

Archival Inquiry Into and Quest for Current Relevance of Merchant Banking Services in Nigeria: Lessons for Today's Clearing Banks

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Abstract

This paper is all about taking a cursory excursion into the rich historical heritage of merchant banking in Nigeria in an attempt to discover what made them thick and what can serve as veritable lessons for today's banks. The approach was basically a political economy of the services they engaged and how they carry them out. What was more revelatory in the study was not much of what they did but how they did and the influence and effects their operations radiated on the entire banking system during their life time. The challenge for today's banks may be that of understudying how they went about their businesses and what can be adapted to make their current and future operations rewarding activities for the satisfaction of its publics.

Introduction

A careful inquiry into the history of banking in Nigeria shows that the rare species of banks known as merchant banks impacted the banking system and the general economy in very spectacular dimensions. For instance, in the early 1970 when the merchant banking sub-sector witnessed the amalgam of both the British and American experiments, the entire banking system witnessed the most incredible revolution that transformed the landscape of banking in the country. The arising merchant banks evoked and transmitted into the system a new orientation sample described as made-to-measure banking. This system involved a regime of personalized, customized, or tailor-made mode of operations that radically challenged and replaced the traditional off-the-peg system usually associated with commercial banks. In the latter mode, banks simply designed and offered a list of services which can be selected by any customer that wanted as they were designed. No attention was paid to the individual needs, tastes and preferences of the customer. Even when the emergent merchant banks offered some services which their commercial counterparts equally offered, the way and manner they delivered it to the customer and the effects they produced were tremendously different. It is important that the new generation of clearing banks in the country derive useful lessons from the "things that made merchant banks thick" while they existed in the country. This paper is about what merchant banks has done and how they did as well as what we can learn from their experience.

It is traditional to divide merchant banks' services into two major classes: banking services and corporate finance service. To Adewunmi (1985) banking services would include such operations as acceptances, loans and advances, deposits, equipment leasing and foreign exchange services. On the other hand, corporate finance services include project financing, issuing house services, investment

and financial advisory services. We shall not adopt this classification in our discussion in this paper. We have simply outlined seven main services and operations which form the bedrock of merchant banking practice. They include: (1) Acceptances and discounting services; (2) Deposit mobilization and treasury operations; (3) Credit operations (loans and advances, trade finance and commodities), (4) Equipment leasing, (5) Money market operations and investments, (6) Corporate finance services or Capital market operations, investment management and financial advisory services), and (7) International operations (foreign exchange services, financing intermediation trade, funds transfer and collections; and operations in the international financial market). We shall discuss the first five services in this paper. The last two specialized services have been treated in a current paper in Ezirim (2005). The decision for their separate treatment is not unconnected with the need to amplify the all-important function of financial intermediation in the current paper and the corporate finance cum investment banking services in the previous paper. Exception to the first group, however, is the acceptances business. The paper appropriately lays out the boundaries.

Acceptances and Bills Discounting Operation

Acceptances operations was the first known service reckoned among the earliest merchant bankers, originally known as Acceptance Houses. The practice started with the more reputable, financially strong merchants "lending their names" to the less reputable ones in order to give credibility to bills drawable on the latter. The practice can be simply illustrated: Importer A in Nigeria wanted to order goods from Exporter B in Britain. A does not have all the money required for the transaction to pay immediately but would want shipment to be made to him on the condition that he would pay in 3 month's time when he thinks sales would have been effected. Exporter B does not know Importer A very well and would not want to take the risk except adequate security was ensured that he would receive payments as agreed. Importer A meets Merchant C (who is well reputed and financially strong; and is known to Exporter B as creditworthy) and request that he 'guarantees' to Exporter B that payment would be effected on the due date without fail. Merchant C agrees and endorses the bill sent by Exporter B to Importer A; accepting liability in case where the latter fails. With this arrangement Exporter B ships goods to Importer A and sends a bill on the latter, subject to Merchant C's acceptance. The bill so accepted becomes an "Acceptance". What really took place was that Importer A substituted its weak financial standing and poor reputation with the higher financial rating of Merchant C. Of course, Merchant C charges a fee for lending his name to Importer A. This practice became very lucrative for the early merchants that they de-emphasized their original merchandising activity. They grew to become known as Acceptance Houses (Merchant Bankers of British decent).

As in the example above, if Merchant C is an acceptance house or a merchant banker, the trade bill so accepted by him would be known as Banker's Acceptances. Banker's acceptance has so grown in popularity and relevance that it is classified not only as a reputable money market instrument but also as a veritable form of credit facility. As Perry (1978:258) defined, "an acceptance credit facility is an

agreement whereby a bank or accepting house agrees to accept bills for a customer on a regular basis, up to a certain limit. Such bills, once accepted, become prime bank bills and are readily discountable. The customer pays a commission for the service". The acceptance practice has since become widely used in domestic trade transactions as well. In Nigeria, today, bankers' acceptance is classified as a type of credit facility with its value being included for the purpose of determining the credit limit of banks. Merchant banks, however, were not the only creators of bankers' acceptances; other banks had since engaged in acceptance business to compete with them.

In vibrant money markets, bankers' acceptances constitute a prime instrument of trade; with appreciable qualities of safety, marketability and/or negotiability. A holder for instance can approach another party and "negotiate" it at a "discount". The financially needy holder could approach the merchant bank that accepted the bill and 'sold' the bill to it at a discount. This practice was not restricted to the accepting bank but any other person can discount it and receives payment from the accepting bank upon maturity. This practice gave impetus to bills discounting operations. Merchant banks were known to discount cheques for their needy customers and latter received payment from the paying bank. Thus, "acceptance operations" gave rise to "discount houses operations". Unfortunately, these activities from which merchant banks drew their incipient relevance and origin are no longer central to their operations. They, at best, constituted an insignificant proportion of their total activities with time (Adewunmi, 1985, Ezirim, 1996).

By de-emphasizing these (acceptances and discounting services), in their quest to compete with commercial banks in traditional banking functions, merchant banks left a gap in the financial system in these areas. They lost sight of this latent but lucrative business; which was to be developed by the emergence of discount houses in early 1990s. In a way, merchant banks became the 'indirect progenitors' of discount houses in Nigeria.

Discounting activities in Nigeria are now carried out by a 'new' brand of financial intermediaries called discount houses. These houses are financial institutions that devote their efforts in trading in money market securities in the secondary market. They were established to fill the gap created in the market for discounting securities and thus serve as intermediaries between the Central Bank of Nigeria (CBN), licensed banks, and other financial institutions. They mobilize funds for investments in securities by providing discounting/rediscounting facilities in commercial and government short-term securities (Ezirim, 2005; Ezirim and Enefa, 2006). The CBN (2004:1) stated that "a discount house means any person in Nigeria who transacts a discount house business which in the main consists of trading in and holding of treasury bills, commercial and other securities and whose operations are in the opinion of the CBN those of a discount house". The activities of discount houses in Nigeria showed that total assets grew from ₦4,461.8 million in 1993 through ₦30,260.8 million in 2000 to ₦67,346.2 million in 2004 (Ezirim and Enefa, 2006). The point being made here is that if the merchant banks had furthered their

acceptances/discounting operations, they would have been the institutions to enjoy the huge resources and market credited to discount houses. In another way, their withdrawal from or reduction of activities in the discount market, paved way for the creation of discount houses in the country. This is a case of institutional and market widening.

Financial Intermediation by Merchant Banks

Merchant banks are key financial institutions that operated in the economy by intermediating to reconcile the financial imbalance between the surplus economic units and the deficit economic units. As in Ezirim (2005a), every economy suffers the financial disequilibrium syndrome that is occasioned by the mutual existence, or otherwise, of the surplus and deficit economic units. With this prevailing condition, merchant banks, as is the case with other financial institutions, played a critical role of mobilizing 'excess' resources from the surplus spending units, and aggregated same (into a pool), from where they channeled the resources to the needy deficit spending units. This process has been described as financial intermediation. Thus, merchant banks played a very crucial role in the savings-investment process that affects both the micro and macro economy.

Financial intermediation has two sides: the inflow side and the outflow side. The inflow side concerns itself with the processes involved in mobilizing the excess resources. At this side of intermediation, therefore, the merchant banks carried out the depository function; collecting deposits of various types from customers and paying them agreed or specified interests. The outflow side of the financial intermediation involves the channeling of the pooled resources to the deficit economic units. Here, merchant banks performed the lending and investments functions; advancing credit (loans and advances) to customers as well as investing in securities. These functions are essentially the hallmark of the very existence of many financial institutions. With these services, they affected the growth and development of the economy. What is worthy of investigation is how well the merchant banks, through financial intermediation affected the Nigerian economy over the years in the years they existed as separate institutions. Was there any significant relationship between the financial intermediation of merchant banks and the growth of the economy? We have not answer this research question in this paper, we only proceeded to discuss the services implicated by the financial intermediation process.

Deposit Facilities and Services

Taxonomy of Deposits

Merchant banks offered basically, three types of deposit facilities to their customers: *demand deposits*, *savings and time deposits*. A fourth type of deposit facility connected with merchant banks was the *Negotiable Certificates of Deposits (NCDs)*.

Demand Deposit

Demand deposits are *current account deposits* which require the bank to pay on demand to customers such amounts as they may want to draw from their accounts. In the commercial banking subsystem, these deposits are withdrawable by cheques, and are sometimes called *chequing accounts*. Before the advent of the BOFI Decree 1991, the merchant banks were permitted by the Banking Act 1969, as amended up till 1982, to provide such chequing account service only to their corporate clients. S.13(a) specifically provides that a merchant bank shall not accept any deposit withdrawable by cheque except from its corporate clients". However, BOFI Decree 1991 simply disallowed them from this practice by specifying that "A merchant bank shall not accept any deposit withdrawable by cheque" (Federal Government of Nigeria, 1969, 1991). Notwithstanding this restriction, demand deposit facilities were still very prominent among these banks. An important variant of demand deposits, which is very popular among bankers, is the *call deposits*. Call deposit is a suitable form of deposit for customers who attach very high premium on liquidity and availability of funds. A *seven-day call deposit facility* will, for instance, require that the money is available to the depositor any time he needs it, provided he gives the merchant bank seven days notice before withdrawal. In a regime of financial distress conditions, this type of demand deposit can be very unstable.

Savings Deposits

This type of deposit was much like the savings account of commercial banks and required a period of time as notice before withdrawals were made. Merchant banks suffered a major handicap in providing savings facility since, as wholesale bankers, they were quite removed from the commonwealth of scattered but smaller savers all over the country. They did not have wide branch network that best suited such savings operations. It is not surprising that their performance in generating saving deposit from customers were, at best, dismal. They performed better in generating time and demand deposits than savings deposit.

Time Deposits

This type of deposit has a fixed time status and by implications, no withdrawals are expected from the customers before the due date. Merchant banks arranged varying forms of fixed-termed deposits for fixed sums at fixed rates. Four of such categories were common in Nigeria, namely (i) time deposits of within 3 months, (ii) time deposits of between 3-6 months; (iii) time deposits of between 6-12 months; and (iv) time deposits of over 12 months. The trend was that time deposits of within 3 months were more prominent than others in the deposit portfolio of these banks (see Table 2.8 in Ezirim, 1996; Chapter 2, p. 53).

Negotiable Certificate of Deposits

In theory, a certificate of deposit (CD) is a receipt evidencing that a depositor has 'placed' a particular amount of funds at a bank for a particular period of time, and in return the bank has agreed to pay a

certain rate of interest over the life of the deposit or at maturity (Cooper and Frazer, 1990). In Nigeria, this service was majorly provided to other banks. Their advent in 1975, in the money market, was initiated by the CBN with details worked out jointly by the CBN and representatives of the relevant financial institutions. According to the research Department of the CBN (1979: 135-136), "the CDs were of two classes, viz: negotiable certificates of deposits (NCDs) and non-negotiable certificates of deposits (NNCDs). They represented inter-bank debt instruments designed mainly to channel commercial banks surplus funds into the merchant banks". The NCDs possessed a maturity range of 3-36 months and a wholesale unit issue of ₦50,000. With their instrumentality, therefore, merchant banks provided deposit facilities to other financial institutions (especially commercial banks). Like earlier pointed out, this was the original sense behind its introduction in Nigeria. However, on a more generalized sense, NCD describe a way in which banks take deposits for large sums. It is distinguished from other types of deposits since the depositor receives a certificate, which is a negotiable instrument, transferable by delivery (Perry, 1978). With this description, it seems *all* the investment and deposit certificates issued by financial institutions that are negotiable qualify as NCDs. This may not be exactly so; this paper does not go into the *nitty-gritty* of attempting such distinctions or otherwise.

Credit Operations

Merchant banks engaged in one form of lending or the other to their customers. Credit or lending function simply involves the advancement of monies to customers for profitable uses by the later, which is intended to be repaid to the bank at agreed terms and price. It is the hallmark of financial accommodation which the bank renders to customers. Merchant banks assisted their worthy customers financially through a number of credit products; which included straight loans and advances, trade finance and commodities financing and brokerage. Other forms of financial assistance, on this note, were project financing, loan syndication and equipment leasing. We shall consider the first category of lending services mentioned above in this subsection. Treatment of project finance and loan syndication had earlier been covered in Ezirim (2005); while leasing is considered immediately after credit services in the present paper. Merchant banks advance a wide range straight credit facility to customers in the form of short term loans and advances, medium-term lending, and long-term loans. Long-term credits were not however customary to Nigerian merchant banks in their years of existence as independent banking institutions.

Short-term Loans and Advances

Short-term credit facilities observable in the portfolio of merchant banks include bridging finance, and secured and unsecured business loans⁹. A typical customer who needs long-term financing may approach a merchant bank for a temporary facility pending the conclusion of the former arrangements with the same bank or another bank. For instance, if a corporate customer is in the final stages of long-term loan negotiations with a development bank or a merchant bank, it can approach another merchant bank for temporary credit to meet the dictates of urgency attending its project. Such funds may be

needed to get mobilized in a project work. When the long-term facility pulls through, repayment is made of this bridging advance accordingly. Apart from bridging financing, merchant banks offered short-term business loans, and at times, personal loans to considered customers. In some cases, these loans were secured while at other times they were not. Security for the loans may range from the customer's deposit of investment certificate with the bank or other financial institutions to landed property; stocks and shares, and guarantees. Unsecured loans were granted to well-known and valued customers who were adjudged financially strong and credit worthy. In Nigeria, the banking regulation presently discourages banks from unsecured lending.

Term Lending

Merchant banks were by principle and statute, the custodians of term lending. A term loan has been defined as an industrial or commercial loan possessing incipient maturity exceeding one year. It is usual to put an upper limit of, say, five or seven years to distinguish it from long-term loans. It also distinguishes from short term loans that are basically repayable within one year. Banking theory has advanced a number of reasons for increased term lending among banks – First, it is argued that increased lending capacity and higher operating expenses usually induce banks to search out other outlets for loanable funds primarily to boost their income. Term loans are considered one of those outlets. Second, term lending is given further impetus in view of greater confidence increasingly accorded to the stability of deposits coupled with more assured willingness on the part of banks to relinquish excess liquidity. Thirdly, the changing attitude of supervisory and examining authorities (such as the CBN and NDIC) toward bank lending provides another reason for the growth of term loans. It is argued that they no longer single out term loans and classify them as slow maturity and foot-dragging facilities (Reed, et al, 1980). The new emphasis is on how collectible or how performing are they as stressed by the ruling prudential regulation. In Nigeria however, the growth of term lending among merchant banks was as a result of legal requirements and incipient orientational definition. From the outset, the government specified that the *raison de etre* of these banks should be the provision of medium-term financial services and assistance of development banks in financing long-term projects. Thus, the term lending practice of merchant banks was naturally incidental to the principle behind their establishment. Further, the monetary policy of the country has evolved measures and thrusts that have encouraged the growth of term lending. Such policy measures include the Agricultural Credit Guarantee Scheme, special provisions in the credit guidelines affecting merchant banks' assets, etc.

Term loans are considered to offer many benefits to corporate borrowers, among which are:

- (i) Firms requiring funds in excess of the retained earnings or amounts that can be generated from the capital market at reasonable costs often find term loans as the best and most appropriate alternative to raising funds externally.
- (ii) Term loans maturities are readily more adaptable to, and perhaps, more suitable for the time duration of the firm's needs for financing. Most businesses prefer longer maturity financing than shorter ones; they are non-satiable relative to maturity.

- (iii) Highly profitable firm's that can pay for fixed assets in relatively shorter period of time may prefer term loans to long-term sources of funds.
- (iv) Term loans enable firms to reap the benefits of gearing or financial leverage without necessarily relinquishing control of the firm to commercial creditors or being confronted with the problem of calling bonds of preferred stock when the funds are no longer needed.
- (v) Term loans, contrasting with renewable short-term loans, relieves the firm from facing the possibility of having to retire the total loan in a single time since repayments follow agreed amortization schedule (if applicable) and is based on convenient cash flow projections earlier proposed.
- (vi) Corporate borrowers tend to need funding with higher maturities and hence preferential demand for longer loans than shorter ones. This non-satiation requirement or desire is more closely met with term loans than with short. In order to satisfy the needs of valued customers, especially in a regime of made-to-measure banking, merchant banks engaged in more term lending activities.

The users of term loans include (i) small business firms that can not secure monetary resources readily and economically from the capital market; and (ii) larger corporations who find it easy to source needed funds from their merchant banks than to float new securities in the capital market amidst unfavorable and stiff conditions from SEC. It is usual for such large firms to retire term loans with proceeds of sale of securities from the capital market in the event that capital market conditions improve and SEC requirements become more favorable. No matter the type of user, term loans are employed into various alternative uses. (a) To procure land and equipment needed to maintain or improve the competitive posture of borrowers; changing demand, tastes and preferences; acquire technological improvements and, in many cases, replacement of existing machines. (b) Financing new ventures, expansion and plant additions. A corporate customer who wanted to embark upon vertical or horizontal integration might use term borrowing facilities offered by merchant banks where long term financing were not readily available. In some cases, term loans could be more appropriate than long-term financing when expanding or diversifying. It may prove costlier to hold funds from loans over and above the time of need. (c) To refinance existing obligations. This is usually applicable in occasions where the borrower needs to draw-down the loan over a relatively longer period as may be required by projects like plant expansion or the purchase of a fleet of cars. Where this was the case, it was usual to combine the term loan with a kind of commitment agreement. The workability of this arrangement can be illustrated by means of an example. In a typical arrangement between Financiers' Merchant Bank and Lionel's Group of Merchants Ltd, the former agrees to accommodate the later over a period of say, 3 years for ₦5,000,000; drawable in five installments during the various stages of expansion of the Group's existing plant facility. Enshrined in the agreement is a requirement that at the end of the 3 years commitment period, the entire draw-downs of ₦1,000,000 each amounting to ₦5000,000 for the period would be incorporated into a term loan of five years duration. A commitment fee of say, 5% on the amount was

charged for tying down Financiers' Merchant Bank's Funds to the project together with the agreed interest rate on the loan. It is usually expected that at the expiration of the five years repayment would have been made by the Lionel's Group to Financiers' Merchant Bank.

As earlier stated, most term loans possessed maturities ranging from 2 to 5 or 7 years; although there was the possibility of extending to 10 years depending on the purpose. Invariably, the maturity of term loans was linearly related to the purpose of the advance. Less-time-implied-uses-of-funds dictated shorter maturity term loans. Before the advent of the recent regulation of bank lending in Nigeria requiring compulsory security; unsecured or, at best, partially secured term loans existed in the credit portfolio of merchant banks. Large corporate bodies that were considered financially sound enjoyed unsecured loans than smaller firms which were adjudged high credit risk. However, the general rule was that of non-satiation relative to security among all banks in their financial accommodation. Repayment of term loans were usually done following an earlier constructed amortization schedule founded on the expected cash flow implications of the activities financed. This dictated that the borrower made agreed installment payment at periodic intervals. It was expected that he also paid the interest agreed on the transaction alongside retiring the principal. Interest rates followed the prevailing economic policy of the country. In a regime of regulation, they were usually fixed as from the period 1991 through September, 1996. The country has been known to have let interest rates move freely, responding to the forces of demand and supply in the years 1987 through 1991. Currently, the monetary authorities had considered affecting another policy of deregulation which was effective from October 1996.

Merchant banks extended at least three varieties of term loans to their valued customers with due consideration to their individual needs. The commonest type was the regular term loan which was structured to require repayments of principal and interest at equal quarterly, semiannually, or annually installments. There was the balloon term loan that required the credit customers to make equal periodic payments over the life of a loan that only partially amortized the loan, leaving a lump sum payment that fell due at the expiration of the loan term. Also, there was the bullet term loan. This required the customer to make a single principal payment at maturity, while making periodic annual payments of interest only over the life of the loan. It must be stressed that merchant banks structured these varieties of term loans to be in consonance with the tastes and preferences of their customers.

Trade Finance and Commodities

Extending financial assistance to customers for the purpose of commercial activities is loosely termed *trade finance*. Variants of trade finance services include L.P.O. financing, work order financing, receivables financing, inventory financing, commodity brokerage.

L.P.O. Financing

involves the practice of merchant banks in accommodating customers who received Local Purchase Orders from bigger companies. Cities like Abuja, Kaduna, Lagos, Warri and Port Harcourt, all in Nigeria, are regarded as the home of L.P.Os in the country in view of the extensive commercial oil and gas activities that flourish therein. The workings of a typical L.P.O. financing are simple. For instance, the National Fertiliser Company of Nigeria (NAFCON) issued an L.P.O. to Boom Bernardine Enterprises (BBE) for the supply of Lubricant worth ₦3 Million. BBE purchased Lubricants from National Oil for onward supply to NAFCON. On being temporally constrained monetarily, BBE approached BMB Merchant Bank for financing. What BMB would naturally do was to verify and confirm the authenticity of the Order, the timing of supply and payment to be on the safe side. When satisfied, the Bank went ahead to appraise and process the proposal. Proper considerations were usually to such issues as the amount involved, the purpose, the duration of the advance, the repayment plan and modalities, the security of the facility, availability of the item of supply, the margin involved in the transaction, the mode of transportation and supply to NAFCON; and the remuneration of the advance to BMB. Perhaps, a most important consideration would be the personal characteristics of the vendor or obligor.

It would be usual for BMB to send a responsible credit analyst to verify the cost implications of the supply and the availability of the lubricant at National Oil. Based on the cost, the margin can be determined when matched with the L.P.O. value. Assuming, it would cost BBE a sum of ₦1.8million to execute the supply (transportation costs inclusive) apparently the gross margin would be ₦1.2m. Based on this margin the bank determined its financial charges, assuming a regime of deregulation of interest rates. For some banks, the same rate of interest applied to all transactions no matter the profitability. Thus, a business that would not accommodate the fixed rate or commission and leaves a reasonable profit to the customers was automatically rejected. For others, different rates applied to different customers and different business depending on such parameters as purpose, riskiness of the proposal, liquidity and repayment time, profitability, and the customer involved (here, treasury customers were usually given concessional or preferential charges). When rates were regulated or fixed it was usual for the banks to charge the upper limit, such as when the 21% maximum lending rate prevailed (1991-1996). In order to make up, merchant banks also charged such fees as commitment, administrative and service charges in respect of their personal involvement in executing the business.

Thus, assuming BMB merchant bank charged a commission (or interest rate) of 10% flat per month, service and commitment charges of 2% and 1¹/₂% respectively, per transaction for a period of 3 months at the end of which NAFCON pays; a summary of the trade finance arrangement can be shown below: (Assumptions include, simple interest, BMB is financing the entire transaction, no taxation, interest rates are not regulated. NAFCON pays at exactly 3 months after supply).

Summary of Transactions on Financing Supply of Lubricants by Boom Bernadine Enterprises.

	₦	₦
Total L.P.O. value		3,000,000
Less:		
Cost of Supply of Lubricant		<u>1,800,000</u>
Gross Profit on supply		1,200,000
Less:		
Financial Charges:		
Interest on advance (10% for 3 months)	540,000	
Commitment Fee 1 ¹ / ₂ % per transaction	27,000	
Service Charge 2% per transaction)	<u>36,000</u>	
Total Financial Charges		<u>603,000</u>
Net profit on Operations to B.B.E		<u>₦597,000</u>

From the illustration above BMB merchant bank collected the principal amount of ₦1,800,000 and a financial charge of ₦603,000 leaving a profit of ₦597,000 to Boom Bernardine Enterprises (BBE).

A common escape-route for merchant banks when interest rates were fixed was to agree with the customer on the basis of *profit-sharing* instead of applying interest rates charges. In which case, a profit-sharing ratio was established and agreed upon at the beginning. After deducting the principal, the remainder would be shared based on this ratio. Thus, if BMB and BBE had agreed on a profit-sharing ratio of 60:40 respectively, the picture would be a little different. With this arrangement (assuming no commitment and service charges), BMB would receive a share of ₦1,200,000 x 0.6 = ₦720,000; while BBE received ₦480,000 only. When repayments were regular (i.e, where the L.P.O. issuing company paid promptly), profit-sharing arrangement became more profitable to merchant banks given a handsome gross margin, promptness of payment, and a favorable ratio. Thus, the decision to adopt the profit-sharing option was a function of the level of the gross margin and the profit-sharing ratio. If the margin was small, merchant banks switched to their normal financial charges.

Merchant banks usually required that payments were domiciled with them. For instance, BMB would ask that BBE arranged a domiciliation of payment; which implied NAFCON writing the cheque in the name of, and paying straight to BMB. This was a veritable form of security common with L.P.O. financing. Discoveries, however, were that fraudulent customers attempted to go to the back and colluded with the paying accountant of the L.P.O. issuing company to write the cheques in their own names, or to pay to them (the customers) directly. Invariably, this translated to a plan for possible diversion of the money to other sources to defraud the bank. To guard against this practice, credit

officers of merchant banks undertook regular monitoring of the payment processes until when the cheque was finally delivered to the bank. In fact, the most important role of the credit analyst was the monitoring of the entire transactions from beginning to the end. He monitored the customer and made sure the right quality and quantity of the goods were supplied with delivery notes appropriately signed and invoices perfected. After this, the stage became set for monitoring the payment process. Some merchant banks had been known to establish a friendly and 'co-operative' relationship with the paying officers of most large L.P.O. issuing organizations to stem the incidences of payment diversion and fraud. This was a healthy practice.

Work-Order Financing

Merchant banks also extended credits for the execution of work-orders. Work-order financing is a variant of L.P.O. financing; only that whereas the latter involves commercial or marketing activities, the former concerns itself with technical or engineering activities. Thus, a customer who receives an order from Best Petroleum, for instance, to repair an access road in a community could approach a merchant bank for financial assistance. The same sets of procedures were evolved by these banks to handle the credit transaction as was applicable to L.P.O. financing. Work-order financing could also be called **contract financing**; only that the later term was usually used when the work to be done was large-scale and, perhaps, highly technical. In this type of finance, the credit officer would satisfy himself that the customer was technically competent to handle and satisfactorily complete the job in a good time. Payments by the awarding company could only be implemented if the right job was done rightly to their satisfaction.

Commodities Financing & Brokerage

From the earliest times, merchant banks were oriented towards financing merchandise; a practice that earned them their name. Accordingly, merchant banks financed the purchase and sell of goods for their customers, both domestically and at international setting. A customer who located very lucrative and market-moving merchandise might obtain necessary financial assistance from these banks who would evolve necessary control procedures to ensure that repayments were made. For instance, a valued customer might want to stock a certain item for a certain season, say, wine at Christmas time. The merchant bank procured the wine and arranged a *warehousing facility*. In order to secure the banks funds, a *warehousing arrangement* was usually evoked, where an inspection /security agency such as Panapina or SGS was brought to secure the activities that would subsequently go on in the warehouse at the instance of the bank; until when the bank was totally paid. The agency would control the movement and sales of merchandise among other activities. The entire credit operation is called *Inventory Financing*.

Merchant banks engaged in *commodity brokerage activities*. This is a kind of *back-to-back activity* which financial institutions arrange for their customers. Suppose a typical merchant wanted to purchase

a certain commodity and had the money for it. With their connections and wide knowledge of trade and places, they could engage in locating a most convenient, cost-effective source of supply for the commodity. The bank negotiated on behalf of his customer with the producer or dealer of the goods. On conclusion, the two parties were brought together, and the bank dropped out of the relationship. What usually obtained was that the bank received commissions from both parties involved in the transaction to compensate for its efforts. There are other variants of *commodity brokerage arrangements*. Among Nigerian merchant banks and other financial institution, the concept of commodity brokerage was used, as if the arrangements were variants of *commodity financing*. What distinguished between the two was that whereas the later must involve a compulsory outlay of funds by the bank to procure the relevant goods; the former, i.e. commodity brokerage, does not necessarily involve such an outlay of funds to purchase wares. However, a system whereby the two concepts are combined could be possible, such as when it is both the responsibility of the bank to arrange the back-to-back transaction as well as to finance the purchase of the goods for the customer. Commodity financing and brokerage have implications for export-import operations which we consider when treating the international operations of merchant banks in Ezirim (2005).

Receivables Financing

Another form of trade finance service carried out by merchant banks is known as receivable financing. In this case, the customer seeking financial assistance furnished the bank a security for the credit consisting majorly of *account receivables* for which he anticipated payments after a short time. This type of facility is called *Advance Against Receivables (A.A.R)*. For instance, Boom Bernardine Enterprises (BBE) approached BMB Merchant Bank for a temporary facility proposing to repay from the proceeds of its payments being awaited from Best Petroleum in respect of an earlier job executed for it. Assuming the payment from Best Petroleum was due in 90 days' time as per the job Order; BMB agreeing to grant the needed facility meant that it was essentially financing BBE based on its receivables from Best Petroleum. Before granting the loan, it was usual for BMB to secure its position by demanding a *domiciliation of payments*. Upon payment by Best Petroleum, the bank took its part to liquidate the loan and interest leaving the rest for BBE. Receivables financing was a very widespread activity among merchant banks and finance houses in Nigeria which required a lot of caution. The risk associated with it, was such that the paying company, (in our example, Best Petroleum) may refuse any form of domiciliation of payments on the basis that it had no business with the bank. Many a banks had encountered one difficulty in effecting this *tripartite arrangement* especially with very large organizations. Even in some cases, when accepted, some failed to honor the agreement to the peril of the lending bank. However, the document containing the domiciliation of payment is a legally enforceable document- another factor that caused Order-issuing Companies to avoid it. In the midst of this difficulty, merchant banks demanded extra security for the loans, thus granted, to further secure their positions.

Equipment Leasing Services

To some, leasing is just one other form credit is granted to customers; while some regard it as an extension thereof. Others yet saw it only as a viable alternative to credit which banks offer to their customers. Notwithstanding the perception, Merchant Banks offered equipment leasing services to their customers. This service constituted a very integral part of the bank's equipment financing activities. Prior to 1991, merchant banks reserved the exclusive right to leasing services in the banking sector. It was only in the wake of 1990s that commercial banks were allowed to engage in leasing facilities. It is expected that merchant banks were more experienced in the art than their counterparts in the industry. Their *equipment financing portfolio* comprised mainly term loans and equipment lease. As in *term lending*, banks engaged in effective planning, credit administration and controls, and documentation to ensure that their lease financing activity became highly rewarding. Merchant banks in Nigeria were known to engage in a wide range of equipments such as automobile, office equipment, computers, heavy machinery and industrial equipment. In the global leasing market, banks, in general, can lease nearly, every asset than can be purchased; aircraft, marine vessels, satellites, refineries, steam generating plants, typewriters, duplicating machines, etc. Ideally, the equipment that are leased by these banks should possess the following characteristics: new, high potential residual value, portability, special protection in the event of bankruptcy, essential to the lessee, fungibility, marketability, discrete, identifiably low maintenance costs, high unit costs, low rate of obsolescence, state-of-the-art equipment, etc. Fungibility, suggests that the equipment is interchangeable with other units and can be useful to many users-no unique characteristics that make it of limited use to more than one user. It is discrete when it can be readily identified by description and can be used alone without land or other piece of equipment controlled by the leasee or third party. State-of-the-art equipment suggests that the asset will, at the start of a new model cycle, tend to have a higher residual value than equipment in use for many years (Nevitt, et al. (1987:8). For instance, a 586 model of computer should be more desirable than a 486 or 386 model. A Pentium IV brand of PC should be preferable to Pentium III, II, and I respectively. With leasing covering the provision of almost all usable assets, the various needs of so many types and sizes of firms and individuals are met-a reason that accounted for the growth of leasing among banks.

Parties to Leasing Agreement

Amemba (1988:13) explained that "an equipment lease is an usage agreement between an equipment owner (a lessor) and a user of the property (a lessee)". A typical merchant bank that offered leasing services represented the lessor since by buying the equipment, it reserved ownership thereof. The lease contract required that a lessee (the banks' customer) remitted to the merchant bank a periodic rental fee as compensation of the usage of the property. Lease contracts were normally written specifying the various terms and conditions of the lease agreement such as number of periods the equipment was to be used, the amount and timing of rental payments, specifications of the lease asset and end-of-term conditions (where applicable). Merchant banks in leasing business provided equipment

to clients and engaged in some allied services. They purchased, managed, and remarket assets as part of the lease process. They also tailored the product (leasing) to suit the needs (no matter how complex) of the lessor. As a general rule in made-to-measure type of services, the customer's (lessee's) equipment servicing and financing need determine the nature of lease product to be arranged and in fact the content of the entire transaction.

Duties of Lessee and Pricing Arrangements

The duties of a typical lessee, among others, included making *periodic payments* of the rentals (which were charges payable to the merchant bank over the agreed term of the lease for the use of the asset). It compensated the lessor for investment and operating expenses incidental to the lease transaction. These costs and expenses related to depreciation and technological obsolescence; cost of funds used to finance the lease; general and administrative expenses in respect of the transaction; initial direct costs, such as sales commission, attorneys' fees, credit check fees, etc. incurred at the point of arranging the lease; cost of maintenance, warranties, supplies, reagents, etc; and appreciable profit to economically justify the business. Merchant banks usually required that payment of rentals be structured monthly or quarterly, however any other convenient arrangement could be evolved. The flexibility in the payment schedule has been advanced as a reason why leasing is referred to as a very flexible financing tool (Amembal, 1988). The rentals were usually equal or even in amount and timing for most leases by merchant banks. However, where the personal needs of the lessee demanded otherwise, they permitted an uneven series of rental payments consistent with the cash flow implications of the customer's operations. Timing of payments could equally be varied for the same purpose. The structure for payments notwithstanding, the nature rental payment would take were implicitly determined and enshrined in the original lease agreement.

It was the argument of Amembal (1988) that in some instances, however, a lease may call for a fixed based rental plus an additional contingency rental based upon future usage. A lease may also contain a variable (as opposed to fixed) rate that has been tied to an external index, such as the prime lending rate or rate of inflation; in a direct proportional manner. The advantage of this form of rental was that the concerned lessor merchant bank would be compensated for increases in the associated costs of providing leasing services. Another important consideration by merchant banks in deciding on the rentals was the future *expected residual value* of the equipment. The total cash inflow to the bank comprised both the periodic lease rentals and the estimated residual value. A priori, the expected relationship between the rentals and the residual value is inverse. Where a typical merchant bank recovered the entire cost of lease plus an acceptable rate of return through the rentals only, the contract was termed *full-payout lease or finance lease*. On the other hand an *operating lease* does not dictate that full recovery of total cost of lease operations plus an acceptable return be made solely from lease rentals; due reliance is placed on a future residual value for such full recovery.

Purchases Options and Types of Leases

Merchant banks in Nigeria gave their lease customers three alternatives from which to choose any one, or combinations thereof, in the event of the termination of a lease.

- (i) To return the equipment outrightly. By implication no further obligation was laid on the part of the lessee except perhaps cost of returning the asset.
- (ii) To buy the property at an exercise price determined by appraisal at the point of terminating the contract. This option is also called a *fair market value purchase option*. It is also possible to have determined the purchase price at the lease inception, otherwise called a *fixed purchase option*.
- (iii) To renew the lease at a renewal price arrived at by fresh evaluation or by earlier agreement (whichever is applicable). A lease arrangement where none of the above options is available to the lessee is called a close-end lease, in view of the fact that renewal or purchase rights are denied or closed off from the lessee. The form of leasing was not rampant among merchant banks.

The exercise of purchase option or otherwise has given impetus to three general categorization of leases. First, we have the *Non-tax-oriented leases*. These are also referred to as *conditional sale leases, leases intended as security, hire-purchase leases, money-over-money leases, or pseudo leases*. They either possess nominal purchase options or automatically transfer title to the lease customer upon termination. Second, we have the *tax-oriented true leases*. These are sometimes called *guidelines leases* and must have fair market value purchase options. Two subcategories of the tax-oriented true leases exist namely single-investor leases or direct lease, and the leveraged leases. The third category is the tax-oriented TRAC leases for licensed 'over-the-road' vehicles. These are sometimes called open-end leases. They have terminal rental adjustment clauses (TRACT) that shift the entire residual risk to the users of the equipment, but may allow a *fixed price purchase option* at the termination of lease.

Merchant Banks' Reasons for Leasing

Nevitt et al (1987:2) advanced ten reasons why banks find leasing an attractive alternative to extending credit facilities to customers. They include profit considerations, productivity, attractiveness of the product, customer demand, competition, competitive advantage, use of tax benefits, key to other businesses, outposts for loan production and customer continuity. It was argued that leasing provided a high return on assets and on equity for a bank's "lending" profit centre; and in terms of productivity it can provide one of the highest profit-per-employee ratio of any profit centre in a bank. As an attractive product, it is one of the few alternatives a merchant bank has to extending longer term, fixed-rate equipment financing at attractive rates. The cash flows in a tax-oriented lease, for instance, enables the recoupment of investment costs over a shorter period of time than the term of the lease. This assisted the merchant bank to finance its investment for a shorter period of time. A merchant bank could not be

seen to provide a full range of services if leasing was copiously absent from its portfolio of services; especially since most of their customers at one time or the other demanded leasing to finance their equipment needs. Thus, for a merchant bank to render the personalized services they were known for, the customers' specific demand must be satisfied. In the industry, other banks, finance houses, etc offered leasing services, and at times more aggressively. Where a merchant bank refused to provide leasing services, needy customers and prospective customers might abandon it and looked elsewhere; a trend that make for loss of valued clientele. In order to protect its market, such a service was provided. Moreso, leasing was seen to have helped a merchant banks achieve competitive advantage over other competitors since it was used to penetrate new markets. In the days when merchant banks in Nigeria enjoyed the monopoly of leasing activities in the banking industry, they used leasing products to capture the prime customers of other banks who were prevented from the activity. By liberalizing the market, almost every financial institution engaged in leasing. "True leases provide a very efficient method of using tax benefits productively to shield tax liability over a manageable period of time", as argued by Nevitt et al (1987:10). This is in contrast with municipal bonds which offered tax-free income but must be held for long periods; which are also illiquid, and provided low income if the bank was not taxed for years during the holding period. Leasing also generates allied opportunities for financial services such as construction financing, progress payment and receivables financing, long-term leveraged debt, and interest rate hedges, etc. Leasing units can serve as market tests and outposts for loan production units. Finally, leasing eases off confusion which may be generated by the transfer of a credit officer to another department. When this happens, loan account responsibility is subject to changes which may breed confusion and lack of continuity with a customer. However, if a leasing officer is also working on the same account, this confusion is ameliorated.

Leasing Versus Term Lending

In the section on merchant bank credit, we discussed term lending as veritable credit activity engaged by these banks. Earlier in this discussion, we pointed out that term lending and leasing are the dominant products in the banks equipment financing portfolio. It behooves us in this section to attempt a distinction between them. It is only important to note that "any real comparison between the two ought to be made with a term loan which most resembles a lease" (Ezirim, 1996: 123, Nevitt et al, 1987:10) and would include such factors as (i) the rates, spread, profitability and the risk-to-reward index; (ii) relative rights of merchant banks (lessor) as against those of term lender in the event of non-payment or bankruptcy; (iii) rights of lessee to prepay early as compared with rights of the term borrower to prepay early; and (iv) the protection or remedies that arise from the provisions of financial covenants. Applying these characteristics, we can use the Table below to illustrate the differences that exist between leases and term loans. Table shows the comparison of the characteristics of Term Loans and Leases. In the table, separations are also made between true lease and conditional sale lease.

Effective Interest Cost of Conditional Sale Lease

The majority of merchant banks' lease products fell under the conditional sales leases, or "secured loan agreements disguised as a lease". They are called pseudo leases. The effective interest cost of pseudo lease is defined as the discount rate that equates the present value of the lease payments and the present value of purchase option price to the cost of the leased asset.

Table 1: Comparison of the Characteristics of Term Loans and Leases

Characteristics	Term Loan	True Lease	Lease Intended as Security (Conditional Sale Leases)
Profitability	Less profitable than a lease	More profitable than a term loan; much more profitable in some instances	About the same profitability as lending after overhead costs.
Upside potential Prepayment privilege	None Usually little penalty to the borrower	Substantial. Difficulty for the lessee, especially during the first seven years of a lease, due to high prepayment charges.	Little Typically none without a high prepayment charge
Bargaining position if borrowers/lessee wants to pay less interest, change covenants, etc.	Weak compared with a lessor, easy to refinance	Strong as compared with a loan	Stronger than a loan
Security interest	Sometimes perfected, sometimes not	Perfected ownership generally superior to a lien under a loan (However, equity position in a lease is subordinated to leveraged debt).	Perfected security interest if UCC complied with
Senior creditor	Yes	Yes	Yes
Bankruptcy rights to security	Sometimes cloudy	Often superior to a secured term loan	Secured creditor
Covenants requiring financial statements	Yes	Can require	Can require
Covenants requiring compliance with financial ratios	Yes	No	No
Covenants permitting perfection of security interest in the event of certain defaults	Yes	Not necessary; already have it.	Not necessary, already have it.
Cross default	Yes	Sometimes possible, but not usual	Possible but not usual
Recovery of investment	Level principal or level principal and interest over the loan life; may contain a bullet	Faster recovery relative to lease term loan for the same period.	Same as a loan
Security shared with others	With other lenders (if nay) under the loan agreement; sometimes many.	Not on a direct lease; in a leveraged lease with leveraged debt holders and with co-lessors, typically few in number.	No
Security shared with lenders under other loan agreement	Sometimes	Never	No

Source: P. K. Nevitt *et al*, Equipment Leasing for Commercial Bankers. Pp. 12-13.

Thus,

$$CLA = \frac{\sum R_t}{(1+r)^t} + \frac{POP_n}{(1+r)^n} \dots\dots\dots (1)$$

and by simplification,

$$CLA = \frac{R_1}{(1+r)^1} + \frac{R_2}{(1+r)^2} + \frac{R_t}{(1+r)^t} + \frac{POP_n}{(1+r)^n} \dots\dots\dots (2)$$

Where

- C_{LA} = Cost of Leased Asset
- R_t = Rental Payments at time, t.
- POP_n = Purchase Option Price at end of Lease term.
- r = Discount rate.

Thus, the r that equates the L.H.S. and the R.H.S. is referred to as the effective interest cost of a lease. When this cost is known, it will then be a yardstick for comparing it with the effective cost of funds obtainable from other sources such as term loans. Merchant banks regard the effective interest cost of lease as the *running rate* of the lease. For an in-depth understanding of this concept the reader is referred to Ezirim (2005a:389-395). It is important to know how to apply the above concept to test cases that exemplify real life situations.

Investments and Money Market Operations

As Financial intermediaries, merchant banks engaged in short-term investments and money market operations. They channeled idle funds to short-term securities which enabled them to earn income that would otherwise not have been possible if kept in a pool awaiting more lucrative, longer term ventures. Merchant banks were active participants in the purchase and sell of government securities. The Law mandated them to hold a portion of their reserves (and/or deposit) in government treasury obligations such as treasury bills (TBs) and treasury certificates (TCs). Table summarises the merchant banks activities in the money market. As shown, merchant banks' holdings of TBs was ₦965.9m in 1985; but ten years later (1994) it rose to ₦7958.8m. This showed an increase in government funding through treasury bills holding. However, the situation was difficult for treasury certificates (TCs) which fell from ₦47.7m in 1985 to ₦6.0m in 1994. Merchant banks had also been seen to invest in eligible development stocks also issued by the government. These were long-term obligations accounting for their low participation in that market. As indicated in the table their holdings of this instrument came to a close at the end of 1991 with ₦0.9m.

On the commercial angle, merchant banks invested their funds in such money market instruments such as certificate of deposits (CDs), commercial papers (CPs) and bankers acceptance (Bas). Their average holdings of these assets were also shown on the Table. We see their holding ₦100m worth of CDs outstanding as at 1985, ₦706.1m as at 1988, ₦926.2m as at 1991 and ₦15m as at 1994 (the

lowest on record). Their participation in the commercial papers' (CPs) market had been both phenomenal and increasing. It grew from ₦94.3m in 1985 to ₦242.5m in 1988 to ₦585.4m in 1992 and ₦1624.4m in 1994. The trend showed a kind of reawakening in the acceptances' business which practices brought them into limelight in the earliest times of their evolution. Whatever accounted for this seeming revival should interest the reader. On the other hand, why they did not further their discounting operations remains a mirage. For one thing, they would have occupied the enviable position which the new institutions-discount houses-eventually came to enjoy since the early 1990s.

Table 2: Merchant Banks' Holdings of Money Market Instruments Outstanding (₦' million)

Year	TBs	TCs	CDs	CPs	BAs	EDs
1985	965.5	47.7	100.0	94.3	-	0.9
1986	582.5	188.0	103.1	143.0	-	1.0
1987	212.2	29.8	416.1	251.4	-	0.4
1988	125.1	20.1	706.1	242.5	-	8.3
1989	133.5	6.8	1145.3	453.0	-	7.4
1990	259.4	10.2	759.1	415.4	92.0*	3.1
1991	375.1	11.5	926.2	585.4	98.0*	0.9
1992	1004.8*	0.0*	85.2*	496.6*	39.0*	-
1993	5147.3	252.0	141.0	563.7	136.5	-
1994	7958.8	6.0	15.0	1624.4	551.9	-

* End of December Figures as opposed to all others which are monthly averages.

Source: CBN Annual Report and Statement of Accounts; Various Years.

Apart from investments in the money market, merchant banks invested in the equities and bonds of new business in the form of *start-up financing* or *venture capital* provision. In this case, they provided a typical small business with the take off funds and in return obtained temporary equity interest intended for capital gain. Upon advancing the money to the new entrepreneur, the merchant bank went ahead to assist him to see that the new business operates profitably. After a period ranging from 2 years to 7 years, the merchant bank would then dispose off its equity holding to an interested buyer at a premium. This premium represented capital gain to the banks. This form of financial arrangement is called *venture capital* or *start-up financing*.

Concluding Remarks

Lessons Derivable from Merchant Banks' Experience

1. Merchant banks relegated to the background their acceptances/discounting operations in place of competition with commercial banks in traditional banking operations and thus lost a very promising market that was latent at that time. Marketing myopia cost them their market share of the discount market that was yet to emerge fully. A new set of institutions rose to take advantage of the developing market in the name of discount houses. Today's clearing bank should endeavor not to limit their market or opportunities to the known traditional areas but would do well to expand their horizon- in defining their market and relevance. They now have remarkably improved capital base to rise to this occasion.
2. It was observed that merchant banks' ability to generate certain kinds of deposit, such as savings and demand deposits, was low when compared with the ability of their commercial banks' counterparts. Notwithstanding, they were able to engage in a variety of term loans. The list included regular term loans, balloon term loan, and bullet term loan. They were structured to fit the personal needs of concerned customers. The point is that amidst their disadvantageous shareholders' funding and deposits mobilization positions, they were able to engage in the above term lending varieties. It only goes to strengthen the point that today's banks with superior capital and funds' mobilization abilities can do well in extending more beneficial term loans. Doing this will aid the Nigerian economy reap the benefits associated with this type of loans, some of which have been identified earlier in this paper. Besides the general economic benefits, the clearing banks would boast of richer loan portfolio and higher earned income.
3. Merchant banks taught the other operators in the credit and trade finance market the way and manner to aggressively customize services to the customers while at the same time evoking far reaching strategies and procedures to get itself properly covered. For instance, they were known to tailor-make lending to suit the customer such that credits of any variety needed by the customer could be arranged. On the other hand they never left any transaction to chance or to remain at the mercy of the same customer. They made sure that they controlled the driving wheel at all times by using such strategies as personal involvement in the execution or purchase in order to perfect the submission of required documents to issuing companies to guarantee payment; serious monitoring of domiciled payments until actual payments were made. These are basically not consistent with the traditional arm-chair banking that 'ruled the roost' before their entrance into the scene. If today's clearing banks can learn to be very pervasive in mixing strategy with caution, and always ensure to be on the 'driving seat' of credit monitoring and control, they would find credit transactions very rewarding activities to engage in.
4. Leasing was a veritable service that was made popular and thick by merchant banks in Nigeria during the 1975 – 1990 period. They enjoyed the monopoly of providing this service to the envy of commercial banks, who lobbied the CBN to liberalize the market. Unfortunately, the tempo was neither sustained nor was the leasing market developed beyond the stage merchant banks

- left it. The leasing market has tremendous opportunities for development and clearing banks can tap into these opportunities. Leasing has been described as a veritable financing option.
5. Lastly, it is important to go down the history lane and underscore the very essence of merchant banking uniqueness in Nigeria. The advent of merchant banking (especially the American experiment) brought about a revolution in banking practice. Traditional banking systems such as 'arm-chair' banking, gave way to aggressive, out-going system; Off-the-peg-banking mode threw in the towel in the face of the made-to-measure mode brought in by merchant banks. Customer-based-banking replaced the traditional banker-based banking practice; for one thing customers were no longer required to bring along their mats to the banking halls to wait endlessly for their turns that may not come the same day. Even when merchant banks were no longer on the scene; their spirits lived on in their well-trained professionals that were hired by the new generation commercial banks that radically emerged to take over the mainstream. It behooves today's clearing banks to look out for those professionals that made merchant banking so relevant and consult with them. There might be some stories that may not have been told. If adequate consultations are made, the system will receive the maximum benefits possible in the process. It is noteworthy that some of the then younger merchant bankers are still in the system. These rare breed of professionals may be sought out for expected derivable benefits.

Conclusion

This paper set out to review the critical services carried out by merchant banks during their period of operations in the Nigerian Banking System. The primary services of discourse included acceptances and discounting operations that informed their progenitorial orientation, depository services, credit and lending operations, equipment leasing services, and investments in the money and capital markets. Important as these services were, it was revealed that the way and manner the merchant banks professionally and clinically executed them, were more phenomenal and attention-deserving. Evidently, today's clearing banks reserve an onerous task of learning from their great experience in a bid to achieve their corporate mission and the expectations of their publics. Invaluable treasures, strategies, and modes are seen hidden on the paths trodden by these institutions while they existed. Current licensed banks may do well to carefully understudy them and enrich their strategic portfolios to achieve both corporate and macroeconomic ends.

Further Research

The author has attempted a historical, archival analysis of some prime services that made merchant banking thick in the years they existed. He did not delve into the hypothetico-deductive analysis that characterizes the a priori scientific method. It is suggested that these be done to further our understanding of the relevance of merchant banking. To aid this we have suggested the following research propositions which can be tested in a further study:

1. There was no significant relationship between the profitable performance of merchant banks and its deposit mobilization effort.
2. There was no significant relationship between the performance of merchant banks and their lending and investment operations.
3. Leasing an opposed to term lending contributed more significantly to merchant banks profits.
4. There was no linear relationship between the profitability of merchant banks and their leasing operations.
5. There was no significant relationship between then profitability of merchant banks and their set financial intermediation operations.
6. There was no discernable linear relationship between the operational performance on the outflow side of merchant banks' financial intermediation process and the aggregate investments of the Nigerian economy.
7. There was no significant impact of merchant banks' operational performance at the inflow side of their financial intermediation process and the aggregate savings of the Nigerian economy.
8. There is no positive and significant relationship between the lease rentals charged by merchant banks and the estimated residual value of the equipment on lease.

We are of the opinion that if this is done we shall be better informed on the critical roles merchant banks played in the Nigerian Banking System.

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