DISCOUNT HOUSES:

THEIR RELEVANCE TO THE NIGERIAN FINANCIAL SYSTEM

BY

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A PROJECT SUBMITED TO THE
POSTGRADUATE SCHOOL, AHMADU
BELLO UNIVERSITY ZARIA, IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD
OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION [M.B.A]

DEPARTMENT OF BUSINESS ADMINISTRATION
FACULTY OF ADMINISTRATION
AHMADU BELLO UNIVERSITY
ZARIA, NIGERIA

December, 1992

DECLARATION

I hereby declare that this project was written by me, and that it is a record of my own research work. To the best of my knowledge, this project has not been presented to any Post Graduate school for the award of a higher degree.

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CERTIFICATION

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DEDICATION

To Gp. Capt. Aliyu Mohammed [Rtd.]

and

Chief and Mrs Agana

with love

ACKNOWLEDGEMENT

I am immensely grateful to my supervisor, Mallam Ibrahim Fari Okeji [MIFO] whose words of encouragement and patience when things didn't seem to be going right was a tower of strength and helped me to see this project to the very end.

I am also indebted to Dr.(Mrs.) Joan .N. Nwasike, without whom I would never have begun this course. You have been a mother to me and I am most grateful.

To the boys Temi "T.J." Tuedor, Nasiru Sama, Femi Olugbodi, and Kadiri "Valentino" Ahmed. Your friendship is treasured and appreciated.

For my friends Medinat Okeji, Stephanie Agashua, Juliet Oshiokhamel, Kemi Tumbi, Tawa Giwa, Peju Oduye, Erdoo, Ursula, Ndidi, for Beatrice Ameh and Ranti Adeoye, who made my stay in Zaria most interesting.

Also to Wole Ayanleke, Lady T (Tayo), the highlanders - Gloria (Deglo) Ibeh and Florence Okoye who took good care of me all the time I spent in Kaduna.

To Nafisatu Lami Abdulsalami, thanks for not "wounjuring" me and most of all to Hazel Edah; thank you for being you.

But above all of these my thanks goes to my family - immediate and nuclear - for their love and patience and to Austin Ndikanwu who took it upon himself to type this project. I love you all.

And finally, I acknowledge God's presence in my life. Without Him I couldn't have made it up to this point.

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ABSTRACT

Discount houses are a recent addition to the Nigerian financial system's matrix. Discount houses are non-bank financial institutions which shift funds between the Central Bank on one hand and licensed banks and other financial institutions on the other hand, through the provision of discounting and rediscounting of eligible short - term securities such as treasury bills and certificates and commercial bills.

Discount houses are art Institutionalised mechanism for smoothening out the surpluses and shortfalls in the supply of, or demand for liquid funds.

There is no gainsaying :hat discount houses are relevant to the Nigerian financial system, but thd question really is "how feasible are they"? The answer to this question was one of the main objectives of this study.

Several factors are militating against the successful introduction of discount houses in Nigeria. Firstly, Nigerian banks do not respond adequately to the issue of treasury instruments inspite of the safety of the securities.

Secondly, the current inter-bank interest rate of 105% may not induce banks to invest in treasury securities which yield only 17%. These days, banks and other financial institutions seem more interested in investing in schemes which, although might be more risky, would yield extra-ordinary profits within the shortest possible time.

Thirdly, the usual administrative bottlenecks which have come to be known as the "Nigerian factor" is frustrating their take off.

The Apex Bank has a major role to play if the dream of discount houses is to get to fruition. This they Ce n do through improvements in their supervisory and regulatory functions,

CHAPTER I

INTRODUCTION

1.0 INTRODUCTION

The heart of our monetary system is the money market. The money market is a market for relatively low risk, high quality, usually unsecured short term debt instrument or IOU's. The money market is the place where the Central Bank of Nigeria (CBN) carries out its open market operations to adjust the liquidity of the whole economy. Aside from the CBN, the money market enables its participants with temporary cash surpluses to place them in highly liquid interest bearing instruments with the assurance that the funds can be regained quickly when they are needed for disbursement.

On the other hand, the money market enables participants temporarily short of cash to raise funds quickly by issuing new money-market securities or by selling existing holdings of money market instruments.

Apart from the CBN, there are three other classes of businesses that operate in the market. These are:

i The clearing houses

ii Accepting houses and other merchant bankers

iii Discount houses.

Of these three classes of businesses that operate in the money market,

Discount houses are a new phenomenon in the Nigerian money market. By definition, a discount house means any financial institution in Nigeria who transacts a discount house business which in the main consists of trading in and holding of treasury bills, commercial bills and other securities.

Sequel to the provisions of section 28 of Central Bank of Nigeria (CBN) Decree 1991 (Decree No.24) and sections 56 - 61 of Banks and other financial institutions decree (BOFID) 1991 (Decree No. 25), the guidelines for the establishment of Discount houses were published in January 1992, giving life to the Discount houses.

There are currently three registered Discount houses, but non has commenced operation in the country. Only a consortium of local banks wit or without the participation of International Financial Institution can promote a discount house in the country. The objectives and principal duties of the discount houses include amongst others:

i To promote the rapid growth and efficiency of the money market in Nigeria

ii To act as an intermediary between the CBN and licensed banks.

iii To facilitate the issue and sale of short term government securities by tender.

iv To provide discount/re-discount facilities for treasury bills, government securities and other eligible financial instruments acquired by banks

v To accept short-term deposits from banks

vi To provide short-term accommodation to banks.

Since January, when they were given the go ahead to promote Discount houses, the local banks have been dragging their feet in the establishment of discount houses. Primary amongst them are the three biggest banks in the country - The First Bank of Nigeria Plc, Union Bank Plc, and United Bank for africa Plc - who have time and again stated that there would be no stampeding them into committing their resources in establishing Discount houses.

Apparently the main reason is that most banks, especially merchant banks are not too enthusiastic over the expected returns, that is, the interest income of the treasury bills when compared with the cost of funds on the money market. Interest rates on treasury bills currently range between 16% to 17% which is lower than the prevailing inter-bank interest rates which has hit an all time high of 105% from which most merchant bankers will fund their purchases of the treasury bills. Banks have been asked to commit 20% of total deposit liabilities into treasury bills and at these margins, they would be losing huge sums of money at the end of every month.

Also several other factors have been militating against the smooth take off of the discount houses in the country. This includes the increments by the CBN of the minimum required capital base of commercial and merchant banks to ₦50 million and ₦40 million respectively.

Secondly, the minimum capital deposit of ₦100 million excluding the licensing fee of ₦500,000 required by the CBN - is very excessive

Thirdly, the logistic and prudential imperatives imposed by the CBN - the daily, weekly, and monthly returns as required by the CBN is very cumbersome

Ms Nnena Nwosu treasurer of the African Development Bank (ADB) highlighted other factors militating against the smooth take-off of the discount houses. These include , she said

i The minimum post-qualification experience of 15 years and 10 years for the chief executive and heads of department respectively which she said was too long

ii The maximum lending of 5% of total assets which she contended was too low and will have no effect on the money market operations of the Discount houses.

iii The lack of specifics as to what qualifies as eligible commercial papers

The ADB treasurer further contended that as major players in the money market,Discount houses should be allowed to accept deposits from the non-bank financial institutions and corporate bodies.

On the other hand, Mr. Oluwole Oduyemi, the Deputy Governor, Domestic Operations, CBN, was optimistic that discount houses have bright prospects in Nigeria. He argued that the rapid expansion of the economy and growth in government activities will not only give discount houses busy schedules, but also make them lucrative. He identified as sufficient market for discount houses the current abundance of treasury securities in the Nigerian money market and high prospects of new issues either to replace maturing ones or increase the existing ones as well as the bulging need to finance banks and state governments.

He was of the opinion that if discount houses decided to be "cold and dormant", only awaiting guaranteed income to flow in - like the sad experience in Singapore - they would be forced out of business by other financial institutions; observing that the degree of success of discounting houses would depend mainly on the degree of response of the larger financial system to the changed matrix of institutions in the system and advised banks to adjust their treasury operations to grasp fully the opportunities presented by discount houses.

Given the foregoing opinions, one begins to wonder if discount houses at this point of our economic development are a necessary addition to

the financial system of the country and if so, what advantages and what social justification derive from their introduction. Are they relevant to the Nigerian economy', and if yes how feasible are they. Also has the Nigerian economy matured enough to sustain the discount houses? The answers to these and other questions are what this study intends to reveal.

1.1 STATEMENT OF PROBLEM

The Nigerian financial system, comprising of both the Capital and Money markets is still in its growing stages and has not yet been fully developed.

The framework of our financial system was inherited from Britain who until 1960 controlled our financial system. Over the years, since Independence, every successive administration has tried and adopted, copying financial systems operated in the developed countries, in a bid to fine tune the economy.

The problem with the development of the money market is with the fact that the CBN has been performing more functions than was stipulated in the Act establishing the Bank (The CBN ordinance of 1958).

Most developments that occur within the monetary sector originate and spread from the money market. A smoothly functioning money market is a virtual necessity for a smoothly functioning economy. A breakdown

in this market would almost certainly trigger a liquidity crisis and a consequent breakdown of the economy.

Following the deregulation of the Nigerian economy in 1986, an institution that will help build up the money market and reduce the burden on the CBN to sustain the money market was introduced. Thus originated the discount houses. They have been prescribed as the panacea for the Nation's ailing money market, but this does not mean that the services to be provided by them cannot be conveniently done by the CBN and the licensed banks together.

1.2 OBJECTIVES OF STUDY

The introduction of discount houses into the Nigerian financial system is a recent development. This study aims at ascertaining if discount houses are relevant to the Nigerian financial system;

Secondly, if the discount houses are relevant to the Nigerian economy, just how feasible are they.

Thirdly, this study also seeks to determine if without the introduction of discount houses, the Central Bank of Nigeria (CBN) would have been handicapped in promoting a healthy money market.

1.3 SIGNIFICANCE OF STUDY

Discount houses are at the heart of a Country's money market. They

facilitate and help in the development of a secondary market in money market securities.

Very little is known about the functions of discount houses in Nigeria, being that they have only just been introduced into the financial system this year (1992).

It is hoped that the findings of this study will provide a useful guide to the work of discount houses.

It is also hoped that this study would stimulate further studies on Discount houses.

1.4 SCOPE OF STUDY

This study primarily covers the theoretical functions and roles of discount houses. This is because up till the completion of this work, **NO** discount house has commenced operations, so it is difficult to ascertain their practical relevance to the Nigerian financial system.

1.5 LIMITATIONS OF STUDY

At the commencement of this study, I did not envisage that so many factors would militate against the smooth completion of this study.

Firstly was the series of crisis that plagued the university session.

Secondly was the dearth of knowledge amongst most middle cadre executives about the functions of discount houses.

Thirdly, those with whom I could discuss were the top level executives who in most instances were too busy to attend to me properly.

Fourthly, all the information required could only be obtained from the headquarters of most banks which meant travelling to Lagos now and again.

Finally, as a result of the academic crisis this year, I have had limited time to carry out my research - under supervision.

1.6 DEFINITION OF TERMS

- ***Money Market***: The money market is a centre for financial assets of relative liquidity, or which are close substitutes for money and which mature in one year or less.

- ***Discount Houses***: A group of non-bank financial institutions who specialise in dealing in short term money. They are profit oriented organisations.

- ***Money Market Instruments:*** These are IOU's created through loan type transactions. They include commercial papers, certificates of deposits, bills, bonds, etc.

- ***Treasury Securities/Instruments:*** These are IOU's usually issued on behalf of the federa government by which it borrows for short periods of about three months to one year. They form part of the money market instrument. They include Treasury bills, Treasury certificates, and government bonds.

- ***Broker:*** A broker brings buyers and sellers together for a commission paid by the initiato of the transaction or by both sides. He does not position.

- ***Call Money:*** Interest bearing bank deposit that can be withdrawn on 24 hours notice.

- ***Secondary Market:*** The market in which previously issued securities are traded.

- ***Discount Rates:*** Yield basis on which short term non interest bearing money market securities are quoted.

- ***Spread:*** 1. Difference between bid and asked prices on a security
  2. Difference between yield on or prices of two securities of differing sorts or different maturities.
  3. In underwriting, difference between price realised by the issuer and price paid by the investor.

• ***Underwriting:*** This is one function of an investment Banker or discount house. It is the act of purchasing new issues from the issuer and distributing them to investors.

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CHAPTER II

LITERATURE REVIEW

2.0 INTRODUCTION: ORIGINS OF DISCOUNT HOUSES.

Discount houses originated in England in the 18th century. They started out as Bill brokers before there was a nationwide branch banking system and before banks granted overdrafts. Brokers acted as intermediaries between the merchants [Businessmen]. These brokers developed into unit banks serving their own localities and had only limited financial resources. This placed them in considerable difficulty when faced with growing demand to discount Bills of exchange - the main method of payment in those days.

After the financial crisis of 1825, the banks began to increase their liquid assets by placing money at "call" with the Bill brokers, enabling the latter to increase scope by holding bills as principals.

London is the World's leading money market and it consists of eleven discount houses which together form the London Discount Market Association.

2.1 ROLE AND FUNCTION OF DISCOUNT HOUSES.

Discount houses exist to borrow and lend money, hoping to make a profit out of the difference between the rate at which they borrow and the higher rate at which they lend. In doing so they render a service to

both "lenders" and 'borrowers" borrowing from the lenders and lending the funds obtained to the borrowers.

Normally, we do not regard borrowing as a service because when an individual needs to borrow money, it is the person from whom he borrows who renders the service. In the case of Discount houses, it is a positive benefit to the banks to be able to lend money at very satisfactory rates of interest for very short period with absolute security.

The borrowing is chiefly done from the banks and other financial institutions. In Nigeria the discount houses are not allowed to accept deposits from the non-banking sectors.

The discount houses are expected to assist financial institutions to effectively manage their idle cash balances by bringing together surplus and deficit units in the money market, for to have large sums of money lying idle like cash assets unable to earn interest would be a very severe loss to these institutions. The conspicuous absence of institutions that could discharge this function in the Nigerian financial system represents a tremendous gap in the Nigeria's institutional arrangements.

Discount houses exist to act as a buffer between the CENTRAL BANK OF NIGERIA [CBN] and the rest of the banking system, and also to act as financial intermediaries between the public sector and the private sector. Discount houses are the only institutions which should have an automatic right to call on the CBN to act as "lender of last resort".

Discount houses are active in a number of markets as well as the main money market. They are major dealers in the Inter-Banks market, both as lenders and as borrowers. They can only deal on the stock exchange through a stockbroker. Finance is also provided for commercial companies by means of discounting Bills of exchange mainly for exporters engaged in foreign trade.

The principal functions of Discount houses include the following:- Discount houses with their large cash balances perform the role of underwriting the issues of treasury securities thereby ensuring that the Governments short-term borrowing requirement will be taken up.

Discount houses promote the growth and efficiency of the money market and enhance the administration of the monetary policies in the country. The money market is important to the CBN in that it makes good use of the short-term funds of the banking system and invests these funds. These accepted funds are repayable at call or short notice, thus making it possible for the banking system to work to minimum cash ratios.

Discount houses provide a source of short-term funds for commerce and industry by discounting Bills of exchange which have been accepted by the accepting houses and provide a useful source of short-term funds to the commercial sector by holding commercial bills.

Discount houses help the Bill of exchange by dealing in short-term

bonds or gilts which are nearing maturity. This assists in re-financing the national debt. The rate of discount at the monthly Treasury bill under is a good indicator of short-term interest rates.

2.2 RATIONALE FOR THE ESTABLISHMENT OF DISCOUNT HOUSES.

The management of cash liquidity is a basic target of monetary policy implementation. Establishing Discount houses is one of the most potent means of strengthening the Nigerian financial system. The efforts to deregulate all sectors of the economy through the Structural Adjustment Programm [SAP] introduced in 1986 have considerably influenced developments in the financial sector.

Discount houses provide monetary authorities an efficient institutional arrangement for the implementation of market related instruments of monetary policy. In its efforts to shift from the use of direct controls to market based instruments, the CBN has provided guidelines for the operation of discount houses in Nigeria.

The operation of discount houses is expected to enhance the inter-play of market forces with regard to the pricing of short-term financial assets. This will enable the Central Bank use more effectively cash reserve requirements and open market operations to induce changes in banks credit expansion.

By enhancing the administration of monetary policy through the purchase and sale of short-term securities and by providing discount and re-discount facilities for short dated securities, discount houses facilitate the use of open market operations [OMO] and make liquidity management by monetary authorities less arduous. Discount houses also facilitate OMO by making it possible for banks to adjust their portfolio and regulate their liquidity on a daily basis.

Currently, the function of underwriting of issues of treasury securities is undertaken by the CBN. This has increased the difficulty of monetary management because the CBN has had to take up large amount of treasury securities, giving rise to excessive amount of the Banks credit to government, the full impact of which is realised when government draws on the proceeds of the issues of treasury securities to finance its operations. As a safeguard the CBN ACT of 1958 provides that the CBN could delegate the function of underwriting the issues of treasury securities to an agent, which it has done to the discount houses.

The need to establish discount houses in Nigeria is further buttressed by the behaviour of banks with respect to their holdings of government securities. The proportion of new issues of treasury bills taken up by banks has been so low that they cannot be counted upon to provide the primary finance for underwriting treasury securities [see table 2]. The aversion of banks to holding of treasury securities has resulted in a disproportionately large holding of the securities by the CBN [see table 2].

Another reason for the establishment of discount houses is that it is hoped that their establishment will not only relieve the CBN of the debt management problem, but will also lead to the development of an active secondary market in the securities because presently, trading in the securities on the secondary market is so limited that one could regard the secondary market in the securities as non-existent.

Another major reason for the establishment of Discount houses in Nigeria is the need to provide adequate institutional environment for the shift in strategy of monetary control from the imposition of credit ceiling to the use of market based instruments.

The monetary authorities have recognised the need to change the strategy of monetary policy from the direct imposition of credit ceiling on banks to market based indirect approach to monetary control. Under the indirect approach to monetary control, the CBN in a bid to achieve optimal level of money supply in the economy will control the monetary base using money market instruments reserve requirements and discount rate alongside with liquidity management measures. The effectiveness of these instruments demands that any avenue that could lead to excessive creation of money should be avoided.

2.3 OPERATIONS OF DISCOUNT HOUSES.

The Discount houses are a group of financial houses who specialise in dealing in short-term money. They are sometimes referred to as "Bill-

brokers". The bill referred to is a "Bill of exchange" and the word "broker" refers to anyone who makes it his business to know the parties who are in opposite situations and help them out of their difficulties. Discount houses act as principals, not as agents borrowing the money in their own names and lending it out to borrowers in their own names. They are fully liable for the money they borrow and run full risk on the money they lend.

The full understanding of Bills of exchange is essential to an understanding of the operations of Discount houses. The essence of a Bill of exchange is that the "drawer" of the bill [the person who writes it out] instructs the drawee [the person who owes him money] to pay the sum stated at a definite future date. The debtor thus has time to pay, and in due course will do so, but in the meantime his creditor cannot obtain his money except by Discounting it with a banker who specialises in that sort of activity.

The term discounting is appropriate since a Naira becoming available at some time in the future must be worthless than ₦1 today. The creditor who decides to discount his bill of exchange will expect to receive less than the face value. The amount of the discount will reflect.

(a) The prevailing rates of interest in the money market generally and

(b) The quality of the debtor, since eventually payment depends on the debtor honouring the bill on the due date.

The purchase of a bill by the Discount house from a commercial firm - or from a bank which has obliged a customer by discounting the bill which the bank does not wish to hold until maturity - constitutes a loan to that firm for the duration of the bill. The loan will be settled not by the borrower, but by the original debtor whom he honours the bill on the due date.

The interest on the loan will be the difference between the face value of the bill and the discounted value of the bill paid to the commercial firm several months before.

To maintain its activities, the Discount house needs a great deal of capital - though it keeps very little cash in hand. they buy and sell or "keep in stock" good Bills of exchange, Treasury bills and short-dated government bonds.

Discount houses borrow "at call" and at short notice from banks. At call means that the money is repayable to the leading bank immediately it call for it. The banks are pleased to have this outlet for their surplus funds which otherwise might be earning no interest.

Every morning the representatives of the Discount houses are expected to call on the lagos banks to require if they need to "call" money back or to adjust the rates of interest agreed previously on sums lent to the Discount house. Banks usually call money in the morning when

businessmen are drawing funds for such purposes as salaries etc. The money called will be paid back to the banks by the Discount house almost at once and the security lodged with the bank when the money was borrowed will be claimed at the same time. Interest will cease on the money called since the Discount house have lost the use of it. Later in the day when businessmen have the days takings to pay in the banks will have excess funds and can lend it out to the Discount houses which cannot balance their books.

Discount houses have to consider their positions daily. For each day will see acceptances which they hold maturing due [money in] while other acceptances have been bought by them [money out]. Similarly they will have bought and sold various securities to various people during the day and finally they would come up with either surplus or a deficit for the day. If it is a deficit, they must borrow at least overnight to put their books straight.

Securities traded in by Discount houses include the following:-

1. Treasury Bills and certificates.
2. Promissory notes.
3. Bankers acceptances.
4. Negotiable certificates of deposits.
5. Commercia papers.

The short-term securities listed above become the assets of a Discount house when it buys them. They are then used as security for the sums borrowed and are lodge in parcels with the various banks from whom money has been borrowed. If a bank calls back a loan, the Discount house calls back its parcel of securities and uses them again as security for a loan from some other institution.

Upon their establishment, discount houses will be expected to collectively underwrite periodic tenders for treasury bills and certificates made by the CBN. Each discount house will be obliged to participate in this underwriting, tendering for at least a minimum proportion of each issue. The proportion for each discount house will be calculated on the basis agreed to in advance between the Bank and the discount houses.

2.4 SOURCES OF FUNDS AND PROFIT FOR DISCOUNT HOUSES.

The discount house operates on the very narrow margin of owned capital, and their large volume of borrowed capital places them in an extremely vulnerable position in respect to the money market.

The main sources of funds of Discount houses are equity [paid up capital plus reserves], money on call short-term borrowing of I year or less and overnight accommodation from the CBN.

When money is tight, the banks call back the money lent out to the Discount houses, who then obtain funds from the CBN. If money is

plentiful, the CBN may instruct its agent in the market to sell Bills on its behalf. This will have the effect of mopping up the surplus funds held by the Discount houses and banks. The CBN uses the operation of the Discount houses as one channel to implement its interest rate policy.

In order to ensure that the Discount house would always have sufficient funds to provide the main market in Bills, the CBN insists that any bank which applies to the CBN for eligible status has to guarantee to keep at least 6% of their eligible liabilities as secured loans to Discount houses, approved money brokers and approved gilt edged stock jobbers. At least 4% of these eligible liabilities have to be kept as secured money with members of the Discount association.

In addition to keeping the Discount market in funds, these arrangements enable an active market in commercial Bills to be maintained. Discount houses deals in short-dated government bonds, providing a market in them which is very welcome to the government. The CBN encourages the discount houses to develop the market by telling them that such short-dated bonds would be acceptable as securities by it when the Discount houses want to borrow from it.

Discount houses make their money by absorbing surplus funds from the banking system and investing it mainly short-term, in a range of securities including Treasury bills, government bonds and certificates of deposit.

Discount houses work on narrow margins between borrowing and lending rates. A small increase in their borrowing rate can mean a difference between profit or loss on a transaction.

In the treasury bill market, the discount houses hold newly issued bills for a period and as the bills approach maturity, sell them to banks and others in the money market who desire the high degree of liquidity furnished by the maturing bills. In addition to the earnings from carrying the bills, the discount houses gain by the difference between the higher rates at which they originally discount the bills and they somewhat lower rate of discount taken when they sell the maturing bills to the banks.

Capital gains or losses are also made according to any change in the value of the investment. The Houses are limited in their choice of investment, since eligibility as collateral must be balanced against profitability. The structure of the discount houses portfolios varies substantially over short periods and under different market conditions.

2.5 CONTROL OF THE DISCOUNT HOUSES

The relationship between the Central Bank of Nigeria (CBN) and

Discount houses is fundamental to the management of the money supply. Through its open market operations (OMO) the CBN can choose to pursue a "tight" or "easy" monetary policy.

In times when a "tight"money policy is to be pursued, the CBN may call for special deposits from the banking system. This will cause a severe shortage of money in the market and will bid up the price the discount house must pay for the funds they borrow and consequently raise the rates they are charging for the discounted bills. The special deposit system is however an extreme weapon and the more usual way to keep the market short of funds is to increase the treasury bills on offer. since discount houses are bound to tender or underwrite the total issue, the Bank (CBN) can make them short of funds at will.

If the CBN is prepared to relieve the shortage by its own operations, on the market, it will buy treasury bills at market rates. The CBN will buy bills for cash so that the shortage of cash reported to it by the Discount houses is relieved.

If it buys the bills from the discount houses, this is known as "direct assistance". If it buys from the banks, it is known as "indirect assistance". The banks who have sold bills now have surplus cash available and promptly lend it to the Discount houses thus relieving the shortage.

If the CBN relieves all the shortages of fund in this way, it is held to be

a sign that the Bank and the treasury are satisfied with the prevailing rates of interest. If the shortage is not relieved and despite desperate calls in all directions, the discount houses are unable to balance their books, they are said to be "FORCED INTO BANK"., i.e they have no option but to borrow from the CBN at whatever penal rates the CBN might specify for the privilege of balancing their books. The CBN will force Discount houses into the bank when it thinks that the prevailing interest rates are too low and credit too easy.

Thus if the CBN wishes to force up interest rates, it can create a shortage of cash in the market. When the Discount houses have been forced into bank, the CBN can impose virtually whatever rate it chooses to relieve the shortage.

Treasury bills provide a way for the CBN to exercise fine tuning over the total amount of money in circulation by increasing or decreasing the amount of the tender, money can by taken out of the banking system or put into it through the intermediary of the Discount houses.

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Table 1:

VALUE OF MONEY MARKET ASSETS

[₦ 'millions]

Year	TB	TC	BUF	CDS	CPS	EDS	TOTAL
1981	5,782.0	2,307.6	19.4	168.5	73.0	98.9	8,449.4
1982	9,619.0	1,668.6	21.1	346.2	110.4	93.8	11,859.1
1983	13,476.0	4,894.4	17.8	419.1	153.3	90.5	19,057.1
1984	15,476.0	6,413.0	18.5	260.7	156.7	87.4	22,412.3
1985	16,976.0	6,654.1	18.5	211.7	139.3	26.2	24,087.0
1986	16,976.0	6,654.7	17.5	261.9	259.0	14.6	24,183.7
1987	25,226.0	6,664.1	8.6	1,328.3	496.4	28.3	33,751.7
1988	35,476.0	6,794.4	27.9	1,861.3	342.7	38.4	44,540.8
1989	24,126.0	6,944.6	-	1,309.8	739.2	11.6	33,131.2
1990	25,476.0	34,214.6	-	1,902.3	913.5	3.6	62,510.0

NOTE:

TB Treasury Bills

TC Treasury Certificates

CPS Commercial Papers

CDS Certificates of deposits

EDS Eligible Development Stock

Source: CBN Annual Report and statement of Accounts [1981 - 1990]

Table 2

TREASURY BILLS, ISSUES AND SUBSCRIPTION
[₦ 'million]

Year	Issues	Subscription By CBN	Subscription By Others	Proportion By CBN (%)
1981	998.0	490.9	507.1	49.2
1982	2,206.3	1,523.6	682.7	69.1
1983	3,819.3	2,370.4	1,448.9	62.1
1984	4,658.7	2,342.3	2,316.4	50.3
1985	5,033.7	2,165.4	2,868.3	43.0
1986	5,492.0	3,385.6	2,106.4	61.6
1987	7,392.0	5,906.5	1,485.5	79.9
1988	9,262.8	7,417.9	1,844.9	80.1
1989	10,879.5	8,880.8	1,998.8	81.6
1990	7,542.0	2,751.7	4,780.2	36.5

* Others include Commercial Banks, Merchant Banks, Individuals, Savings - Type Institutions, Statutory Boards and Corporations, State and Local Governments and other Companies

Source: CBN Annual Report and statement of Accounts [1981 - 1990]

CHAPTER III

RESEARCH METHODOLOGY

3.0 INTRODUCTION

In the preceding chapter, the theoretical framework for the study was observed. The emphasis was on secondary sources of information, especially relevant texts and articles. This chapter contains the research instrument, research setting and subjects, procedures, research questions, definition of term of and method of data analysis.

It is intended to describe the design of the study and also the procedures used in analyzing the data collected.

3.1 THE RESEARCH INSTRUMENT

Two research instruments were adopted during the course of this study. They are:

a. The Unstructured Interview

b. The Questionnaire

3.1.1 Unstructured Interview

In an attempt to gain an insight into some aspects of the role discount houses are expected to play in the Nigerian financial system, two unstructured interviews were conducted. One with Mr. A. Ukor of the Central Bank of Nigeria Publications Department and the other with prof. Bob Osaze of the Accounting Department, A.B.U. Zaria.

Both interviews went a long way to clarify a number of issues and served as a basis for the development of the questionnaire.

3.1.2 The Questionnaire.

The Questionnaire is divided into three sections. The first section relates to the understanding of the functions, instruments traded in and market of discount houses.

The second section deals with the rules and guidelines laid down by the Central Bank for the operations of the discount houses.

The third section allows the respondents to express in their own words, their views which they could not in the structured part of the questionnaire. They are expected to fill in their own words, their reaction to certain general questions asked.

3.2 RESEARCH SETTING AND PROCEDURE

The study was conducted among the major commercial banks, merchant banks, insurance house and the Central Bank of Nigeria.

A total of sixty questionnaires were distributed. Twenty (20) among 3 commercial banks, fifteen (15) in 2 merchant banks, fifteen (15) between 3 insurance companies and ten (10) at the CBN headquarters in Lagos.

The selection of respondents within the specified areas was biased

because only the treasury departments in these institutions deal with treasury bills and apart from the top management, they are the only ones who can provide accurate answers to the questions posed.

The questionnaires were distributed directly to the respondents and retrieved after three days. Sixty Questionnaires were distributed, out of which forty-eight were retrieved, representing a response rate of 80%.

3.3 RESEARCH QUESTIONS

This study seeks to discover the relevance of discount houses to the Nigerian financial system. The following research questions are therefore raised to guide the study:

1. What is meant by the term discount house?
2. What services do they provide?
3. To what extent does discount house operations and services conform to the theories of economic development or the *principles of economic transformation*?.
4. Are discount houses relevant to the Nigerian Economy?, and if yes, how feasible are they?.
5. Why are they just being introduced when since 1962 there have been calls for their introduction.

3.4 DEFINITION OF TERMS

In providing answers to previously stated research questions, the structured part of the questionnaire was divided into "Yes" or "No"

responses (Questions 4 - 7) and "Favourable" and "Unfavourable" responses (Questions 8 - 20).

Yes, as it implies is a positive answer, while No meant a negative response. Favourable was perceived as a positive response, while unfavourable a negative response.

Questions 21 - 30 were open ended, allowing respondents to freely express themselves.

3.5 METHOD OF DATA ANALYSIS

Analysis was based upon the use of simple percentages. "Yes" and "favourable" answers were regarded as positive responses, while "No" and "unfavourable" answers were regarded as negative responses.

CHAPTER IV

DATA ANALYSIS AND INTERPRETATION

4.0 INTRODUCTION

This chapter contains a background to the various analysis to be undertaken. Brief notes that will help for better understanding of some of the statements/questions are also given.

The questionnaire is divided into three sections. The first section relates to the awareness of the existence and functions of discount houses (questions 3 - 7). The second section concerns some of the rules and regulations governing the operations of discount houses in Nigeria (questions 8 - 20). The third section allows respondence to express themselves to the open - ended questions which they could not do freely in the structured part of the questionnaire.

4.1 ANALYSIS OF SECTION ONE OF QUESTIONNAIRE: Awareness of the role and function of Discount Houses.

The total number of questionnaires administered was sixty (60). The total number of respondents who filled and returned their questionnaires was forty-eight (48).

Table 3.1: Awareness of the Introduction of Discount Houses

Response	No	%
Yes	48	100
No	-	-
Total	48	100

All 48 respondents (100%) were aware of the introduction of discount houses into the Nigerian financial system in January 1992.

Table 3.2: Role and function of Discount Houses

Response	No	%
Yes	42	87.5
No	6	12.5
Total	48.00	100.00

Discount houses are non-bank financial institutions which operate at the most liquid end of the money market. They shift funds between the CBN on one hand and licensed banks on the other, smoothening out the surpluses and shortfalls in the supply of, or demand for liquid funds. 87.5% of respondents said that they understood the roles and functions of discount houses while 12.5% of the respondents did not understand

the functions and roles expected to be played by discount houses in the financial system.

Table 3.3: Knowledge of Instruments Discount Houses trade in

Response	No	%
Yes	48	100
No	-	-
Total	48.00	100.00

According to the guidelines, discount houses can invest in short-term accommodations to banks, treasury bills, treasury certificates and negotiable certificates of deposits. Other instruments in which they could invest include bankers acceptances, eligible commercial papers, eligible state bonds, promissory notes issued by state governments and any other securities that may from time to time be approved by the CBN. All forty-eight respondents (100%) knew the main instrument in which the discount houses are supposed to trade in.

Table 3.4: Adequacy of Money Market Instruments

Response	No	%
Yes	39	81.25
No	9	18.75
Total	48.00	100.00

For the discount houses to be effective and profitable, there has to be an abundance of treasury securities in the Nigerian money market plus high prospects of new issues either to replace maturing ones or increase the amount already existing. 81.25% of the respondents feel that the instrument/securities traded in the money market are adequate to sustain the discount houses, while 18.75% of respondents do not feel that the securities traded are adequate to meet the needs of the discount houses.

Table 3.5: Well developed Secondary Market

Response	No	%
Yes	8	16.67
No	40	83.33
Total	48.00	100.00

Discount houses are expected to constitute a catalytic force in the promotion and development of secondary markets in government securities in Nigeria. 83.3% of respondents do not think that there is a well developed and viable secondary market in treasury bills. On the other hand 16.67% feel that there is a viable and developed market in treasury bills.

4.2 ANALYSIS OF SECTION TWO OF QUESTIONNAIRE: Regulations governing the operations of Discount Houses:

Section two deals with the measures used by the CBN to regulate the economy and the discount houses.

Table 4.1: Constitution of promoters of Discount Houses

Response	No	%
Favourable	42	87.5
Unfavourable	6	12.5
Total	48.00	100.00

As provided in the Central Bank of Nigeria's Guidelines for the Operation of Discount Houses, only a Consortium of banks with or without the participation of international financial institutions acceptable to the CBN, may transact discount house business. 87.5% of respondents found this regulation favourable, while 12.5% did not like the regulation.

Table 4.2: Acceptance of Deposits from non-bank Institutions

Response	No	%
Favourable	22	45.83
Unfavourable	26	54.17
Total	48.00	100.00

Unlike in England, where discount houses can accept deposits from the non-bank sector, the discount houses in Nigeria cannot accept deposits from the non-banking sector. The responses given by the respondents did not show a clear preference. 46% of respondents felt that deposits should not be accepted from the non banking sector, while 54% felt that discount houses should be allowed to accept deposits from non-bank financial institutions and corporate bodies.

Table 4.3: The Reporting System

Response	No	%
Favourable	4	8.33
Unfavourable	44	91.67
Total	48.00	100.00

For any financial system to function effectively there should be a provision for feedback. The CBN has put in place a reporting system whereby each discount house shall each day, send two copies of its returns on the previous day's closing position: borrowing rates, lending rates and discount rates to the CBN. The discount houses should also submit to the CBN two copies of weekly and monthly returns on its assets and liabilities. 91.67% of respondents do not find favourable this regulation while 8.3% feel that this control measure is in place.

Table 4.4: The Management Requirement

Response	No	%
Favourable	32	66.67
Unfavourable	16	33.33
Total	48.00	100.00

In its guidelines, the minimum qualification and experience for a Managing Director/Chief Executive for a discount house is a university degree or professional qualification acceptable to the CBN with at least fifteen years post-qualification experience, while that for a departmental head is a university degree or acceptable professional qualification with at least ten years post-qualification experience. 66.7% of respondents regard this as favourable while 33.3% do not like the regulation.

Table 4.5: Changes in Top Management by CBN approval

Response	No	%
Favourable	13	27.08
Unfavourable	35	72.92
Total	48.00	100.00

On the need of the discount houses to seek approval from the CBN

before they can effect changes in top management and board of directors, 73% of the respondents were not in favour of the regulation, while 27% found the guideline favourable.

Table 4.6: Minimum Capital Deposit

Response	No	%
Favourable	14	29.16
Unfavourable	34	70.83
Total	48.00	100.00

Every bank must have a capital base. Recently the minimum capital base requirement of merchant and commercial banks had been raised ₦40 million and ₦50 million respectively. Discount house promoters are required to deposit ₦100 million with the CBN as the minimum capital of the house. 29% of the respondents were in favour of the regulation while 71% were against it.

Table 4.7: Licensing Fee

Response	No	%
Favourable	36	75
Unfavourable	12	25
Total	48.00	100.00

The CBN will license only those applicants that are able to demonstrate that they meet the minimum conditions stipulated by it. 75% of respondents did not see any thing wrong with the requirements of ₦500,000 as licensing fee while 25% found it to be quite excessive.

Table 4.8: Control by the CBN

Response	No	%
Favourable	11	22.91
Unfavourable	37	77.08
Total	48.00	100.00

Going by most of its rules and regulations on discount houses, it could be seen that the CBN is very much involved in the day to day operation of the discount houses. Its control of the discount houses is near total. 77% of the respondents do not find favourable a situation where the CBN is in control of the affairs of the discount houses. On the other hand 23% of the respondents see nothing wrong with the CBN controlling the operations of the discount houses.

Table 4.9: Deregulation of the Nigerian Economy

Response	No	%
Favourable	39	81.25
Unfavourable	9	18.75
Total	48.00	100.00

Since 1986, the present administration has tried to deregulate all facets of the Nigerian Economy and allow market forces determine the direction of the economy. 81.3% of respondents see the deregulation of the economy as being favourable while 18.7% do not see it as being favourable.

Table 4.10: Deregulation of Interest Rates

Response	No	%
Favourable	38	79.16
Unfavourable	10	20.83
Total	48.00	100.00

Interest rates have also been deregulated. The cost and availability of credit are determined through the financial market and no longer by the imposition of credit ceilings on banks by the monetary authorities. 79% of respondents see the deregulation of bank lending and deposit rates

as favourable. On the other hand 21% of the respondents do not see the deregulation as a healthy development.

Table 4.11: Inter-bank interest rates Vs. Treasury bills.

Response	No	%
Favourable	41	85.41
Unfavourable	7	14.58
Total	48.00	100.00

Because of the absence of discount houses, banks which are in need of funds have to shop for such funds amongst themselves and can only go to the CBN as a last resort. Banks charge interest on the loans and currently, the inter-bank interest rate is 105% compared to that on treasury bills of 17%. 852% of respondents see the current inter-bank interest rate relative to that obtainable on treasury bills as favourable while 25% found it unfavourable.

Table 4.12: Commitment of 20% of Total Deposit Liabilities

Response	No	%
Favourable	12	25
Unfavourable	36	75
Total	48.00	100.00

The federal government by law, through the CBN, has decreed that a certain portion of the total deposit liabilities of financial institutions be committed to the purchase of treasury bills and other government securities. This portion consists about 20% of the total deposit liabilities of these institutions. 75% of respondents do not find this demand favourable while 25% think that the commitment of 20% of their liabilities to government securities is favourable.

Table 4.13: Response of the larger Financial System.

Response	No	%
Favourable	40	83.33
Unfavourable	8	16.67
Total	48.00	100.00

On the Question as to the response of the larger financial system to the introduction of discount houses, 83.3% of the respondents felt that the response of the larger financial system was favourable to their introduction, while 16.7% thought otherwise.

4.3 ANALYSIS OF SECTION THREE OF QUESTIONNAIRE: Relevance and Viability of Discount Houses

Section three allows respondents to freely express their opinion on a number of questions raised.

Table 5.1: Necessity of Discount Houses.

Response	No	%
Yes	17	35.4
No	31	64.6
Total	48.00	100.00

On the question "Are discount houses a necessary addition to the Nigerian financial system ?", only 35% felt they were a necessary addition. 65% of respondents felt they were not necessary and gave varied reasons, the main being that the economy was not matured enough to accept discount houses.

Table 5.2: Provision of Social or Economic Justification.

Response	No	%
Yes	41	85.4
No	7	14.6
Total	48.00	100.00

Eighty-five percent (85%) of the respondents felt that discount houses provided economic and social justification for their introduction while 15% did not agree that they did. Their argument was that between the CBN and the licensed banks, the services to be provided by the discount houses are being adequately taken care of.

Table 5.3: Profitability of Discount Houses

Response	No	%
Yes	30*	53.6
No	26*	46.4
Total	56.00*	100.00

* Eight respondents ticked both answers

On whether discount houses would be a profitable venture, eight respondents were undecided and ticked both answers, indicating that they felt they were profitable and yet not profitable. 54% of respondents think discount houses would be a profitable venture, while 46% do not think so. The reasons vary from the fact that interest rates have been deregulated and the unattractiveness of treasury bills to most financial institutions.

Table 5.4: Prospects for growth and survival

Response	No	%
Yes	15	31.2
No	33	68.8
Total	48.00	100.00

Only 31% of respondents think that there is a prospect for survival and

growth of discount houses. 69% of respondents do not see any prospects because of what they claim to be "the flexibility of the Nigerian financial system" and the frustrations inherent in the system. Also they feel the CBN creates artificial bureaucratic bottlenecks.

TABLE 6: SUMMARY OF SECTION ONE OF QUESTIONNAIRE

	YES		NO	
STATEMENT	Number (N)	Percentage (%)	Number (N)	Percentage (%)
Are you aware of the introduction of discount houses?	48	100	-	-
Do you understand the functions and roles of a discount house?	42	87.5	6	12.5
Do you know the main instruments in which the discount houses trade in ?	48	100	-	-
Are the instruments traded in the money market adequate to sustain the discount houses ?	39	81.25	9	18.75
Is there a well developed and viable secondary market in treasury bills.	8	16.67	40	83.33

TABLE 7: SUMMARY OF SECTION TWO OF QUESTIONNAIRE

	FAVOURABLE		UNFAVOURABLE	
STATEMENT	Number (N)	Percentage (%)	Number (N)	Percentage (%)
• Only a consortium of banks can promote a discount house	42	87.5	6	12.5
• Deposits cannot be accepted from non-bank institutions	22	45.83	26	54.17
• The daily, weekly, and monthly reporting system required by the CBN	4	8.33	44	91.67
• The Management requirement	32	66.67	16	33.33
• Approval of changes in top management and Board of Directors by the CBN	13	27.08	35	72.92
• The minimum capital deposit of ₦100 million	14	29.16	34	70.83
• The licensing fee of ₦500,000	36	75	12	25
• The near total control of discount houses by CBN	11	22.91	37	77.08
• The deregulation of the Nigerian economy	39	81.25	9	18.75
• The deregulation of interest rates	38	79.16	10	20.83
• The current inter-bank interest rates relative to that obtainable on treasury bills.	41	85.41	7	14.58
• commitment of 20% of total deposit liabilities in treasury bills	12	25	36	75
• The response of the larger financial system to the introduction of discount houses	40	83.33	8	16.67

TABLE 8: SUMMARY OF SECTION THREE OF QUESTIONNAIRE

	YES		NO	
STATEMENT	Number (N)	Percentage (%)	Number (N)	Percentage (%)
Are discount houses a necessary addition to the Nigerian financial system ?	17	35.4	31	64.6
Do they provide any social or economic justification for their introduction ?	41	85.4	7	14.6
Do you think it is a profitable venture ?	30*	53.6	26*	46.4
Do you see any prospects for survival and growth ?	15	31.2	33	68.8

* Eight respondents ticked both answers.

CHAPTER V

SUMMARY, FINDINGS, CONCLUSION AND RECOMMENDATIONS.

5.0 INTRODUTION:

This chapter deals with the summary of the study, research finding, conclusions and recommendations for possible policy formation.

5.1 SUMMARY OF RESEARCH

This study examined the relevance of discount houses in the Nigerian financial system. The first chapter is the introduction of the study which looks at the objectives, importance, limitations and significance of the research work. The second chapter is essentially the review of existing literature in the area of study. The third chapter deals with the methodology of the research work. it discusses the research instruments, research settling and procedure, definition of terms and the method of date analysis. The forth chapter deals with data analysis and the interpretation of results. The final chapter [chapter five] discusses the summary, findings and conclusions of the research work. It also gives some recommendations which could be used in policy formation as regards the operation and feasibility of discount houses in Nigeria.

5.2 FINDINGS OF THE RESEARCH.

All the respondents were aware of the introduction of discount houses into the Nigerian financial system, and they knew the main

instruments/securities in which discount houses trade in. Most understood the functions and roles expected to be played by discount houses in the economy and felt that the instruments traded in the money market were adequate to sustain the discount houses. [see table 3] The CBN in January 1992 Published Guidelines for the operation of Discount Houses, some of these guidelines perceived as being favourable while others were perceived as unfavourable. Most respondents [see table 4] agreed that only a consortium of banks should promote a discount house and did not see the ₦500,000 licensing fee as excessive.

The CBN has stipulated the minimum qualification and years of experience for a chief executive or head of department for a discount house. 67% of respondents felt that the CBN stipulation was in order and even more, 83% thought that the larger financial system response to the introduction of discount houses was favourable.

More than 80% of respondents were pleased with the deregulation of all facets of the Nigerian economy, and more importantly the deregulation of interest rates, and the current inter-bank interest rates. This can be understood, since as bankers, they are making a lot of money on the inter-bank transactions.

There was no clear response as to whether deposits should be accepted from non-bank institutions nor any as to whether they thought discount houses are a profitable venture. Most respondents were sure that there

was some social and economic justification in the introduction of discount houses.

On the other hand, 83% of the respondents did not believe that there is a well developed and viable secondary market in treasury bills, and did not consent to the commitment of 20% of total deposit liabilities in treasury bills.

On the guidelines by the CBN, it was very clear that the reporting system required by the CBN did not find favour with the respondents. They also were not happy with the need to get the CBN's approval before changes could be made in top management and the Board of Directors, the minimum capital deposit of one hundred million naira (₦100,000,000) and the fact that the CBN wields a lot of power over the operations of the discount houses (see table 4)

Going by the responses, it would seem that discount houses are not a necessary addition to the Nigerian financial system because 65% of the respondents do not think so. They also do not see any prospect for growth or survival of the discount house. Their reasons amongst others are that the Nigerian financial industry is too flexible and bureaucratic bottlenecks will hinder the growth of the house when they are set up.

More importantly, the spread between what is obtainable on government securities and that which is obtained on the inter-bank is too much

(17% - 105%). They also gave as a reason for the non-survival of discount houses, the inherent dislike of bankers to invest in government securities, rather they would invest in instruments such as bankers acceptances which yield higher profits within the shortest possible time.

5.3 CONCLUSION

Discount houses are very relevant to the Nigerian economy. Theoretically, their introduction is a brilliant move, but in practice it would be a farce.

Undoubtably, their specialised roles and functions would assist the CBN in its open market operations, relieve the CBN the burden of underwriting the issues of government debt instruments and develop a secondary market in treasury securities.

The money market has grown tremendously since its inception in 1960, but the growth has been more spectacular in the period since 1986 than in the years preceding it. The cause of the difference is in the regulatory environment. Till 1985, the market was rigidly controlled, but since 1986, the rigid control gave way to deregulation. Once the repression was removed growth became fast.

Ironically, some current reform measures undertaken to revamp the financial sector and facilitate the establishment and growth of discount

houses are the same militating against the discount houses. some of these reforms include:

a. The deregulation of interest rates

b. the issues of treasury instruments by tender.

Most banks do not like investing in treasury securities and are only compelled to do so by law and moreover, banks and other financial institutions over the years do not believe in investing in government securities, rather they prefer to invest in instruments which will yield higher profits within the shortest possible time.

Prior to the introduction of SFEM in 1986, the money market suffered from excess liquidity and paucity of investment outlets, as a result of overwhelming dominance by government instruments for financing government short-term borrowing. Since the introduction of SFEM in 1986, the market has been suffering from acute liquidity shortages as a result of the preponderance dependence on the government as a prime mover of activities in the market.

The acute liquidity shortage has resulted in high interest rates, instability, and lack of confidence in the capacity of the market to effectively discharge its functions particularly the allocative and intermediating functions.

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Furthermore, due to the deregulation of interest rates, investments in treasury securities have become unattractive because the rate of interest on these securities is fixed while on the other forms of securities, the interest rates are flexible.

The deregulation of the economy, even though it seems to have a favourable impact on the money market and inter-alia the discount house will in the long run prove to be its undoing. There is a need for some sort of control and as Professor Nwankwo rightly put it, "there should be no dogmas about regulation or deregulation, it is rather, deregulate where possible and regulate where necessary".

So it is my opinion that although discount houses are relevant to the economy, and the economy matured enough to sustain them, their introduction at this point in time is not feasible. And though they provide some social and economic justification for their introduction, there is no way they can be profitable unless some changes are made in the market place by the appropriate authorities.

5.4 RECOMMENDATIONS

Discount houses, like all other private ventures, has primarily the objective of making a profit for its owners. To satisfy this profit motive, the Federal Government through the CBN has to effect some changes in the financial system.

Firstly, some form of regulation of interest rate has to be instituted. No bank will invest millions in treasury securities at less than 25% when they can get 105% lending this money to other banks and at a shorter period of time.

Secondly, banks should be temporarily barred from lending and borrowing money amongst themselves. One of the functions of discount houses is to bring together surplus and deficit units in the money market. Banks with surplus funds would have no alternative when barred than to loan the funds to the discount house, because idle cash yields no interest, and banks in a deficit will borrow from the discount houses, because they have no where else to go, and at rates determined by the discount houses.

Thirdly, the discount houses should be allowed to shop for funds from the non-bank sector. This would promote a healthy competition among the discount houses for liquid funds, and would allow for innovativeness and dynamism among operators of the houses.

Fourthly, the supervisory and regulatory role of the CBN as it affects the operation of discount houses should be restructured. Too much control by the CBN will ultimately turn discount houses into an extension of the CBN, which should not be. Discount houses should be independent from the CBN. The CBN's role here should only be that of an overseer to make sure the actors are playing by the rules. The CBN has several

indirect methods to influence the discount houses operations, so it does not have to be too directly involved in their daily operations.

If all these measures cannot be effected, then in the alternative, the CBN and inter alia the Federal Government should discontinue with the introduction of discount houses into the Nigerian financial system.

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APPENDIX I

QUESTIONNAIRE

This Study is intended to find out the relevance of Discount Houses in the Nigerian financial system.

Please tick or fill in where appropriate your answers to the following Questions.

1. Name of Company _____

2. Nature of Company's business _____

3. Are you aware of the introduction of Discount Houses into the Nigerian financial system ?

   ☐ Yes ☐ No

4. Do you understand the functions and roles of a Discount House ?

   ☐ Yes ☐ No

5. Do you know the main instruments in which the Discount Houses trade in ?

   ☐ Yes ☐ No

6. Are the instruments traded in the money market adequate to sustain the discount houses ?

   ☐ Yes ☐ No

7. Is there a well developed and viable secondary market in treasury bills ?

   ☐ Yes ☐ No

SECTION II

The CBN in its guidelines for the operations of the discount houses laid down some of the following. How do you perceive their impact on the development of the Discount Houses ?

8. Only a consortium of banks can promote a Discount house ?

☐ Favourable ☐ Unfavourable

9. Deposits cannot be accepted from non-bank institutions ?

☐ Favourable ☐ Unfavourable

10. The daily, weekly, and monthly reporting system required by the CBN

☐ Favourable ☐ Unfavourable

11. The management requirement (minimum years of experience) ?

☐ Favourable ☐ Unfavourable

12. Changes in top management and board of directors must be approved by the CBN ?

☐ Favourable ☐ Unfavourable

13. The minimum capital deposit of ₦100 million ?

☐ Favourable ☐ Unfavourable

14. The licensing fee of ₦500,000 ?

☐ Favourable ☐ Unfavourable

15. The near total control of the discount houses by the CBN?

☐ Favourable ☐ Unfavourable

16. The Deregulation of the Nigerian economy ?

☐ Favourable ☐ Unfavourable

17. The deregulation of the interest rates ?

☐ Favourable ☐ Unfavourable

18. The current inter-bank interest rates relative to that obtainable on treasury bills?

☐ Favourable ☐ Unfavourable

19. Commitment of 20% of total deposit liabilities in treasury bills?

☐ Favourable ☐ Unfavourable

20. What is the response of the larger financial system to the introduction of discount houses?

☐ Favourable ☐ Unfavourable

SECTION III

21. Are discount houses a necessary addition to the Nigerian financial system ?

☐ Yes ☐ No

22. If not, why not? _____

_____

23. Do they provide any social or economical justification for their introduction ?

☐ Yes ☐ No

24. If not, why not ? _____

_____

25. Do you think it is a profitable venture ?

☐ Yes ☐ No

26. If not, why not ? _____

_____

27. Do you see any prospects for survival and growth ?

☐ Yes ☐ No

28. If not, why not ? _____

_____

29. Comment freely on the relevance of the discount houses to the Nigerian financial system _____

_____

_____

30. Comment freely on the viability (how feasible) of discount houses Nigeria

_____

_____

_____