BCOM 430: MANAGEMENT OF FINANCIAL INSTITUTIONS (John k. Karuitha, 0724 466 061)

Because financial institutions transfer billions of shillings in the local and global economy, governments are keen on their behavior and performance. Consequently the financial sector is among the most heavily regulated. To the extent that the CBK, for example, takes an interest in who becomes the CEO, Internal auditor, and external auditor of commercial banks, and the composition of the Board. In the wake of the global financial crisis, theses regulations are expected to get tighter.

This course is aimed at equipping the student with key MANAGEMENT SKILLS applicable in financial institutions. The course is management oriented, with a light touch of theory. As you may have learnt earlier, management is continuous process (Involving planning, organizing, controlling, staffing ….), and thus concepts learnt in the course are to be applied continuously in real work situations. It is important to appreciate that this is just an introduction (at most 10%) into the real art of managing financial institutions. You will learn 90% of the actual hands on management if you join financial institution. The prerequisite courses are BCOM 330: Financial institutions and markets, and BCOM ­­­­­­­­­­­­­ 102: Principles of Management.

**Objectives:**

By the end of the course, the student should be able to:

* Identify the various challenges in the management of financial institutions and recommend workable management solutions.
* Explain the regulatory frameworks over financial institutions in Kenya and globally and appreciate the impact of the legal environment on the day to day running of financial institutions.
* Apply management theories/ tools to each of the following areas in financial institutions:
  + Liquidity
  + Capital and reserves.
  + Loans and advances.
  + Deposits and
  + Interest.
* Identify the key financial centers in Eastern and Southern Africa, and highlight their significance in the regional economy.

**Course contents**

1. Introduction to management of financial institutions.
   1. Introduction to financial institutions management.
   2. Financial institutions in Kenya (Recap)- The organization, structure and composition of;
      1. Commercial banks (Incl. Islamic banks) and mortgage finance institutions.
      2. Insurance companies.
      3. Credit unions.
      4. Investment banks and stock brokerage companies.
      5. Mutual funds.
      6. Micro-finance institutions.
      7. Other financial institutions- Post Bank, AFC.
   3. Specific management problems facing financial institutions in Kenya.
2. Financial intermediaries and their regulators.
   1. Financial intermediaries’ regulators in Kenya (Recap).
   2. Specific regulations in place in Kenya.
   3. Trends in financial sector regulation: Lessons and implications of the global financial crisis of 2008 on the regulation of financial institutions.
   4. The Basel Accords (Highlight on Basel I, II, and III accords).
3. Liquidity management in financial institutions.
   1. The Demand/ Supply of liquidity in financial institutions.
   2. Why financial institutions face liquidity problems.
   3. Theories of liquidity management.
   4. Estimating liquidity needs- The liquidity gap management approaches.
   5. Priority in employment of funds.
4. Interest risk.
   1. Interest risk and the gap analysis (Interest sensitive gap management).
   2. Interest rate hedging using swaps and other derivatives.
5. Management of assets and liabilities.
   1. Balance sheet management strategies.
      1. Deposits.
      2. Loans and advances.
      3. Capital and reserves (capital adequacy; requirements and reporting in light of the Basel Accords and The Government of Kenya regulations, statutory reserves, details on the Basel accords I, II, and III).
6. Control of financial operations.
7. Financial centers in Eastern and Southern Africa.
8. Application of management principles to specific institutions.
   1. Mutual funds.
   2. Investment banks & stock brokerages.
   3. Stock exchanges.
   4. Insurance companies.

**Reference Material**

* + - 1. Cornett and Saunders (1999), *Fundamentals of financial institutions management*, McGraw-Hill series in Finance, Insurance and real estate, Singapore.
      2. Rose, Peter S. (2002), *Commercial Bank Management- International edition*, McGraw-Hill Higher Education, NY.
      3. Mehta, D., Fung H. (2004), *International Bank Management*, Blackwell Publishing, Malden, MA, USA
      4. Central Bank of Kenya (2006), *prudential guidelines on the Management of financial institutions*, Nairobi, Kenya. (This is a MUST read for all students. Please obtain your copy from the CBK website.
      5. Other recommended resources: The Banking act, The Capital Markets act, CBK and CMA annual reports/ statistical bulletins and guidelines, The IMF and IFC annual reports, The IMF Finance and development journal, and other relevant texts.

**ASSIGNMENT 1 (Date of Submission: June 15, 2011)**

**Financial sector regulation;**

1. Why is the financial sector so heavily regulated? What are the pros and cons of regulation? (20 mks)
2. Discuss in detail the financial sector regulators in Kenya, highlighting their organizational structure and objectives, and the major laws/ acts of parliament they draw their regulatory powers from. (40 mks)
3. What do you understand by the following terms as applied to commercial banks?
   1. Core (Tier 1) capital.
   2. Supplementary (Tier 2) capital.

**ASSIGNMENT 2 (Date of submission: July 15, 2011)**

**Financial centers in Eastern and Southern Africa**

1. Discuss in detail the major financial centers in Eastern and Southern Africa, highlighting their input in the regional economy. (60 mks)

**Financial sector regulation**

1. Discuss the upcoming trends in financial sector regulation, with specific reference to commercial banks, credit unions, MFIs, stock exchanges and investment banks/ stock brokerage firms. (40 mks)

Note that these are research based exercises (term papers). Plagiarism (copy- pasting other people’s work without acknowledgement) will lead to deduction of marks or nullification of your work when discovered. All references (including websites) must be acknowledged, and a list of reference books/ websites provided. The University has guidelines regarding such quotations. You should consult if not sure which format the university follows.

This research assignment carries a weight of 60% of the CATs. Two Sit in CATS account for the remaining 40%.

**CAT 1** will cover topic 1 through 3: the date will be agreed upon after the three topics are covered and assignment 1 (whose content will also be examined) is handed in.

**CAT 2** will cover the remainder of the course, including the assignment 2 contents on a Date to be agreed upon.