

A case study of fidelity bank plc

[Literature](#), [Russian Literature](#)



Abstract

This proposal seeks to conduct a critical assessment of the risk management framework in Nigerian banking industry. A case study approach has been chosen for the proposed dissertation. While examining the overall banking sector, the study will devote particular focus to Fidelity bank in Nigeria as a case study. A review of literature on risk management in the banking environment is going to be conducted in order to provide the necessary background information for this study. The researcher also intends to combine both qualitative and quantitative methods of data collection in order to achieve triangulation. The data obtained will then be analyzed using simple percentages. In addition, chi-square (χ^2), a non-parametric statistic will be used to test the two hypotheses generated in the study.

Introduction

In the recent times, risk management has become a necessity. This is especially the case in banking which is a high risk business. The recent global financial crisis caused by the so called 'house bubble' in the US had adverse impacts on financial markets and institutions across the world (Awojobi et al. 2011). It triggered a capital management crisis across various commercial banks. Financial institutions suffered a severe shock in their capital and liquidity status and some had to close down their operations.

As a result of the crisis, Nigerian banking sector has suffered an historic retrogressive trend, both in capitalization and profitability (Abdullahi 2013). More recently in 2010, only 3 out of 24 banks in Nigeria reported having made profits. 8 banks were found to be in grave situation, adversely affected

by liquidity and capitalization problems (Onaolapo 2012). The capital market has declined and banks have had to recapitalize in order to meet the regulatory directive (CBN 2010). The drama that has hit Nigeria's banking sector has eroded public confidence with depositor funds experiencing a sharp decline of 41% in between 2007 and 2009.

On a lighter note, however, the Central Bank of Nigeria (CBN) moved in to rescue the situation which was quickly escalating, triggered by global events. The CBN had to inject N620bn of liquidity in order to stabilize the system and return confidence to the stock market which had already collapsed by 70% (CBN 2010). Further, the apex bank had to replace leadership in the 8 banks which had been adversely affected.

Problem statement

The core function of commercial banks is to manage risks and increase their returns to shareholders. The global meltdown has exposed the failure of banks to attend to their core business functions (CBK 2010). Had banks been attending to risk management, then there wouldn't have been the flood on the US market of cheap short-term interest rate mortgages which resulted in mortgage crisis and subsequent downturn (Onyeka 2013). Although the CBN intervened in Nigeria to save a number of commercial banks that had been adversely hit and while there seems to be an improvement, risk management in most banks is still fundamentally no different today than it was prior to the credit crunch and recession (Onyeka 2013)

Credit risks remain an issue of great concern in Nigerian banking sector.

Most of the commercial banks in Nigeria still do not have a framework for

effectively managing risks. Despite some few notable improvements, following CBN interventions and subsequent reform measures; risk management practices still remain at a rudimentary stage (Garuba 2010). In view of these concerns, this proposal seeks to conduct a critical assessment of the risk management framework in one of Nigerian commercial banks. While examining the overall banking sector, the study will devote particular focus to Fidelity bank in Nigeria as a case study.

Overview of Fidelity Bank

Fidelity Bank Plc is one of Nigeria's largest commercial bank based on market capitalization of 2nd July 2013 (N86. 34 billion). This commercial bank provides a range of products and services including consumer and commercial loans, mortgages, trade finance, project finance, money market and treasury services, and financial advisory services among other services. With a workforce of around 4, 000 employees, the bank operates a network of more than 170 branches in Nigeria.

Fidelity first started operating as a merchant bank in the late 1980s but was converted to a commercial bank in 1999 and to a universal bank later in 2001 (Annual report 2011). In May 2005, Fidelity bank joined the list of commercial banks in the Nigerian Stock Exchange and in December, it merged with FSB international Bank and Manny Bank to form the currently enlarged Fidelity Bank.

Significance of the study

Despite the challenges that have hit the fragile banking industry, financial performance of Fidelity Bank shows remarkable growth. However, with the

current economic expansion in Nigeria, Fidelity bank is likely to be faced with an increasing demand for loans. And given the rapidity of loan defaults in the past, it is worthwhile to examine the risk management framework and to critically evaluate its effectiveness.

The findings that will be obtained from the proposed dissertation are expected to help Fidelity Bank Plc to strengthen their risk management strategies and enlighten the management and staff about the importance of having in place an effective risk management framework. Further, this research will contribute to the body of knowledge on risk management and inform development of policies and best practices in the banking industry

Research objectives

The proposed dissertation seeks to address the following research objectives:

To examine the usefulness of risk management in the banking industry

To analyze the nature of risk inherent in Fidelity Bank and highlight existing systems of control.

To investigate the risk management framework at Fidelity Bank PLC and evaluate its effectiveness.

To find out whether profitability of Fidelity Bank has improved as a result of its risk management strategy.

To ascertain the extent to which Fidelity Bank has been able to restore depositor confidence, in the wake of the financial meltdown.

To propose recommendations that would enhance the functions of risk management at Fidelity Bank

Literature review

A review of literature on risk management in the banking environment is going to be conducted in order to provide the necessary background information for this study. The literature review section will begin with an exposition of risk management followed by analysis of the various risks inherent in the banking industry.

As suggested by Athanasoglou et al. (2005), risk refers to a situation occasioned by internal and external factors which create obstacles to achieving objectives in an entity. Risk management can be defined as a systematic process of identifying, evaluating, monitoring and controlling risks facing an entity or organization (Raja 1998). The banking business by its very nature is a high risk business (Owojori et al. 2011). This is particular the case because the banking business is the only business in which the proportion of borrowed funds far exceeds that of owners' equity. As pointed out by Ferguson (2003) and Umoh (2002), only a few banks can withstand a persistent run. As depositors withdraw their funds, banks hemorrhages and if the bank does not receive liquidity support, it may collapse (Owojori et al. 2011).

The risks that commercial banks may face can either be endogenous or exogenous. Endogenous in the sense that it is associated with the nature of the banking business itself, and exogenous in the sense that it is found outside the financial system and banks have no control over (Owojori et al. 2011). Endogenous risks may include liquidity risk, credit risk, operational risk, legal risk, reputational risk, information technology risk, leadership risk

and customer satisfaction risk. Whereas risks that are exogenous to the bank include industry risk, regulatory risk, market risk, sovereign risk and government policies risk. Umoh (2002) added other important risks which include the human resource risk, competition risk and fraud risk.

Bank operational activities often give rise a number of these risks including market and technology risk, liquidity risk, concentration risk, reputational risk and other risks with credit risk exposure occupying the centre stage (Onaolapo 2012).

Fig. 1 Conceptual framework showing the generic linkages between various bank risks

These risks pose a major threat to their success and survival. Credit risks are particular of great concern. A recent study by CBN (2010) showed that bad loans and advances contributed most to the distress of commercial banks, indicating that credit risk was the greatest threat. Two prominent studies, Onyiriuba (2004) and Fatemi & Fooladi (2006), recommended five C's for managing credit: borrower's character, capacity, capital, collateral and conditions. When making credit decisions, most banks employ the Five C's of credit. However, this risk management approach is subject to certain constraints. The five C's are performed by human beings who can be inconsistent and subjective in their assessments (Onaolapo 2012). As such, it is often difficult to conduct objective assessment with the 5 C's. There are, however, a range of other credit assessment tools which include rating systems and credit scoring models.

Lending is one of the core functions of commercial banks and is considered one of the highest income generating assets. Whilst lending of finance to the deficit economic sector is intended at maximizing shareholder's wealth; such lending is often at the expense of a risk – return trade – off. Attention thus needs to be paid to risk management. In fact, risk management is a necessity in the banking sector.

More recently, there has been an emphasis on integrated risk management, a risk management strategy that involves the identification of collective risks and implementation of a firm-wide strategy to managing the identified risks. In this regard, Meulbroek (2002) argues that integrated risk management has only recently become a practical possibility owing to the advancements in IT and development of sophisticated and globally-tested legal and accounting infrastructure which has enabled for the use of contractual agreements on large scale and at a low cost.

Research questions

The primary aim of this study is to conduct critical assessment of the risk management framework at Fidelity Bank Plc. This is going to be addressed through the following research questions:

What risks are inherent in Fidelity Bank

How effective is the Bank's risk management framework

Has the resultant risk management framework translated to economic gains

To what extent has Fidelity Bank been able to restore depositor confidence especially considering the impact of the recent global downturn

What can Fidelity Bank Plc do to enhance the functions of risk management

Hypotheses

The study also intends to test the following two hypotheses:

Fidelity Bank Plc formally takes risk analysis into consideration in their investment decisions.

The risk management framework employed by Fidelity Bank Plc has enhanced the bank's profitability and investment performance

Research methodology

Research design

As pointed out by Babbie & Mouton (2004), research design focuses on the end product. The point of departure for this study will be to identify the research problem and research objectives. From the objectives, it will be necessary to conduct a literature review that would provide the necessary background information for the study. An appropriate research approach will then be employed to address the research questions adequately.

Research philosophy

The aim of this study is to critically assess the risk management framework of Fidelity Bank in Nigeria. The conceptual framework identifies risk such as liquidity risk, credit risk, reputational risk, operational risk, leadership risk and industry risk among others. The success of Fidelity bank Plc in managing these risks may be hypothesized. But since it is the effect of Fidelity's risk management framework that is to be investigated, a realist approach will be more appropriate to this study than a positivist.

With positivist research paradigm, an assumption is made that the reality is fixed, knowable and directly measurable. On the other hand, realism combines both positivist and interpretivist positions. Realists take the view that things have to act in a certain way and that certain factors may moderate their actions (Saunders et al. 2007). Realist paradigm is thus more concerned with understanding and explanation as opposed to prediction. Based on these, a realist research paradigm is more suitable for this study.

Research strategy/approach

Addressing the objectives of this research will require gaining an in-depth understanding of the academic enquiry at hand. Consequently, this necessitates a methodological approach that would facilitate in-depth understanding and enable the research to critically explore on the research topic. In this view, a case study approach has been chosen for the proposed dissertation. A case study strategy has been chosen as it allows the researcher to focus on a specific context and allows for in-depth investigation into the academic enquiry at hand.

Data collection

The researcher intends to combine both qualitative and quantitative methods of data collection in order to achieve triangulation. The primary data will thus be obtained through semi-structured interviewing and administration of questionnaires to the selected sample of respondents. As pointed out by Saunders et al (2007), semi structured interviews is important in the collection of data as it facilitates better understanding between the interviewer and interviewee. Semi-structured interviews allow the

participants to respond freely and express their views in their own terms. Further, the interviewer is able to probe into questions that may need further clarity, thereby allowing for in-depth research. However, the effectiveness of interviews is dependent on the communications skills of the interviewer including the ability to listen attentively, clearly structure questions and probe appropriately as well as encourage the interviewee to respond freely.

Similarly, questionnaires have their own advantages and disadvantages as well. Advantages include the low cost of data collection and being free from the bias of the interviewer. Disadvantages include the low response rates and inability to probe responses. Clearly, each method of data collection has its own strengths and weakness. As such, the researcher has chosen to use both methods in order to achieve triangulation, wherein the inherent weakness of one method will be reinforced by the strengths in the other method (Saunders et al 2007).

Purposive sampling

Purposive sampling method will be used in selecting respondents for the interviews. This form of non-probability sampling technique is often used synonymously with qualitative research. In purposive sampling, the decision to select individuals to be included in the sample is based upon a variety of criteria such as the specialist knowledge on the research topic. Participants chosen to participate in the study will include branch managers, enterprise risk managers, project managers and operation managers. These participants have been purposely selected given their knowledge and experience in managing risks. Five Fidelity bank branches from Lagos Nigeria

will be chosen randomly and purposive sampling technique used to select the interviewees.

Data analysis

The data obtained will then be analyzed using simple percentages. In addition, chi - square (χ^2), a non-parametric statistic will be used to test the two hypothesis using data obtained from responses in the questionnaires.

The chi - square formula is as follows:

$$\chi^2 = \sum (O-E)^2 / E$$

Where O = Observed frequency

E = Expected frequency

\sum = Sign of summation

The value obtained will be compared with the Chi - Square table value using the selected levels of significance. If the computed value is found to be less than the table value, it will imply that the null hypothesis holds and is thus accepted (Ayodele 2012). But if the computed value is found to more than the table value, then the implication is that the null hypothesis is rejected.

Limitations of the research study

Whilst positive that the objectives of this study are going to be achieved; the researcher recognizes that the study may be subject to the following constraints.

Participants may not be willing to reveal certain crucial information due to the sensitive nature of such information and the impact that it may have on them.

Difficulty in retrieving information due to bank's obvious tendency to classify most of their information

Time constraints and financial impediments that may hinder the success of this dissertation. Fidelity Bank operates a wide network of over 170 branches in Nigeria. Given the time and funds constraints, it will not be possible to conduct a risk assessment on each branch.

To surmount the reluctance of respondents, the researcher is going to assure them of their anonymity. That is, the respondents are not going to be directly identified in the study. In addition, the researcher intends to conduct a follow-up on the responses. Further, the researcher will make the best efforts to optimize on the available resources without allowing these limitations to affect the depth and quality of research. Whilst these limitations are significant, the researcher will endeavor to ensure that the constraints mentioned do not impinge on the validity of the work.

Conclusion

Most banks are still more concerned with returns and pay little attention to risks, despite the fact that the latter accompanies the former. Whether Fidelity Bank Plc maintains a robust and effective risk management framework is subject to investigation.

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