DEREGULATION AND TREASURY ACTIVITIES IN THE NIGERIAN BANKING SECTOR

AN ANALYSIS OF SELECTED MERCHANT BANKS

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DECLARATION

I hereby declare that this thesis has been written by me and it is a record of my own research work. It has not been submitted in any previous application for any higher degree.

All references and quotation are shown and the sources of data are adequately knowledged.

NAME OF STUDENT	SIGNATURE	DATE
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CERTIFICATION

This project report entitled "Deregulation and Treasury Management in the Nigerian Banking Sector - with emphasis on Merchant Banking" meets the regulation governing the award of degree of **MASTERS OF BUSINESS ADMINISTRATION (MBA)** of Ahmadu Bello University, Zaria, and is hereby approved for its contribution to knowledge and presentation.

Supervisor — Date 12/4/08

External Examiner — Date

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Dean, PostGraduate School — Date

DEDICATION

This project is dedicated to my parents Hajia Rukayya and Alhaji Sidi Abdulkadir Bamalli.

ACKNOWLEDGEMENTS

In the name of Allah the most gracious and merciful, I thank Thee for the strength, guidance, good health and ability He gave me to sail through the rigours of the course inspite of the epileptic natue of same, as a result of students demonstration and boycotts by lecturers, culminating into extended sessions. To Him I continue to seek for protection.

This write-up would not have been possible without the unquantifiable assistance and co-operation of my supervisor Mallam Bashir Usman Kurfi, who took the pains of going through my work, and making appropriate corrections and suggestions as well as providing some of the materials used.

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ABBREVIATIONS USED

SAP	-	Structural Adjustment Programme
CBN	-	Central Bank of Nigeria
OMO	-	Open Market Operations
TBs	-	Treasury Bill
FEM	-	Foreign Exchange Market
SFEM	-	Second-Tier Foreign Exchange Market
IFEM	-	Inter-Bank Foreign Exchange Market
NCD	-	Negotiable Certificate of Deposit
NND	-	Non-Negotiable Certificate of Deposit
CD	-	Certificate of Deposit
NDIC	-	Nigerian Deposit Insurance Company
BA	-	Bankers Acceptance
CP	-	Commercial Papers
BOFI	-	Banks and Other Financial Institutions.

ABSTRACT

The Nigerian Banking sector which had been regulated prior to 1986, witnessed a steady deregulation of both interest rates and foreign exchange controls, from the year 1986. By 1987, ceiling on lending and deposit rates were virtually removed, while the Foreign exchange market was liberalised enabling Banks to determine rates outside the official exchange rate as approved by the government. This added a new dimension to Treasury Management; purchase, control and management of the local currency and foreign exchange.

Alongside these developments, certain monetary policy statements by the authorities impacted on the developments of money market and indeed the treasurers' functions. The withdrawal of government and government parastatals deposit from the Banking system, to the Central Bank of Nigeria is a case in point. The policy was directed at reducing the size of money in the banking system, control of inflation and achievement of budgetary expectations. However, the impact of this policy statement is the astronomical jump in interest rates witnessed, and the beginning of the crisis of confidence in the Banking industry as many banks could not honour their matured obligations. Interest rates remained high and completely deregulated, while the resultant high cost of fund was subsequently passed down to users of

credits thus increasing their costs, and in the final analysis increasing prices of goods.

The years 1988 - 1992 saw a greater increase in the level of financial intermediation as many Banks were licenced resulting in intense competition in fund sourcing and pricing. By 1993, the competition was at its peak when the political crisis crept in resulting in nea r economic collapse since virtually everything in the economy stopped especially in the South-western axis of the country. Prior to this, the monetary authority introduced the stabilisation securities in its attempt to further reduce or mop up liquidity from the banking system.

However by 1994, the government reverted to the era of regulation fixing a maximum lending rate of 21% P.A. and a deposit rate range of 12-15% P.A., while still carrying along the stabilisation securities application. This indeed worsened the Banks portfolio as depositors who were used to the high rates as offered in 1993 were uncoilling to part with their money at such a low rate as decreed by the government. The resultant effect is low credit to the borrowers of funds as Banks concentrated on how to survive in such a turbulence.

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CHAPTER I

INTRODUCTION

1. OVERVIEW OF BANKING ACTIVITIES

1.1 EVALUATION OF BANKING IN NIGEIRA.

Banking in Nigeria has its origin in trade. The Colonial Administration encouraged formal banking activities with the establishment of the Africa Banking Corporation in 1892 to finance the export of commodities to the United Kingdom. Two years later, 1894, a second bank was established under the name British Bank for West Africa (BBWA), now called First Bank of Nigeria (FBN) Plc. Later BBWA acquired the Africa Banking Corporation and remained the only bank in Nigeria until 1917 when Barclays Bank was established, and later, in 1949, the British and French Bank Limited came into being.

1.2 THE FREE BANKING PERIOD (1892-1952)

In most economies, banks act as custodians of the bulk of the national wealth. This very important role has given banks (and bankers) considerable respect as well as influence in resource allocation and in the economic and development plans of Government.

The period 1892 to 1952 is regarded as the free banking period in Nigeria because of the absence of any Banking law regulating the establishment of banks, thus creating a situation where any person or company could easily establish a bank provided it was registered under the companies

ordinance. Hence, many persons with little or no knowledge of banking but cured by the benefits of owning a bank set up banks which engaged in various types of abuses and malpractices such as counterfeiting, undercapitalisation and share pushing. It was therefore not surprising that many banking failures occured during this period.

In 1948, government set up the Paton Commission of inquiry, to make recommendations on the forms and extent of controls required for the proper operation of the banking industry. Even though the report was submitted in the same year, the first banking legislation, the Banking Ordinance of 1952, based on the report of the Paton Commission came into being only in 1952. The ordinance defined a bank as any business carrying on 'banking business' using "Bank" or "Banking" as part of the title under which it carries out its business. Section 1 of the Ordinance defined banking business as "the business of receiving from the public on current account, money which is to be repayable on demand by cheque, and of making advances to customers".

1.3 THE PRE-GENERAL BANK PERIOD (1952 - 1959)

The enactment of the Banking Ordinance is regarded as the principal feature of the second phase of banking evolution in Nigeria. The Ordinance was the only banking law of the period and it succeeded in preventing undercapitalised banks from being established or operated.

Many of the indigenous banks such as the Penny Bank, Collapsed diving this period. The only town indigenous banks that survived were the;

- African Continental Bank Limited
- National Bank of Nigeria Limited
- Agbonmagbe Bank Limited
- Merchant Bank Limited

while the three expatriate Banks, namely;

- British Bank for West Africa
- Barclays Bank
- British and French Bank (later United Bank of Africa)

all survived. It was thus argued that many of the failures might have been averted if there was a Central Bank to regulate the establishment and activities of banks. On balance, the only banking law operating was ineffective in developing the banking system and preventing the abuses and malpractices which still remain the bane of the Nigerian Banking system.

1.4 THE BANKING LEGISLATION PERIOD (1959 - 1970)

Following the abuses and malpractices in the pre-central Bank period, there were calls for the establishment of a strong Central Bank to guide and supervise banking in Nigeria. The Federal Government appointed the Loynes Commission in September 1959 to undertake a study on the establishment of a Central Bank of Nigeria (CBN). The Loynes Commission submitted its report within six weeks, and the 1958 ordinance established the Central Bank of Nigeria which commenced operations on July 01, 1959.

A total of eight (8) commercial banks were established between 1959 and 1962, and this growth of well conceived and well capitalised banks was helped by the banking legislation, the independence of Nigeria in 1960 and the supervisory and guidance roles of the newly established Central Bank of Nigeria.

1.5 THE INDIGENIZATION PERIOD (1970-1976)

No new banks came into being between 1962 and 1970. Having laid the legislative framework for banking in 1959, and with the 1969 Banking Decree consolidating the foundation, the Nigerian Banking system was up for expansion from 1970 and beyond.

The period 1970-1976 witnessed developments in the system;

a) The indignization of Nigeria Banking;

b) The renewed boom in indigenous banking; and

c) The setting up of the Financial System Review Committee.

Although the initial Nigerian Enterprises Promotion Decree 1972 excluded banking, some expatriate banks, on their own, took steps to Nigerianise some positions. In 1973, the Federal Government acquired a 40% interest in Standard Bank (now First Bank), Barclays Bank (now Union Bank) and United Bank for Africa. In 1976, it acquired 60% of the other foreign banks such as International Bank for West Africa (IBWA), Savannah Bank and Nigeria-Arab Bank (NAB).

The second major development of this period was the renewed interest in indigenous banking by state Government; they wanted to mobilise savings and channel them to high priority sectors of their economies, thereby accelerate state developments.

1.6 PRESENT STATE OF BANKS

At the end of 1987, there were 54 banks in the country made up of 34 commercial banks, 5 development banks and 15 Merchant banks. However, by 1992 ending the number of banks rose significally to 127 made up of 66 commercial banks, 7 development banks and 54 Merchant banks. The Central Bank of Nigeria as the Apex Regulatory Institution sets operating guidelines necessary for the proper conduct of banking business within the framework of Governments' monetary and fiscal policy; while the Nigeria Deposit Insurance Corporation (NDIC) acts as the watchdog of the government in ensuring compliance with all rules and regulations by both the commercial and merchant banks.

The major thrust, and as one of the objection of Government is to bring banking services to the grassroot people, thereby cultivating banking habits and mobilizing savings in the rural areas for development.

1.7 STRUCTURAL ADJUSTMENT PROGRAMME (SAP)

The Structural Adjustment Programme (SAP) initiated by the Government in 1986 affected all the sectors of the Nigerian economy, though in varying degrees. However, the

effect on the banking industry is much more than any other sector of the economy, as not only the structure but the content of banking business changed. The volume of profits increased substantially in the early years of SAP as the old banks were challenged by the ingenuity of the smaller ones, who daily research and introduce new products/services in order to meet the ever changing needs of their numerous customers. SAP thus brought to an end the kind of banking services rendered by the first generation banks as 'arm chair banking' was replaced with aggressiveness and dynamic postures.

The treasury management, more than any sector of the banking system experienced more of the impact of the deregulation of the economy. The deregulation brought about in its wake keen competition among banks in various fronts. It has engendered aggressive deposit drive, and gave rise to intermediation and the increasing sophistication of corporate financial management. Perhaps because of the delay and unattractive services often offered by banks and the costs of such services led to a situation where companies by-pass banks in certain financial transaction and any temporary surplus funds they may have in inter-company interest bearing assets.

1.8 STATEMENT OF THE PROBLEM

The impact of deregulation and monetary policy directions by the CBN (for the years 1986 to date) have

created inbalance in the functions of players in the money market and therefore calls for more effort to equip them properly to meet the challenges posed by these regulation.

The introduction of new guidelines on foreign exchange policy by the Central Bank of Nigeria in March 1992 and that of 1994 led to deregulation of the foreign exchange and this has a structural impact on the country's financial institution.

The problem this work focuses on is analysing the impact of government monetary and fiscal policies issued by the regularoty authority on treasury management of Nigeria banks, specifically of Merchant Banks who are the major active players in the market.

1.9 PURPOSE OF STUDY

The main purpose of this study is to stimulate enquiry into the area of treasury managment also to serve as a guide to our present and future policy makers especially as regards to impact of monetary policies on treasury management in Nigerian banks, with particular reference to the Merchant Banks.

1.10 BASIC ASSUMPTIONS

The study is mainly concerned with the extent to which deregulation affects the Merchant Banks, the problems they are encountering, the prospect and challenges, the impact of CBN operations on treasury management, and the treasury

instruments used in Nigeria. The study shall further review the role of CBN as a regulatory authority and the development of Merchant Banks in Nigeria.

Certain basic assumptions are taken into consideration;

1. Banks assumed a pivotal role in realising SAP objectives not only by being the sole authorised dealers at FEM, but also by being about the only agent through which Government effected adjustment policies.
2. Merchant Banks assume a pivotal function all aimed at among others, achieving economic stabilisation.
3. It is also assumed that the above developments influenced the ownership and expansion pattern of Merchant Banks.
4. It saw to the drastic devaluation of national currency and therefore, signalled the sharp depreciation that has been the fate of the Naira ever since.
5. The phenomenal growth in the number of Banks since the advent of SAP is partly responsible.

1.11 SCOPE OF THE STUDY.

The study covers the period 1986 to 1993, with some insight into 1994. Attempt was therefore made to understand the economy during the regulation period or prior to 1986 and the deregulation period that is 1986-1993, before regulation was re-introduced by the present military junta in 1994. It is interesting to note that the deregulation period brought about increases in number of Banks, interest rates, exchange rate intense competition for survival and outright extinction of some banks.

1.12 RESEARCH METHODOLOGY

Data collected with regards to this project were from two sources - Primary and Secondary.

The primary data involved interviews and discussions with staff of some Merchant Banks, while the secondary were mainly from seminar papers held, content of analysis of official documents of some Merchant Banks, Central Bank of Nigeria and NDIC Annual Reports and Statement of Accounts, (including bulletins) and materials from some textbooks.

1.12.1 INTERVIEWS.

This was carried out with some officials of Merchant Banks, but limited to those directly involved with Treasury operations. The interview conducted cut across the strata of the Merchant Banks in terms of age, size and network. The issues discussed were general while the responses were in most cases evasive as most treasurers refused to give details pertaining to their Banks, but instead talked on a general note. Questions asked include the following;

- Types of deposits maintained including structure
- How are interest rates determined by your Bank?
- Effects on competition resulting from the increase in the number of licenced Banks.
- The effects of the rise in liquidity ratios
- Effects of governmental directives withdrawing all accounts of government ministries and parastatals to the CBN.

- Impact of stabilisation securities as issued by CBN
- The Open Market Operations (OMO)
- Banks sources of funds
- Treasury management and its attendant problems
- The 1994 Budget speech of regulating the economy
- The controlled-deregulation/regulation of 1995
- The impact of suspension of the weekly foreign exchange bidding.
- Impact of capping interest rate at 21% P.A. since January 1994.
- Treasury products offered, if any, and its performance.

1.12.2. SECONDARY DATA.

These were derived from extensive research into contents of official documents of some Merchant Banks, Central Bank of Nigeria (CBN) Annual Report and Statement of Accounts, and Credit Guidelines; Bullion (a CBN publication); Nigeria Deposit Insurance Corporation (NDIC) Annual Report and State of Accounts as well as the Nigeria Banking, Finance and Commerce (NBFC) 1992/93 International Text.

Others were from some Nigerian Newspapers, Articles from magazines and papers presented at seminars/workshops, by some highly placed and experienced executives of some Banks on Treasury operations in particular and Merchant Banking in general. Their contributions indeed constitute

a significant portion of the literature review of this project. There was little extraction from textbooks as there are few who have dealt with Treasury, as a subject, but localised to the Nigerian Market. Treasury is indeed a new concept in the Banking history in Nigeria as it started its development sequel to the 1986 SAP introduction.

1.13 LIMITATIONS OF THE STUDY.

Though interviews were held with top level officials of Merchant Banks, the respondents were quite reluctant to divulge information relating to their operational strategies and other management matters. Extensive research into textbook was also another hig limitation as indigenous writers did not write much on treasury operations in the country, so most textbooks do not have a direct bearing on Nigeria's situation, and even where they have, they were not current.

1.14 CONCLUSION.

Treasury management more than any sector of the Nigerian economy suffered the impact of SAP and deregulation because of the several regulatory changes made during the period. The various policies, made Bank treasury to discover that "armchair" banking could not fit the volatility of the then operating environment if they were to manage the fund of the business in a manner that ensure optional balance between liquidity and profitability.

The focus of this work is therefore to analyse the impact that different fiscal and monetary policies issued by the CBN have on treasury management of Nigerian banks especially the Merchant Banks.

CHAPTER II

2.0 LITERATURE REVIEW

Treasury operations in the Nigerian Banking industry was little known until about 1989 when several regulatory changes were made in the drive towards a healthier financial system. Prior to this time, bank treasurers had been complacent and indeed operated in a buyers' market where they dictated the volume of deposit funds they would take from their depositors and the rate they would offer to such depositors for their funds.

The rapid increases in the number of operating banks along with the gradual deregulation of the economy and the series of liquidity mop-up exercise that were/have been carried out since 1989 by the CBN constituted factors of changed treasury arrangements, as competition for the limited funds pools heightened while cost of funds to Nigerian banks rose sharply. Therefore bank treasurers who had gotten used to "armchair" banking or treasury management suddenly discovered that continuing with this approach would only quicken their organisations path to insolvency. To survive this volatile operation environment, banks generally embarked on an aggressive drive for funds to raise the desired liquidity volumes at reasonable prices.

2.1 TREASURY MANAGEMENT

Treasury management can thus be interpreted as the formalised process of planning for and sourcing of funds at the lowest possible cost and controlling how these funds are

invested in order to strike a balance between liquidity and profitability. The very elements of treasury management could therefore be identified as;

(i) Making funds available when required

(ii) Making efficient utilization of funds.

The above is termed cash managment or better still "assets and liabilities management" as is referred to in the professional banking circles; all interwoven as they have the same ultimate goal of funds management of the business in a manner to ensure optional balance between liquidity and profitability.

2.2 CASH MANAGEMENT.

The basic objective of cash management is to plan, monitor and manage liquid resources in order to reduce the risk of loss and increase net earnings in a manner that is consistent with the strategic objective of an organisation. This recognises the risk-return relationship which consciousness drives the investor or manager to always strive to maximise returns, subject to the risk constraint, but not negating the objective of the firm which is generally agreed to be the maximization of the market value of its shareholders wealth. To achieve this, the firm has to remain liquid, thus making liquidity a critical issue in treasury management.

Liquidity is thus referred to as the ability to ensure the availability of funds to meet commitments at all times. Therefore, two major segments of liquidity could be identified as follows;

(i) Making funds available at reasonable (low) price

(ii) Meeting commitments at all times.

Liquidity management is therefore a continuous process, and determines whether a bank would stay afloat or go under. It goes along way in determining whether or not a bank is in distress position or not.

The intensity of competition and various innovations has gradually paved way for the development of a vivile and vibrant money market which has grown faster than both the capital market and the real productive sectors. The development has, however, been largely instigated by the CBN which provided the instruction such as money notes and treasury certificates, in addition to creating the challenges for the market participants. The instuments which are essentially short-term in nature include;

(i) Bankers Acceptances

(ii) Commercial papers

(iii) Non-negotiable certificate of deposit.

Of greater significance is the inter-bank market which can be regarded as a catalyst in the entire process. It got its peak of development in 1986 following the introduction of the foreign exchange auction.

Other factors that have had immense impact on the growth of money market are the persistent mop-up of liquidity and the introduction of stabilization securities as a weapon of controlling excess liquidity in the system and also as a means of sanitising the foreign exchange market.

Although SAP was introduced in 1986, radical changes began in 1989 when the government instructed all its parastatals to withdraw their accounts from commercial and merchant banks to the CBN; cancelled all naira loans backed by foreign currency guarantees as well as increased liquidity ratios for banks. These developments exposed the weak foundation of many banks as well as brought out the need for banks to properly match their funds and diversity their deposit base.

The sharp rise in the number of banks operating in the country also prompted severe competition for deposits among banks for example the number of licenced banks rose significantly from a total number of 11 in 1960 to 41 in 1985, 52 in 1987, 81 in 1989, 107 in 1990 and 120 in 1992. This rise in numbers undoubtedly heightened competition for deposits and as well opportunities. Similarly, the various changes introduced with respect to paid-up capital for both commercial and merchant banks have greatly affected the level of liquidity and the urge by banks to market for funds. The present state of the Nigerian Money Market has also been influenced largely by the phenomenal increases in the number of finance companies that posed some kind of challenges to banks especially in mobilizing deposits and the deregulation of foreign exchange market, where rates fell from 0.66 kobo to the dollar during the 1970 oil bonanza to #1.66 to the dollar prior to the commencement of the auction system, to between #8.50 to #10.00 to the dollar

before March 05, 1992 when it ballooned to #18.50 to a dollar and thereafter to #22.00 to the dollar (officially) while it rose upto #110.00 to the dollar in the black market and has since been hovering at about #80.00 to a dollar. The fall in the value of the naira vis-a-vis foreign denominated currencies made it imperative for banks to scout more aggressively for deposits as working capital requirements went skyward. Most manufacturing and trading concerns have had to rely on borrowed funds to stay in business, while tight monetary policies pursued by the CBN and the impredictable nature of government action had their tolls on treasury management. Therefore, it became a matter of "survival of the fittest" since the whole scenario changed such that banks had to galvanise its staff to go out and scout for the limited funds available in the market to remain a float.

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2.3 DEVELOPMENTS IN TREASURY ACTIVITIES

From independence when the nation was self-sufficient in foods and agriculture, to date, when crude petroleum accounted for about 96% of our viable export trade, the Nigerian economy has undergone considerable transformation. Unfortunately, the pehnomenal growth in oil earnings was not fully utilised within the system to induce a broad production base with forward and backwards linkages for various sectors of the economy. Huge foreign exchange earning backed by insappropriate macro-economic policies led to a consumption production patterns which was largely import-oriented.

With the disappearance of the oil boom, as a result of slump in world oil market, the inability or reluctance to rationalise on importation led to the depletion of our external reserves and the emergence, eventually, of trade arreas, resulting in the growth of debt burden in the early 1980s. Added to this are the heavy public sector spending and the refusal of foreign creditors to open new lines of credit thus necessitating a policy re-direction aimed at re-aligning the domestic production and consumption patterns with the local resource base. Therefore the review of the macro-economic policy framework became imperative.

Consequently, the structural adjustment programme (SAP) was introduced in July 1986 entailing a general deregulation of the economy. Since its introduction, the performance of the economy in general has been mixed and that of the financial sectors also fluctuates as the policies and guidelines kept being changed as and when necessary. The treasury who manages the nerve centre of the bank and who has to provide funds for financing payment and repayment including loan disbursement is expected to source deposit, - commercial and interbank, at the most reasonable rate from an economy filled with several regulations by the CBN, NDIC and to an extent by his own bank.

Commercial and Merchant banks thus faced several changes in regulations some of which were reversals to the old with slight changes all in the hope of restoring

internal as well as external macro-economic balance. Some effects of such regulations like the removal of ceiling of interest rates by the later part of 1987 through 1990, included high interest rates with the comitant high cost of funds. The placing lack of ceiling on the interest rates in 1991 and 1994 brought down deposit rates for new funds. However, the deregulation of the interest rates in 1992 only produced harmful effects in the economy because of the imperfections in the money market.

The liquidity crisis in banks came to the limelight when the CBN increased their liquidity ratios to 22.5% as well as introducing certain conditions which must fulfil in order to qualify for participation in the foreign exchange market. The banks therefore blamed the government for their unhealthy situation which they traced back to the 1989 withdrawal of government ministries and parastatals accounts from the banks to the CBN. Also, the CBN's attempt to curb excess liquidity through stabilization securities was not without cost to the financial system. Perhaps, the most dramatic and profound development in the financial sector was the deregulation of the exchange rate on March 5, 1992 which immediately led to the devaluation of the Naira by about 80%. The naira which was exchanging for #10 to a dollar was overnight devalued by administrative fiat to #18.00 to a dollar. This had far reaching effect not only on treasurers and banks, but on the economy as a whole.

2.4 ROLE OF CBN AS A REGULATORY AUTHORITY

Like any other business the worldover, Banking as a business is guided by legislations and the controlling influence of the country's Apex Financial Institution - the CBN and/or the Federal Government through the Federal Ministry of Finance. The other regulatory authority is the NDIC which acts the 'policing authority'.

The CBN tries to advise on co-ordination between the governments' financial policy and the main economic policy objectives within the context of monetary stability. The CBN plays a prominent role in furthering the process of the nations economic transformation by formulating and executing the country's MONETARY POLICIES.

Monetary policy has the objective of influencing economic activities through variation in money supply, availability of credit or interest rates. It constitutes a part of the general macro-economic policy with the main long term objective of maintaining a high and stable level of employment, stability of process, rapid but steady economic growth, a satisfactory balance of payments and an equitable distribution of income.

The CBN functions as bankers' bank, banker and financial adviser to the government, issues currency, supervises, licences and monitors bankers' activities and above all regulates the economy by issuance of periodic credit guidelines/formation of monetary policies. The tools it uses in carrying out its functions include;

(i) Discount and interest rate policy

(ii) Moral suasion

(iii) Open Market Operations

(iv) Reserve requirement;

- Cash reserve ratio
- Liquid asset ratio

(v) Special deposits

(vi) Aggregate cash ceiling

(vii) Credit Administration

(viii) Selective credit control or guidelines

(ix) Control of non-bank financial institutions.

However, following the increasing complexity of the banking system, particularly with the upsurge in the number of licenced banks and the deteriorating position of some of them in 1992, the CBN undertook more intensive regulatory and supervisory activities to improve the quality of banks' assets and ensure their compliance with policy directives. All these, among others, are what guide the CBN in its decision-making in relation to the guidelines that are issued, some of which have heavy impact on, and affect treasury operations of Nigerian banks.

A treasury manager needs to understand the responsibilities of CBN, the sources of information available in the economy and to CBN, the policy instruments and their facts in general. Timely acquisition of information in this area will give a bank a comparative advantage as far as efficient and effective funds management is involved.

2.5 OPERATIONS OF CBN

In addition to the monetary circular, directives, instruments and circulars are issued from time to time by the relevant CBN departments. However, the following are those concerned with treasury circulars;

- Banking supervision
- Trade Exchange
- Foreign Operations
- Banking Operations, and
- Research.

Treasurers of banks must ensure regular touch with these departments in view of their crucial importance as circulars could be issued at any time. It is imperative to note that by their peculiar nature, some units of these departments play prominent operational roles that aid the treasurer in effective and efficient sourcing and deployment of funds. Examples could be seen in the following;

i. PUBLIC DEBT OFFICE.

This office is in charge of primary issue of Treasury Bills, certificates and other Government Securities.

ii. DISCOUNT OFFICE

This office handles the secondary market sales of Treasury bills and other government securities. It also handles automatic investment and disinvestment instructions to reduce idle balances.

A Treasury Bill Auction system was introduced in the country, in 1989, whereby bids were made through tender for

new Treasury Bills. However, prior to these, the Federal Ministry of Finance and Economic Development along with the CBN used to determine the quantity of bills offered and the rate, which are generally low compared to rates on other money market instruments. But, because the offers were unattractive they were usually under subscribed and CBN used to underwrite usually at a low bill rate encouraged the government to borrow cheaply through this means. However, this did not ensure financial discipline and besides, the practice is inflationary in nature.

The need to align Treasury bill rates with those of the money market which were deregulated and against the above background, the mentioning of Treasury Bills was introduced from November 1989 where a weighted average of all the successful bids was used.

iii. **BANKING OFFICE AND DATA CONTROL OFFICE**

In conjunction with another office known as entries, these office handles settlement and processing of interbank transfers, Naira settlement of IFEM and foreign Exchange transactions, receipt of funds etc.

iv. **INTERNATIONAL REMITTANCES OFFICE (IRO)**

This is concerned with international funds transfer through and from CBN. It handles FEM bidding, returns on funds utilization and Export/import support facilties.

v. **BANKING SUPERVISION**

Handles the approval of issuance of Negotiable Certificate of Deposit (NCD) and new treasury products. It

also handles issuance of stabilization securities and monitors compliance on cash reserve, liquidity ratio requirements, new capital adequacy ratios etc.

2.6.1 **DEFINATION OF TERMS**

Merchant Banking is considered mystical inspite of the fact that Merchant Banks have existed for over two hundred years in United Kingdom. As Bank of America's John Lucches put it:- "Merchant banking is like being in love - different for everybody. No two people experience it the same way, but when you see it, feel it - you know".

J.E.H. Collins, chairman, Morgan Grenfell Holdings, in his 1976 Annual Report talks of Merchant Banking thus: "I am quite sure that Merchant banking is by its very nature a business based primarily on skills, a successful merchant Bank is an association of men and women of above average ability who make available to a variety of clients a wide range of free-rewarded financial services".(2)

Another distinguished English Banker, Sir Edward Reid, in his presidential address to the Institute of Bankers in 1963 describes Merchant Bank as one that "is sometimes applied to Banks who are not Merchants, sometimes who are not Banks, and sometimes houses who are neither Merchants nor Banks."(3)

The institutions are difficult to define for various reasons.

Although these still does not exist a functional or

practical definition of Merchant Banking, both United Kingdom and Nigeria attempt to define it in order to draw a clear line of distinction between them and Commercial Banks.

The Nigeria Legislation state that "Merchant Bank" means any person in Nigeria who is engage in wholesale banking medium and long term financing, equipment leasing, debt factoring, investment management, issue and acceptance of bills and management of unit trust". From the list of activities which Merchant Banks traditionally engage in and the activities of Nigeria Merchant Banks, it would appear that these institution are acceptance houses, discount houses and Merchant Banks as defined by the 1969 and 1979 Banking Decrees.

Deregulating, in broad application, is understood to refer to those fiscal and monetary policy measures which seek to remove regulatory controls on the activities of economic actors in order to enhance their competitives in the markets. The concept of deregulation therefore is to be understood as a recent economic agenda which has come full circle from the period of laissez fairs economic through the age of the expended role of the state sector, back to this new quest for the dismantlement of regulations. Deregulations is not confined only to financial markets, the commercial aviation industry is another relevent example, but since the financial markets determine the level of economic activity in most other markets, they have received the most attention.

Deregulation can therefore be defined as the deliberate and systematic liberalization of the structural and operational guidelines which have hitherto impinged upon the growth and profitability of economic actor.

2.6.2 THE CONCEPT OF MERCHANT BANKING

Though Merchant Banks have beeen in existence for over two hundred years in the United Kingdom, the institutions are indeed difficult to define for in no country was attempt made at providing a legal definition of Merchant Banks or Merchant Banking, as today's legends of the industry started off as pure Merchants. The firm of Arbuthnot and Latham, established in 1833, as an example, was engaged in the chartering of ships for voyages to and from India and in the sales of Indian Merchandize in London. It was not until 1890 that its Merchant banking business started and this involved the financing of commodities it traded in, including tea, coffee, rubber and sugar.

It is worthy of note that not all of todays Merchant Banks were originally Merchants. The example of Henry Ansbacher and Company Limited started as a firm of Stock Brokers in 1894, ventured into Merchant Banking only in 1949 and became an authorised Bank a 1961. In recent years there also came into industry Merchant Banks with different beginnings. These include principally the Merchant Banks of the London clearing Banks; example Barclay's Merchant Bank Limited, established in 1967, and moved into Merchant banking in 1972.

The process and period of transition from Merchanting to banking differed for the various Banks. However, and in general, the process started with the Merchants engaging entirely in international trade. They purchased goods, mostly in Europe, and shipped them to the developing part of the world particularly the Americas, Asia and Africa. Once goods were sold in these markets, the proceeds were used to purchase raw materials and commodities used to feed the factors in Europe. Thereafter, as time went on and as the relationship waxes stronger, the local traders asked their overseas merchants/customers to hold and/or invest part of the proceeds of their commodities for them in the United Kingdom. Thus, these Merchants became the bankers and financial advisers of their overseas clients, looking after their investments. These basic trading contacts enable the Merchant to acquire comprehensive and respectable knowledge of overseas business conditions and of the developing countries in general. In turn, this knowledge was put into use which led the Merchant becoming active bankers. For the early development of infrastructures, in particular, in overseas countries, money was needed from United Kingdom which had become an international trade and finacial centre as a result of the activities of these Merchants. Money raised through the efforts of 'Merchant Banks' poured out of Britain into Americas, the British Empire, European and Asian countries.

Another sphere in which the emerging Merchant Banks knowledge, connections and reputation were to become useful was in the development of the Bill of Exchange as a modal means of payment in international trade. To finance exports, British exporters relying on those acquired and knowledged attributes of Merchant Bankers drew bills of exchange on them (the bankers) which when stamped with their acceptance became very easily discountable. This instrument grew in credibility to acquire the status of an "eligible paper" commanding the highest degree of liquidity shared by Treasury Bills, and also the lowest rate of discount. Such bills when accepted where easily rediscountable by the exporter to raise funds for immediate use leaving the Merchant Banks to be reimbursed by the overseas importer at maturity. This developed into their main business for which they are traditionally and indeed best known today.

The letters of credit used by the Greeks, as early as the fourth century, was developed by the introduction of conditions for meeting the obligations called for under the agreement. The essence of the mosified letter of credit was "at the request of the actual buyer of the goods, and in accordance with his detailed instructions, they (Merchant Bankers) authorised the seller to draw the bills of exchange on them and undertook to accept it on forst presentation provided that it was accompanies by specificed shipping and other documents relating to the goods".

In relatively recent years, the acceptance facilities based on bill of exchange have come to be increasingly used in domestic business transactions. Acceptance credits are used for instance, in the financing of raw materials held in bonded warehouses pending their processing into finished goods, sell and collection of sale proceeds. Indeed, this credit facility is a direct substitute for and thus competitor with Bank overdraft given the formers' low rate of discount. Although the Merchant Banks had in the later part of last century began to 'develop' their corporate services - acting as managers and issuers of long-term debts for overseas Governments and public institutions, it was after the Second World War that they sharpened and effectively employed their corporate finance capabilities. The need for funds as well as the desire to build viable competitive business units led to mergers, reconstructions and take overs. All these posed a challenge to the Merchant Banks and they responded by providing the necessary advise as well as support as issuing houses.

The history of Merchant Banking in Nigeria dates back to 1960 when the first two of such institutions were registered for banking activities. The first registered Merchant Bank was Phillip Hill (Nigeria) Limited in September 1960, while the second was the Nigerian Acceptances Limited (NAL) in October 1960. Their functions at inception were identical thus;

(i) financing of commodity exports by granting credits to the marketing boards.

(ii) Acceptance of large deposits from institution and wealthy individuals.

(iii) Extension of credit in the form of loans and advances.

(iv) Acting as issuing houses.

However, by July 1969 the two companies merged principally to avoid unnecessary competition and strengthen their capital base. They merged to form Nigerian Acceptances Limited (NAL), which remained the only Merchant Bank in the country until August 1973 when another licence was granted to UDT Bank (Nigeria) Limited which was restructured and named Nigerian Merchant Bank Limited in 1977. They were followed by two American banks - the First National City Bank of New York and First National Bank of Chicago which were licenced in 1974. However, following the Federal Government decision to participate in all foreign bank operations in the country, the First National City Bank of New York (Nig) Ltd gave up its licence in protest and closed down its operation in 1976, while the First National Bank of Chicago remained on the scene as the International Merchant Bank Limited (IMB).

Limited scope explains the virtual absence of Merchant banking until the mid 1970's, while in the 1960's there was the threat of total extinction, as there were;

(i) Acute competition - prior to their merger in 1969, Phillip Hill (Nig.) Limited competed fiercely with the Nigerian Acceptances.

(ii) Drying up of commercial Bill business on which Merchant banking had developed and throved before then. This followed the breakdownn of the bill market scheme as a result of which the Central Bank took over the financing of the marketing board's export produce bills.

Merchant banking in Nigeria nevertheless again survived this threat to its existence, as a result of increased volume, size and frequency of treasury bills, and the introduction of Treasury Certificates in the win-the-war drive of the Nigerian authorities. There is also the vigorous development of the purely banking side of the Merchant bank after the licence was granted in 1969 following the merger and finally the Nigerian Enterprises Promotion Decree in 1972 and 1979, which required those enterprises listed in the decree to be acquired and run by Nigerians. This development offered the new Merchant Banks the opportunity to arrange and manage capital issues for many firms. Since the Decree required 40% - 60% and some cases 100% Nigerian participation of some firms. It was principally in view of the expanded business activities in the mid 1970's that the authorities granted the new Merchant Banks licences "in the hope that they will fill credit gaps in the economy by adapting their operations to reflect the changing structure of the economy towards increased industrialisation".

Inspite of this backing and expectations, there tend to be dissatisfaction with some observed trends in Merchant Banking operations in the economy as expressed by the then Head of State on March 31, 1976; Major-General Olusegun Obasanjo;

> "That Merchant Banks are granted banking licences to assist in channelling the liquidity in the economy into medium and long term investment and also to perform other specialised services in the areas of equipment leasing, corporate financing, project preparations and other areas of specialisation for which Banks are reknowned. So far, their performance has not justified the expectations. They are reported to be operating as commercial Banks".

Yet in another development, the then Chief of Staff Supreme Headquarter, Brigadier Shehu Yar'adua stated that;

> "Merchant Banks are expected to exploit their expertise and skill to mobilise financial, material and manpower inputs to bring about the required increase in the productive capacity of the economy".

Meaning that an entirely new concept of Merchant Banking appropriate to the economic needs of Nigeria is required. Meanwhile, some other Merchant Banks opened for business in 1975, with ICON Limited (Merchant Bankers) and Chase Merchant Bank (Nigeria) Limited starting operations in the same year. However, Chase Merchant Bank changed its name to Continental Merchant Bank limited in 1985. In 1979, (September), the Nigerian-American Merchant Bank Limited an affiliate of First National Bank of Boston, was licenced to operate as a Merchant Bank in Nigeria. It was the first Nigerian Merchant Bank to be sponsored by private Nigerian investors in collaboration with foreign banking interests.

The development of Merchant Banks in Nigeria in the 1980's can be adequately analysed when the period is segregated into the boom and the recessionary period. The boom period covers the period 1980 - 1983, while the recessionary period covers the years 1984 - 1993 when the economy was (and is still) in recession. During the boom period there was a sporadic rise in economic activities, with crude oil rising to a record high $40 per barrel which enhanced economic activities and increased capacity utilization of the existing Merchant Bank. A number of Merchant Banks were established during this period to take advantage of the increased economic activity. It was during this time that Merchant Banking Corporation (Nigeria) Limited, Indo-Nigerian Merchant Bank (Nig) Limited, Gundlays Bank (Nigeria) Limited and Merchant Bank of Africa (Nig) Limited all came into existence. Other banks that came into existence include First City Merchant Bank Limited (1983) and ABC Merchant Bank Limited (1984), both fully owned by Nigerians.

Merchant Banking at this time was characterised by a rather loose regulations by the CBN, highly liquid economy and a high degree of participation in international trade and exchange. During the recessionary period, both existing and new merchant banks experienced an unprecedented growth in both size and profit. The recessionary era with its accompanying economic deregulation gave enormous opportunities to the banks to reap fortunes from a hitherto

regulated economy. This era saw the rise of Merchant Banks to 54 and Commercial Banks to 66 bringing the total to 120, as result of the Federal Government policy towards industrial expansion. As this policy was being implemented there was an increased need for the specialized, tailor-made services of merchant banks particularly corporate finance activities, loan syndication, project finance, financial advisory services, reconstruction and reorganisation and new issues to accelerate the pace of industrialisation. The use of the banks during this period was merely attributable to the need to take advantage of the various deregulations in the economy.

However, by 1994 the fortunes started a downward trend as the economy twined to regulation especially for banks whose main source of making money was curtailed. These was the cap on interest rates on deposits and lending in addition to pegging of the Dollar to the Naira. This led to the closure of some Merchant Banks, and the classfication of distress placed on others. It is indeed quite right to say the over 50% of the Banks are in distress at least liquidity wise. This has really affected the profitability of most of the banks operating in the country with the Merchant Banks worst hit.

2.7 MERCHANT BANK SERVICES

The services of Merchant Banks are principally of Banking Services and Corporate Finance Services. The former

consists of Acceptances, loans and advance, Deposits, Equipment leasing and foreign exchange services; while the later include project financing, issuing houses services and investment and financial advisory services. In addition to these mainstream services, most of the Merchant Banks provide a number of other services through associated stock broking, securities firms owned or managered by them. They services include stock-broking, nominee services, registrar services etc. Except for the savings deposit accounts, and the issue of representation at the CBN clearing house, both Commercial and Merchant Banks are governed by the same statutory Central Bank decrees, and, the 1988 Decree in particular which permits the Merchant Banks to engage in all the activities carried out by the Commercial Banks except as aforementioned.

The Nigerian Merchant Banks like their counterparts in the United Kingdom, are wholesale bankers, mobilising deposits and lending in large amounts mainly from or to institutional investors and firms. Commercial Banks on the other hand are involved in retail banking, with their deposits going into both small and large amounts, from or to individual and firms.

Merchant banks have their deposits usually fixed and interest bearing, but those of commercial banks may be fixed or on demand with or without interest. Merchant banks loans are more of term loans, with long term gestation, which for commercial banks they are more of short-term gestation and

generally more ot less overdrafts. Merchant Banks require greater cash reserves and liquidity because of matching principle since they rely more on loan of large figures. Also, as their customers are specialised, and concentrated, they do not need lots of branches, unlike in commercial banking where customers are of various types, widespread and as such need greater presence through branch network. See table 1.

Merchant banks operation is generally relatively flexible and dynamic as they provide specialised services in the international banking and finance areas. Commercial banks on the other hand are relatively more conservative and less dynamic as they concentrate mainly in the domestic banking and finance areas. Therefore, in contrast with Commercial banks, Merchant banks remain small organisations offering wholesale banking, concentrating on business involving large sums and use alot of expertise, leaving the small transactions, retail banking and the subsequent routine clerical work involved to the commercial banks.

The rationale for the entry of Merchant Banks into the banking system the banking system was to bridge the gap in the term structure of credit provided by Commercial banks which tended to be short-ended. Thus merchant banks operate in three major fields - Commercial, international and investment banking which are not mutually exclusive. The traditional function of a Merchant bank that distinguishes

if from other financial institutions is its acceptance business. However, the main function is to use its name to mobilize funds from other institutions for its own investment purposes. A very good example of this could be noted in the participation of the institutions in the financial markets, for instance, in the Nigerian money market, the Merchant banks are the main issuers of Certificate of Deposits (CDs) a source of funds to them, whereas the commercial banks are the main holders [constituting an outlet for the development of their short-term surplus funds].

Merchant banks are mainly wholesale bankers engaging in made-to-measure banking. They accept large deposits usually not less than #10,000 (as per the 1994 budget) and only a small proportion of their loans and advances is of the overdraft type common to commercial banks owing to the nature of their activity.

TABLE 1

DISTRIBUTION OF INSURED BANKS' OFFICES AND BRANCHES AT DECEMBER 31, 1992.

		Commercial Bank	Merchant Bank	Total
1.	Abuja	32	7	39
2.	Abia	84	6	90
3.	Adamawa	45	-	45
4.	Akwa-Ibom	55	1	56
5.	Anambra	97	8	105
6.	Bauchi	68	-	68
7.	Benue	50	-	50
8.	Borno	51	-	51
9.	Cross-River	38	1	39
10.	Delta	73	-	73
11.	Edo	51	1	52
12.	Enugu	70	-	70
13.	Imo	68	2	70
14.	Jigawa	23	-	23
15.	Kaduna	77	7	84
16.	Kano	116	20	136
17.	Katsina	38	-	38
18.	Kebbi	24	-	24
19.	Kogi	40	-	40
20.	Kwara	43	-	43
21.	Lagos	409	55	464
22.	Niger	58	-	58
23.	Ogun	86	-	86
24.	Ondo	113	-	113
25.	Osun	67	-	67
26.	Oyo	102	3	105
27.	Plateau	66	3	69
28.	Rivers	93	6	99
29.	Sokoto	54	-	54
30.	Taraba	24	-	24
31.	Yobe	21	-	21
32.	Overseas	7	1	8
		2,243	121	2,364

SOURCE:- NDIC 1992 Annual Report and Statement of Accounts (Bank Returns) Pg.68.

In sourcing funds, aside their own paid-up capital, the Merchant Banks' other sources include other banks,

institutional investors and high networth individuals. The funds are applied mainly in loans and advances, investment in Treasury Bills (TBs), liquidation of call money from other banks as well as other liabilities.

2.8 THE REGULATORY ENVIRONMENT

The relevant laws and the directives of the Central Bank, the supervising/regulatory institution constitute the major environmental factors that impact on the operations of Nigerian Merchant Banks. Basically, six legislations touch rather directly and intimately on the operations of Merchant Banks in Nigeria viz;

(i) Income Tax Management Act 1961 (as amended upto 1985)

(ii) Industrial Inspectorate Decree, 1970

(iii) Exchange Control Act 1962

(iv) NIgerian Entreprises Promotion Decree 1977

(v) Central Bank of Nigeria Act 1958

(vi) Banking Decree 1969 and Banking Amendment Decree 1979.

Both the Income Tax Management Act 1961 (as amended by the Decree) and the Industrial Inspectorate Decree of 1970, do affect the leasing activities of the Merchant Banks; whilst the first legislation defines the capital allowances that the Banks can get as equipment lessors, the second legislation specifies some of the conditions to be met before the Tax allowances can be claimed.

The foreign exchange business of the Merchant Banks bring them within the ambit of Exchange Control Act 1962,

for a Bank must be appointed an authorised dealer by the Minister of Finance under the Act to be able to undertake foreign exchange businesses. Such appointments which grant the right to deal in gold and foreign currency also imposes a duty. Section 3(2) of the Act specifies that;

> "Where a person buys or borrows any gold or foreign currency in Nigeria, or being a person resident in Nigeria, buys or borrows gold or foreign currency outside Nigeria, he shall comply with such conditions as to the use to which it may be put or the period for which it may be retained as may be notified by the Minister before, or at the time of such purchase or borrowing or at any time thereafter".

This Act provide the legal basis for the directions of the CBN acting as the agent of the Federal Ministry of Finance in the area of foreign exchange dealings.

The Nigerian Entreprises Promotion Decree of 1977 legalised the Government directives of June 1976 requiring that all Banks operating in Nigeria must have at least 60% Nigerian ownership structure by September 1976. Powers for the regulation, supervision and control of Banks in Nigeria by the CBN are provided by the CBN Act of 1958(as amended). In particular Section 38, make the CBN the Banker to other Banks in Nigeria and Section 39, provides that the CBN "shall wherever necessary seek the cooperation and cooperate with other Banks in Nigeria"-

(a) To promote and maintain adequate and reasonable banking services for the public.

(b) To ensure high standard of conduct and management throughout the banking system.

The 1968 amendment Act grants powers to the CBN to prescribe the sectoral allocation of licenced bankers credit as well as the power to define the cash and liquidity ratios to be maintained by them.

However, the Banking Decree 1969 and the Banking (Amendment) Decree 1979 remain the most pertinent legislative documents affecting the existence and operations of Merchant Banks. Part of the Decree deals comprehensively with the issues concerning the licencing of Banks in Nigeria. The Decree in its Section 1(i) states that,

> "No banking business shall be transacted in Nigeria except by a company duly incorporated in Nigeria which is in possession of a licence..."

The provisions for the duties of a licenced Bank are contained in Part II of the Decree, amongst which are specified liquid assets, special deposits, maintainance of reserve funds, minimum holding of cash, stabilization securities and restriction on certain activities of licenced Banks - Section 13(i) which can be divided into two; subsection (i)(a)-(d) describes the restrictions on granting loans while subsection (i) (e)-(i) describe the various business activities and investments a licenced Bank may not engage in. The Part III describes the powers of the CBN to control and conduct examinations into the books of the licenced Banks. The new amendment that is the 1979 Banking (Amendment) Decree provides in sub-section (6) that;

"A Merchant Bank shall not" -

- "Accept any deposit withdrawable by cheque except for its corporate clients..."
- "Except with the prior approval of the Central Bank, hold for more than six months any equity interest acquired in a company while managing an equity issue".

These laws provide the legal framework for the operations of these Banks. However, their operations are more intimately directed by the prescriptions of the Annual Monetary Policy Circulars of the CBN otherwise known as Credit Guidelines. Since 1976/77, the CBN has as far as it considers desirable, prescribed different guide rules for the Merchant Banks (indeed all the Banks) in its annual circulars. Thus since then there have been differentials between the Merchant and Commercial Banks in areas as sectoral distribution of loans and advances, and the distribution of Asset-portfolio. These differentials have been geared towards making the Merchant Banks operate and carry out those functions the authorities consider not only desirable but appropriately suited for their conception of the rate of Merchant Banks in our kind of economic and business environment.

2.9 EFFECTS OF REGULATING AN ECONOMY ON BANKS

Government intervention and indeed regulation of economic activities is a subject of controversy especially within the intellectual circle. This is because some people are of the considered opinion that Government should concentrate on the management of the bureaucracy which is the essence of its existence.

Government generally takes to regulation to ensure stability in the system especially when they believe that competition within an industry is either impossible or contrary to public interest or will lead to serious inefficiency in the use of resources or in the delivery of the goods and services of the particular industry.

However, varied reasons come to play with respect to regulating the Banking industry as the serious of the consequences of Bank becoming insolvent, the need to ensure availability of products to various sectors of the economy and at reasonable prices, the need to ensure fair competition among Banks so as not to jeorpardise the existence of some and the fact that the nature of banking business is complex in relation to the products of the business. Also, magnitude of funds involved, and, the tremendous impact that misuse or fraud could have on the public's confidence in the system, and hence, on the economy, make regulation of the operations of Banks necessary.

In virtually all cases, regulations have two main themes as far as banking is concerned;

(a) They set rules covering the way companies operate from capital requirements to methods of production and of selling their products.

(b) They set rules of professional practice and ethical standard within the market.

Evidence abound on the effect that the task of regulations or their non-enforcement could have as in the case of a developing nation like ours, on the overall economic growth, and on the confidence in, and the general financial stability of the economic system as a whole. There was the mushrooming growth and subsequent demise of some Banks in the early years of banking in Nigeria, when the system operated without any formal guidelines on standard of Banking practice or on specific requirement in respect of share capital, asset managements, statutory reserves etc. As a result of the failure of some banks, public confidence became waned, and because of this Government had to step in. Thus to protect the Banks' customers, and the economy at large as well as exclude unscrupulous operators, a set of rules aimed at ensuring order in the system had to be brought to bear on the system.

Regulations are essentially for the attainment of a balanced growth and development of the economy and the protection of the interest of depositors and other Bank customers who are generally uninformed.

Although of immence benefit, most regulations have their drawbacks and costs, and in some cases such diseconomies outweigh the advantages. A ready example is the ceiling on interest rates which Bank receive or charge for their assets and liabilities, which are intended to check the profit of Banks and to protect the customer. But the fact that the regulators have tended to maintain an

inflexible requirement without regard to the changing market conditions has produced fundamental distortions in the economic system. Also, if allowed to go too far, regulations could affect efficiency appreciably, with negative implications for the economic benefits of intermediation.

Similarly, the policy of regulated exchange rate was adopted, ostensibly to reduce inflationary pressures (through periodic revaluation of the Naira), and create the pre-requisites for improved output and employment. Although, now consigned to history, that policy led to the rapid run-down of foreign exchange reserves and led to structural maladjustments in several spheres of our economic life. It is against this background that unbridled regulations have come to be seen as a deterrent to the banking systems' performance of its pivotal role of creating credit to finance the economic recovery effort of the economy.

2.10 THE EFFECTS OF DEREGULATION

The word deregulation, in its application, is the removal of some controls on economic activities in order to enhance their competitiveness in the market. In most cases of deregulation, the tendency is for a reduction in the intervention of the Central Bank and in the level of direct reporting to Bank; in some cases Central Bank have

renounced some of their functions in favour of deposit insurance agencies.

In Nigeria, the effect of deregulation has been the release of entrepreneurial energies resulting in the flourishing of Banks and Non-Bank financial intermediation institutions. By 1986, at the time of the introduction of Structural Adjustment Programme (SAP), there were no more than 40 licenced banks (both Merchant and Commercial). However between 1986 and now the number have grown tremendously as can be depicted in the table below;

GROWTH IN BANK AND BANK BRANCHES

END OF YEAR	COMMERCIAL		MERCHANT		TOTAL BANKS	NO. OF BRANCHES/ OFFICES
	NO.OF BANKS	NO.OF OFFICES	NO.OF BANKS	NO.OF OFFICES		
1988	40	1655	24	46	64	1711
1990	58	1921	49	80	107	2001
1992	66	2243	54	121	120	2364
Total Growth %	40	35.5	125	163	87.5	38

SOURCE: BANK RETURNS (CBN).

AS Bank offices increased, the asset base of the industry also increased correspondingly. However, the devaluation of the Naira vis-a-vis revaluation of the Banks assets saw a tremendous increase of the Banks Assets. Thus, not only the Banking industry, but also all other sectors of the economy witnessed such a boost in assets, thereby hiking rates and inflation. Table below speaks volume of such increases;

GROWTH IN ASSET BASE OF BANKS (MILLIONS)

	1988	1989	1992	% GROWTH
COMMERCIAL BANKS	59.188	64879	181.000	205.81
MERCHANT BANKS	17252	22117	54.000	213.01
TOTAL	76440	86996	235000	207.43

SOURCE:- BANK RETURNS (CBN/NDIC)

Commercial Bank assets grew by 205.81% from 1988 to 1992 while those of Merchant Banks increased by 213.01% with an overall growth of 207.43% at end 1992 (using the 1988 figures as base). The establishment of 56 new Banks and 653 new branches were welcome developments in the continued effort to provide adequate banking services to the generality of the people. However there was cause for concern as there were more Merchant Banks (30) licenced than new commercial banks (26) in view of the limited scope of operations of Merchant Banks as wholesaler Bank without much branching network.

The outcome of deregulation has been so controversial. For Banks it has been a question of whether or not there are too many of them, a matter of reviving the age-old controversy of whether or not Nigeria is underbanked. According to IBRAHIM YARIMA ABDULLAHI in a paper he presented at the Annual Bank directors Seminar in Abuja (FITC sponsored), on the general impact of deregulation on Banks' performance, capitalization and competition, he said

"Among the most significant of these measures is the Foreign Exchange Market (FEM) introduced to eliminate the inadequacies and distortions of the old control regimes such as the import/export licence schemes and attain a realistic Naira exchange rate".

Other measures deregulation addressed are the rationalisation of tarriffs to stimulate and diversify domestic production, dismantling of administrative controls and simplification of procedures, liberalisation of, and increased on reliance upon market forces (especially the price mechanism) for the determination of the pattern of resource allocation between and within industries.

Also, to minimise public sector inefficiency and complement the liberalisation policies, public entreprises in various sectors of the economy are being privatised and or commercialised. These deregulatory measures are meant to re-orient the economy towards a free market in which the financial and intermediary role of Banks is critical just as the motive force of economic growth is to be the initiative of private sector.

The stated underlying objectives of Government deregulation policy as they relate to the financial sector since the inception of SAP are:-

- To ensure efficient allocation of resources to the productive sectors of the economy and encourage direct local production.

- To reduce excess liquidity in the financial system and mitigate inflation.
- To stabilise the Naira Exchange rate at a realistic and credible level.

The prime features of deregulatory environment consists of the interest rate and exchange rate administration policies, credit expansion ceilings and sectoral allocation as well as fiscal monetary and other measures introduced by the authorities from time to time.

2.11 FUNCTIONS OF TREASURY DEPARTMENTS IN MERCHANT BANKS

The treasury department is saddled with the responsibility of management of liquid assets and liabilities with the aim of achieving;

(i) Maximum returns for the Bank in return on its investment in the money and capital market instruments.

(ii) Reasonable liquidity to enable the Bank meets its day-to-day financial needs.

(iii) Reasonable knowledge of government economic policies with a view to projecting what investment decision to take in the future.

(iv) Deciding on which of the money and capital market instruments are most profitable or more volatile to fluctuations in interest rates or economic variances.

The treasurer as the custodian of the organisations treasures is also the banker of the establishment. He can

therefore make or mar the progress of the organization depending on how well he performs the following functions;

(a) Keep in constant touch with his peers in the industry to know when it is time to borrow or invest.

(b) Monitoring the Banks balances on daily, weekly and monthly basis and moving funds from less profitable to more profitable locations.

(c) Monitoring the performance and activities of other banks and financial institutions in the industry to enable him decide whether to continue doing treasury business with them or not.

(d) Making a judicious use of the banks' name.

The cumulation of all these functions/decisions of various treasurers will affect the governments' monetary and fiscal policies positively or negatively. To keep the banks and financial institutions in check, government makes use of the referees, that is, the CBN, Nigerian Stock Exchange (NSE), Securities and Exchange Commission (SEC) and the Nigeria Deposit Insurance Corporation (NDIC).

2.12. TREASURY INSTRUMENTS.

Treasury instruments are divided into three basic groups, and each comprising its own components. The major groups are the CBN issue, Banks issue and Corporate issue.

1. CBN ISSUES.

Are further classified into components as;

(i) Treasury Bills (TBs)-Are of 91day maturity and have fixed discount. They are short term debt instruments issued to raise finance for the Federal Government. Apart from being a source of short term funds for the government to cover temporary excesses of state expenditure over income, they are also used as an instrument of monetary policy by the CBN particularly in the execution of Open Market Operation (OMO) to mop up excess liquidity or purchasing power in the economy.

As outlined in the NDIC 1991 Annual Report and Statement of Accounts, TBs have been found to be the most popular of all the money market instruments in the country, hence the introduction of the TBs auction based system. And as the TBs rates become competitive and attractive, the underwriting of unsubscribed TBs by CBN was substantially reduced since 1990. The table below shows the comparative figures of TBs issues and subscription for the years 1989-1991.

TREASURY BILLS ISSUES AND SUBSCRIPTION (1989 - 1992)

YEARS	AMOUNT ISSUED	SUBSCRIP-TION BY OTHER(a)	SUBSCRIP-TION BY CBN	PROPORTION CBN SUBSCRIPTION TO AMOUNT ISSUED (%)	AVERAGE TBs RATE
1989	#130.5m	#23.9m	#106.6m	81.6	12.86
1990	91.9m	59.2m	32.7m	35.5	17.40
1991	101.9m	56.7m	45.2m	44.3	14.50

(a) Others are made up of Commercial and Merchant Banks and Non-bank public.

SOURCE:- NDIC 1991 Annual Report and Statement of Accounts (computed from CBN returns).

Treasury bills are considered as the most secured form of investment, and so far has been so, for as soon as they mature, the Central Bank always redeem the instrument value. Banks also subscribe to TBs because they could discount same before maturity in case they require liquidity. Infact as the money market or treasury activities are now very low, most of the liquid Banks insist on the presentation of TBs before placing funds with other Banks. However, the rates are considered unattactive, but then Banks subscribe because of the uncertainty of placements of excess funds with other Banks for fear of default.

(ii) Treasury Certificates:- Are medium term government securities which are expected to bridge the gap beween the Treasury Bills and long-term government securities. Introduced in 1968, are similar to Treasury Bills and call money scheme in all respects, except for the tenure which ranges between one and two years. They can be rediscounted at the Central Bank.

(iii) Eligible Development Stocks:- Government developmental stocks of less than three years to maturity were designed "Eligible stocks" by the CBN for the purpose of meeting the commercial banks' liquidity ratio requirement. Thus, apart from the Bankers' Unit fund, banks were encouraged to invest directly in development stocks being satisfied that those with less than three years of

maturity could be regarded as liquid assets.

(iv) Stabilization Securities:- They are the single most important monetary control instruments used by the CBN which is empowered to issue securities and sell them by allocation to Banks and other financial institutions. Introduced in 1976 to mop up excess liquidity in banks, and are very "popular". Banks or financial institutions are required by law to take up any amount allocated to them, failure which leads to imposition of stiff penalties.

However, with the introduction of the Open Market Operations (OMO) in 1993 budget, it is hoped that the use of stabilization securities will be gradually phased out, and, used only as a fall back option and on selective basis particularly during serious crisis.

2. BANKS ISSUE.

Further classification of Banks Issue consists of;

(i) Call Money Scheme:- Introduced in 1962, Banks and other financial institutions kept their temporary surplus with CBN which then invest same in short term money market instruments; at that time only TBs. The funds so invested earn interest at slightly lower than the TB issue rate. The scheme was abolished in 1974 as a result of scarcity of TBs in the money market sequel to excess liquity in the economy occasioned by the then oil boom. However Banks' continued to operate the scheme privately without the direct participation of CBN whose role is restricted to providing clearing and accounting facilities for the Banks.

(ii) Certificate of Deposit (CDs) - In order to create an avenue for Banks to continue to invest their surplus funds locally, other money market instruments were created and introduced in 1975. The first of such were the certificates of Deposits which are in two categories;

- Negotiable Certificate of Deposit (NCD)
- Non-negotiable Certificate of Deposit (NNC)

Basically, they are interbank instruments with maturity dates ranging from three to thirty-six months. Banks were indeed very active in these sector of the market as it gave them access to the huge deposit base of commercial banks.

(iii) Bankers' Unit Funds:- Introduced in 1975 and now moribund. Is a scheme under which banks and other financial institutions could invest part of their liquid resources, in multiples of #10,000 while the CBN in turns invests the pooled funds in Government stock.

3. CORPORATE ISSUE

Are classified further into the following categories;

(i) Commercial Bills of Exchange:- Are trade bills commonly referred to as Bankers Acceptances (BAs) and Commercial Papers (CPs). A commercial bill of Exchange is referred to as a BA when it is drawn by reputable commercial firms and accepted by a Bank or Acceptance House and could be secured on stocks of manufactured goods or other stocks in trade. However, where the bills of exchange are drawn on and accepted by the drawee company they are referred to as

CPs, and are not eligible for rediscount at the CBN. They are very popular with Banks since they offer attractive rate to depositors and good margin/discount to the issuing/accepting banks. They are generally restricted to the reputable Triple A companies as a result of their associated credit risks.

(ii) Marketing Board/Produce Bills:- Introduced in 1962, the bills were issued by commodity boards in respect of export produce which were rediscountable at the CBN. Here, marketing boards met their requirements for cash by drawing 90 days bills of exchange supported by sales contracts on the Nigerian Produce Marketing Company (NPMC), the sole exporter for all the boards. Upon acceptance by NPMC, the relevant board will then rediscount the bills with the participating commercial banks and acceptance houses, which if they choose could rediscount the bills with the CBN.

The scheme was abandoned in 1968 when CBN took over the financing of Agricultural produce as the banks became unwilling to grant advances.

2.13 CBN GUIDELINES AND THEIR IMPLICATIONS ON TREASURY OPERATIONS.

The Federal Government adopted a pseudo-centralised planning approach to economic management between independence in 1960 uptill June 1986, characterised by administrative control of interest rates, sectoral allocation of credit, a fixed exchange rate regime and a relative control over the expansion in the number of banks amongs others.

These and many other instruments of control often left the banking system with large sums of money, but very few avenues for their profitable investment, hence bankers were accused of driving away customers with funds for investment. The treasurers role became circumscribed and limited in scope. However, with the collapse of the World oil market and the economic problems of the early 1980's government was forced to adopt a new approach to economic management. Thus the coming of the Structural Adjustment Programme (SAP) in July 1986, and therefore the adoption of a flexible exchange rate system, deregulation of interest rates and commercialisation/privatisation of public entreprises.

Following are some of the major policies that influenced treasury operations under the SAP as introduced;

(a) Adoption of Flexible Exchange Rate System.

The Government abolished the Exchange Control Act and deregulated the foreign exchange operations in September 1986, through the introduction of the Second Tier Foreign Exchange (SFEM) Decree. The Naira exchange rate was no longer determined by the CBN, but by the forces of demand and supply. This was upto 1993 as beginning 1994 through to end of same year this was reversed, while a controlled-deregulation was announced in the 1995 budget year, or a re-introduction of the SAP era but with some form of controls to be determined by the Government through the CBN.

This development (of 1986 - 1993) necessitated the treasurer to plan his/her Banks' bidding and the position it holds in the respective currencies. If a bank holds a long position in any of the currencies and it depreciates, then a loss situation will arise, while it is vice versa for a short position. Usually, the customers' needs are taken into account for any bidding for foreign currencies by the Banks.

(b) The Deregulation of Interest Rates.

In 1986, the government abolished the import licencing scheme and in its place introduced SFEM as a method of procuring foreign exchange from the CBN. Subsequently Banks were debited for excess liquidity in the system resulting in a major turning point and dynamism in money market. The domestic money market from this period experienced a gradual but steady deregulation of both the foreign exchange controls and the interest rate structure. The following table depicts the interest rate movements between 1986 and 1994;

INTEREST RATE POLICIES 1986-1994 (IN PERCENTAGES)

YEAR	% MAXIMUM LENDING RATE	% MINIMUM REDISCOUNT RATE	% INTEREST ON TIME DEPOSIT A/C	% INTEREST ON SAVINGS DEPOSIT A/C
1986	13	10	8.5 - 10	9.5
1987	15	11	12	11
1988	These years were the period of deregulation so there were fluctuations in rates as they kept being adjusted as and when necessary.			
1989				
1990				
1991	21	15.5	-	13.5
1992	MARKET	DETERMINED	MARKET	DETERMINED
1993	"	"	"	"
1994	21	-	12-15	12-15

SOURCE:- CBN CREDIT POLICY GUIDELINES.

From the above table, the ceiling on interest rate was virtually removed by the later part of 1987, the foreign exchange market was liberalised and banks went to the market to determine rates at which they bought foreign exchange. The years 1988, 1989 and 1990 are the period for deregulation as interest rates kept being adjusted to match the market forces. But, in 1990 when the interest rate in the economy was increasing at an alarming rate as an aftermath of the withdrawal of government deposit from commercial and Merchant Banks and the subsequent tight liquidity, CBN intervened and in the 1991 budget stipulated a range of 13.5% rate on savings and pegged interest rate on all lending at 21% per annum.

The impact on this was that deposit sourced to fund these lendings were to be taken at rates well below 21% P.A. to allow for spread by banks, while with the directive deposit rates in the money market for new funds went down. Meanwhile, rates on old deposit commitment remained at high levels, with risk assets of banks suffering a reduction in income since cost of funding in most cases exceeded the statutory 21% P.A. lending rate as specified in the guideline.

However, in 1992 again came the removal of ceiling on the 21% P.A. cap which further impacted on treasury by increasing the rates at which Banks accept deposits and give loans. Added to this was the licencing of Non-bank finance houses by the CBN, encouraging greater competition in

deposit sourcing, thereby increasing pressure on interest rates being demanded by depositors. But by 1994, as a result of the introduction of control measures, the President General Sani Abacha in the Budget broadcast had this to say;

> "Specifically, Government has decided to peg interest rates as follows:- (a) Savings/deposit rate is now fixed at between 12-15% P.A. and (b) Lending rate is fixed at 21% P.A. inclusive of all charges. This means that 21% should represent the upper limit to be charged on any loan inclusive of legal and other charges."

This policy which continues, with slight modification though retaining the 21% P.A. cap limit in the 1995 budget, has started taking its toll on the financial position and future stability of some banks. This can be depicted on the table below showing capital requirements of distressed banks.

	CATEGORY	1991	1992
1.	Adjusted shareholders funds ('m)	(1,924)	(4.553)
1.	Additional Capital requirements ('m)	(2,354)	(6,090)

SOURCE:- BANK EXAMINATION REPORTS AND BANK RETURNS (ndic, 1992 ANNUAL).

As can be observed from the table, the adjusted shareholders' funds which recorded a negative position of #1,924m in 1991 deteriorated to a further negative position of #4,553m in 1992. Whereas the banks in 1991, required a sum of at least #2,354m as additional capital for their level of operations, the amount increased to at least #6,090m in 1992, thus the prospect of the banks becoming

adequately capitalised continued to be elusive. Distress in the industry spead to Merchant Banks in 1992 accounting for 15% and 20% of toal assets and total deposits of the distressed banks respectively, while their capital to risk weighted asset ratios were negative as against the prescribed 8% minimum ratio. Also, the average liquidity positions remained precariously at a low level of 12.7% as against the prescribed minimum of 30%.

(c) The increase in the number of Banks.

To encourage competition within the banking industry government granted, through the CBN, banking licences to more people willing and able to undertake into the banking business. currently there are 120 licenced banks, excluding peoples' bank, community Banks, Finance houses and mortgage institutions. Funds placements, interests, notes, tenors have all changed as funds are no longer there for the asking. Below is a summary of development with regards to the growth in Banks in the economy.

YEAR COMMENCED OPERATIONS	COMMERCIAL BANK	MERCHANT BANK	TOTAL
1894	1	-	1
1917	1	-	1
1933	1	-	1
1945	1	-	1
1947	1	-	1
1953	1	-	1
1954	1	-	1
1959	2	-	2
1960	1	1	2
1961	1	-	1
1962	2	-	2
1970	1	-	1
1971	1	-	1
1973	-	1	1
1974	1	1	2
1975	-	2	2
1976	1	-	1
1977	1	-	1
1979	2	1	3
1981	1	-	1
1982	1	2	3
1983	3	1	4
1984	3	2	5
1985	1	-	1
1986	1	-	1
1987	5	5	10
1988	5	7	12
1989	6	11	17
1990	12	14	26
1991	7	6	13
1992	1	-	1
	66	54	120

SOURCE:- NIGERIA BANKING, FINANCE AND COMMERCE (NBFC/92-93) [INTERNATIONAL EDITION].

From the above, it can be depicted that the upsurge in the number of banks started in 1987 (the beginning of deregulation period) and continued to 1990 and thereafter started the decline in 1991 with the pegging of interest rate at 21% P.A.

(d) The raising of liquidity ratios.

The liquidity ratio form the basis for calculating excess liquidity and any change should give the treasurer a cause for concern as to how to meet the required provision, always. Table below summaries the required liquidity positions:-

LIQUIDITY RATIOS OF BANKS (IN PERCENTAGE)

YEAR	MERCHANT BANK	COMMERCIAL BANKS
1986	20%	25%
1987	20%	25%
1988	20%	27.5%
1989	20%	27.5%
1990	22.5%	30%
1991	30%	30%
1992	30%	30%
1993	30%	30%
1994	30%	30%

SOURCE: CBN Credit Policy Guidelines)

In the 1990 fiscal year, the CBN raised the liquidity ratio for the commercial banks from 27.5% to 30%, and those of Merchant banks to 22.5% from 20%. However, in the 1991 fiscal year, a minimum liquidity ratio of 30% was prescribed for all the Banks which have been maintained upto 1994.

(e) Treasury Circular No. A2/1989 of May 1989.

The circular provides that government ministries, departments and parastatals were directed, to withdraw their

accounts from the commercial and Merchant banks to the CBN. This exercise drained about #6billion from the banking system therefore throwing most banks off balance as they could not meet their short-term needs for funds to finance lending and meet their obligations to repay deposits. The exercise adversely affected the deposit base of many of the banks resulting in some of the banks becoming technically insolvent. However, concerted efforts were made to source funds from the money market with some going for the bail out, to meet their obligations, from the NDIC/CBN.

(f) <u>The Abolition of the Special FEM Account</u>.

Banks had a special account maintained with the CBN which catered for their foreign exchange transactions. This was at the commencement of SFEM. However, these accounts were abolished in June 1989, as Banks account with the CBN now caters for all their respective requirements. Consequently banks had to ensure that their accounts were adequately funded to cover their foreign exchange biddings. This duty was left to the treasurers who must at all times be on the guard to avoid punitive sanctions from the CBN on their banks.

(g) <u>The Use of Stabilization Securities</u>.

This instrument have been used in monetary management by the CBN which have in turn affected treasury operation tremendously. Banks could not identify the format, formula or system used by the CBN before the allocation. Thus a

bank that was liquid yesterday (going by the balances with the CBN) could be illiquid tomorrow due to the debit of stabilization securities passed to its account today. Rate given on the securities was generally lower than what the Banks pay their customers.

Stabilization securities was introduced as an instrument of monetary policy by the CBN Decree 1968 (Amendments). Subsection 7 of section 2 of the decree authorised the CBN "for the purpose of maintaining monetary stability, issue, place, sell, repurchase and redeem securities known as stabilization securities at such rate of interest and under such conditions of maturity, amortization, negotiability and redemption as the Bank may deem fit". CBN also has powers to allocate same to any financial institution and any refusal to absorb will result in punishment by;

(a) Fines or (b) Prohibition from granting loans and advances and making new investments until it is absorbed.

The reknowned scholar G.O. Nwankwo (1980) observed that stabilization security is not strictly an open market instrument because of its peculiar features:

(a) It operates via direct action

(b) Banks have no option but to absorb it

(c) It is a cental debit/debt.

(d) Prices are determined by the CBN and not by market forces

(e) Because of (b) above, it will always be sold out. The CBN Act of 1991 (Section 27, sub-sections 3 and 4) reasserted the CBN powers to issue stabilisation.

In the 1992 monetary policy circular, the CBN informed of its intention to employ stabilization to the fullest as stated thus;

> "Following the large increase in the banking system, liquidity growth in monetary and credit aggregates exceeded targets by significant margin "leading to" depreciation of the Naira exchange rate to the lowest level ever".

Thereafter the CBN lived upto its threat of applying stabilization securities as the ultimate for when the foreign exchange market was "further deregulated" in March 1992, pushing the exchange rate higher, the CBN followed with another round/issue of these unsolicited securities pushing interbank rates to as high as 150% P.A. as Banks sought Naira to cushion the primary effects of the higher Naira cover required at IFEM as well as other inevitable obligations. Though the interbank rates fell eventually, it had not known peace since then. Infact it is virtually non-existent for now sequel to the cap placed on interest rates, except for under the counter deals where rates are reflected on paper as within the regulations, while additional payments of interest rates as agreed is made via a separate cheque or transfer. In some cases though, such differentials are paid in cash to the account of officials concerned, and at the detriment of additional income to the Bank.

The suddenness of the issue, its rapidity, huge amount involved and the uncertainty to its tenor brought instant crisis to the banking system and by extension to the whole economy. One of the destructive effects of stabilisation securities was loss of confidence on banks by customers because a depositor may request for his money that was not/never available. Banks' were therefore forced to borrow from other Banks at higher interbank rate in order to redeem their commitments to their customers. This brought about massive cases of defaults among banks leading to non-fulfillment of customers obligations thereby eroding confidence in the banking system. Also, it made Banks to use funds meant for other development projects to satisfy the needs of their customers.

Indeed this policy of the CBN left the banks drained of funds that apart from exercebating the scramble for funds, the consequential high interest rates forced operators to constantly review their investment plans.

Other measures that impacted on Treasury operations include;

- The abolition of foreign guarantees on Naira denominated loans
- The prudential guidelines issued by CBN in 1989.
- Activities of Finance Houses as they are not controlled by the CBNs credit policy guidelines, hence, could negotiate with prospective customers for interest rates

higher than those obtainable in the banks.

(h) The Deregulation of Foreign Operations of March 05, 1995.

The CBN, by this policy deregulated the operations of the Foreign exchange market, where the old practice of allocating foreign exchange to banks at predetermined formula was abolished. This has however resurfaced in the 1994 budget and abolished again with the 1995 budget. At this period, as the CBN sought to bridge the gap between the official, Bureau de change and the parallel (black) markets, the Naira depreciated further. Attempts by Banks to pick-up their allocations as per the transactions of March 1992 drained the system of billions of Naira, as the Naira was officially depreciated by 80% from #10 to a dollar to #18 to a dollar. This development sent many a treasurer running from one Bank/Source to another to source for funds, thus raising the interbank rates to as high as 150% P.A. because of scarcity. This lead to upsurge in prices of goods also therefore reducing the consumers' purchasing power. This also led to cut-back on demand for credit by the real sector and a reduced demand for stock accumulation.

(i) The Open Market Operations (OMO)

OMO is the purchase and sale of government and other eligible securities by the CBN in the open market with the aim of regulating the level of liquidity in the banking system. This operations are expected to even out the daily

ebbs and flows of financial transactions in the money market thereby affecting the availability and cost of credit. OMO entered the first phase of implementation in the first half of 1993 and was conducted using government securities and eligible development stocks.

Before the introduction of this operation, authorised dealers used to go to the CBN to purchase TBs on their accounts or on behalf of their clients for stated tenors say 91 days. OMO is essentially introduced to create discounting facilities for those instruments should the holder require to discount the TBs before the maturity dates. Discount houses are the financial institutions used to trade in the instruments. Presently there are three discount houses in the country with some more in the pipeline. The discount houses are the First Securities Discount House (FSDH) the Associated Discount House (ADH) and Express Discount House (EDH), all based in Lagos since that is where all the actions in terms of money market activities are centred, and moreso the Central Bank is still operating from there. OMO can be used for both monetary contraction and expansion depending on the direction of the government's monetary policy.

CHAPTER III

PRESENTATION AND ANALYSIS OF DATA

3.1 INTRODUCTION

The Nigerian money market, the playing arena of Banks' Treasury has grown tremendously since its inception in 1960 as evidenced in the growth in numbers, branches, capacity of the operators and the volume of money market assets. But the growth was more rapid and spectacular in the period to 1986 to 1994. The market was rigidly controlled upto 1985, while in 1986 these gave way to deregulation, which brought about fast growth in the economy.

Deregulatory policy of the financial system started with the inception of SAP in June 1986. Prior to these, and for years, Banks found themselves in a priviledged and advantageous position not just among financial circles, but among all classes of commercial activities. Government isolated the Banks from many of the regenerative rigous of the markets place, in return for performing the twin functions of turning deposits from savers into investment funds and providing the mechanism through which payments could flow to sustain economic growth and prosperity. Competitions were kept at bay and Banks were therefore able to use their priviledged position as primary intermediary between savers and borrowers to make oligopolistic profits; irrespective of how good or bad their performances were. Bank management could therefore afford to imbibe the arm chair banking syndrome when the only trick available then,

was the tradition of acquiring as much deposits to lend out with the differentials in rates forming the profit. This no longer is the case as Banks now have to be more aggressive to survive through the introduction of various other outlets including financial services.

Overwhelmingly dominated by government instruments for financing government short-term borrowing, the market suffered from excess liquidity and paucity of investment outlets in the period prior 1986, and, from acute liquidity shortage since 1986. This gave rise to high interest rates with investors/depositors becoming more responsive to the rising rates. The Non-bank finance houses also joined the wagon and were willing to offer much higher rates which coupled with their inherent anonimity, deposits which form the basis of banks activities gradually moved into this other sector. The consequence was that both commercial deposit as well as interbank funds became more difficult to source. Thus, aggressive and extensive marketing, became quite unusually less successful for it yielded minimal results.

Success in todays' treasury marketing activities has therefore become a combination of how much extra one can promise (additional incentive going into private pockets) as well as how anonymous one can pronounce the transaction. This development, though sad, is gradually becoming a norm rather than an exception for hardly are deposits sourced

without payment of incentives which could go either to the depositors. middlemen or even the bank staff Treasurers, indeed the Banks, have no choice but to tow the line to survive, though some banks' cost efficiency are being adversely affected especially amidst acute liquidity problems which make it imperative that for stability and continuity of the Banks, and in the wake of government induced market uncertainties, tenored funds which are hard to come by, remain the best economic option.

Definitely, these period will be remembered by those banking institutions that managed to survive the development in the industry keeping both operators and regulators locked in continuous meeting and deliberations for the good part of their working days.

The Nigeria's capital and money markets have witnessed CBN directives and sanctions particularly the incidence of withdrawal of accounts of government ministries and parastatals and the issue of stabilisation securities that have pushed liquidity consideration to the centre stage, much more significantly than in the pre-deregulation era. Faced with the complex money market of high cost of funding, inability to secure long-tenored funds or liquidity crunch, and the influx of new Banks, many Bank treasurers came up with reviews and repackaging of their existing products and the development of new ones in order to attract steady Non-bank funds. Most of them are aimed at increasing investors' yields by providing front discount (upfront

payment of interest). Therefore, to fit the dynamism of the task, the banks must have competent, honest, committed, tolerant and trustworthy individuals that can steer the ships of their Banks from the present predicaments and create a safe sound and reputable images for them in the future. Infact such rear qualities are very hard to find in todays' treasurers for everyone seems to be in a hurry to 'make it' thus, leaving aside the organisations goals of success, while scrambling to enrich their individual pockets. This notion has made alot of the Banks to be in distress position, culminating in the closure of some of them in 1994 - case of Alpha Merchant Bank Plc and United Commercial Bank Ltd is a case in point.

To survive, Banks must compete in the market place and adopt the marketing concepts that will bring them out of woods, not just with one another but with Non-banking financial institutions. The process is changing them beyond recognition, and in the face of these competitions, bankers feel constrained by their regulatory framework as much as protected by them thereby continuously wishing them rewritten and reviewed. It is no wonder that we watch our experts in banking clamouring for policy decisions to be introduced today only to turn around against the same policy by tomorrow, thus becoming consistently inconsistent.

3.2 FINDING ON TREASURY MANAGEMENT ISSUES.

In recent times, sequel to the impact of the various operational requirements and guidelines as stipulated by the

CBN, the domestic money market has, and is still undergoing tremendous changes. This has greatly affected the planning and management of most bank treasuries, thus creating more challenges for the treasurers, and indeed the banks as a whole evolving into the formation of various strategies to overcome the problems. It is therefore very common for banks to change to as many strategies as the CBN or governmental guidelines come their way. In most of these Banks, both treasurers, non-treasury staff, top management of the banks all go out in search of funds. In fact in some organisations, Directors and other shareholders are also galvanised in marketing for funds to improve liquidity and enhance performance so as to ensure survival.

The deregulation process increased tremendously the tempo of activities in the banking sub-sector leading to increase in the number of Banks and their branches, proftability, margins and change of guards in the Boardroom of especially government banks that were privatised/ commercialised. However, the crisis in the banking industry could be traced to the financial systems' liberalisation without recognition of the need to clean up the system, resulting in technically insolvent banks (that could not perform efficiently under the new dispensation) not being in position to compete favourably with the more efficient banks. This resulted in illiquidity as a result of a combination of factors as low patronage, inability to pay

depositors matured obligation, diversion of funds and the booking of sub-standard loans to among others friends, relations and even companies that Board members have interest. In other cases, major operators - both shareholders and Board members have had to convert depositors funds into foreign currencies and outrightly and without fear, credit their personal accounts overseas. All these factors led to loss in confidence by the depositors.

In other cases treasurers or indeed the Banks introduced the payment of brokerages to attract deposit even though this subvert governmental guidelines and also increases cost of funding. Also, upfront payments became the order of day. It should however be noted that in most of the upfront and brokerage payments, bank officials engage in dirty tricks to enrich their pockets, because where genuinely these payments are to be made, such figures are inflated with the difference(s) pocketed. As the Banks became more and more in problems of liquidity, staff incentives was also introduced to make staff go all out for funds. In some banks, a certain percentage is paid to the staff who is able to bring in new funds or rollover an existing deposit, while in others a certain amount is given. But in all the cases, the percentage or amount is categorised into amount of money or deposit tenor, the rate of the deposit and the position of the staff bringing the business.

Yet in other Banks, new funds and or rollover form an integral part of appraisals that could lead to promotion or even outright review of employment. There were cases where staff went round to the customer to convince him to remove/ terminate his deposit and return same only after some days, thus the need to recognise rollovers and pay incentive on same in addition to forming part of the appraisal or achievement of targets.

Generally this days because of the problems being encountered by the Banks in terms of liquidity, targets are given to each and every staff of especially Merchant Banks. Where such targets are met, staff is assured recognition while appropriate punishment (including dismissals, warnings and suspensions) are meted out to those who are unable to achieve their targets. Employments are now more on the basis of what you can bring into the Bank in terms of deposit funding especially at the middle and upper management cadres. Thus, you may have all the necessary pre-requisite to qualify for a given position in a bank, but the inability to attract depositors/deposit may in most cases disqualify you, as the order of day now is survival of the fittest in these trying periods of the banking sector.

Presently the inter-Bank system is dead, but while same was alive alot of malpractices and defaults occured. The malpractices were of payments of separate cheques in settlement of obligations - that is Treasurer 'A' who places

funds with Bank 'B' will demand settlement (as negotiated) via two cheques, or a split of the agreed rates. Cheque one will be for the settlement of treasurers 'A' bank while cheque two will be made payable in cash or in a fictitious name to represent the payment of brokerage to treasurer 'A' who has helped bank 'B' with business. Such were the practices that eventually led to serious problems for most banks as the cost of funding went sky high, leading to increased overhead costs and reduced profitability.

Also, there were cases of diversion of placements where treasurers in a bid to make quick monies, place funds with finance houses that offer extremely high interest rates (and pay same upfront), but will in their books mention a healthy banks name as having lodged same with. It is only when problem of default occurs that such cases are known, by which time it is too late, as losses would have to be absorbed. It is indeed a serious offence that had led to dismissals and at times conviction of treasurers.

For the purpose of these study, a select group of Merchant Banks was undertaken so as to bring about the desired results. The Merchant Banks consists of some old and news ones such that whatever information is collected will give an average picture of what obtains in the market. On a general note however liquidity squeeze seems to be the most problematic and indeed the key to the survival of all the Banks.

At the various interview sessions conducted with the various Banks officials - treasurers, non-treasury staff and some top management executives, nearly all of them have the same views on the questions raised particularly on treasury management problems, Open Market Operation (OMO), liquidity ratio and stabilisation securities.

On liquidity ratio, the achievement of 30% as precribed by the CBN and maintainance of same would mean that the banks must de-emphasize long-term investments. Therefore, branches were encouraged to fund their Headoffices with a view to actualising the desired, to avoid penalties. However the issue of funding remain a very big problem especially with what obtains on the ground as government is not spending, in addition to its withdrawal of all its funds to the CBN, therefore making availability of funds very difficult. The Banks we are narrowing down on are NAL, ICON (Merchant Bankers), Continental, Pacific and Merchant Bank of Commerce (MBCOM). The first three belong to the old generations, while the last two are in the new generation category.

All the Bankers interviewed on the issue of stabilisation securities gave a negative remark about the use of same as it distabilises the operations of the banks. There was no identifiable formula, system or format used by the CBN before the irregular and frequent application of same. The respondents believe that the method of application was speculative, and therefore carried out

randomly. If anything, the compulsory issuance caused the number of banks supplying overnight funds in the interbank market shrinks to a point where the market became so imperfect resulting in monopolistic pricing techniques becoming prevalent leading to a shocking escalation of interbank rates. High interbank rates, resulting in increased cost of funds, made an upward pull on the prime lending rates of the banks, in turn increased costs to manufacturers and thereafter to prices of goods. The real problem being the arbitrariness with monopoly pricing techniques, such that it sent out the wrong signals to both investors, depositors and the general public.

Stabilization securities was introduced as an instrument of monetary policy by the CBN Decree 1968 (Amendments). Subsection 7 of section 2 of the decree authorised the CBN "for the purpose of maintaining monetary stability, issue, place, sell, repurchase and redeem securities known as stabilization securities - as such rate of interest and under such conditions of maturity, amortization, negotiability and redemption as the Bank may deem fit". CBN also has powers to allocate same to any financial institution and any refusal to absorb will result in punishment by;

(a) Fines (b) Prohibition from granting loans and advances and making new investments until it is absorbed.

Treasurers interviewed responded as follows;

- Continental Merchant Bank:- "A cheap way of funding government deficits"

- ICON (Merchant Bankers) - "A source of problem of most distressed banks of today"
- MBCOM:- "The issue of stabilization securities makes nonsense of planning by banks and makes them use funds meant for other development projects to meet customers obligations, while older banks seize the opportunity to hike interbank rates and make large project.
- Pacific Merchant Bank:- "Government way of strangulating the banks and increasing tension of the market players".

Indeed, treasurers have not been at ease in securing deposits especially from non-Bank depositors, as they hardly could convince the customers to deposit with them, their funds, in view of the distress saga amongst the banks operating in the country. Cases were when Banks had to produce memorandums, addressed to the Banks by CBN, on the implementation of indirect approach to monetary and credit control in Nigeria certifying that their bank have met the required equity base considered satisfactory. In the final analysis, the effect of stabilization securities was aggressive marketing for cheap funds (which became rare to comeby) to finance operations which drove many banks into practices contrary to the ethics and norms of the profession, for survival.

On Open Market Operations (OMO), the understanding is that it is established to cushion the effects of

stabilization securities and reduce the problems on liquidity. It is considered a blessing as it will discount some treasury products e.g. TBs thereby making funds available when badly needed. Also, the acceptance of surplus cash of banks, on deposit basis, is a welcome development as there will not be any default at maturity, as against the interbank problems. As interest rate is low, which could discourage participation, the most important aspect of OMO is that participation in its operations is voluntary as against the case of stabilization securities.

The banks personnel interview generalised the problems of treasury management to include the following:-

(i) Difficulty of sourcing funds

(ii) Interest rates abysmal increase as a result of intense competition by both Bank and Non-bank financial institutions,

(iii) Clients demand for their deposits before maturity.

(iv) Funds mismatch i.e. use of short-term funds to fund long-term investments.

(v) Default by bank borrowers thus widening the mismatch between matured deposits liabilities and matured risk assets.

A case by case interview of the Banks interviewed and their responses are as given below;

3.2.1. <u>NAL MERCHANT BANK Plc.</u>

Registered in November 1960 as Nigerian Acceptances Ltd as the second Merchant Bank, after Phillip Hill (Nigeria)

Ltd in September 1960. The two merged in July 1969 under the name Nigeria Acceptances Ltd (NAL) and continued its operation as the only Merchant Bank in Nigeria until 1973 when the Nigerian Merchant Bank came into existence.

Operating with four area offices - Kano, Kaduna, Ibadan and Owerri, NAL has its headoffice in Lagos; with likely expansions to Port-Harcourt and Abuja.

The interview was conducted with the treasury personnel of their Kano office, outcome of which are as summarised;

(a) DEPOSITS

(i) Call monies - on demand

(ii) Fixed Deposits - Have specific tenors ranging from 7, 30, 60, 90, 180 and 365 days.

(iii) Current Account for corporate bodies.

(iv) Current Account for highnetworth individuals especially those who don't accept interests. Accrued interests are passed to the Profit and Loss Account. The accounts are very few.

(b) Interest rates used to be floating till 1994 when same was fixed. Rates now range between 12-15%. However before 1994, the deposit rates depended on the prime lending rate for any particular month, while the prime was also dependent of the cost of funds including all overheads.

(c) The increase in the number of licenced banks affected the operations of NAL tremendously as the treasurer

put it thus "they (the new banks) offer faster services, higher interest rates and are more aggressive in marketing". Hence, many customers decided to move their accounts to the newer banks. To survive, NAL had to refocus its strategies including advertisement of its products, airing of documentary on its activities on some television stations and supported the activities of some institutions. In fact ABU Zaria and Unilag were at one time contracted to carry out research activities on NAL and its survival.

(d) Being the oldest Merchant bank, the withdrawal of government gunds shocked/affected NAL tremendously, as it had made a significant in-road enjoying lots of patronages from a number of these governmental establishments. NAL therefore had to diversify its activities to not only pay the governmental depositors but to survive. So also the deregulation of Foreign exchange of March 1992 which added another bite to an already bad situation.

(e) The bank sources of funds could be said to include

(i) Straight deposits - Call and fixed. They are from Banks and Non-Bank sources. Major targets are the oil companies, airlines, highnetworth individuals and some selected corporate organisations.

(ii) Current Account customers

(iii) Capital Market activities - engagement in sales of shares.

(f) Mismatching of funds is seriously avoided. Most of their deposits are long term in nature. Occasionally when short-term funds are used to finance long-term investments, such mismatch is usually rectified to avoid complications in the future. The Bank is not into interbank dealings because of system default, while managing maturities properly such that obligations are honoured as they fall due.

NAL MERCHANT BANK Plc

MATURITY PROFILE OF DEPOSITS AND OTHER ACCOUNTS.

	1991('000)	1992('000)	1993('000)
Under One Month	365,859	647,689	377,851
Between 1-3 Months	292,053	247,591	689,716
Between 3-6 Months	52,889	84,511	206,584
Between 6-12 Months	94,320	31,253	67,115
	805.121	1,011,044	1,341,266

SOURCE: NAL ANNUAL REPORTS 1992 & 1993.

The above consists of demand deposits, inter-Bank, term deposits, Domiciliary accounts, Premium Investment Certificates and other accounts.

3.2.2. ICON LIMITED (MERCHANT BANKERS)

ICON Ltd (Merchant Bankers) was borne out of the reconstitution and reorganisation of the ICON Securities Ltd, a wholly owned subsidiary of the Nigerian Industrial

Development Bank (NIDB). Incorporation of the Bank was on October 14, 1974, with the aim of providing Merchant Banking services which would meet the demands of the growing money and capital markets in Nigeria.

The Headoffice of the bank is located in Lagos, with five other Area offices - Kano, Kaduna, Benin, Calabar and Abuja. The outcome of the interview reveals the following data on their treasury activity types;

(a) Deposits.

The bank has two types of deposits classified into call and tenor.

(i) Call - Is divided into Strict Call (with one day notice of withdrawal) and 7day Call (requiring seven days notice of withdrawal).

(ii) Tenored funds which are classified into:

- Fixed - having specific tenors ranging from 30, 90, 180 and 365 days. They are termed 'back-end' because interest is paid at maturity.
- Others - ICON Premium Certificates (IPC) which also have tenors ranging from 30, 90, 180 and 365 days. Interest is paid upfront while it does not attract withholding tax. It is denominated in #50,000.00; #100,000.00 #1,000,000.00 and #5,000,000.00. It is an ICON promisory note designed exclusively to

satisfy the investors requirement in preference for high-yield short-term financial instruments.

(b) Determination of interest rates before 1994 depended on volume and tenor of the deposit as well as the individual bargaining power of the depositor. However from 1994, as a result of regulations, the rates fluctuate between 12-15%.

(c) Increased licenced banks in the country, thereby increasing competition affect ICON's operation hence the need to advertise products and services, as well as sponsoring some public activities as ways to attract deposits.

(d) Withdrawal of government ministries and parastatals funds/accounts from Banks had a great negative impact on ICON as it enjoyed patronage from them. Also, the effect of further deregulation of foreign exchange in 1992 had not so much an impact on its operation.

(e) The banks sources of funds include;

(i) Depositors of various deposit types.

(ii) Current Account from corporate clients (the principal source).

(iii) Funding from Headoffice - Interview is as said is with the Kano office.

(iv) Recoveries of called-in facilities. Alot of the loan book is bad.

(f) Bank relies heavily on Call money from other banks to solve its liquidity problems.

ICON LIMITED (MERCHANT BANKERS)

MATURITY PROFILE OF DEPOSITS AND OTHER ACCOUNTS.

	1989('000)	1990('000)	1991(,000)
Under One Month	287,725	731,763	1,037,108
Between 1 - 3 Months	374,000	611,900	169,378
Between 3 - 6 Months	34,740	56,842	96,996
Between 6 - 12 Months	27,100	44,230	104,201
Over 12 Months	-	100	714.177
	723,565	1,444,835	2,021,860

SOURCE: ICON ANNUAL REPORTS 1990 & 1991.

The above comprises of demand deposits, certificates of deposits, time and call deposits, domiciliary accounts and ICON Premium Certificates.

3.2.3. CONTINENTAL MERCHANT BANK Plc

Bank commenced operation in 1975 though licenced in 1974. Formerly known as Chase Merchant Bank Nigeria Ltd till February 24, 1986. Continental Merchant Bank's headoffice is located in Lagos, with branches in Kano, Kaduna, Jos, Onitsha and Port-Harcourt.

The banks treasury activity types include

(a) Deposits.

The two types of deposits as maintained are

(i) The Call or Strict Call requiring one day notice.

(ii) Fixed deposit having tenors of 7, 30, 60, 90, 180 and 365 days.

(b) Determination of interest rates on deposit before 1994 was done either through scanning of the environment to find out competitors offer, analysing the amount of continental liquidity and its budget for the year, or "the rate regime" that is monthly determination of interest rates. The use of the two methods gave the indicative rates that CMB offers its customers.

With the fixing of the rates, CMB which is trying to survive in the market does not take that as final. Instead it takes the minimum and do some certain calculations (with the aid of the computer, and not shown/taught the researcher) and come up with rates payable on the deposits for the month in question. Incentives or brokerages are paid out, but subject to the approval of the MD/CEO.

(c) To deal with the increased competition of newly licenced banks, CMB moved its target market out of Kano to neighbouring states of Borno, Jigawa, Katsina, Bauchi, Sokoto. As a result of lack of competition in these states, the strategy paid-up. Meanwhile at the home front (Kano) a list of potential clients visits schedule is adhered to strictly. The bank also changed the focus on its customers concentrating on Investment Companies, the airline, Federal Colleges of Education and few high networth individuals.

Meanwhile staff of the banks are given set targets for new funds and roll-over of existing deposits. Such targets form the basis of their appraisals. Also, there was the issue of loyalty of existing customers as evidenced in the chairman's statement in the 1992 Annual Report and Statement of Accounts.

> "The tremendous support and loyalty of your customers cannot go unmentioned here. The innovative and unique products of CMB introduced to customers over the years, continued to reinforce their commitment to your bank. That many of these customers have remained with us inspite of the options they have is a measure of their trust in us".

(d) The withdrawal of governmental accounts to CBN was a disaster for CMB as customers could not get their matured deposits. Efforts made to borrow from other banks through the interbank system did not materialise, as where and when the funds were available, the cost was very high. However, inspite of the high rate, banks were still borrowing but "the consequence was default by borrowers for the first time in the history of banks, so erosion of confidence in the banking system" as put by the treasurer "which made the banks realise that armchair banking was no longer possible and to survive will thence be the introduction of new products to attract depositors". On deregulation of Foreign exchange in March 1992, this added another dimension of illiquidity on the Bank, and the need to go out for deposits. However,

the CMB chairman said it all in his statement of the 1992 Annual Report and Statement of Accounts;

> "The March 5, 1992 deregulation of the foreign exchange rate and the 80% devaluation of the Naira that this caused was by far the most momentous economic policy change of 1992. The measure and accompanying stabilization debits was the proximate course of the liquidity problem of the year. The liquidity squeeze in turn was responsible for high interest rates and business failures... To ensure the survival of your bank in the years ahead, the money markets division had accelerated its strategic repositioning schedule in addition to aggressively pursuing specific strategies aimed at solving the liquidity crunch affecting the banks".

(e) Sources of funds for CMB include the depositors, interest income, fees and commission and other incomes as sale of moveable assets and "Nostro accounts' which is the local interbank receipts and payment between CMB headoffice and the branch.

(f) Treasury management problems are solved in CMB by ensuring that a balance is attained so as not to over or under fund the operation, proper portfolio management liquidity positioning and deposit base.

CONTINENTAL MERCHANT BANK NIG. Plc

MATURITY PROFILE OF DEPOSITS AND OTHER ACCOUNTS.

	1990('000)	1991('000)
Maturing on Call	408,865	536,343
Between 1-3 months	19,499	45,473
Between 3-6 months	8,451	214
Between 6-12 months	11,846	28,063
Between 1-3 years	357,988	199,961
Between 3-5 years	39,787	26,048
Over 5 years	300,559	358,911
	1,146,995	1,195,013

SOURCE: CONTINENTAL ANNUAL REPORT 1991.

The above comprises of demand deposit, Negotiable Certificate of deposit, domiciliary accounts and time deposits.

3.2.4. PACIFIC MERCHANT BANK LTD.

Incorporated and commenced business operations in 1990, therefore a new generation Bank. It has its headoffice in Lagos and an area office in Kano. Plans are underway to open two area offices one each in Abuja and Aba\Port-Harcourt.

The Bank treasury activity types include,

(a) Deposits

The following are the deposit types;

(i) Strict Call - Payment is on demand

(ii) Fixed deposit - This has tenors of 7, 30, 60, 90, 180 and 365 days.

(iii) Bankers Acceptances - Interest is paid upfront and do not attract the withholding tax.

(b) The determination of interest rates on deposit was through negotiation,(before the 1994 budget speech) and very much depended on volume and tenor. But since 1994, the government guidelines apply except with modifications. Here rates as given could be much higher than the prescribed, but for the purpose of the examining bodies all correspondences bear the 15% P.A. while the differentials are paid normally, upfront. This is a survival strategy in order to woo depositors. In addition, incentives or brokerages are paid to both staff and non-staff who could bring in funds to the bank.

(c) To capture a reasonable share of the market and to remain in business, Pacific came up with the COUPAD as a means of encouraging depositors to come over. Rates on the Coupad is flexible and could be used as collateral. In addition, target markets were identified for funds mobilization. Therefore, the Area office went over almost all the Northern states searching for depositors.

(d) The governmental directives to move ministries and parastatals accounts to CBN did not affect the bank as such for there were few of such accounts. The banks' focus had been on Foreign exchange and others. But,

the deregulation of Foreign exchange in 1992 brought a squeeze on the liquid position of the bank as the working capital now shrank, thus disrupting some of the banks programme.

(e) Source of funds for the Bank include individual depositors, corporate bodies, Interbank placements, the Universities and interest income.

(f) Treasury management problem as of now is funds mismatch and illiquidity in general. New deposits are not forthcoming, risk assets are not been financed and depositors are calling in the matured deposits.

PACIFIC MERCHANT BANK LTD

MATURITY PROFILE OF DEPOSITS AND OTHER ACCOUNTS

	1991('000)	1992('000)	1993('000)
Under 1 month	205,262	333,957	147,545
Between 1-3 months	158,134	111,658	51,176
Between 3-6 months	6,000	163,241	143,716
Between 6-12 months	8,750	15,675	39,665
Over 12 months	4,700	10,100	-
	382,846	634,631	382,102

SOURCE: PACIFIC ANNUAL RETURNS 1992 & 1993.

The above comprises of demand deposit, time deposit, Interbank and Coupad Certificates.

3.2.5. MERCHANT BANK OF COMMERCE (MBCOM) LTD

A new generation merchant bank that commenced business operation in 1990, though incorporated in 1989. It has its headoffice in Lagos and a branch in Kano.

The bank treasury activities are of;

(a) Deposits

(i) Call deposit - Strict Call or 7 days Call

(ii) Fixed or term deposits - have tenors of 30, 60, 90, 180 and 365 days.

(b) During the period of interest deregulation - before 1994, all deposits were negotiated between the bank and its customers. However with the coming in of regulation in 1994, the bank follows the government regulated rates.

(c) To survive the intense competition from peers and seniors, the bank started being flexible by following customers, with and for their requests, to their homes.

(d) The banks treasurer mentioned that the withdrawal of government ministries and parastatals accounts to CBN limited the banks area of deposit mobilization as they now have to scramble for the little left overs in the economy that is having problems with distress in the banking sector. Also, on the issue of March 1992 foreign exchange deregulation he said that it was never welcomed by his bank as it virtually squeezed the remaining life out of the bank.

MERCHANT BANK OF COMMERCE LTD

MATURITY PROFILE OF DEPOSITS AND OTHER ACCOUNTS

	1990('000)	1991('000)	1992('000)
Under One month	27,828	26,690	8,456
Between 1-3 months	10,574	65,289	12,397
Between 3-6 months	616	6,563	5,918
Between 6-12 months	-	7,176	58,098
Over 12 months	-	5,767	62,422
	39,018	111,485	147,291

SOURCE: MBCOM ANNUAL RETURNS 1991 & 1992.

The above comprises of demand deposit and time deposit. For all of the above banks, their treasury operations with respect to deposits are the same. Deals are concluded either through personal contact (face-to-face) or the telephone and thereafter dealslips and memoranda containing the terms and conditions are sent out/received. However the phenomenon is "my word is my bond" therefore reneging on contracts, once entered, are not welcome, no matter how bad. Treasurers are expected to live by their words.

3.3 TREASURY PRODUCTS OF SOME SELECTED MERCHANT BANKS.

Within the past few years, the Nigerian Banking sector especially the Merchant Banking subsector, has remain dynamic undergoing significant transformation. To cope with the ever changing demands of customers, certain new products and innovations have been introduced occasioned by some or all of the following;

(i) Harsh economic realities necessitating such several economic measures as contained with the introduction of SAP in 1986.

(ii) The licencing of new Merchant Banks and other banks as well as other financial institutions.

(iii) The deregulation of the banking sector.

Merchant Banks have in recent years improved on their traditional services rendered and in some cases have introduced new products or service as a result of dynamism of the economic environment. However, even the development of new products and enhancement of existing ones are being hampered by the volatility of the interest rates in the money market and inconsistency of government policies. This has been so, as the products are aimed primarily at mobilising funds, the cost of which respond spontaneously to market forces of supply and demand (now regulated by government). The frequent changes of government policies, the intense competition and the need to survive makes constant review and repackaging of existing products and development of new ones a matter of utmost importance.

Generally, most if not all the Banks in the country offer the usual deposit taking, Bankers Acceptances (BAs), Commercial Papers (CPs), Certificate of Deposit (CDs) and Negotiable Certificates of Deposits (NCDs). But, some of the Banks have developed unique products designed to withstand the shocks in the money market and bring them the much sought after liquidity through deposit mobilisation.

Among the new products, attempts have been made to bring out some for ease of reference. Those considered in these study include those of ICON Ltd (Merchant Bankers), NAL, CMB, Pacific and MBCOM as detailed below;

3.3.1 NAL MERCHANT BANK Plc.

(a) Premium Investment Certificate (PIC)

- Minimum amount of #100,000 and thereafter multiple of #10,000.
- Minimum amount #100,000 and thereafter multiple of #10,000.
- 180 days tenure
- Yield is Negotiable
- No Withholding tax
- Could be used as collateral for obtaining loans
- Can be rediscounted
- Option of upfront payment.

3.3.2. ICON LIMITED (Merchant Bankers)

(a) ICON Floating Rate Certificate (IFRC)

- Minimum of #100,000 and multiples of #50,000 thereafter.
- Minimum of 365days with rollover option
- Negotiable floating interest rate, payable quarterly upfront, but above base rate.
- Rediscountable with ICON after a minimum holding period of six months.

(b) ICON Unit Trust.

- Open ended as manager could issue additional units upon request.
- Could be redeemed for cash within a short period (currently 3 working days).
- Has option on unit type - the Accumulation Unit (annual income is re-invested) or the Income Unit (annual income is distributed) or even both.
- Convertible from one unit type to the other.
- Eligible holder may benefit from the Bonus Term Assurance covers of the Extra Assurance Cover.
- Quoted on the Nigerian Stock Exchange, thus Unit holders may monitor the value of their investment on a regular basis.

Services

- Annual Dividends
- Reinvestment of income
- Convertibility of Units
- Redemption
- Regular information on the scheme.

(c) Individual Fund Management Servives.

- Assurance of Anonimity for the owners
- Permission of part withdrawal of funds subject to notice.
- Acceptance of additional funds
- Guaranteed minimum returns of 19% P.A. subject to periodic reviews.

- Upfront income payment
- High yield

(b) Call Plus Account (CPA).

- Negotiable interest rate
- Once a month withdrawal attracts full interest payment.
- Withdrawal is with 24 hours notice
- No withdrawals within one month earns a customer a premium on top of the interest; and the longer the account remains untouched, the higher the premium it attracts.

3.3.4 PACIFIC MERCHANT BANK LIMITED

(a) Coupon Adjusted Certificate (COUPAD).

- Minimum deposit of #250,000
- Upfront income payment
- No withholding tax
- Tenure of 365 days with rollover option
- Discountable after 180 days
- Could be used as collateral
- Guaranteed minimum returns
- Rate move up only, where applicable.

3.3.5. MERHANT BANK OF COMMERCE (MBCOM) LTD

(a) Access Bill.

Amount	90 days (in % P.A.) Min.	Rate	NPV	Max	Others (in % P.A) Rate		NPV	
		(34.8)						
50,000	32	35		35	38	33	36	34 37
100,000	33	36		36	39.5	34	37	35 38
up to		(37.16)			(40.7)			
200,000	34	37		37	41	35	40	36 40
Up to		(38.36)			(41.7)			
300,000	35	38		38	42	36	42	37 41
Up to								
500,000	38	42		40	44	39	43	
Up to		(44.4)			(46.8)		(45.68)	
1,000,000	40	44		42	47	41	46	

- Customers are encouraged to receive interest at maturity in order to achieve the NPV and assure of constant access to the investment.
- A maximum penalty of 2% on the unearned interest portion is slammed on customers wanting to break investment before maturity and had collected upfront interest payment.
- A customer breaking his investment to build-up the deposit will take advantage of higher interest rate.
- Certificates issued must always be returned when there are changes - breaks, additions, transfers.
- Tenor of 90 to 365 days with rollover option.

(b) ICON Unit Trust.

- Open ended as manager could issue additional units upon request.
- Could be redeemed for cash within a short period (currently 3 working days).
- Has option on unit type - the Accumulation Unit (annual income is re-invested) or the Income Unit (annual income is distributed) or even both.
- Convertible from one unit type to the other.
- Eligible holder may benefit from the Bonus Term Assurance covers of the Extra Assurance Cover.
- Quoted on the Nigerian Stock Exchange, thus Unit holders may monitor the value of their investment on a regular basis.

Services

- Annual Dividends
- Reinvestment of income
- Convertibility of Units
- Redemption
- Regular information on the scheme.

(c) Individual Fund Management Servives.

- Assurance of Anonimity for the owners
- Permission of part withdrawal of funds subject to notice.
- Acceptance of additional funds
- Guaranteed minimum returns of 19% P.A. subject to periodic reviews.

- Current target return of 28% P.A.
- Periodic reports of funds detailing performance.
- Opportunity to increase principal sum as there is option for investment of income earned on the fund.
- Free expert advise offered
- No withholding tax.

(d) ICON Premium Certificate (IPC).

- Denominated in #50,000, #100,000, 1,000,000 and #5,000,000
- Tenure ranges from 30 to 365 days with rollover option.
- Upfront payment of interest
- No withholding tax.

3.3.3. <u>CONTINENTAL MERCHANT BANK Plc</u>

(a) High Yield Investment Certificate (HYIC)

- Discountable instrument
- Upfront income payment
- High yield
- Tax effective return to investors
- Minimum face amount of #500,000 to corporate investors and #50,000 to individuals or small holder investors.
- Tenor ranges between 30 to 365 days with rollover option.

(b) Call Plus Account (CPA).

- Negotiable interest rate
- Once a month withdrawal attracts full interest payment.
- Withdrawal is with 24 hours notice
- No withdrawals within one month earns a customer a premium on top of the interest; and the longer the account remains untouched, the higher the premium it attracts.

3.3.4 PACIFIC MERCHANT BANK LIMITED

(a) Coupon Adjusted Certificate (COUPAD).

- Minimum deposit of #250,000
- Upfront income payment
- No withholding tax
- Tenure of 365 days with rollover option
- Discountable after 180 days
- Could be used as collateral
- Guaranteed minimum returns
- Rate move up only, where applicable.

3.3.5. MERHANT BANK OF COMMERCE (MBCOM) LTD

(a) Access Bill.

Amount	90 days (in % P.A.) Min.	Rate	NPV	Max	Others (in % P.A) Rate		NPV	
		(34.8)						
50,000	32	35		35	38	33	36	34	37
100,000	33	36		36	39.5	34	37	35	38
up to		(37.16)			(40.7)				
200,000	34	37		37	41	35	40	36	40
Up to		(38.36)			(41.7)				
300,000	35	38		38	42	36	42	37	41
Up to									
500,000	38	42		40	44	39	43		
Up to		(44.4)			(46.8)		(45.68)		
1,000,000	40	44		42	47	41	46		

- Customers are encouraged to receive interest at maturity in order to achieve the NPV and assure of constant access to the investment.
- A maximum penalty of 2% on the unearned interest portion is slammed on customers wanting to break investment before maturity and had collected upfront interest payment.
- A customer breaking his investment to build-up the deposit will take advantage of higher interest rate.
- Certificates issued must always be returned when there are changes - breaks, additions, transfers.
- Tenor of 90 to 365 days with rollover option.

(b) HELP-U ACCOUNT.

Amount	90 days (in % P.A) Minimum		Maximum		180 days (in % P.A.) Minimum		Maximum	
		NPV		NPV		NPV		NPV
		(26.7)		(27.8)				(32.58)
#25,000	25	27	26	28	27	31	28	33
Upto						(33.8)		
#35,000	27	29	28	30	29	34	30	35
Upto				(32.1)		(36.9)		
#40,000	29	31	30	32	31	37	32	38
Upto	(33.6)					(39.4)		(40.8)
#50,000	31	34	32	35	33	39	34	41

- Customers are encouraged to collect interest at maturity, otherwise given the minimum rate.
- Interest rates paid monthly, and upfront to encourage small savers.
- A maximum charge of #50.00 as penalty on customers who wish to close their accounts, before maturity, but had collected upfront income.
- Could be converted to an MBCOM Access Bill if volume increases to at least #50,000.
- Transferable from one individual to another.

It should be noted that most, if not all the above products have been discarded sequel to the 1994 budget when a cap on interest rate was introduced. However, Banks still accept deposits much higher than the 15% P.A. maximum, but do not issue their certificates, as doing so will amount to a collision with the Government which could lead to the closure of such a bank, aside payment of penalties. But,

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when the going was good, or before the regulation of the interest rate structure, banks had a field day with treasurers being the 'men of the moment'. Profit was booming as a result of liquidity as the system was awash with money, hence banks did not mind to spend. with the coming of regulatory measures, banks started to re-organize their priorities and indeed in most cases adopted the survival tactics.

3.4. DETERMINANTS OF SUCCESS IN TREASURY.

Further questions posed to the treasures interviewed where what they felt would take a staff to work in their departments or qualities of the staff and the factors that go along way in determining the success or otherwise of the department. The general feeling is that any banker could do treasury work provided such staff is given adequate necessary training both on the job and off of the job. It is not just a matter of picking the phones, when they ring, to conclude a deal or visiting a customer for some deposits/rollover, but the ability to forecast and analyse scenarious is very important.

The following were some of the pre-requisites mentioned for a successful treasurer;

(a) Honesty- This should be to both the customer and the Bank. The treasurers 'words' is his 'bond' therefore he should be seen to be transparently honest. Alas, many a treasurer indeed bankers lack these attribute,

hence ending in either the customer or bank loosing some money as in most cases these treasury staff, in conjunction with the top management executives connive to add rates for the banks' absorption, and equally reduce customer rates all to the benefits of their pockets. This has led many a bank to distress.

(b) Hardwork and dedication - Treasury staff are always under pressure for every job in the department is urgent therefore needs immediate attention. Hence only agile, effecient, fast, reliable and dedicated hands who are willing to sacrifice their times and could be heavily relied upon, could perform in these department. Therefore the issue of loyalty is very important. The person(s) to work in these department should be people with proven track record of hardwork, dedicated to their duty and indeed loyal to the establishment.

(c) Commitment and Enthusiasm - To be able to please customers and earn good name for the bank, it is essential that one is seen to be very sympathetic with his customers. Therefore treasury staff should be seen by their customers, at all times to be given them selfless service and are always listening to their complaints. Staff should show commitment and enthusiasm to their duties as customer service is very demanding.

(d) Tolerance-As some customers are difficult to satisfy and as the matters to be treated concerns money, treasury staff needs to be tolerant and accomodative. The "customer is always right" is often the saying, but certain customers may want to hold to a view which is contrary to what obtains, and in some cases may even prove adamant to see reason. It is the duty of a treasury staff to explain in details and convincingly too, of what the situation is to the satisfaction of such a customer. Hence, a good treasury staff is someone who controls his emotion and offer explanation when necessary.

(e) Responsibility and Trust- As every assignment in the department is important, it is expected that staff of the department would handle all issues with care as anything contrary to these could cause the bank its reputation, customers, and could even lead to distress and eventual collapse. Therefore the person(s) in treasury should be responsible and trustworthy to the cause of the establishment. No doubt without the customers, the bank will collapse.

(f) Training - As a highly technical department, the quality of staff in the department is important. Therefore constant training of staff is necessary. It is a general knowledge that this has been receiving the blessing of most of the Banks. Other factors that

contribute to the success of treasury work are the personality of the treasurer (or staff of treasury), cheerfulness and persistence especially in deposit sourcing. Above all, to function effectively, the treasurer has to know people and mix freely with them such that he could attract or convince them to be the Banks' customers.

3.5 THE NIGERIAN FINANCIAL SYSTEM

The Nigerian financial system which started as a barter economy from the last century developed into a monetised economy with the influence of the Royal Niger Company and the British Bank for West Africa in the early 20th Century. The monopoly of finance and trade slowly changed into a doupoly with the entry of Barclays Bank, a few years later. Banking financial skills, capitalisation and wherewithall was certainly beyond the grasp and reach of the local bourgeosie, who are content of being middlemen between farmers and the colonial merchants.

Economic nationalism, a bye-product of political patriotism began manifesting itself in certain areas of the economy, resulting in an attempt by Nigerian Entreprenuers venturing into Banking, Merchandising and light Manufacturing. Thus, the setting up of National Bank, African Continental Bank, and Agbomagbe Bank. However, some of these Banks collapsed due to a combination of lack of management skills, controls and depth in the system.

With independence in 1960, and the setting up of a Central Bank, the banking system came under the direct

control of the Nigerian government in contrast to the previous arrangement when regulatory and supervisory powers over the local economy was the responsibility of the West African Currency Board. Thereafter, in the sixties, a few American, Arab and other foreign interests also set up banking institutions.

However, in the 1970's, with the coming of the oil boom, the financial system acting as a vehicle for trade and flow of funds and capital, became very profitable. Deposit liabilities costs thus became near zero while lending rates were about 1,000 basic points higher than the marginal cost of fund. Lending then was for short-term trading, so there was no need for long-term deposits. Overdraft facilities were the order of the day; there was thus the need for a capital market as industrialists funded their plant and machinery costs with evergreen overdrafts and credit lines Returns on asset and investments was above mormal and thus every player, (both efficient and inefficient) in the market reaped substantial rewards from an industry where there was minimal competition because of the high barrier to entry.

3.6 THE STRUCTURAL ADJUSTMENT PROGRAMME (SAP)

As a result of lack of planning and sense of direction, the collapse of oil prices, and the overhang of a huge external debt burden in the early eighties, the national economic managers found themselves in a very tight rope. The economy had suffered from total mismanagement of both

the civilian and military governments, each passing the buck to the other. The only remedy therefore was the World Bank/International Monetary Fund (IMF) with their attendant strict and non-complimentary terms. Therefore, Nigeria has to introduce and implement some draconian economic measures to bring the economy in synchrony with its earnings stream and debt servicing capacity. This meant a transformation from an industry characterised as monopolistic to one ending towards pure competition, from the financial system as viewed.

3.7 CHANGES IN THE FINANCIAL SYSTEM

From 1986 to data, the number of licenced banks increased from about 42 to 120 and non-bank financial institutions from zero to over 1000 (includes Community Banks, Mortgage Banks, Peoples Bank etc). The Naira has moved from strict exchange control through auctioning to near convertibility or floatation and control. The stock market has grown in capitalization as it is the third largest stock exchange in Africa next only to South Africa and Zimbabwe.

The domestic money market shifted from rates being determined by the CBN/Government, to a market driven and more efficient deregulated interest rate regime prior 1994, and back to a reversal or fixing of interest rates since 1994 to date. The change in the competitive structure of the industry meant that many players blurred the line of difference between the focus of commercial, merchant and

development banks. As the industry continued to witness decline, almost all the Banks depended mainly on foreign exchange allocations from the CBN to woe their customers for patronage and survival. However, with the suspension of the weekly bidding of foreign exchange, Banks and indeed the entire economy is in for another round of business problems. For now, deposit sourcing is virtually at a strandstill, the dollar has not come down as it continues to fluctuate at about #78 - #80, while manufacturers are finding it hard to import raw materials as the dollar is becoming harder to comeby. But, prior to these the Banks with the highest return on Assets and earnings are those that had de-emphaised risk asset growth in favour of sourcing of allocation from the CBN, off-balance sheet activities and the structuring of capital market transactions.

The increase in the number of financial institutions stretched the human resource reservoir of the industry beyond safety limits, therefore a big draw-back to the system. Banks now are being managed by unprofessional, insecure and incompetent staff and in some cases Chief Executives. This has resulted in unprofessionalism, breach of Banking codes and ethics especially the secrecy of customers business transaction and in some cases an I-don't-care attitude as exhibited by some bankers of nowadays. Training should therefore be emphasised. However, both the

CBN and NDIC should strengthen their supervisory grip on the industry. The customer is getting more sophisticated, and thus negotiating from a stronger position for pricing and quality service. The financial market place is getting globalised therefore increasing competition. The need for greater professionalism is therefore on the increase, and the Nigerian banker cannot leave in isolation.

CHAPTER IV

SUMMARY, RECOMMENDATIONS AND CONCLUSION

4.1 Banking industry in Nigeria is widely believed to have exploded during the deregulation era. In the Pre-SAP era, investment in Merchant banking was considered elitist, though a good number of Nigeria's money bags itched to penetrate into the industry but for the regulatory climate. However, with the introduction of SAP in 1986, dramatic changes came into play resulting in phenomenal growth in the number of participants in the banking industry. This gave rise to intense and severe competition among the 120 or so licenced operators. The growth in the number of Banks within such a short period is unrivalled anywhere in the world. With the introduction of prudential guidelines, accounting standards and the new regulatory measures into the economy all considered severe enough to generate negative returns on funds invested in the banking business, will as well induce relapse of the enthusiasm on the part of the Nigerian investors to enter the industry. No wonder most of the new applicants into the industry withdrew as the scenario kept changing.

4.2 SUMMARY.

This project has examined critically the effect of deregulatory policies on the economy particularly the banking industry. Attempt was made to highlight more on Merchant Banking both before SAP, during SAP and the re-introduction of regulation in 1994 and thereafter.

Concept and development of Merchant Banking was examined including their services, the regulatory framework and effects of regulation and deregulation. The grave crisis in the economy particularly the financial sector led government to adopt the Structural Adjustment Programme (SAP), the one development that this project is concerned with and which greatly dictated further changes in the roles of Banks in Nigeria. The centrality of the roles expected of banks in the economic system explains why they are subjected to much heavier regulation than any sector in all economies more so of a growing one as that of Nigeria.

4.2.1. The introduction of SAP saw Nigeria change from a rigorously controlled economy involving large government intervention to a virtually decontrolled economy and a regime of free entreprise. Economic deregulation therefore centred on;

- The adoption of a realistic exchange rate policy coupled with the liberalisation of the external trade and payments system.
- The adoption of appropriate pricing policies in all sectors of the economy, with a greater reliance on market forces and reduction in complex administrative controls.
- Further rationalisation and restructuring of public expenditures and customs tarriffs.

Along with the adoption of flexible exchange rate

system, deregulation of interest rate and foreign operations, raising of liquidity ratios, abolition of the Special FEM Account and many other policy measures under SAP, the deregulation process was expected to rationalise the use of scarce resources, especially Foreign Exchange, so as to enhance allocative efficiency, promote industrial diversification and stimulate domestic production, as against the unitended effects of smuggling, scarcity of essential goods and services, bribery and corruption red tapism and the rest vices, that manifest out of its implementation. The financial environment particularly the money market has in the recent past been undergoing changes; a characteristic of a gradually developing sector under a dynamic economic system.

4.2.2. The study gave reasons for deregulating the banking industry especially as they affect the Merchant Banks, the problems they encounter (or are encountering) during and after the deregulatory measures including the regulatory period and also the policy measures and regulatory actions of the CBN/NDIC on the banking industry. The deregulation era saw the proliferation of banks rising to 120 as against about 40 before the era. Attempt at the operational definition of Treasury Management reveals that it involves a whole set of activities connected with Risk Exposure Management, Asset Liability Management Control and

development of treasuring dealing operations, control of investment portfolios and utilization of the Banks' own liquid assets.

Money market described as a market for short-term funds, brings together those financial and Non-bank corporate treasuries or individuals with temporary surplus funds for investment and those wishing to borrow such funds. The motive for such lending is the desire to earn interest on the funds that are not needed immediately rather than holding idle cash balances. Instruments of money market include amongst others Treasury bills/Certificate, Certificate of deposits, eligible development stock, discountable instruments, domiciliary accounts and foreign currency.

4.2.3. Until the early 1980's only a handful of banks ever articulated what is today referred to as Treasury Department. This is so because most banks that had treasury departments, only operated by investing excess liquid funds which were in abundance at that time, on government development stocks, treasury bills and certificates and sometimes on interbank. During this period, the demand for credit by corporate bodies was at a low ebb while the general level of interest rate in the financial system was considerably low especially on short-term instruments. But, with the introduction of SFEM in 1986 and the abolition of import licencing scheme, excess liquidity resulting from

deposit against release of cover was quickly called up by the monetary authorities triggering the first major and significant move in interest rates.

4.2.4. The deregulation of the domestic economy which aimed at effectively altering and restructuring the consumption and production patterns of the economy was also to eliminate price distributions and heavey dependence on the export of crude oil and importation of goods. This resulted in a revolution in economic management in the country especially in the area of foreign exchange market and determination of the Naira exchange rate. There was also the greater willingness of the authorities to licence many financial institutions, including banks, finance houses, and stock broking-firms. The rush to establish banks was an indication of the high profit been declared. But as the competition tightened and increased, in addition to the CBN credit policies, this huge profits started disappearing while some banks became distress and finally saw to the closure of quite a few.

With the abolishing of the autonomous foreign exchange market, the naira loans backed by foreign guarantees, domiciliary accounts deposits and the withdrawal of Government and parastatals funds to CBN all impacting on the economy, then came the astronomical rise in interest rates and the beginning of crisis in the banking industry resulting in the inability of many banks to honour their

obligations. The resultant high cost of funds was subsequently passed down to credit users. The changing domestic money market witnessed yet another shock/set back early in 1991 with the capping of interest rate at 21% P.A. on lending thereby seriously affecting the profitability of most banks risk assets, since cost of funding well exceeded the cap limit specified by the monetary policy guidelines and most banks found it impossible to refinance their risk assets or even purchase foreign exchange, thus creating liquidity problems. Also, to prevent the banks from circumventing the credit ceilings, Bankers' Acceptances and Commercial Papers were classified as loans to be included in loan volume computations.

The FEM special account at CBN was abolished such that only banks whose current accounts were adequately funded, on daily basis, would be sold foreign exchange which had previously been on allocation basis. Also, the stabilisation securities was introduced to mop-up excess liquidity from the banking system and indeed the economy. This meant reduction of available funds to banks for lending and funding operations, bringing about high cost of interbank borrowing leading to massive cases of default among banks with attendant erosion of confidence in the banking system by depositors.

Other liquidity mop-up measures introduced include the reduction in credit ceiling, increase in rediscount rate,

and the introduction of the auction system in the sale of treasury bills and treasury certificates. However, some other policy measures witnessed during the period either increased cost of funding or resulted in stiffer competition for bank deposit. Such include the payment of interest on current accounts, licencing of non-bank finance houses and the emergence of Peoples' and Community Banks. The end result is decreased profitability, distress in the banking system and closure of some of the banks.

4.2.5. Faced with complex money market, high cost of funding and inability to secure long-tenored funds, many banks treasuries came up with varying money market instruments to attract steady Non-bank funds. These instruments vary in many respects including tenor, upfront payment and the ability to discount before maturity. There was also in some cases the advantage of higher effective yield and tax exemption. However, the assessment of these money market instruments reveal that they have one peculiar objective of funding the Bank.

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4.3 RECOMMENDATIONS

Having analysed the treasury operations (in particular of some Merchant Banks) of banks and the impact that monetary policies have on them, it is hoped that the following recommendations if adopted would assist in Treasury operations;

4.3.1. Money market operators must react quickly to market trends in addition to being creative to pull customers

towards them. Therefore the need for continuous innovation and development of new money market instruments to boost deposit.

4.3.2. There is need for the acquisition of competent and able hands to ensure efficient and effective delivery of services rendered. Therefore training and re-training need not be over emphasised.

4.3.3. There is need to inform and create awareness of Banks activities (especially Merchant Banking) to the generality of the public. Money market instruments should be simple and easy to understand, and should to a large extent be developed to meet the specific needs of clients.

4.3.4. A thorough understanding of both international and domestic complexities coupled with the ability to identify opportunities in regulatory pronouncements or thinking are required of Banks and bankers in order to succeed in the present competitive, hostile and aggressive financial service environment which is dynamic enough to sweep off an otherwise articulate bank.

4.3.5. Treasurers of Banks should focus on issues particularly likely to affect the performance of their bank as

(i) Mix of assets and liabilities

(ii) Source of liabilities

(iii) Pricing structure of both assets and liabilities

(iv) Liquidity versus profitability

(v) Funding of asset on the best terms and

(vi) Balance sheet consideration.

4.3.6. The Government should review TBs rates to conform with realities. Thus if economy is regulated, then TBs should equally be; but; if the economy is deregulated so be the TB rates. This will remove distortions especially when TBs pricing are unattractive because of the lower rates offered when compared to the market rate.

4.3.7. There is the need for strong marketing team, with strong connections and good knowledge of the products they are to sell. The team should be able to convince people to deposit funds with them inspite of all the odds as identified.

4.3.8. The 'Big' banks should always come to the rescue of the 'smaller' ones for they control larger percentages of deposits. The 'Big' banks should be active players in the market.

4.3.9. Staff should be dedicated, honest, trustworthy and loyal to the cause of the Bank always ensuring that they earn their pay.

4.3.10. Government should encourage the establishment of more discount houses as this will allow banks to operate to lower level of liquidity and finer margins thereby making full use of available resources. It will also relieve the CBN of the debt management problem.

4.3.11. The Nigerian banking system should be based on

mutual trust and understanding. Moral suasion should form the basis of mutual understanding in the implementation of policies by the banks for all policy guidelines by the monetary authorities. Therefore the imposition of penalties by the CBN could give way and banks would thereafter behave in a more conducive manner doing what is expected of them at the right time.

4.3.12. Treasury managers should be well positioned to face the turbulent challenges of the future as the trends seem to be pointing to rough tarrian. Therefore treasurers should create financial instruments that are less dependent on spread income as there might be a substantial increase in the volume of instruments traded in the near future.

4.3.13. As there could be potential challenge from Non-bank corporate institutions, Bank treasurers should be prepared for same. In most developed countries large corporations issue their short-term debt instruments directly into the money market without using the Banks e.g. General motors, American Telephone and Telegraphic Company (AT & T) all issue their own acceptances and commercial papers.

4.3.14. Banks should change their roles of engaging predominantly in short-term financing and become more actively involved in project packaging and monitoring of implementation; thus enabling them to evolve a financing structure appropriate to the development of a self-reliant economy.

4.3.15. CBN should try as much as possible to take steps to encourage the survival and growth of Banks and Non-Banks financial institutions in the country. The failure of one bank will automatically have a snow-ball effect on the survival of others. Therefore, necessary steps should be taken to ensure the survival of banks unless if beyond redemption. Extint of banks touches on confidence building on the system by the populace.

4.4. CONCLUSION

Under the theory of perfect competition, market forces are allowed to determine the prices of goods and services. In Nigeria, therefore, the Naira was allowed to assume its value as dictated by the market forces not until new regulatory measures came into effect with the 1994 budget. Even then, the exchange rate seems to have been fluctuating. But since no country, developed or developing would totally surrender its destiny to the whims and caprices of free market mechanism only, the policy to be adopted by Regulatory Authorities therefore is to continuously deregulate where appropriate and regulate when necessary. The efficiency of monetary policy in Nigeria is constrained by a number of factors;

(a) Policy dilemmas and conflicts in objectives and measures.

(b) Problems of predictability and control manifesting in;

(i) Quantum - size of effect of policy measures

(ii) Timing decision - which is characterised by lags as action by recognition lag, credit market lag and output lag.

The expansion in the banking industry especially merchant banking opened and enhanced career opportunities for banking professionals and managers. The perceived profit potential encouraged entry of new banks into the industry, intensifying competition and changing the attitudes of the bank towards favouring their customers. Hence, to survive the banks have to adopt the marketing concepts that will bring them out of the woods. In the face of these competitions, bankers feel constrained by the regulatory framework as much as protected by them therefore continuously wishing them rewritten and reviewed.

As seen, the major problem of the money market is not investment outlets but general acute shortage of liquidity, because of the various demand management measures to mop-up liquidity in order to fight inflation. This made the excess liquidity syndrome of Pre-1986 now a thing of the past. Banks no longer reject interest bearing funds (deposits) as happened in the seventies and early eighties, though some of the banks, particularly the major ones, do still have excess liquidity thereby employing market power to earn economic rent. The acute liquidity shortage and the high money interest rates constitute problems facing the market and threatening its very existence. The Bank and finance houses

have naturally reacted to these problems, as their survival strategies include massive rediscounts of their TBs at CBN, aggressive liquidity drives, expansion of private call money market and offering of incentives and brokerages to deposits. On the other hand, the few banks that could lend demanded floating rates to cushion the effects of high costs of deposits. To survive, as a result of their distress postures, some banks apart from trying all conceivable liquidity management techniques also went a borrowing from the CBN and NDIC.

Right now, armchair banking has given way to dynamism as intense competition, innovation, intensified marketing and public relations efforts are the order of the day. In the process banks are now positioning themselves for the fierce competitive environment through computerisation, new products development and product realignment. Others include increased emphasis on corporate services such as equipment leasing, loan syndication and debt factoring. Also, some are shifting their emphasis from big corporate clients to small and medium size enterprises, and business advisory services.

In the final analysis, while deregulation can motivate banks, it is obviously not a substitute for effective policy making, safe and sound management of banks. While the monetary, regulatory and supervisory authorities are committed to ensuring the soundness and safety of individual

banks as well as the stability of the entire financial system, it is the ultimate responsibility of the Board of Directors and top management to ensure effective policy making, prudent, safe and sound management of their banks while the staff are to be committed, loyal, dedicated and above all honest and hard-working. It is with this that strategic corporate planning, efficient and material resources, vigilance, innovation, adequate training and a concerted effort at product packaging that the industry will continue to survive the CBNs sledge hammer until self-reliance and economic stabilization is achieved.

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