchant banks funds.

vi. Borrowing Merchant banks may borrow money from lending institutions including the Central Bank of Nigeria.

Self assessment exercise

Define and explain Merchant Bank.

4.0 CONCLUSION

It is the conclusion in this unit that Merchant banking occupied a very important position in the banking system of many economies of the world. It is a bridge between the traditional financial services rendered by the commercial banks and the development banks. It is designed to provide mainly medium-term funds and if ever, long-term to the economy.

5.0 SUMMARY

In summary, you learnt of the, Meaning and Definition of a Merchant Bank, Organizational Structure of Merchant Banks Functions of Merchant Banks and Sources of Funds to Merchant Banks.

6.0 TUTOR MARKED ASSIGNMENT

1) List the Functions of Merchant Banks
2) State the Sources of Funds to Merchant Banks

7.0 REFERENCES/FURTHER READING

Gilbart, J. W. (2014) *The Elements of Banking* (goggle)

Mbat, D. O. (1995) *Money, Banking and Financial Markets: An Introduction* Calabar University of Calabar Press.

Odetunle, T.(2010), *Essentials of Banking & Monetary System in Nigeria (A Text on Elements of Banking) Lagos Nigeria Jaytees Publishers*

UNIT 3 DEVELOPMENT BANKING SYSTEM

CONTENTS

1.0 INTRODUCTION

In this unit you will learn of a development Bank as a financial institution primarily designed to provide medium to long-term credits to the economy. The emphasis is development because it is used by developing economy to help in key areas where conventional banks have short-coming in fulfilling their traditional functions. They take over development projects and prorammes which is of socio-community based with less emphasis on profitability and more on benefits example infrastructural needs.

2.0 OBJECTIVES

At the end of this unit, you shall be able to:

- Define a development Bank
- Narrate the Histology of Development Banking in Nigeria
- List Nigerian Development Banks
- State reasons for Development Banking at local and global

3.0 MAIN CONTENT

3.1 Meaning and Definition of a Development Bank

A development Bank is a financial institution primarily designed to provide medium to long-term credits to the economy. Generally, development banks do not operate chequering accounts of commercial banks nor engage in wholesale activities of the merchant banks. The development banks are well - structured to offer financial assistance and advice on projects whose gestation period are characteriscally long-term in nature. Infect, development banks cover the gap between the short/medium projects and log-term projects.

3.2 Histology of Development Banking at the Global and Domestic Levels

The global financial system experienced deep depression in the 1930s especially in Europe and America. This situation did not improve up to early 1940s. Although some countries had already, commercial and merchant banks as at that time, these baits especially the commercial, could not provide any solution to the fledging world economy The reason was that these banks could only provide credits on short- team basis because of the character of their liabilities. Commercial banks liability are purely for the provision of working capital loans hence, could not have been part of any strategic solution to tackle the world's economic problem as at that time.

The precarious situation compelled the British and Americans and other parts of the world to think of an institution or institutions that could provide long-term funds for the reconstruction of Europe destroyed by the World War II. This type of institution or institutions was or was also needed to bring the world economies together to reduce the possibility of making the mistakes that prompted the depression of 1930s.

The institutions that then emerged after series of discussions and consultations were the International Bank for Reconstruction and Development (a.k.a world bank), the International Development Association, International Finance Association, Multilateral Investment Guaranty Agency etc. The International Monetary Fund was established the same year (1944) as the World Bank.

Nigeria:

The wind of Development banking blew across Nigeria and Indeed post independent African countries mainly in the 1960s. The African Development Bank (ADB) was established in 1963. In Nigeria, the first development bank was established in 1964 being replacement to some other smaller development institutions that existed before the 1960s. This was called the Nigerian Industrial Development Bank (NIDB). In1973, the Nigerian Agricultural and cooperative Bank (NACB) were established. The other development banks are the Federal Mortgage bank, Urban Development bank, etc.

In 2002, Bank of Industry (BOI) was established. The BOI is a Merger of
the Nigerian Industrial Development Bank (NIDB), the Nigerian Bank for Commerce and Industry (NBC!) and the National Economic Reconstruction Fund (NERFUND). The BOI was officially launched by the federal government on May 17, 2002 with an initial authorized share capital of N50billion.

The Nigeria Agricultural Cooperative Bank (NACB), Family Economic Advancement Programme (FEN") and peoples' Bank of Nigeria were merged to form the Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB) in October, 2002.

Self assessment exercise
Define a development Bank

3.3 Evolutionary Theories of Development Banking (Reasons for Development Banking at Local and Global Levels)

The development banking system emerged in the financial system on the basis of the following reasons:

i. Gap Thesis
At both national and international levels, the need for development banking institutions could then be placed on the yawning gap that both the existing commercial and merchant banks were unable to fill. These institutions, especially the commercial banks could not provide credits on medium to long-term basis due to the character of their liabilities. The development banks were designed to fill these gaps.

ii. Exigency Thesis

The development banks were also established to assume a pivotal role in the handling of the situation at hand in *the* late 1930s to 1940s. The global economy Men was torn into shreds, the domestic economies mere also affected by the spillover effects of the World War II.

ii. Catalyst Thesis
The development banks were the only institutions that could quicken the pace of economic activities for sustainable development at both local and international levels.

3.4 The Nigerian Development Banks

3.4.1 Bank of Industry (801)

The bank of Industry is merger of the Nigerian Industrial Development Bank (NIDB), Nigerian Bank for Commerce and Industry (NBCI) and the National Economic Reconstruction Fund (NERFUND). Bank of Industry was conceived in 2001 and was launched on May17, 2002 with an authorized share capital of N50billion.

The bank was primarily established to provide long-term funds to the small, medium and large scale enterprises in the economy. The Functions of Bank of Industry (See Ajibola, 2005 pp. 100-1)

a. Provision of medium and long-Man credit facilities to the industrialists.
b. Provision of overdraft.
c. Rendering of business advisory services
d. Acting as Executors and Trustees.
e. Provision of foreign exchange services
f. Raising equity and debt finance
g. Consortium lending

h. Provision of teasing facilities

i. Buying and selling of shares.

Basic Tenets of Bank of Industry

The basic tenets guiding its operations are (cf: Ajibola, 2005. 100-101)

i. The bank will only tendon projects having the following characteristic:

a. The cost of production must be very low so as to guarantee profit.

b. The profit must be the type in which Nigeria has a high comparative advantage over other countries.

c. The project must involve transformation of local raw materials to finished goods.

d. The finished goods must be marketable locally and internationally.

e. The business venture must contribute positively to development of the country.

f. The project must be technically feasible, commercially viable and economically desirable.

ii. Prospective beneficiaries from the bank must fulfill the following conditions:

a. It must be an industrial concern of any size (small, medium or large
b. The company must be able to make at least 25% contribution.
c. The beneficiary must have proven record and ability to meet repayment obligations.
d. The beneficiary must be able to satisfy lending principles of capability,
e. The beneficiary must provide collateral security
f. The beneficiary must have good track record frombankers.
g. The company must be labour intensive with high employment generation ability.
h. Both new and existing companies can approach the bank for assistance.

Sources of Funds

i. Equity capital in the following proportion:

a.	Ministry of Finance	59.54%
b.	Central Bank of Nigeria	40.36%
c.	Nigerian Citizens and Associations	0.10%
		100.00%

ii. Income derived from normal banking operations

iii. Repayment of loan and over draft.

iv. Loans and debentures obtained from other parties.

v. Loan facilities from international organizations such as (IMF), International Bank for Reconstruction and Development (1BRD) and the African Development Bank (ADB).

vi. Recapitalization fund from the Federal government of Nigeria

3.4.2 The Nigerian Agricultural, Cooperative and Rural 'Development Bank. (NAC1RDB)

The Nigerian Agricultural Cooperative and. Rural Development Bank (NACRDB) is a merger of the Nigerian Agricultural¯0nd Cooperative Bank Unified, (NACB), Family Economic Advancement Programme (FEAP) and the People's Bank of Nigeria.

The bank was established in 2002 as a Limited liability company to provide micro and moan finance and other support to agriculture, and in addition, small and medium scale businesses. It is wholly owned by the government and has continued to complement efforts at boosting agricultural production in the economy.

Main Objectives of the bank

i. Acceptance of savings deposits from customers and the repayment of same with accrued interest, as and when due

ii. Provision of opportunities for self-employment in the rural areas, thereby reducing rural-urban migration.

iii. Augment government efforts in the diversification of the productive base of the national economy.

iv. Inculcation of banking habits at the grass root level of the Nigerian society.

v. Purveyor of affordable credit facilities to the less privileged segment of the Nigerian society who cannot readily access the services of conventional banks.
i. Promotion of capacity building through the provision of relevant training and advisory services.
vi. Fostering an accelerated growth and development of the agricultural sector and rural economy.
vii. Encouraging the formation of cooperative societies at all levels (see NACRDB Brochure, October 2002 in Ajibola 2005 p.101)

The Broad objectives of the Bank

The bank's broad objectives include (see Ajibola, 2005 p.101 -2)

i. Accepting savings from individuals and cooperative societies and to make repayment on such savings together with appropriate interest.
ii. Developing the economic base of the low income groups through the provision of loan to small scale enterprises, such as bakers, hairdressers, petty traders.
iii. Promotion of all classes of agricultural loans for farming, livestock, poultry and fisheries, etc.
iv. Encourage the formation of cooperatives.
v. Engendering good banking habits among Nigerians, especially the target group.
vi. Encouraging capacity building through the training of beneficiaries on proper loan utilization, repayment, savings and formulation of strategies for profitable marketing of products.

Sources of Finance (Funds):

The main sources of finance available to the bank are as follows (see Ajibola, Cited):

i. Equity finance comprising of 60% Federal Ministry of Finance and Central Bank of Nigeria 40%.
ii. Donor and other agencies such as ECOWAS.
iii. Income generated from operations
iv. Loan obtained from Federal Government and the Central Bank of Nigeria

3.4.3 The Federal Mortgage Bank (FMB)

The acute housing problem which characterized the Nigerian economy in the late 1970s compelled the Federal Government to set up the Asabia committee. The committee among other things looked into the possibility of setting up a mortgage bank in Nigeria. The report of the committee favoured the establishment of a mortgage financial institution that will be equipped to provide long-term finance to Nigerians for building purposes. Consequently, in January 19977, the Decree No. 7 of 1977 now an Act (as amended) establishing the federal mortgage bank was enacted.

The Decree (as amended) empowered the bank to take over all the assets and liabilities of the then Nigerian Building Society that was created in 1956. The Federal Mortgage Bank (FMB) had an initial share capital of N20 million which was increased by N130 million in 1979.

The government has continued to increase the share capital and powers of the bank to enable it meet up with the realities of time. For instance, the Federal Mortgage Bank Act of 1991 (as amended) empowered the bank to act as apex mortgage institution in Nigeria. Also, the finance functions of the bank were transferred to the Federal Mortgage Fund in 1993.

Functions of Federal Mortgage Bank (FMB)

i. The provision of long-term credit facilities to the other mortgage institutions in the country at the rate and on terms as may be &ermined by the Board in accordance with government policy.
ii. The encouragement and promotion of the development of mortgage institutions at state and national levels.
iii. The supervision and °control of activities of mortgage institutions in Nigeria.
iv. The provision of long-term credit facilities directly to Nigerian individuals.

y. The provision of loans, with the approval of the government, at competitive commercial rates of interest or credit facilities to commercial property developers, estate developers and developers of offices and other specialized types of buildings,

vi. To accept deposits and savings from mortgage institutions, trust funds, post offices and private individuals.
vii. To promote the mobilization of savings from the public.
vii. To invest in companies engaged in the manufacture and production of building materials with a view to stabilizing the cost of such materials.

ix. To furnish financial advice and assist in the provision of managerial, technical and administrative services for companies engaged in the building materials industry or building construction and development in the county.'

x. To guarantee loans from private investment sources for building development

xi. To provide guarantees in respect of promissory notes and other bills of exchange issued by °licensed banks in the country and discount soda notes or bills.

xii. To issue its own securities including debentures and bonds under federal government guarantee and issue promissory notes and other bills of exchange for the purpose of raising funds from financial institutions.

xiii To establish a sinking fund for the redemption of securities it and provide for contribution by it to the sinking fund.

xiv. To carry out research aimed at improving housing patterns and standards in both urban and rural areas of Nigeria.

xv. To carry out research on anytime construction industry in the country.

xvi To organize and operate, in collaboration with reputable insurance companies, a mortgage protection system designed to guarantee liquidity to mortgagers as well offering liberal premium terms (see Adekanye 1986: 39 - 40)

The additional powers of the bank courtesy of the FMB Act of 1991 as amended) and subsequent transfer of the finance functions of the bank to the federal mortgage fund created new functions to the bank thus: (see Ugwuanyi, 1997: 352):

a. The licensing, supervision and regulation of primary mortgage institutions;
b. Management of the National Housing Rind;
c. Acting as a banker and adviser to other mortgage finance institutions that retail functions to individuals, organizations and estate developers;
d. Carrying our researches aimed at improving housing patterns and standards in both urban and rural areas;
e. Encouragement and promotion of the development of mortgage institutions at states and national levels, and provision of long-term finance for them.

Self assessment exercise
List Nigerian Development Banks

General Powers of the Bank

The decree (now an Act) establishing the Bank empowers and mandates it to do the following:

a. To accept term deposits and savings from Mortgage Institutions, Trust Funds, Post Office and Private.
b. To promote mobilization and savings from the public.
c. To provide financial, technical and managerial services to advice companies operating in the building materials industry and construction in the economy.
d. To support companies engaged in the manufacture of building materials by investing in them.
e. To provide guarantees and discounting services on bills of exchange and promissory notes issued by commercial banks in Nigeria.
f. To establish a sinking fund primarily for the redemption of own securities and provision for contribution into the sinking fund.
g. To ensure that research is conducted with a view to raising the housing patterns and standards in the country.
h. To carry research in the area of mortgage finance and the building construction in the economy,
i. To device and operate in collaboration with insurance companies a mortgage system that would guarantee liquidity to mortgagers as well as offer liberal premium toms.
j. To do anything as well as enter into any transaction which in its opinion is necessary to ensure the proper performance of its functions under this section.

Sources of Funds

The Federal mortgage bank raises its funds mainly from the following sources:

1. Loan capital injections and grants from the Federal Government of Nigeria.
2. Mobilization of Deposits. The bank mobilizes savings and time deposits from the citizens.
3. Capital (equity) contribution from the CBN.
4. The bank raises money from institutional lenders (commercial banks, insurance companies, etc)
5. Funds arising from operations (service charge, interest on lending to borrowers.)

Other development banks include Nigeria Export - Import Bank (MEXIM), the Urban Development Bank (UDB), etc including Specialized Development Institutions.

Self assessment exercise
State reasons for Development Banking at local and global

4.0 CONCLUSION

In this unit, the conclusion is that a development Bank as a financial institution primarily designed to provide medium to long-term credits to the economy. The emphasis is development because it is used by developing economy to help in key areas where conventional banks have short-coming in fulfilling their traditional functions. They take over development projects and programmes which are of socio-community based.

5.0 SUMMARY

In summary in this unit, you learned of the following:

Define a development Bank, Narrate the Histology of Development Banking in Nigeria List Nigerian Development Banks, State reasons for Development Banking at local and global

6.0 TUTOR MARKED ASSIGNMENT

1) The Federal mortgage bank raises its funds mainly from the following sources: name them
2) What are the functions of Federal Mortgage Bank of Nigeria?

7.0 REFERENCES/FURTHER READING

Gilbart, J. W. (2014) *The Elements of Banking* (goggle)

Mbat, D. O. (1995) *Money, Banking and Financial Markets: An Introduction* Calabar University of Calabar Press.

Odetunle, T.(2010), *Essentials of Banking & Monetary System in Nigeria (A Text on Elements of Banking) Lagos Nigeria Jaytees Publishers*

UNIT 5 NON-BANK FINANCIAL INSTITUTIONS

CONTENTS

1.0 INTRODUCTION

In this unit you will learn that Insurance Companies are major players in the Non-Bank Financial Services sector of the Nigerian economy. They are established under the Insurance Special Ion Rind (Amendment) Decree NO. 62 of 1992 took over the function of approving and licensing of Insurance Companies from the Federal Ministry of Finance in Nigeria. They are established under the Insurance Special Ion Rind (Amendment) Decree NO. 62 of 1992 took over the function of approving and licensing of Insurance Companies from the Federal of Finance in Nigeria.

2.0 OBJECTIVES

At the end of this unit, you shall be able to:

- List Non-Bank Financial Institutions in Nigeria
- State the Importance of the Non-Bank Financial Institutions
- Distinguish between non-bank and bank financial institutions

3.0 MAIN CONTENT

3.1 Non-Bank Financial Institutions

3.1.1 Insurance Companies

Insurance Companies are major players in the Non-Bank Financial Services sector of the Nigerian economy. The Nigerian Insurance Supervisory Board (NISB) established under the Insurance Special Ion Rind (Amendment) Decree NO. 62 of 1992 took over the function of approving and licensing of Insurance Companies from the Federal of Finance in Nigeria.

The Decree charged NISB with the responsibility of administering, supervising, regulating and controlling the business of Insurance in Nigeria- In 1997, NISB Was replaced by the National Insurance Commission (NAICOM). In Nigeria insurance companies engage in life and non-life (fire, accident, motor vehicle, burglary, life, marine, etc.) business from which premium from policy holders. The abilities of the insurance companies are covered by the Nigeria Reinsurance Corporation established in 1977.

The insurance companies are required to contribute 20% of the total sum to the corporation. The business of insurance has continued to grow from strength to strength and much is expected from this important sector. Currently, the number of insurance companies is over 60 with a total assets/liabilities of over N100 billion.Thevolume of business has increased proportionately. The just concluded capitalization exercise in the insurance has raised the stake with the result that only viable ones survived the "Tsunami".

The life insurance companies were required to raise N3.0 billion, General insurance companies N5.0 billion, and Reinsurance N10.0bon as capital base.

Insurance Companies are in the main owned by both Nigerians and Foreigners. However, ownership had significantly remained more companies being controlled by indigenous interests while few have mixed ownership. In any case, a consolidation exercise could introduce a new ownership character as all the insurance companies may desire to be quoted on the Nigerian Stock Exchange.

Principles of Insurance

Insurance business is one that is basically built on trust, and peculiar principles which have formed the basis of transactions over the years

These principles are as follows:

i. Principles of insurable interest

ii. Principles of indemnity

iii. Principles of subrogation

iv. Principles of utmost good faith (uberrimae fidei)

iv. Principles of contribution
vi Principles of proximate cause.

3.1.2 Pension Scheme

Pension Scheme is an arrangement designed by the government through the constitution or other statute which guarantees an employee some financial benefits on leaving employment.

In Nigeria, the first Pension Act was promulgated in 1951 and was later replaced by the 1979 Pension Act The Public sector had its own pension arrangement different from that for private sector.

The public sector pension scheme is a non - contributory scheme while the private sector pension scheme is contributory in nature. Employees are expected to contribute a certain percentage of their total emolument to pension scheme.

The 2004 Pension Perform Act has brought in its wake numerous changes ranging from the introduction of pension fund regulators, administrators and managers in Nigeria.

3.1.3 Traditional Financial Institutions

These are non-bank financial institutions whose existence predates both the invasion of Africa by the colonialists and the emergence of conventional financial institutions in the contment. The traditional financial institutions have continued to thrive in most African countries especially Nigeria due to some unique characteristics surrounding their activities. Their operations are in the main very secretive, requires little amount of money and mutual Mast exist between and among members. Some of the popular traditional financial institutions are:

i. Isusu (Esusu)

ii. Local money lenders
iii. Community Development Associations
iv. co operative, thrift and credit Union
v. Office savings group
vi. Input - Output sharing
vii. Social dub
viii. Town Union monthly Associations
ix. Credit union.

3.1.4 Finance Companies

Finance companies are non - bank financial institutions regulated and supervised by the Central Bank of Nigeria under the provisions of the SOFIA 1991 (as amended). These institutions provide short-term financial services such as the local purchase order financing, project financing, leasing of equipment and debt factoring.

The main sources of funds to finance companies include public offer of bonds, issuance of commercial paper, issue of equity shares, commercial bank credit facilities, and insurance companies. etc.

Generally, finance companies do charge higher interests on their financial accommodation, discounts, loans fees and other services to average for high operating costs. The greatest challenge to finance companies in Nigeria has remained the crisis of confidence question between the operators and the public. Fortunately, this appears to have been taken care of by the emergence of a vibrant post consolidation financial system in Nigeria.

3.1.5 Discount Houses

The discount houses sub-sector is a very important part of the Nigerian financial system. The idea of Discount Houses was muted and nurtured by the Central Bank of Nigeria in the 1990's to strengthen and sustain the ailing banking system. Sections 28 of the Central Bank of Nigeria Act 1991 [1]and Section 59 of BOFIA 1991 charged the bank with the responsibilities of licensing, regulating and supervising of discount house business in Nigeria. A discount house is a non - bank financial institution engaged in discount house business. The business of discount house include the trading in and holding of money market instruments - treasury bills, treasury certificates, commercial bills, etc.

Discount houses save as conduit through which banks were able to channel excess liquidity and access same to and from the Central Bank of Nigeria. They also serve as secondary market for the trading of treasury bills and other commercial bills. Currently, many of the discount houses have identified with corporate finance hence, established advisory services units in other to provide additional services to their clients. Discount houses are in the main owned by group of financial institutions (mainly banks). Their major sources of fund include:

- Paid up capital (subject to changes)
- Income from advisory services
- Reserves
- Call money
- Short-term borrowing
- Selling of short-term bills to the CBN, and
- Out right borrowing from the CBN through night advances.

3.1.6 Bureau De Change

Bureau De Changes are spot market institutions in the foreign exchange market licensed by the Central Bank of Nigeria. Before now, the business of Bureau De Change was directly regulated by the Federal Ministry of Finance. The Bureau De Change business started in Nigeria in 1989 and the number of the operators as at 1995 was 223.

In 2006, the Central Bank of Nigeria took steps to further liberalize the foreign exchange market. The apex bank brought the Bureau De Changes into the official foreign exchange market as brokers and sells foreign exchange to them on bi-weekly basis. The business of Bureau De Changes is already seriously thriving in Nigeria with the permission granted the commercial banks to run Bureau De Changes.

3.2 Importance of the Non-Bank Financial Institutions by Fund Mobilization and Contributions to the Economy in General

i. Although the non-bank financial institutions are not legally mandated to act as the conventional banking institutions, they do mobilize funds from the private and public sectors of the economy. They in turn channel part of these funds to the ultimate users and /or members. For instance, the insurance companies do mobilize funds arising from the payment of premium part of which they may lend to people and organizations on special arrangement.

Similarly, the traditional financial institutions do mortgage funds frame members and in most cases lend to them from the pool for overall economic growth and development of the county

ii. The non - bank financial institutions offer greater accessibility in the borrowing of funds at the micro level to the members of the society. The provision of micro credit guarantees both grass root and even economic growth and stability necessary for meaningful economic development

iii. The non-bank financial institutions offer specialist services in the economy. These services enhance the efficiency of the operation of both the banking and other sectors of the economy. For instance, the insurance companies reduce the risks associated with various businesses through underwriting, the pension funds scheme provide reassurance to the workers by promising them wonderful post- active days, etc.

iv. Employment Creation

The non - bank financial institutions have continued to provide employment for over 21 percent the entire Nigeria work force.

Self assessment exercise

List Non-Bank Financial Institutions in Nigeria

3.3 Distinguish between non - bank and bank financial

institutions

Generally, non - bank financial institutions are not designed to render in totality the services of banks. Therefore, there are several differences between the services rendered by the two groups of financial institutions. Ugwuanyi in Ugwuanyi (1997: 91 - 2) identified the differences as follows:

a. NEFIs tend to be characteristic of a sophisticated financial system, which, in turn, is indicative of a high income economy.
b. The changing reasons why people save as an economy develops have been offered as a primary reason for the growth of the non - bank financial institutions.
c. It has been noted that the financial instruments issued by the non - banks as they go about their business are not classified as money for they are mere money substitutes, i.e. alternative forms of debt.
d. The growth of the non-banks is consistent with certain features of high income economy as follows;
    (i) Increasing income alters the propensity to save of those fortunate to be in the high income category. A major consequence of the revision in the propensity to save is that cash receives less priority in a person's wealth portfolio. As persons seek to hold assets which combines income and certainly, intermediaries will develop financial instruments which satisfy this demand. This is known as financial proliferation of financial instruments.

Self assessment exercise
State their major sources of fund for discount Houses

4.0 CONCLUSION

In this unit you have learned that Insurance Companies are major players in the Non-Bank Financial Services sector of the Nigerian economy.

5.0 SUMMARY

The summary of the unit is for you to know the list of Non-Bank Financial Institutions in Nigeria and the Importance of the Non-Bank Financial Institutions in the Nigeria economy.

6.0 TUTOR MARKED ASSIGNMENT

1) State the Importance of the Non-Bank Financial Institutions
2) Distinguish between non-bank and bank financial institutions

7.0 REFERENCES/FURTHER READING

Gilbart, J. W. (2014) *The Elements of Banking* (goggle)

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Unit 6 MICRO-FINANCEBANKING INSTITUTIONS

CONTENTS

1.0 INTRODUCTION

In this unit you will learn of the micro-Finance banking institutions as provider of financial services to the under privileged (poor) of our community who are traditionally not served by the conventional financial institutions.

2.0 OBJECTIVES

At the end of this unit, you shall be able to:

- Discuss the need for engaging in micro-financing
- State ownership of Microfinance Banks
- List Source of Funds of Microfinance Banks
- Categorize MFBs

3.0 MAIN CONTENT

The weak performance of the then community banks in Nigeria due to weak capital base, incompetent management, weak internal control, lack of deposit insurance schemes, poor corporate governance, lack of well defined operations, restrictive regulatory/supervisory requirements among other factors led to the formulation of Micro finance policy by the Central Bank of Nigeria (CBN). According to the policy there are three features distinct micro-finance from other formal financial products. These are the smallness of loans advanced and/or savings collected the absence of asset-based collateral and simplicity of operations.

A Micro-Finance Bank (MFB) unless otherwise stated according to Central Bank of Nigeria shall be constructed to mean any company licensed to perform the business of providing micro finance services such as savings, loans, domestic funds transfer and other financial services that are needed by the economically active poor, micro and small and medium businesses/enterprises to conduct or expand them as defined by the micro finance policy guidelines.

The supervisory and regulatory guidelines for MFBs are issued by CBN in exercising the powers conferred on it by Banks and Other Financial Institutions Act (BOFIA) No.25 of 1991 as amended. The guidelines are designed to regulate micro-finance activities and the establishment and operations of MFBs that seeks to accept savings/deposits from members of the public and engage in micro-finance intermediation services for their clients in Nigeria.

Categories OF MFBs

There are two categories of MFBs namely: The one licensed to operate

1) As a unit bank.
2) In a state.

The recognition of these two categories does not preclude them from aspiring to have a national coverage, subject to their meeting the prudential requirements. This is to ensure an orderly spread and concentration in areas already having large numbers of financial Institutions.

The MFBs licensed to operate as a unit bank shall be community based. It can operate branches and/or cash centres subject to meeting the prescribed prudential requirements and availability of free funds for operating branches/cash centres. The minimum paid up capital for this category of banks shall be N20.0million for each branch.

The MFBs licensed to operate in a state shall be authorized to operate in all parts of the state (or of the Federal Capital Territory as applied) in which they registered, subject to meeting the prescribed prudential requirements and availability of free funds for opening branches. The minimum paid up capital for this category of MFBs shall be N1.0billion.

3.2 Ownership of Microfinance Banks (MFB)

Micro-finance banks can be established by individuals groups of individuals, community development association's private corporate entities or foreign investors. Significant ownership diversification is encouraged to enhance good corporate governance of licensed Micro-finance banks. No individual, group of individuals, their proxies, can establish more than one MFB under a different a different or disguised name.

3.3 Source of Funds of Microfinance Banks

The sources of funds of any MFB operating in Nigeria shall come from the following:

a) Shareholder's funds paid up share capital and reserves.
b) Deposits/Savings of customers.
c) Debenture (Bonds)/Qualifying medium to long term lo0ans.
d) Grants/Donations from individuals, organizations, government and international sources
e) Fees and Commissions and
f) Interest income.

3.4Activities of MFB

Permissible activities of Micro-finance Banks include:

a) Acceptance of various types of deposits including savings, time, target and demand deposits from individuals, groups and associations except public sector (government) deposit.

b) Provision of credit to its customer both formal and informal self – help groups, individuals and associations.

c) Promotion and monitoring ancillary capacity building in such area as record keeping and small business management.

d) Issuance of redeemable debentures to interested parties to raise funds from members of the public with the CBN approval.

e) Collection of money or proceeds of banking instruments on behalf of its customer through correspondents banks.

f) Provision of payment services such as salaries, gratuities and pensions for the various tiers of government.

g) Provision of loan disbursement services fo0r the delivery of the credit programmes of governments, agencies, groups and individuals for poverty alleviation on a non-recourse basis.

h) Provision of ancillary banking services to their customers, such as domestic remittance of funds and safe custody.

i) Maintenance and operation of various types of account with other banks in Nigeria.

j) Investment of surplus funds of the MFB in suitable instruments, including placing such funds with correspondent banks in Treasury bills.

k) Payment and receipt of interests as may be agreed between the MFBs and their clients in accordance with existing guidelines.

l) Operation of micro-leasing facilities, microfinance related hire-purchase, and arrangement of consortium lending and supervision of credit schemes to ensure access of microfinance customers to inputs for their economic activities.

m) Receiving of re-financing or other funds from the CBN and other sources, private or public on terms mutually acceptable to both the provider of the funds and the recipient MFBs.

n) Provision of microfinance related guarantees for MFB customers to enable them have greater access to credit and other resources.

o) Buying, selling and supplying industrial and agricultural inputs, livestock, machinery and industrial raw material to poor persons on credit and acting as agents for any association for the sale of such goods or livestock.

p) Investment in shares or equity of anybody corporate, the objective of which is to provide microfinance services to poor persons.

q) Encouragement of investment in cottage industries and income-generating projects for poor persons as may be prescribes by the CBN.

r) Provision of services and facilities to consumers to hedge various risks relating to microfinance activities.

s) Provision of professional to poor persons regarding investments in small businesses; rendering managerial, marketing, technical and administrative advice to customers and assisting them in obtaining services in such fields.

t) Mobilizing and providing financial and technical assistance and training to micro-enterprises

u) Provision of loans to microfinance clients for home improvement and consumer credits and

v) Performance of non-banking functions that relate to microfinance business development services such as cooperatives and group formation activities, rural industrialization and other support services needed by micro-enterprises.

4.0 CONCLUSION

In this unit you learned of the micro-Finance banking institutions as provider of financial services to the under privileged (poor) of our community who are traditionally not served by the conventional financial institutions and concluded that the weak performance of the then community banks in Nigeria due to weak capital base, incompetent management, weak internal control, lack of deposit insurance schemes, poor corporate governance, lack of well defined operations, restrictive regulatory/supervisory requirements among other factors led to the formulation of Micro finance policy by the Central Bank of Nigeria (CBN).

5.0 SUMMARY

The unit deliberated on the following: Micro-finance Banking Institutions, Ownership of Microfinance Banks (MFB), Source of Funds of Microfinance Banks and activities of Microfinance Banks.

6.0 TUTOR MARKED ASSIGNMENT

1) List Source of Funds of Microfinance Banks.
2) Discuss how Microfinance Banking in Nigeria are categorized.

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Module 4

Unit 1: Bank Lending
Unit 2: Lending and Credit Administration
Unit 3: Interpreting the Accounts of Customers
Unit 4: Negotiable Instruments-Bills of Exchange
Unit 5: Negotiable Instruments-Cheques and Promissory Notes
Unit 6: Manpower Development in Banking and Finance

UNIT 1: BANK LENDING

1.0 Introduction
2.0 Objectives
3.0 Main Content
   3.1 Basic principle of lending
   3.2 Cannons of good lending

1.0. INTORDUCTION

Lending is concerned with granting of credit facilities to customers. The term ‘credit’ is derived from the Latin word ‘credere’ meaning to trust. Credit is thereby defined as the ability to source goods and services in exchange for a promise to pay back later.

One of the Principal businesses of a bank is lending and the bulk of bank’s income comes from this source. The survival of a bank depends mostly on the efficient management of its lending portfolio.

Lending involves taking risks and assessing the risk of defaults and movements in interest rates. It is a key element in the creation and maintenance of depositor relationships particularly with business firms. Every bank lending aims at three principal objectives viz: growth, profitability and liquidity. Ana appropriate aand sound measurement of risk is required in lending since it involves risk taking. For this to take place a well-conceived lending policies coupled with careful lending practices are essential to facilitate credit creating function and minimise risk in lending. The bulk of technical training a banker receives is geared towards lending hence an astute banker is described as a shrewd banker. Students often misuse the two terms borrowing and ‘lending’ hence explanation of these two words will remove such confusion. Simply put borrowing means getting credit facilities from the bank while lending means giving credit facilities to the customer. Thus while customer borrows, banker lends.

Funds mobilized from customers in form of deposit form the basis for the credit creation exercise by the bank which is achieved through lending. At this juncture, it is pertinent to explain the meaning of the two technical words 'Banker' and Customer' coupled with relationship between them.

2.0. OBJECTIVES

After going through this unit, you should be able to:

- Evaluate the risks in Customers' loan application.
- Discuss the factors affecting prudent bank lending.
- Explain the basic principles of lending
- List the canons of good lending.

3.0. MAIN CONTENT

3.1. LENDING DECISION

Decision to lend to customers in influenced by some factors and every prudent banker should consider them in evaluating any customer asking for loan/credit facilities. These include:

(i) Internal policies of the bank.
(ii) Credit guidelines of the Central Bank of Nigeria.
(iii) The principles of bank lending.

(i) Internal Policies of the bank evolve policy guidelines which provide the framework for dealing with loans and advances. Some of these policies are designed by each bank based on its peculiar internal constraints like sectoral performance, deposit base, existing exposure, risk exposure etc. Similarly, other policies of each bank are largely derived from the guidelines issued periodically by the Central Bank of Nigeria for control purposes like liquidity requirement, reserve requirement etc.

For example, deposit base (total amount mobilised as deposit) is the greatest constraint to lending in that if the deposit base of a bank increases more funds to meet various borrowing requests of the customers will be available thereby increasing the bank's ability to grant more loans. On the other hand, if deposit base of the bank is low, new lending can hardly take place.

Similarly, liquidity ratios as earlier explained in chapter six prescribed in the Central Bank of Nigeria monetary circular is another form of limitation on banks ability to grant credit facilities. If the ratio is high, the bank's ability to grant loans to customers will be reduced and the opposite holds when the ratio becomes low.

(ii) ***Credit guidelines of the Central Bank of Nigeria.***
Another important factor that exerts great influence on the decision of bank to lend to its customer is the Central Bank of Nigeria credit guidelines. These guidelines not only dictate the volume of loans but the direction of commercial banks lending. The annual credit guidelines of the Central Bank of Nigeria usually contains among others; the aggregate credit allowed, the sectoral distribution of loans and advances and penalties for non-compliance.

(iii) ***The principal of bank lending.***
The principles of bank lending comprise of basic principles and general principles and these principles are explained as follows:

Self Assessment Exercise: *How would you appraise a loan application by a Customer of your bank?*

3.2. Basic principles of lending.

There are three basic principles of lending viz: safety, suitability and profitability of the loan.

3.2.1. *Safety of the loan:*

A loan is said to be safe if the borrower meets both interest and principal repayment of the loan as at when due. This is determined by assessing the character, integrity and reliability of the borrower. The customer us considered credit worthy and qualified for the loan if the source(s) of repayment is/are certain and un-doubtful.

Bank attaches more importance to the safety of the loan or advance. If loan granted is repaid promptly, more customers of the bank will benefit and the banking business will continue to grow and the survival of the bank is guaranteed.

3.2.2. *Suitability of the loan:*

A loan is considered suitable if the purpose of the loan is lawful and does not contravene the credit guidelines of the Central Bank. Similarly, loan must satisfy all safety and risk considerations. Bank must satisfy itself that the advance sought by the customer is not meant for illegal purposes or for a purpose which is in conflict with the economic or monetary policies of the government as stated in the credit guidelines of the Central Bank. For example, a banker will turn down a loan request whose purpose is to gamble or bet because the loan is meant for a speculative purpose.

3.2.3. *Profitability:*

This refers to profits accruing to the bank or additional business generated as a result of the loan granted to a customer. Since commercial banks are established to maximize profit most of its activities are geared towards profit maximization. In doing this banks accept deposit from customers and pay interest on deposits and lend larger part of deposit mobilized to customers at a profit. The rate of interest charged on its loan is higher than the rate interest paid to the depositor and the difference constitutes profits to the bank. More importantly banker is always eager to lend if such borrowing will create a good connection between him and the customer, thereby other businesses for the bank.

3.3. Canons of good lending.

The following principles which are also known as canons of good lending must be followed by every lending

officer before granting credit facilities to bank customers. Canon means the general standard or principle by which something is judged.
If the following principles are strictly followed, a potential borrower can be adjudged at the onset to determine his repayment ability.

3.3.1. The character and ability of the borrower.

The character and business ability of the prospective borrowers must be studied and known. The bank knows that character of his personal customers through his track record that is past operations on the account of the customer since the account is opened. What to look for includes: whether past advance granted had been repaid as scheduled in accordance with arrangements, if and whether the account has been operated satisfactorily or unsatisfactorily. Also the integrity and character of such customers must not be doubted. For business customer, apart from analysing and evaluating the past financial statements of the company, the bank must satisfy himself that the customer is capable of running the business well enough to enhance profitability and that a substantial part of the profits made are ploughed back into the business for future growth. The management of such business must be efficient. The ability of the business to have repaid past advances given coupled with its present performance will indicate whether or not the customer gas ability to repay the loan applied for.

3.3.2. Amount required by the customer.

Customer must state how much he wants to borrow and this must be confirmed by the manager. The essence of confirmation is to ensure the actual amount needed by the customer to carry out the project into completion is advanced to him. The rule is '*do not lend too little or too much*'. In other to determine this, for a business customer bank will demand for and analysed by considering notable ratios, the cash budget and financial statements of the customer for abut five years for an old customer of three years for a new customer. Then the customer's own contribution is then compared with the amount sought to see whether the bank is being asked to lend too much. Ideally, bank will be prepared to lend only a proportion of the total amount requested for customer is expected to provide at least one third of total sum needed for the project. Any proposal to the bank to finance the whole project will be turned down because if customer has no stake in such project it is believed that customer will not be serious with the project and see to its successful completion. Banks prefer to see some of the customer's money involved in the deal for this will be a sort of incentive for borrower to see the project to a profitable conclusion. For the project to be carried out successfully, bank must ensure that the amount granted to the customer together with the customer's own contribution is enough to carry out the project.

3.3.3. Purpose of the loan

The purpose for which the advance is sought must be revealed to the bank to determine whether or not the loan will be granted by the bank. The purpose of the loan must be in line with the internal lending policies of the bank. Bank should not lend for illegal purpose or for any purpose that is not in line with the Central Bank guidelines. For example, no bank will lend for a speculative purpose or lend for gambling. Before a loan is granted to a corporate customer, bank must ensure that the company has power to borrow and loan is meant for legal purpose. This can be known by perusing the Memorandum and Articles of Association of the company. Any loan granted by the bank to a corporate customer which is later found to be illegal purpose cannot be recovered by the bank under the law.

3.3.4. Length of time for which the customer requires the loan.

Bank is expected to be liquid at all the time so that it can meet its customer's cash withdrawal on demand at all time. This is the reason why the commercial bank cannot afford to lend on long term. Instead commercial bank prefers to lend on short term, medium term or grant self-liquidating loan. Such loans are mostly meant for working capital, to buy raw materials which will be used to repay the overdraft or loan granted.

3.3.5. Repayment Schedule

The lending banker would be interested in how the borrower intends to repay the loan granted. If it is from his future earnings, the borrowing customer must be able to submit a simple cash budget. In a personal loan,the manager will ask for details of the customer's earnings now and in the future through his normal monthly expenditure. The statement will incorporate his existing payments on a mortgage, insurance premium, hire purchase repayments, personal and house keeping expenses.

3.3.6. Borrower's Character

The character of the borrower is of paramount importance to lending banker The lender is usually interested in the credit worthiness of the borrower. This is ascertainable from his past track record; the customer's relationship with the bank, opinion may be received from his other banks.

3.3.7. Security Offered by the Customer

The ability to produce tangible security is not the most important criteria for granting credit facilities, as the offer of collateral security is secondary. Security is only something to fall back on if the expected source of repayment should fall. It should serve only as a buffer insurance against unforeseen adverse developments. ***The real security for any advance is the character of the borrower*****.**

A good security must be easy to value, marketable or realisable. Which means, it must be easy for the bank acquire legal title and in the case of landed property in an accessible place for valuation and realisation. Examples of valuable properties usually accepted as securities by banks are:

i. Certificate of occupancy
ii. Life insurance policies
iii. Stock and share certificate especially of quoted companies
iv. Guarantees

In order to protect the interest of the bank, not only should the customer deposit the property but he should be asked to sign legal documents to indicate that he deposits the property for loan and not for safe keeping. His signature should be witnessed to avoid forgery. A good lending proposition should stand on its own without leaning on the benefits of the security.

Self Assessment Exercise: *List and explain in detail any five canons of good*

of good lending.

4.0 CONCLUSION

You have learnt from this study unit that Lending involves some basic principles like safety of the loan, suitability of the loan and profitability. You will also have learnt that consideration for lending is based on general standards or cannons aimed at ensuring that loans granted to customers can be recovered. Finally, we learnt that **security for a loan is only something** to fall back on if the expected source of repayment should fall. It should serve only as a buffer insurance against unforeseen adverse developments. Therefore, the real security for any advance is the character of the borrower.

5.0 SUMMARY

Generally, the principles of good lending centre on safety, suitability and profita bility. Safety refers to the assurance that the loan granted would be repaid at maturity. By suitability, we mean that the banker should ensure that the loan granted by it meet the government policies, circular and guidelines and the granted as loan would be dictated by the types of customers involved. Finally, the banker should ensure that profit accrue to the bank as a result of the loan granted to its clientele. The following maxims or standards of good lending were discussed:

1) The character and ability of the borrower
2) Amount required by the customer
3) Purpose of the loan
4) Length of time
5) Borrower's character
6) Security offered

6.0 TUTOR MARKED ASSIGNMENTS

i. Lending involves a banker's assessment of risk of defaults and movement of interest rates. Discuss.
ii. Chief Olu James, one of your customers, apply for a loan of ₦400,000. What matters should you take into account when considering whether to agree to his application.
iii. The real security for a loan to your customer is not the valuable properties offered but the borrower's character. Discuss.

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UNIT 2: LENDING AND CREDIT ADMINISTRATION

CONTENT

1.0 INTRODUCTION

You would recall that, in the preceding study unit, the reasons for effective management of bank lending and credits are identified and discussed. The fundamental purpose for managing the funds under loans and advances effectively is informed by the fact that lending of funds to bank customers involves the use of the depositors' money. Therefore, the necessary modalities must be instituted to ensure that recoveries of funds under loans and advances are managed in order to protect the interest of the depositors. This is imperative towards ensuring that the profitable operations and survival of the banks are not in jeopardy. Therefore, this study unit is used to identify and discuss the necessary steps involved in effective management of lending and credits being granted to the customers.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- discuss lending and credit administration
- mention and explain modalities for lending and credit administration

3.0 MAIN CONTENT

3.1 LENDING AND CREDIT ADMINISTRATION

Essentially, the back business of commercial banks revolves around financial

intermediation activities. Therefore, they source for funds from the members of the public, corporate organizations and other institutions through various forms of deposit accounts. Such funds are then used for the purpose of lending and credit facilities.
The depositors are entitled to the funds whenever they so desired. The banks are invariably under legal obligations to honour the demands of the depositors. The banks therefore, are constantly under obligation to evolve ways of maintaining delicate balance between the recoveries of funds loaned out and the demands of the depositors.
This is where the issue of lending and credit administration comes into play. In essence, the funds which are loaned out to customers have to be managed in such a manner that such funds can be available from the customers whenever they are needed to meet the demand of the depositors.
The delicate balancing of demands for funds by depositors and recoveries of loans and advances from customers is predicted on the necessity for the commercial banks to survive in business and generate reasonable returns for the shareholders. It implies that lending and credits should be managed in such a way that generating funds from loan repayments is tailored towards meeting periodic demands of the depositors.
In order to manage loans and credits effectively for adequately meeting the demands on the deposit accounts of customers, there are operational modalities normally put in place by the banks for administering loans and advances right from inception to the time when they totally liquidated. Such modalities of managing loans and advances are identified and discussed below.

3.2 MODALITIES FOR LENDING & CREDIT ADMINISTRATION

1. Loan Budget and Composition

It is an ideal practice for commercial banks to determine the amount of funds which will be devoted for loans and advances in a given period of time taking into consideration the requirements of the regulatory agency. Hence the banks determines total amount

of loans and advances for a particular period, maximum amount for a single case, and
average amount of lending to be made per case.
In terms of composition of loans and advances that will be granted to customers, the
banks consider issues such as types of loan and advances, sectors, sub-sectors and
industry mix, investment or equity participation, and productivity sector favoured by the
government.

2. Loan Committee and Authorisation

It is also a common practice for commercial banks to institute a loan and advances
committee to deal with major credit decisions. There are some responsibilities which the
loan committee is expected to perform.
Such responsibilities or duties of the loan committee may, among others, include the
following:

- To review major new loans;
- Review major loan renewals;
- Ascertain the reasons for renewal;
- Assess delinquent loans & determine the cause of delinquency;
- Ensure compliance with established lending policy;
- Ensure full documentation of loans before disbursement; and
- Ensure consistency in the treatment of loan customers.

The responsibilities of a loan committee as stated above may not be exhaustive and
therefore, individual bank may include other duties for the committee to discharge.

SELF ASSESSMENT EXERCISE 1

Mention the responsibilities of a loan committee of the commercial bank?

3. Periodicity and Loan Grading System

In terms of periodicity, the duration of loan composition is very critical. Therefore, the
basic considerations are call loans, short-term working capital loan, intermediate-term
investment loan, and long-term investment loan.
A typical grading system for loans and advances is as presented below, which indicates
classification of loans in terms of their likely performance. The classification is as
follows:

Figure 2.1: Grading of Loans and Advances

Grade	Classification
A	Top Grade Loan
B	Good Loan
C	Marginal Loan
D	Doubtful Loan
E	Likely Bad Loans

SOURCE: NOUN COURSE MATERIAL
The grading will be used to allocate funds accordingly in terms of the magnitude of money that will be assigned to each grade.

4. Evaluating Credit Worthiness & Securities

There is issue of the evaluation of the creditworthiness of the customer that is prospecting for loan facility. Factors that are taken into consideration, among others, include the following.

- Financial Statements
- Other Required Information
- Personal interview
- Credit investigation
- Information on Operations; personnel, financial, market, etc.

The other important contemplation is the concern of collateral security which is very critical for loan consideration. In this regard, the critical issues to consider are as follows:

- Criteria of acceptable security;
- Listing of acceptable security;
- Allowable margins to be made; and
- Qualifications of becoming guarantors.

The discussion above implies that the issue of securities is just as important as the consideration of the creditworthiness of the customer in loan and credit administration.

SELF ASSESSMENT EXERCISE 2

Mention the areas for which data are required for assessing the credit worthiness of a customer.

5. Expected Revenue from Loan

The expected revenue from any loan facility to the bank is referred to as the pricing of the loan, which is the lending cost plus the profit inherent in the facility. It is expressed formula wise as:

Lending Cost = Cost of fund + Cost of lending operation
+ Liquidity of the advance + Risk.
The rate of interest in relation to the cost of the fund to the bank definitely partly
determines the amount of profit that can be earned from a loan facility. The interest
chargeable on loan is normally considered in relation the bank rate of the apex bank;
the former being above the latter.
The interest rates being charged on loans by the banks may depend on factors, which
are in the following areas:

- The bank's cost of funds;
- The riskiness of the borrower;
- Compensating balances & fees;
- Interest rates charged by competitors;
- The ruling bank rate in the economy; and
- Other banking relationships with the borrower

SELF ASSESSMENT EXERCISE 3

Mention the factors that influence the rate interest being charged for bank loan.

6. Assessment of Credit Risk & Compensating Balance

It is always a practice for the bank to assess the risk involved in the loan being granted
to a customer. This calls for determining the risk average in relation to previous loans
that are similar to the loan under consideration, the types of risk involved, and the
insurable risk that should be insured by the bank.
It is always necessary for the bank to retain some funds in the loan account of the
customer which is regarded as the compensating balance. This is considered in line with
the bank's right of offsetting deposit balance for an outstanding loan and the method of
computation of compensating balance.

7. Loan Approval, Documentation & Accounting Record

The process of the loan approval refers to the necessary considerations which are taken
cognizance of towards the final decision on loan request. Such considerations include
the following issues:

- Sanctioning limits of various types of loans;
- Delegation of Authority;
- Uniform Presentation Format & Standards;
- Descriptions of the client;
- Assessment of management;

- Pricing Policy;
- Purpose of the loan request;
- Repayment schedule & source of repayment;
- Secondary sources of repayment including collateral values & guarantors;
- History of past borrowing with the bank;
- Required monitoring steps;
- Timing of submissions of financial statement;
- The loan Decision; and
- Loan officer's comments including consistency with policy.

More considerations can be included in the above list for effective loan approval
process. The documentation starts from the time that the customer applies for the loan.
Therefore, the documents to be kept bank include application form filled by the
customer, evidence of security, loan agreement, credit reports, referee forms, and
financial statements, among others.
The necessary considerations for the accounting records include recording procedure to
be followed, loan and project profiles to be maintained, statements to be provided by
the customer, and loan recovery recording, among other accounting records to be
maintained by the bank.

SELF ASSESSMENT EXERCISE 4

Mention the necessary considerations normally taken into cognizance towards final
decision on loan request.

8. Collection Procedure & Handling Problem loans

In terms of collection procedure, there are critical considerations which include
repayment schedule as prepared by loan officers, remainders & circular letters to be
sent out on periodic basis, constant personal visits by the credit officers, and collection
the principal payment and interest charges on the loan necessarily through cheques.
The procedures for managing problem loan problems and their beneficiaries involved
the following considerations:

- Criteria to be used for identifying problem loans;
- Methods to be used for identification problem loans;
- Steps to be taken in managing the loans and their beneficiaries; and
- The issue of setting up loan reserves for managing such risk

4.0 CONCLUSION

You have learnt from this study unit that it is necessary for commercial banks to
institute appropriate measures that would guarantee the effective management of their
loans and credits. Such measures are imperative towards ensuring that funds are
allocate for classes of loans to be granted to the customers, appropriate documents are
secured for assessing credit worthiness of customers, and the risks involved in the
credits are understood. The other considerations include pricing of the loans towards
making profits, assessing and securing securities for the loans, appropriate
compensating balances are maintained for loans, documentation is effected, and
necessary ways of managing problem loans are instituted, among others.

5.0 SUMMARY

In this study unit, topics covered include the following:

• Lending and Credit Administration
• Modalities for Lending & Credit Administration

In the next study unit, you will be taken through the discussion on lending appraisals &
decisions.

6.0 TUTOR-MARKED ASSIGNMENT

Mention and discuss the modalities for lending and credit administration.

Solution to Self Assessment Exercises

SAE 1:

The responsibilities of the loan committee would include the following:

• To review major new loans;
• Review major loan renewals;
• Ascertain the reasons for renewal;
• Assess delinquent loans & determine the cause of delinquency;
• Ensure compliance with established lending policy;
• Ensure full documentation of loans before disbursement; and
• Ensure consistency in the treatment of loan customers.

SAE 2:

The areas for which data are required for assessing the credit worthiness of customer

• Financial Statements
• Other Required Information
• Personal interview
• Credit investigation
• Information on Operations; personnel, financial, market, etc.

SAE 3:

The factors that influence the rate of interest being charged on bank loan include:

- The bank's cost of funds;
- The riskiness of the borrower;
- Compensating balances & fees;
- Interest rates charged by competitors;
- The ruling bank rate in the economy; and
- Other banking relationships with the borrower

SAE 4:
The necessary considerations normally taken into cognizance towards final decision on
loan request include:

- Sanctioning limits of various types of loans;
- Delegation of Authority;
- Uniform Presentation Format & Standards;
- Descriptions of the client;
- Assessment of management;
- Pricing Policy;
- Purpose of the loan request;
- Repayment schedule & source of repayment;
- Secondary sources of repayment including collateral values & guarantors;
- History of past borrowing with the bank;
- Required monitoring steps;
- Timing of submissions of financial statement;
- The loan Decision; and
- Loan officer's comments including consistency with policy.

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Unit 3: INTERPRETING THE ACCOUNTS OF CUSTOMERS

1.0 INTRODUCTION

In the previous Unit, we introduce the student to a major activity of banks which is Lending-its principle and cannons. In this Unit, we shall now unveil the Bank Customer and discuss further the Banker-Customer relationship. The types of accounts kept with the bank by the customer shall be briefly mentioned.

2.0 OBJECTIVES

- Differentiate a 'bank' from a 'banker'
- Define a bank customer
- Explain the relationship that exist between a customer and a bank
- Explain the different types of deposits in the banking system

3.0 MAIN CONTENT

3.1 Meaning of 'Bank and 'Banker'

The word bank or banker has been defined by various authorities like Perry, F.E. and Gilbert G. W. Perry F. E. Describes a bank as an establishment which deals in money, receiving it on deposits on demand, collecting cheques for customers and lending or investing the surplus until it is required. G. W. Gilbert defined a banker as a dealer in capital or more properly, a dealer in money. He is an intermediate party between the borrower and the lender. He borrows from one party and lends to another.

Similarly, section 61 of Bank and other Financial Institutions Decree (BOFID) 1991, describes a bank as a bank licensed under BOFID which is authorised to carry on banking business. The same section of the Decree also defines banking business, as the business of receiving deposits on current account or other similar accounts, paying or collecting cheques, drawn by or paid in by customers, provision of finance or such other business as the Governor of the Central Bank of Nigeria may by order publish in the gazette, designated as banking business.

In a simple language, a bank or banker is described as a company licensed by the Central Bank of Nigeria to carry on banking business like: acceptance of deposits, granting of loans, providing clearing facilities and duly recognised as a bank or a banker by other banks or bankers in Nigeria.

Self-Assessment Exercise: *Differentiate between a bank and a banker.*

3.2 Meaning of a Bank Customer

There is no statutory definition of a bank customer but an acceptable meaning of a bank customer was arrived at from a few celebrated cases in the United Kingdom which will be mentioned here.

Basically, for someone to become a bank customer an account either a deposit or current account must be opened with the bank. For example, in *Great Western Railway co. v. London and County Banking Co. Ltd.* (1901), it was held that the cashing of cheques over a long period for a person having no account with the bank did not make such person a customer of the bank. This means if one goes to the bank to cash a cheque, buy banker's draft, perform other banking transactions without maintaining as account one is not recognised as a bank customer. So also the length of time as which one maintains an account with the bank coupled with continuous operation of the account is not a yardstick in determining whether one is a bank customer.

Ladbrok v. Todd (1914)

Commissioners of Taxation v. English Scottish and Australian Bank Ltd. (1920)

Conclusively, someone becomes a bank customer as soon as the bank opens an account or agrees to provide banking services to him; with the intention that banker and customer relationship be a permanent one irrespective of the time when the relationship began.

In *Woods v. Martins Bank Ltd. (1958),* a manager of Martins Bank advised a customer W. to invest in private company which maintained an account at the same branch. W. did invest in the company and after one month of receiving the investment advice opened an account with M. Bank. No sooner the investment made thus the company wound up and W. lost money.

HELD: The bank was vicariously liable for the negligent advice, which had been given by their manager.

From this case Woods was regarded as becoming the customer of the bank from the moment he was advised to invest on the company and did make investment, though he opened his current account with the bank one month after he had received the advice.

3.3 Banker and Customer relationship

The relationship that exists between a banker and customer is basically a contractual one and it is a special one in that it is an *implied* and *unwritten* contract.

Primarily, the general relationship between a banker and a customer is that of a *debtor* and *creditor* respectively. The bank becomes a debtor and customer creditor, when he receives deposit from customer and when the customer withdraws his account he becomes a debtor and the bank becomes a creditor.

This established relationship between a banker and a customer was first brought into existence in the case of Joachinson v. Swiss Bank Corporation (1921). The facts and judgement in this case can be summarised as follows:

1. The basic relationship between banker and customer is that of debtor and creditor respectively but the rules may sometimes be reversed when the accounts of the customer is overdrawn.
2. A banker is not a trustee for deposited by a customer and is free to use the money the way he likes.
3. A banker is not acting as an agent in accepting deposit from the customer and can regard the money as his own until customer makes demand for his money. It follows that the customer has no right of action against his banker in respect of money deposited until after a demand has been made and the bank defaults.

4. Money deposited in the bank is not for safe custody. Hence a customer is not expected to be repaid with the exact notes and coins paid in.
5. A bank is expected to give a reasonable notice to a customer before closing his account.

The important thing is to note that while performing other banking functions, the relationship can be that of:

Agent and *Principal:* When banks collect cheques paid in by customer.

Bailee and *Bailor:* When bank receives customer's valuable items for safe custody.

Trustee: When bank acts as executor of a will or administrator of a trust.

Self-Assessment Exercise: *Discuss the relationship that exist between a bank and a customer.*

3.4. Deposits

Deposits can be classified according to the conditions of their use. In general, the access the depositor has to his or her funds determines the interest rates paid on deposits. By and large, deposits are money too, because they can be converted into money and because they can be used to settle debts. The following are some the types of deposits available to the customer.

3.4.1. Demand deposit- Current account: Demand takes the form of current of personal cheque accounts. This form of deposit is almost as liquid as money.

3.4.2. Savings or Notice Deposits: Here the depositor may officially withdraw funds only after giving notice to the financial institution. In practice, most banks waive the right to require such notice. Notice deposits typically pay a higher rate of interest but limit or exclude cheque writing. This distinction, however, has lost its relevance in most countries, as newly introduced saving accounts have become as accessible as chequing accounts

3.4.3. Term Deposits: This is another form of deposit that entitles the holder to a higher rate of interest. A contractual condition of placing funds in a term deposit is that the depositor does not withdraw from that account for a specific period of time.

3.4.4 Methods of Payment through the Banking System: Methods of payments through the banking system can be classified into two. These are:

i. Internal Methods of payments

ii. International Method of payment

i) Internal Method of Payment

This refers to methods of payment used within one country. The following instruments and methods are in use for internal payment through the banking system within Nigeria.

- Cheque
- Cash Card
- Credit Card
- Credit Transfer
- Standing Order
- Direct Debit
- Banker's Draft
- Certified Cheques
- Mail Transfer
- Mail Telegraphic Transfers

ii) International methods of payments

- Open Account Method
- Document Against or Acceptance
- Letter of Credit

- Documentary Credit
  - (a) Revocable Credit
  - (b) Irrevocable Credit
  - (c) Foreign Currencies
  - (d) Travellers Cheque

4.0. CONCLUSION

You have learnt from this study unit quite a number of issues that are important to the successful management of a bank. The relationship that exist between a bank and a customer is that of a debtor and creditor anchored on mutual confidence and trust. In other relationships, a banker could be an agent and a trustee to the customer.

5.0. SUMMARY

A bank is an establishment which deals in money, receiving it as deposits on demand, collecting cheques for customers and lending or investing the surplus until it is required. Deposits are classified according to the conditions of their use. In this Unit, the different types of deposits were discussed and they include demand deposits, savings or notice deposits and term deposits. In performing other banking functions, the relationship existing between a customer and a bank may be that of an Agent and Principal, a Bailee and Bailor and a Trustee.

The customer has various methods of payments through the banking system

Can be classified into two

- **Internal Methods of payments**
- **International Method of payment**

6.0. TUTOR MARKED ASSIGNMENTS

a) Discuss the facts and judgement of the case- Joachinson v. Swiss Bank Corporation (1921) as it relates to banker-customer relationship.

b) List the various methods of payments available to a customer in the Banking System.

c) What is the difference between a ‘bank’ and a ‘banker’?

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UNIT 4: NEGOTIABLE INSTRUMENTS-BILLS OF EXCHANGE

1.0. INTRODUCTION

In this study unit, we introduce the student to Negotiable Instruments-the main instruments with which legally binding transactions are carried out in today's world of business. In the olden days, trading as well as settlement of debt was effected by exchanging goods for goods in a system known as *trade by barter*. Due to numerous problems associated with this practice, modern money was invented and goods and services are now exchanges for money. An example of a Negotiable

Instrument as a Bill of Exchange whose importance locally and internationally will be discussed.

2.0 OBJECTIVES

After going through this Unit, the student should be able to:

- Explain what a Bill of Exchange means
- List the parties to the Bill
- Distinguish an Order Bill from a Bearer Bill
- Explain the acceptance of a Bill
- Discuss the discharge of a Bill
- List the different types of a Bill of Exchange

3.0 MAIN CONTENT

3.1 Negotiable Instrument

A negotiable instrument is defined as financial instrument which the full legal title is transferable by mere delivery or by endorsement and delivery with the effect that its complete ownership and legal interest pass to transferee who will be capable of having legal title superior to the title of the transferor provided he takes the instrument complete and regular on the face of it, before it is overdue, in good faith and for value.

The Characteristics of a Negotiable Instrument are as follow:

a) *Transferability:* The instrument must be transferable by delivery or by delivery and endorsement.
b) *Notice:* No notice of transfer of title is required to be given to any person liable on the instrument before the transferee establishes his title.
c) *Legal title:* This passes to the person who takes it in good faith and for value and without notice of any defect in the title of the transferor.
d) *The Holder:* The holder for the time being can sue in his own name. This means that anybody who is a bona-fide

holder of a negotiable instrument can sue in his capacity as its legal owner.

e) *Title:* Title passes free from equities of which the transferee has no notice. That is, the right of the true owner of the instrument to the restoration of his property cannot be enforced against the transferee.

Examples of Negotiable Instrument are:

- Bills of Exchange
- Cheques
- Bearer Bonds
- Bearer Debenture
- Treasury Bills
- Promissory Notes
- Bankers draft
- Dividend Warrants
- Bank Notes etc.

Conversely, postal orders, Debentures or share certificates, I.O.Us, Insurance Policies etc. are not negotiable instruments because they do not possess attributes of Negotiable Instruments.

3.2 **Definition of a Bill of Exchange**

The Bill of Exchange Act 1990 defines bills of exchange as an unconditional order in writing addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed determinable future time, a sum certain in money to or to the order of a specified person or bearer.

This definition sound complex and cumbersome therefore for better understanding, a specimen example of bill of exchange is given below with view of breaking down the above definition into its elements and each element explicitly examined as follows:

Lagos
15th July,
1988

N500,000.00

Three months after date Pay Kola Adeyemi or order five hundred thousand naira for value received.

Signed
Segun
Alowonle

To: John White

10, Queen's Avenue

London, United Kingdom.

i. 'An unconditional order' – This means payment of the face value of the bill (i.e. N500, 000.00 in our example) must be made without fulfilment of any condition. It must be a positive order from the drawer to the drawee to pay, not a mere request or authorisation. For example, pay Tola the sum of N1,000.00 provided he signs the receipt is a conditional order, and a document bearing this, direction is not a bill of exchange.
The usual wording is "Pay Y ..." though "please pay Y" ... is also regarded as unconditional.
ii. "In writing". An order to pay must be in writing but not orally stated. It may be typewritten, written in pen or pencil either on a paper, cardboard or skill of animal.
iii. "Signed by the person giving it". The drawer must sign the bill before it is given to the payee. In our example the bill is signed by Segun Alowonle.
iv. "Addressed by our person to another". In our specimen example above it is addressed by Segun Alowole to John white.
v. "Requiring the person to whom it is addressed to pay." This bill is addressed to John white and he is the drawee (i.e. the person required to pay).
vi. "To pay on demand or at a fixed or determinable future time".
A bill is payable on demand when it is paid at sight i.e. payment is made as soon as the bill is delivered to the drawee.
A bill is payable at a fixed future time when it become payable at a specific date in the future i.e. date of payment is fixed at onset e.g. pay on 15th July, 1998.
A bill is payable at determinable future time when the date of payment is to be made in the future but the actual date the bill is drawn. In our specimen, the bill is determined to be payable on October 15, 1998 being exactly three months after the bill is signed.
vii. "a sum certain in money". The exact money to be paid must be clearly stated. For example, in the specimen of the bill of

exchange above, the amount of five hundred thousand naira (N500, 000.00) is clearly stated.

viii. "To or to the order of a specified person or bearer". This mean the drawer will give direction as to who is to receive payment of the bill. In our specimen example, the bill is an order bill having said pay..... or order.

ix. "Valued received". For a valid contract there must be a valuable consideration (i.e. the price for which a promise is bought) hence to establish this fact these words are usually added to a bill of exchange.

Self-Assessment Exercise: *Define a Bill of Exchange and explain is different segments.*

3.2 Parties to a Bill of Exchange

There are three parties to a bill:

(a) *Drawer:* This is the person that draws and signs the bill i.e. the person giving an Unconditional order to the drawee to pay. In our specimen example, Segun Alowole is the drawer.

One person may fulfil two different capacities e.g. where he draws a bill payable to himself or to the drawee (such as a cheque on Z bank and payable to the same bank in payment of a debt). In such cases the bill is fully valid and can be negotiated in the normal way.

However, where the drawer and the drawee are the same legal person, the order is not strictly a bill of exchange, but a Promissory note in favour of the payee.

(b) *Drawee:* This is the person who is ordered or directed to pay i.e. the person who is to make payment. In our specimen example, John White is the drawee.

(c) *Payee:* This is the person entitled to receive the face value of the bill i.e. the person to whom the ascertained sum in money will be paid. In our example Kola Adeyemi is the Payee.

3.3 Distinction between Order Bill and Bearer Bill

A bill may be drawn payable to bearer, or to the order of the drawer, payee, or (sometimes) drawee.

(a) *Order bills* are those payable to a named payee or some person designed by him.
A bill is an order bill if:
   (i) The word ‘order’ is specifically written on the bill as in our specimen example above, or
   (ii) It is payable to a specified person without further words prohibiting transfer.

(b) *Bearer bills* are those transferable by mere delivery.
A bill is bearer bill if:
   (i) The bill itself so states
   (ii) The last or only endorsement is in blank
   (iii) The bill is payable to a fictitious or non-existent person.

3.4 Acceptance of Bill

A bill may either be ‘*a sight bill’* or *‘a term bill’*.

A *sight bill* is the bill in which acceptance as well as payment of the bill is effected by the drawee concurrently.

A *term bill* is the in which the drawee first accepts the bill but in which payment is postponed until the later date when the bill is matured. It is also known as tenor bill.

Acceptance is the promise made by an acceptor to the payee and every subsequent lawful holder of the bill to pay the face value of the bill according to the terms of the acceptance. In other words, acceptance of a bill is an indication by the drawee of his assent to the order of the drawer. S. 17(1), Bill of Exchange Act 1990.

On the acceptance of bill, the acceptor (i.e. Drawer) writes the word “Accepted” on the bill or signs across the bill. Acceptance of bill is of two types:

(i) *General acceptance*: This is giving when the drawee assents to the order of the drawer without qualification. In other words, a general acceptance confirms that the drawee is in agreement with the term of the bill as drawn.

(ii) *Qualified acceptance:* This occurs when the acceptance is made subject to some qualification the effect of which is to contradict the terms of the bill as drawn. This means that a qualified acceptance is that which has the effect of varying the terms of the bill as drawn e.g. partial acceptance, this occurs where the drawee agrees to pay part of the face value of the bill as against the whole sum e.g. where the bill is for N500 but the drawer accepts to pay N300 only.

3.5 Endorsement of a Bill

A bill is said to be indorsed or endorsed when the holder of the bill places his signature on the back of the bill. The effect of endorsement is to transfer title in the bill from the endorser (person who endorses the bill) to the endorsee (person to whom the bill is transferred). S.32 Bills of Exchange Act 1990 states that “an endorsement of a bill must transfer the entire amount and not just part of the sum payable on the face of the bill”. This means no partial endorsement of a bill is possible like a partial acceptance. For example suppose a cheque valued Five thousand naira was paid to X and X wishes to use the same cheque to settle Y whom he owed four thousand naira to Y except he endorses the whole sum payable on the face of the bill i.e. five thousand naira.

An endorsement is only necessary in the case of an order bill and this may be:

(i) Special endorsement: A special endorsement specifies the person to whom he intends to transfer the bill and then puts his signature e.g. “please pay XY”
Signed Z

(ii) Blank endorsement: A blank endorsement specifies no endorsee but only signs it. Here the endorser simply signs his name on the back of the bill without specifying the endorsee. The effect of such an endorsement is to change to negotiate it.

(iii) Restrictive endorsement: S.35 B.E.A> 1990 provides that a restrictive endorsement is one which prohibits further negotiation of the bill e.g. “pay X only”. This mean X may receive payment but cannot transfer the bill to anyone else.

3.6 Negotiation of a Bill

A bill of exchange is negotiated when it is transferred from one person to another in such a manner as to constitute the transferee the holder of the bill is S.31(1) B.E.A. 1990.

For example a bearer bill is negotiated by a mere delivery (i.e. handing over) and an order bill is negotiated by delivery plus endorsement. Once a bill is negotiated the transferee then acquired a title superior to that of the transferor i.e. immediately after transfer of the bill the transferee acquires better title than that of the transferor provided that he receives the bill in good faith and for value and without notices of defect in the title of the transferor.

Self-Assessment Exercise: *What is meant by the Endorsement of a Bill.*

3.7 Discharge of Bill

A bill is said to be discharged when all rights of action on it are extinguished. The can take any of the following forms:

(i) Payment in due course that is where the bill is paid by the acceptor upon presentation on the due date;
(ii) Where the holder renounces his rights and makes a written cancellation on the bill itself, that is, he makes it clear in writing i.e. voluntary that he will not make a claim on the acceptor for the amount of the bill i.e. a waiver;
(iii) Where material alteration has been made to the bill, such as a change of the date or the amount payable without the assent of all parties liable on the bill, then all parties liable prior to the negotiation after alteration;
(iv) By an acceptor becoming the holder of all rights on the bill at after its maturity;
(v) Cancellation by the holder or his agent: where this is done intentionally and the cancellation is apparent from the bill, the bill is discharged.

3.8 Dishonour of Bill

A bill is said to be dishonoured when the order of the drawer is not carried out by the drawee either by non-acceptance of the bill or by non payment of the face value of the bill on the due date. That is a bill is said to be dishonoured by non-acceptance when acceptance of the bill is refused by the drawee and the bill is said to be dishonoured by non payment when the acceptor failed to pay the face value of the bill on the due date. When a bill is dishonoured it is important for the person presenting the bill to take the appropriate legal steps. These legal steps for example are noting and protesting. Noting and protesting are only required in the case of foreign bills but optional in inland Bills. The objective of noting a bill is to secure official evidence that it has been dishonoured. To note a bill means that a holder of the bill to be noted applies to a notary public (or, if none can be found, to a householder in the presence of witnesses), who will then re-present the bill for acceptance or payment as the case may be. If the drawee still refuses to accept (or pay) the bill is noted on the day of dishonour. That is, the notary public or householder then minutes on the dishonoured bill the answer he receives (if any) the date, his charges and his initial. The notary or householder then issues a formal certificate of Dishonour (called the protest), setting out the circumstances of dishonour. The protest and a copy of the noted bills are then sent by the holder to the person or person(s) he intends to make liable.

3.9 Types of Bills of Exchange

(a) *Inland Bill:* This is a bill either drawn payable within Nigeria, or drawn within Nigeria, or drawn within Nigeria upon some person's resident therein.
(b) *Foreign Bill:* This is a bill generally drawn in Nigeria and payable abroad, or drawn by a Nigeria upon some persons resident in other country.
(c) Incomplete or Inchoate Bill: This refer to a blank bill or a bill drawn in such a way that lack some material particulars like amount payable, date, etc. S.20(1) B.E.A. 1990 provides that where a person signs a blank piece of paper and (a) delivers it to another, (b) intending it to be converted into a bill, it operates as authority to fill it up as a complete bill for any amount using the signature already upon it as that of drawer, acceptor, or endorser.

5.0 CONCLUSION

In this study unit, we defined what a negotiable instrument is. To determine whether an instrument is negotiable, answers must be provided to the following two basic questions:

- Is the transferee able to sue in his own name without notice to the party liable on the instrument?
- Does the transferee who takes it in good faith and for value acquire a good title to the instrument, despite any defect of flaw in the transferor's title?

Where the answer is 'Yes', the instrument is negotiable, and has attributes of money.

We then went further to discuss the importance or relevance of a Bill of Exchange as a negotiable instrument to include:

- Serving as an easy means of settling debts between the creditors and debtors, internationally and locally.
- A legal evidence of a debt.
- A bill that can be negotiated to another person by endorsement.
- Serving as a source of finance by discounting.

5.0 SUMMARY

We have learnt that a negotiable instrument is a financial instrument which a full legal title transferable by mere delivery or by endorsement and delivery with the effect that its complete ownership and legal interest pass to transferee. We also discussed a Bill of Exchange as one form of legal instrument that has met all the characteristics of a negotiable instrument.

A concise definition of a bill of exchange was given as: As an unconditional order in writing addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed determinable future time, a sum certain in money to or to the order of a specified person or bearer.

The various segments of Bills of Exchange discussed include:

a) Parties to a Bill of Exchange such as Drawer, Drawee and Payee.
b) Acceptance of a bill: general acceptance and qualified acceptance.
c) Endorsement of a bill: special endorsement, blank endorsement and restrictive endorsement.
d) Negotiation of a bill.
e) Discharge of a bill.
f) Dishonour of a bill.
g) Types of Bills of Exchange.

6.0 TUTOR MARKED ASSIGNMENTS

i. Define a Bill of Exchange and state the types of Bills you are familiar with.

ii. A bill of exchange is normally discharged by payment at or after maturity.

List four other ways in which a bill can cease to be enforceable.

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Unit 5: NEGOTIABLE INSTRUMENTS-CHEQUES AND PROMISORY NOTES

1.0. INTRODUCTION

In the last Unit we introduced you to a brief discussion of Negotiable Instruments and went further into a detailed description of Bills of Exchange noting the importance in today's business of this negotiable instrument. We were able to learn that examples of Negotiable Instruments include: cheques, bills of exchange, bearer bonds, bearer debentures, treasury bills, promissory notes, Banker's draft, dividend warrants, Bank Notes etc.

In this Unit we shall examine, in detail, cheques and promissory notes as they represent very important instruments you will be using frequently as students and as future managers of business.

2.0. OBJECTIVES

After going through this unit, you should be able to:

- List the features of a cheque;
- Explain the differences between cheques and bills of exchange.
- Determine a Bearer cheque from an Order cheque.
- Know the significant of crossing on a cheque.
- Explain the various types of cheques.
- Define a Promissory Note
- Explain the difference between a promissory and a bill of exchange.

3.0. MAIN CONTENTS

3.1 CHEQUES

A Cheque is defined by Section 73 of the Bill of Exchange Act 1990 as a bill of exchange, drawn on a banker, payable on demand. In a broader sense, cheques can also be defined as an unconditional order in writing addressed by one person to a banker, signed by the person giving it, requiring the banker to pay on demand, a sum certain in money to or to the order of a specified person or bearer.

From this definition, it is pertinent to note that the person given the order must be a current account holder with the bank and for his instruction to be carried out he must have enough money in his account to cover the cheque. Alternatively, he must have made adequate necessary arrangement with his bank for overdraft increase (his account is not in fund) the credit balance on his current account is not sufficient to cover the cheque.

3.2 PARTIES TO A CHEQUE

The parties to a cheque are the same as the parties to a bill as discussed above. These parties are:

Drawer: This is the person that has drawn and signed the cheque. He is the customer that ordered the bank to pay the face value of the cheque out of is money with the bank to the person named on the cheque.

Drawee: This is the bank in which the order to pay directed. It is the paying bank in which order to pay is directed. It is the paying banker, that is the bank that hold the customer’s money.

Payee: This is the beneficiary of the proceed of the cheque i.e. the person who will receive the face value of the cheque. Normally the holder of cheque (if not the drawer) has no rights against the drawee banker since there is no fiduciary relationship between them. For example, if a cheque is dishonoured the holder of the cheque (if not the drawer) cannot take any legal action against the banker but can only exercise his right against the drawer of the cheque.

Collecting Bank: This is the bank in which the payee deposits the cheque for collection if the is presented through clearing.

3.3 FEATURES OF A CHEQUE

- The name of the payee (order)
- The amount certain in money and payable on demand
- Date: The cheque must be dated. An undated or post dated cheque must not honoured.
- Signature: The person must sign, as unauthorised signature will amount to forgery *ab initio.*
- Number/Serial Numbers: A cheque must bear the registered serial number, a cheque that does not have number will be dishonoured.
- It must be an unconditional order to a banker to pay.
- It must be in writing.
- It must be addressed to a banker.
- It must be made payable to or to the order of, a specified person or to bearer.

3.4. DIFFERENCES BETWEEN CHEQUE AND BILLS OF EXCHANGE

The following distinct differences exist between Cheques and Bill of Exchange:

a. Cheque is only drawn on a banker while a bill may be drawn to a person, firm or company.
b. Cheque is normally payable on demand except where it is post-dated whereas a bill may be payable on demand or at affixed or determinable future time.
c. Bills of Exchange Act provides for cheques to be crossed but there is o provision for bills to be crossed.
d. A cheque does not need to be accepted prior to payment as it is payable on demand but a bill need to be accepted prior to payment even if payable at sight.
e. Immediately a cheque is drawn and signed, the drawer becomes primarily liable on it whereas the acceptor of a bill becomes full liable on the bill after he might have signed across the bill or written the word accepted on the bill thereby indicating his acceptance of the bill.
f. Section 77(2) Bills of Exchange At 1990 subject to certain conditions protects the collecting banker when collecting cheques for customers, there is no such protection for a bank which collects the proceeds of bills of exchange.
g. Cheque is commonly used in domestic trade while Bill Of Exchange is commonly used in international trade.

3.5. TYPES OF CHEQUE

A cheque may be a bearer or order cheque

Bearer Cheque: A bearer cheque is one drawn payable to bearer or indorsed "in blank". A cheque payable to a non-existing payee is treated as payable to bearer. A non-existing person is one of whose existence the drawer is not aware of, or who does not exist at all. Bearer cheque is transferable by mere delivery i.e. there is no need of endorsement although, in practice Banker still insists on indorsement as a means of protection and as evidence that the payee actually receive the proceeds of the cheque.

Order Cheque: A cheque is an order cheque if the drawer or subsequent indorser instructs that it is to be paid to a specific person or to his order without prohibiting further transfer by him. A transfer by that person requires that he shall add his endorsement (sign at the back).

3.6. CROSSING ON CHEQUES

A cheque is crossed where it bears across its face, two parallel transverse lines with or without the words "and company" between the two parallel transverse lines. On the other hand an open cheque neither bears across its face two transverse lines nor word(s).

3.6.1. TYPES OF CROSSINGS

A cheque may be crossed generally or specially and in either case may or may not include the words "not negotiable".

(a) *General Crossing:* A cheque is generally crossed where:

   (i) A cheque bears across its face two parallel transverse lines and addition of the words "and company" or any abbreviation thereof between two parallel transverse lines, either with or without the words 'not negotiable', or

   (ii) Two *parallel* transverse lines simply, either with or without the words "not negotiable".

   From the above definition, it should be noted that two parallel transverse lines constitute a general crossing. The effect of such a crossing is to make the cheque payable only to a collecting banker, that is, it precludes the paying banker from paying cash for the cheque across the counter.

(b) *Special Crossing:* A cheque is specially crossed where a cheque bears across its face an addition of the name of a banker either with or without the words 'not negotiable'. The addition of the name of the collecting banker constitutes a special crossing, with the effect that the paying banker must pay the cheque only to the collecting banker named on the crossing or to his appointed agent for collection.

(c) *Restrictive Crossing:* A cheque is restrictively crossed where a cheque is specially crossed to a named banker with the addition of the word 'only. The effect of this is that only the named collecting banker can collect such cheque but not an appointed agent i.e. no appointed agent can collect such cheque on behalf of the named bank.

Self-Assessment Exercise: *List and explain the various types of crossing on a cheque*.

3.6.2. ADVANTAGES OF CROSSING

(1) It makes it more difficult for a fraudulent party to obtain the proceeds of the cheque because a crossed cheque cannot be cashed across the counter but has to be collected through the payee's current account.

(2) It increases the time available to discover any fraud on the transaction because clearing of the cheques takes come days depending on the type of clearing. For example, a local clearing takes three (3) working days.

(3) The fraudulent part and/or his collaborator(s) could be traced back to the collecting banker since the cheque cannot be cashed across the counter.

(4) The drawer has more time to stop payment of the cheque while passing through clearing process if he has cause to stop the cheque e.g. if the payee has defrauded him.

3.6.3 Effects of "Not Negotiable" and "Account Payee Only" crossings on cheques and Holders:

(a) "Not Negotiable": when these words are written across a cheque, it deprives the cheque of its negotiability, and it becomes an ordinary transferable chose in action. (a chose in action s an intangible right which can be enforced only by action in the courts and are not capable of physical possession). These words destroy negotiability of cheque and serve as a warning to the person taking it (i.e. hold that he will not acquire a better title than that of the person who transfers it to him. In legal term, the payee or any transferee takes it subject to equities i.e. the instrument is assignable but not negotiable.

However, 'not negotiable' does not mean, as is often mistakenly thought, that the cheque cannot be transferred from one person to another, but that a person taking such a cheque shall not have and shall not be capable of giving a better title to the cheque than that of the person who transferred it to him (transferor).

In *Wilson and Meeson v. Pickering (1946)*, and employer (M) drew a blank cheque which was already crossed "Not Negotiable". He left the cheque to his clerk to complete it by filling in the amount and name of the payee. The clerk filled in the amount and name of the payee. The clerk filled in a sum in excess of the amount required, and then handed the cheque to Pickering (P) in payment of her own personal debt to P. *Held:* that the employer could recover the value of the cheque from P (who had obtained cash), since the clerk had no title to the cheque and P could get no better title than the clerk had. Therefore W. was not liable on the cheque.

(b) *"Account Payee Only"*: This type of crossing has no statutory significant and non-binding on the paying banker and do not affect the transferability or negotiability of the cheque. However, case law established that it is an instruction to the collecting banker to collect the proceeds of the cheque and credit the account of the named payee. If the collecting banker credits the proceeds of the cheque to a different account other than that of the payee, he will be liable for negligence and will have to compensate the true owner(s) for the amount of the cheque.

Self-Assessment Exercise: ***What is the significance of crossing on an order cheque? Is this affected in any way if the words 'not negotiable' are included?***

3.7 PROMISSORY NOTES

A promissory note is an unconditional promise in writing made by one person to another, signed by the maker, engaging to pay, on demand or at a fixed or determinable future time a sum certain in money, to or to the order of a specified person or to bearer.

3.7.1. Differences between a Promissory Note and a Bill of Exchange.

a) Unlike a bill of exchange, Promissory Note has two parties- Drawer or maker and Payee.
b) Acceptance of a note is never necessary, since there is no drawer.
c) Unlike a bill, a promissory can be drawn in a set.
d) The maker is the person liable to pay. Whereas in a bill, the drawer is only liable until the drawee accept to pay.
e) A promissory note must contain an unconditional promise to pay. While the acceptor of a bill may make a conditional promise to pay.
f) A promissory note is a promise to pay while a bill is an order to pay.
g) A bill may be treated as a promissory note where:
    - drawer and drawee are the same person
    - the drawee is fictitious or lack capacity.

3.7.2. Holder

Holder means the payee, or endorser of a Bill or Note, who is in possession of it or bearer thereof S.2 B.E.A. 1990. Thus to be a holder of a negotiable instrument, one must be in possession of it. However, a person holding a bill or note for example, under a forgery or one who has stolen a bill payable to *order* of another person is not a holder, but a *wrongful possessor*.

3.7.3. Holder for Value

Where value has at any time been given for a bill, the holder is deemd To be a *holder for value* as regards the acceptor and all the parties to the bill who became parties prior to such time. S.27 B.E.A.1990. For example where X takes a bill from Y in settlement of cost of oranges sold to Y by X,

X therefore is a holder for value. The oranges represent the value which X
had given.

3.7.4. Holder in Due Course

A holder in due course is a holder who has taken a bill, complete and regular
On the face of it, under the following conditions:

a) That he became the holder of it before it was overdue, and without notice that it has previously been dishonoured, if such was the fact.
b) That he took the bill in good faith and for value, and at the time the bill was negotiated by him he had no notice of any defect in the title of the person who negotiated it. S.29 B.E.A. 1990.

From the above description of a holder in due course, one can infer that the position of the holder in due course is a special one.

4.0 CONCLUSION

A cheque is another credit instrument used in liquidating debts. It is a written instruction to a bank to pay a certain amount of money to the person whose name appears on the written instruction. It is a form of a bill of exchange. A promissory note, on the other hand, is an unconditional promise in writing made by one person to another, signed by the maker, engaging to pay, on demand or at a fixed or determinable future time a sum certain in money, to or to the order of a specified person or to bearer. Some of the differences between the two are:

- A promissory note is a promise to pay while a bill is an order to pay. A cheque is a bill of exchange, drawn on a banker, payable on demand.
- There is no acceptance in promissory note. The promissory has technically accepted liability to pay the amount promised.
- Unlike a bill of exchange, promissory note has two parties: the drawer or maker on one hand, and the payee on the other.
- Promissory note is an incomplete bill until payment is effected.

5.0 SUMMARY

A cheque is a bill of exchange drawn on a banker payable on demand. The parties to a cheque are: the drawer, the drawee, the payee and the collecting bank. The paying banker is obliged to pay the customer's cheque so long as:

- There are sufficient funds in the account or there is adequate arrangement for credit.
- The cheque is complete and regular on the face.
- There is no legal hindrance towards payment.

There are two types of cheque, namely: Bearer cheque and Order cheque. A cheque is said to be generally crossed when there are two parallel transverse lines across its face in addition to the word "and company" or any abbreviation between two parallel transverse lines either with or without the word "not negotiable". A cheque could also be specially crossed where a cheque bears across its face an addition of the name of a banker either with or without the words 'not negotiable'.

Unlike a cheque, promissory note is an unconditional promise to pay. Finally, the maker of a promissory note may be liable to pay, whereas in a bill the drawer accepts to pay.

6.0 TUTOR MARKED ASSIGNMENTS

1. a) What is the practical effect of crossing a cheque?
   b) Define the types of crossing on a cheque as provided for in the Bills
   of Exchange Act 1990.
2. You have just opened a current account for Mr Wise, he ask if he should use crossed or open cheques. Advice him.
3. List the features of a cheque. Show how a cheque is similar to, or differs from, a bill of exchange.

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UNIT 6: MANPOWER DEVELOPMENT IN BANKING AND FINANCE

1.0. Introduction

Considering the recent distress and failure of some commercial, community and merchant banks as well as other non-bank financial institutions such as Finance houses, mortgage finance companies in Nigeria, it is high time that recruitment into the banking and finance sectors be based on professional qualifications and experience. The practice of using staff without relevant qualification but on the job experience should be discouraged. In addition to this, great emphasis should be attached to manpower training and development in the banking and financing sectors.

Manpower development in sector can be described as the activities of the worker himself or his employer aimed at improving the worker's skills and knowledge to perform his job more effectively to achieve the ultimate goal of the organisation. This is usually done through: in-service or part time training, formal (full-time) training in tertiary institutions, seminars, workshop, correspondence schools, taking professional examinations etc.

The main objective of training and development is to improve current performance and provide a suitable trained staff to meet present and future needs. With training and development, a person's knowledge and skills are bound to be improved and his attitude and behaviour accordingly modified.

In this unit, detailed study of institutions connected with training and development in banking and finance sectors are considered with particular emphasis on their role in the development of manpower in banking and finance. These institutions among others include: the Charted Institute of Bankers of Nigeria, Financial Institutions Training Centre. Also topics like Bankers Committee and Monetary policy circular are adequately covered.

2.0 OBJECTIVES

After going through this unit, you should be able to:

- State the policy formulation and coordination efforts of CIBN.
- List the functions of The Financial Institutions Training Centre.
- Discuss the manpower development needs of the banking industry
- Justify the existence of The Bankers Committee
- Discuss the Monetary Policy Circular.

3.0 MAIN CONTENT

3.1 THE CHARTERD INSTITUTE OF BANKERS OF NIGERIA (CIBN)

The Chartered Institute of Bankers of Nigeria dates back to November 28, 1963 with the establishment of the Local Centre of the Institute of Bankers, London, in Nigeria. The Institute was registered in 1976 as the Nigeria Institute of Bankers, a company limited by guarantee. In 1977, it became operational and autonomous. The Institute attained a charter statue granted with the promulgation of Degree 12 of 1990 by the Federal Government. The principal administrative office of the Institute is the National Secretariat located at Bankers' House, Pc 19, Adeola Hopewell Street, Victoria Island, Lagos with its annexe at 7, Turton Street, Yaba, Lagos, where the Library is located.

By the provisions of Degree 12, 1990 that gave legal backing to it, the Institute is governed by the National Executive Council (NEC) headed by a President/Chairman of Council. In its Policy formulation and coordination efforts, the National Executive Council is assisted, by ten standing Committees.

The National Secretariat is run on a directorate system under the direct administration of the Registrar / Chief Executive. The two directorates Finance and Administration and Education and Consultancy are reporting to the Registrar /Chief Executive while he directly oversees membership, Internal Audit and Corporate Affairs departments.

The Directorate of Education and Consultancy is made up of Department of Examination and Training and Department of Research and Consultancy. The department of examinations and training is made up of examination unit and training unit whiles the department of research and consultancy is made up of the following four units. Consultancy unit, research unit, library unit, and evening classes unit.

The directorate of finance and administration is responsible for the management of the finance of the Institute, general administration, personnel matters and system development. It is made up of three main departments namely: finance department, personnel and administration and computer departments.

The institute approved the establishment of Zonal Offices with effect from January 1990, it make the services of the Institute available to members of the grassroots throughout the country. The Zonal Offices with Zonal Coordinators include Aba Zonal Office, Kaduna Zonal Office.

There are also branches of the Institute including the Association of Professional Women Bankers. There are at present 31 branches. The branches serve as the major links between the Council, the National Secretariat and members of the Institute.

The Institute examination is at present structured into three major examinations viz: pre-foundation, foundation and the professional examination which is expected to be taken in three stages, thus professional examination I, Professional examination II and Professional examination III.

The branch of the institute is headed by a Chairman supported by other officers. There are four directorates at the National Secretariat: Education and Consultancy, Research and Development, Membership and Finance and Administration.

In pursuit of its objectives the Institute performs the following activities:

(a) It promotes banking in Nigeria with a view to helping staff employed in the banking and finance sectors to acquire modern banking techniques and prepare them for higher responsibilities in their various institutions. This is done by holding and conducting examinations. As enunciated above in banking. Similarly, it organises revision courses for students, seminars, workshops, public lectures and symposia for top and middle level management staff of banks. It publishes textbooks on banking and finance and a professional journal known as 'The Nigeria Banker'.

(b) It upholds and further helps in ensuring the observance of professional ethnics and norms in the banking sector. This is done by drawing codes of conduct for all bank employees and entrusting the enforcement of these codes to the Institute's Disciplinary Tribunal.

(c) It facilitates good rapport between bankers on matter of common interest and keeps members in touch with the latest developments in banking business generally. Both the Bankers' Forum and the annual delegates conference of the institute present ample opportunities for its fellows, associates, and the chief executives of banks, including policy makers, to consult on pressing issues.

(d) It pursues actively research into local condition and reviews and tackles the professional problem confronting its members.

(e) It disseminates banking information to the general public and liases with government in promoting and regulating the bank sector in Nigeria. The institute's annual dinner provides a forum for members and non-members from government and the business sectors to interact and share ideas.

3.2 FINANCIAL INSTITUTIONS TRAINING CENTRE (FITC)

Following the report of financial system Review Committee, Financial Institutions Training Centre (FITC) a company established by association of all the clearing banks was established and started operation in 1981. It is a limited liability company i.e. limited guarantee. The FITC perform the following functions to enhance manpower development in Nigeria.

i. It trains and educates personnel employed or to be employed by banks and other financial institutions.

ii. It protects, promotes and advances the knowledge and practice of banking and finance throughout Nigeria by organising seminar, lectures, workshops, and other practical and theoretical courses.

iii. It collects and disseminates statistical and other information relating to banking, finance, commerce, trade and other related disciplines.

iv. It initiates, supports and advises on legislative or other measures affecting the aforementioned interests.

v. It prints and publishes periodicals, bulletin, books and leaflets that it thinks desirable for the promotion of its projects.

vi. It engages in consultancy and advisory services in its area of competence.

In conclusion, the training activities of FITC focused on:

a. Credit assessment and administration;

b. Advance Finance and Accounting;

c. Corporate lending;

d. General Management;

e. Corporate planning and assessment of bank performance;

f. Executive effectiveness improvement seminar.

Essentially, FITC focuses on functional training rather than academic course. Its programmes are directed at middle and top management cadres.

Self-Assessment: ***List the objectives of Chartered Institute of Bankers of***

Nigeria.

3.3 TERTIARY INSTITUTIONS IN NIGERIA

Tertiary institutions refer to higher institutions above secondary schools. Included in this category are colleges of technology, polytechnic and universities that offer courses in Banking and Finance. The Polytechnics and Colleges of technology offer intensive courses in banking and finance on full time and part-time diploma programmes. Similarly, some universities offer Bachelor degrees and Masters Degrees programmes in banking and finance. These Institutions hold and conduct examinations on banking and finance and issue Diplomas, and Degree Certificates to those who satisfy the conditions for their awards from time to time. The banking and finance department of these institutions also hold lectures, seminars and conferences on banking and finance subjects. Nowadays, there abound mostly in the urban cities several Professional study centres to supplement the efforts of the Polytechnics and Universities. They organise weekdays and weekend revision courses for candidates who are preparing for the professional examinations of the Chartered Institute of Bankers of Nigeria. These centres employ the services of qualified and/or practising bankers as part-time lecturers to lecture the students. To date these centres have produced several qualified bankers in Nigeria.

3.4 THE BANKERS COMMITTEE

Bankers Committee comprise of the Chief Executive of all licensed banks in Nigeria and is supervised by the Central Bank of Nigeria (CBN). It came into being in 1971. The duty of the Committee is to find solutions to the problems facing banks in their day-to-day operations as well as those problems relating to orderly growth and developments of the entire banking system in Nigeria. The national secretariat of the committee is situated at the Banking Supervision Department of the Central Bank of Nigeria's head office now in Abuja while the Local (or State) Committees are located at the branch offices of the Central Bank of Nigeria at the state capitals Throughout Nigeria.

The Deputy Governor of the Central Bank of Nigeria and a senior official of the same bank act as the Chairman and Secretary of the Committee respectively. The functions of the Committee are as follows:

(a) It serves as an effective channel of communication between banks and the Federal Government or its regulatory agencies in the financial sector.

(b) It interprets all banking legislations and directives to remove arguments and misunderstand by member banks. Through this forum. Member banks air their grievances and make suggestions on any issue affecting the banking sector.

(c) It makes proposals and suggestions every year to the Federal Government or monetary authorities in the areas of banking, finance and the Nigeria economy for consideration by the authorities concerned and possible inclusion in the annual budget.

(d) It fosters and promotes an efficient banking system most especially the development of high level manpower in banking. For example, it moots the idea of establishing the Financial Institute Training Centre (FITC) and the Chartered Institution Training of Bankers of Nigeria (CIBN). The Committee also gives both moral and financial assistance to these two institutions for their smooth running.

(e) It prepared the Bankers Tariff and reviews periodically the prepared tariff.

(f) It prepares a code of conduct for all banks in order to ensure the safe and sound conduct of banking business in Nigeria.

(g) It examines any major issue affecting banking before taking a final decision and makes recommendations. Thus the monetary authorities usually take its recommendations into consideration on issues that affect the operations of banks.

For instance, the recommendation of the sub-committee on bankers' tariff produced a basis for costing banking services. Similarly, the recommendations of another sub-committee that examined the issue of delays at bank counters, among other things, suggested the payment of cheque of certain limit to well known and trusted customers without the rigorous cheque reference procedures. This gives birth to the recent express services operated by some commercial banks coupled with the introduction of automated teller machines (ATM's) by some commercial banks.

Self-Assessment Exercise: *What are the functions of the Bankers Committee?.*

3.5 MONETARY POLICY CIRCULAR

Monetary policies are those measures taken by the monetary authorities to control the cost, quality and direction of credit to achieve national objectives. On the other hand, monetary policy circular is a booklet published annually by the Central Bank of Nigeria containing the monetary, credit, foreign and Exchange Policy guidelines for the fiscal year which is usually 12 months. The circular is divided into two sections. With reference to circular No. 33, section one contains the Monetary Policy measures adopted by the Central Bank of Nigeria in 1999 under the following sub-headings:

1. Open Market Operations

2. Reserve Requirements
3. Stabilisation Securities
4. Interest Rates
5. Promotion and Development of the money market
6. Improving Banking Policy Environment
7. Discount Rate Policy
8. Expansion of Bank Credit
9. Sectoral Allocation of Credit
10. Maturity Structure of Merchant Bank Assets
11. Loans to Rural Borrowers
12. Loans to small-scale enterprises
13. Grace periods on loans to Agriculture
14. Prudential Guidelines for Licensed Banks.

Self-Assessment Exercise: *Discuss any four monetary policy guide lines you are Familiar with.*

4. CONCLUSION

Capacity building has become a major concern of the banking industry. Training and development is usually done through in-service or part time training, formal (full-time) training in tertiary institutions, seminars, workshop, correspondence schools, taking professional examinations etc. The main objective is to enhance the employee's level of performance as well as make available suitably trained manpower to present and future needs.

5.0 SUMMARY

In this study unit, we examined capacity building in the banking and finance sector to include the following institutions or bodies.

a) The Chartered Institute of Bankers of Nigeria (CIBN)
b) The Financial Institution Training Centre (FITC)
c) The Tertiary Institutions in Nigeria.
d) The Bankers' Committee.

The functions of each of the above institution/body were fully discussed. We also took the student through the meaning and content of the Monetary Policy Circular. This circular contains measures or tools available to the Central Bank of Nigeria and monetary authorities for controlling the volume of money in circulation.

6.0 TUTOR MARKED ASSIGNMENTS

i. Discuss the functions of the FITC.
ii. Discuss the manpower developmental needs of the banking industry.
iii. List the monetary policy tools available to the Central Bank of Nigeria.

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