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Investment Banking Activities In Nigeria: A Critical Discourse Analysis of Problems and Prospects

Ayodeji B. Owoeye (PhD)

Royal Agricultural University, School of Business and Entrepreneurship, Stroud Rd, Cirencester GL7 6JS.

ABSTRACT: The investment bank's performance was researched and critically analysed, and how such performance might contribute to economic growth notably in Nigeria. Using the Nigerian financial industry, this study assessed the issues of investment banks in a growing nation. This study spanned the years 1960 through 2023. The period was marked by a credit boom, a financial recession, a rebound, and strong economic expansion.

In this study piece, a systematic literature review (SLR) was performed, and the research revealed crucial challenges of Investment Banks in an emerging economy. Among the difficulties cited are: regulatory compliance, technology management, cyber risk, cost pressure as inferior ROE hits, the development of Fintech businesses, ring-fencing, and so on.

The research identified the following important roles of investment banks: initial public offering activities, mergers and acquisitions, risk management, research, derivatives, merchant banking, and investment management.

According to the research, in order for the performance of investment banks in Nigeria to significantly improve, the following should be pursued aggressively: a cost-cutting strategy, cultural transformation, a customer-centric approach to business, technological development, financial depth development, and the development of a sustainable investment bank framework.

This study believes that if the recommendations are adopted, the profit of investment banks would improve, allowing them to execute their core functions and contribute to the growth of the economy, particularly in a rising economy like Nigeria.

KEYWORDS: Investment Banking, Investment Banking Functions, Financial Market, Financial Performance, Financial landscape, Emerging Economy

INTRODUCTION

In any economy, investment banking is critical to long-term growth. This is due to the ability of investment banking to generate cash for the growth of businesses, governments, and other organisations inside economies. This creates additional work generations and increases societal revenue. This is especially crucial in an expanding economy like Nigeria, with a population of 222 million (World Bank 2023), where unemployment is rampant and more than 40% of persons of working age are jobless or underemployed. The importance of investment banking cannot be overstated. Because Nigeria is Africa's financial powerhouse, the responsibilities and operations of investment banking are crucial to achieving a healthier economy.

According to Gup (2011), investment banks should provide products and services that are appropriate for rising economies such as Nigeria. This will allow the economy to expand. This is because goods and services that will improve Nigeria's financial depth will be released with the intention of having a big influence on the financial industry.

Greenbaum et al (2016), Gup (2011), and Greenbaum et al (2007) publications stressed the relevance of investment banks' goods and services to economic growth in any economy. Additionally, Aig-Imoukhuede (2019) claimed that investment banks' skill and capability may be a catalyst for resolving many of the economic difficulties of a rising country, notably Nigeria. He contended that investment banks might perform private equity and capital creation duties, which could alter the Nigerian economic environment, which is plagued by infrastructure deficits and economic recession.

In their comments, Stallings et al (2006), Feldstein (1999), and Menjah et al (2012) stressed the vital function of investment banks as an economic engine that may boost the growth of short- and long-term capital required by enterprises and governments. This will result in more economic development.

Investment banks are extremely important to any economy; nevertheless, various limits have been recognised in an economy. According to a KPMG (2018) analysis, the following investment bank restrictions in developing economies were observed. Capital scarcity, a high cost base, low client retention, regulatory compliance concerns, and the rise of fintech startups that disrupt the industry are all factors. Blockchain is altering the face of cross-border loans, old and outdated technology, cyber security issues, massive data requirements and complexity, and massive reporting requirements.

Notwithstanding the previously listed restraints, there are several particular constraints that have an influence on the performance of investment banks in Nigeria, the most notable of which being corruption. This is a procedure that prevents due process and, as a result, investment bank fundamental functions from being met. Menjah et al. (2012) noted how inadequate infrastructure and low-quality human capital, as well as poor economic and social conditions, have harmed investment banks in Africa's rising nations. Additionally, political insecurity, numerous foreign currency rates, and low investment yields have been mentioned as factors impeding the expansion of Nigerian investment banks.

Furthermore, Neaime et al. (2005) discovered that the country's debt burden, both domestic and external, ineffective incentive packages, unproductive financial sectors, and wasteful domestic resource mobilisation were identified as factors that contributed to the slow growth in investment bank activities in an emerging economy like Nigeria.

Additionally, Barnett and Jawadi (2012) underlined that the absence of financial depth in Nigerian financial markets inhibited capital formation and reduced capital market operations as a stumbling block for investment banks.

According to Noland and Park (2015), the poor restrictions on investment atmosphere and processes have had an influence on the performance of Nigerian investment banks. Investment banks will be confused and their capacity to conduct basic duties will be limited if policy and procedures are too cumbersome.

Based on the preceding conversation, the following session will define the purpose of this research, the research objective, and the research questions.

The purpose of this research is to critically examine the challenges of investment banks in general, and especially in the context of a growing country, and how they affect economic progress in Nigeria.

The remainder of this paper is structured as follows: The study methodology section was introduced in part 2. The historical perspective of Investment banks in Nigeria was described in part 3, and the problems of Investment bank in the Nigerian context was presented in in section 4. The critical discussions on the functions of Investment banks are presented in Section 5, and the Policy recommendations, conclusion and implications of the paper are presented in Section 6.

2.0 RESEARCH METHODOLOGY

This study concentrated on a comprehensive literature review (SLR). This identifies, selects, and critically assesses research to address a specific question. The systematic review should conform to a well stated approach or plan before conducting the review, with the criteria clearly outlined.

The author summarised the primary sources of literature for each of the study areas given using SLR. The authors used a sample of 100 research papers to perform an SLR. These articles were chosen from a pool of 400 papers obtained from Google Scholar, Web of Science, and Scopus. The publications were chosen based on the number of citations in Google Scholar and Scopus, as well as the impact factor of the journals in Scopus.

Furthermore, the author employed the QCA to synthesise the literature and respond to each research question. Because investment banking operations in Nigeria grew prominent and considerable academic work was done in the preceding decade, the author chose the most current works, i.e., from 2010 to 2023, which were cited by several academics. The SLR, according to Okoli and Schabram (2010), is a systematic, clear, comprehensive, and repeatable approach for locating, analysing, and synthesising current research, scholarly, and practise literature. The SLR process is separated into three major stages: planning, performing, and reporting. The review planning process is divided into two steps: developing the review and designing and validating the review method.

The review is then carried out in five steps: locating relevant literature, screening for inclusion, grading the quality, extracting data, and analysing and synthesising the findings. Ultimately, the review is reported on, with a summary of the findings (Xiao & Watson, 2019).

The technique of qualitative comparative analysis (QCA) is used to identify the factors that lead to certain outcomes. This is a research method for extracting acceptable conclusions from contextual data in order to provide comprehension, new ideas, and fact interpretation with a practical application guidance. The objective is to develop a full picture of the phenomenon. QCA concepts or categories are often utilised to develop a model, conceptual map, conceptual system, or categories.

QCA may be approached in two ways: inductively or deductively. Inductive reasoning is used when there is insufficient prior knowledge in the topic area. Nevertheless, deductive content analysis is used when performing new analysis based on existing data or when theory testing is necessary (Elo & Kyngäs, 2008). The author used the inductive approach to examine the study critically. There were three steps to consider. To begin, the author chose parts from search publications that addressed the research's three research topics (Creswell and Poth, 2017). The author then chose phrases from each section that addressed the study's research topics.

This paper will evaluate the critical question highlighted above. The next section will provide a detailed discussion on the historical perspective of Investment Banking in the context of Nigeria.

3.0 HISTORICAL PERSPECTIVES OF INVESTMENT BANK IN NIGERIA

The history of investment banking in Nigeria began when two official merchant banks, Nigerian Acceptance and Philip Hills (Nigeria) Ltd, were awarded legal licences. Owing to operational challenges and a lack of financial depth, both investment banks combined in 1969 to become Nigerian Acceptance Limited (NAL). Several more investment banks formed as the economy flourished and with a big windfall from oil, including IMB, CSL, Abacus, Nationwide, and FBN merchant bank. This occurred during the 1970s and the 1980s. Moreover, there were fifteen investment banks in Nigeria by 1984. (Idrisu and Lawal, 2017, Oshikoya and Durosinmi-Etti, 2019).

In the early 1990s, Nigeria saw the emergence of a new generation of large and powerful investment banks, such as IBTC, Afriinvest, and FCMB (Liaw 2006). Several banks grew into larger companies as a result of the systemic shift in the banking sector in 2005, when there was a bank consolidation exercise, to have financial strength and agility to deal with Nigeria's dynamic financial market. After the consolidation procedure, numerous investment banks are now able to actively engage in the Nigerian capital market. FCMB Limited, for example, was heavily involved in the capital market and stock brokerage services.

There are six major variables that have contributed considerably to the rise of investment banking in Nigeria (CBN, 2018, EFINA, 2010, Pratap, 2008).

Firstly, is the government indigenization programme that occurred in 1970s. This programme was launched to make Nigeria first and many foreign businesses must de-invest to make their businesses a totally Nigerian owned. For instance, this led the listing of the oil multinationals companies such as Mobil and Total. Furthermore, Daily Times and Nigerian Bottling Company issued IPOs and this led to the growth of the Investment Banking in Nigeria to support the businesses.

Secondly, the aggressive pursue of the privatization exercises in the 1990s led to the growth of the Investment Bank. This privatization exercise of government parastatals that were not performing was the catalyst that induced the wave of business activities of investment banking activities.

Thirdly, the revolution of the telecommunication industry particularly the wireless communication. This revolution led to the entry of new telecommunication companies such as Econet wireless and MTN into the Nigeria economy. These big telecommunication companies require financial advisory services which investment banks are equipped to give.

Fourthly, the reforms in the key sectors such as pension, banking and insurance sectors. For instance, the pension reforms, banking consolidation, insurance consolidation exercises gave rise to increased mergers and acquisition and raising of capital which investment bank provided.

Fifthly, the activities in the asset management businesses in portfolio investment management with the pension reform was the catalyst.

Lastly, financial deepening of the Nigeria financial system which has attracted five unicorn companies to Nigeria.

Types of Investment banks in Nigeria.

There are six variants of Investment Banks in Nigeria. They are:

1. Financial holding companies
2. Merchant Banks
3. Divested/affiliated Companies
4. Small/boutique
5. Independent full service
6. Foreign firms

Financial holding companies

This type of investment bank follows a standard banking framework. The universal banking system is one in which banking and financial services are consolidated under one entity. This is an excellent example of a one-stop shop, as the organisation offers a wide range of financial services, including retail and commercial banking, wholesale investment banking, and insurance.

This was implemented in Nigeria in 2001, resulting in a significant increase in investment banking activity. Nevertheless, in 2005, a strategy was implemented to boost the capital basis of Nigerian banks from 2 billion to 25 billion naira. This was referred to as a bank consolidation exercise.

As a result, the number of banks fell from 89 to 24, forcing several investment banks licenced by the Central Bank of Nigeria (CBN) to combine or purchase bigger commercial banks to establish universal banks. Commercial banking, investment banking, financial advising, asset management, pension, stockbroking, and insurance are some of the prominent services provided by universal banks (FBN Quest Merchant Bank, 2022, FBNH, 2022, FCMB, 2022).

The investment bank benefits from economies of scale due to decreased operational expenses with universal banking. When marketing, research and development, and information collecting are handled centrally, significant savings may be realised.

Investment banks can provide a larger range of financial products than specialist banks. This promotes adaptability in a rapidly changing environment, better and inventive goods, risk reduction via diversification, and easy access to foreign financial markets, as well as increased output, which may convert into profitability (FBN Quest Merchant Bank, 2022, FBNH, 2022, FCMB, 2022).

Universal Bank, on the other hand, is vulnerable to a systemic financial disaster. This is because any collapse of the entire system will have a big impact on the banks. The bank may take too many risks, making the investment bank susceptible.

Examples of this are: First Bank of Nigeria, First City Monument Bank and Stanbic IBTC.

Divested/affiliated Investment Banks

While some of the investment banks mentioned above choose a financial holding structure in which investment banking activities are part of a group that is merged together. Some big Nigerian banks choose to exit their investment banking operations. According to Oshikoya and Durosinmi-Etti (2019), Investment One divested from Guaranty Trust Bank, SFS Financial Services from Skye Bank, United Capital from United Bank for Africa, and Zenith Capital from Zenith Bank (Zentih Capital, 2022, United Capital, 2022).

The activities of such investment banks have been curtailed as a result of the divestiture.

Independent full-service Investment Banks

Independent full-service investment banks are another type of investment bank in Nigeria. These investment banks expanded organically rather than as a result of regulatory-mandated divestitures. Investment banks engage in the following activities: investment banking, asset management, pensions, stockbroking, insurance, and infrastructure/project finance. ARM Holding, Chapel-Hill Denham, and Vetiva are a few examples.

Merchant Banks

The CBN Act of 2010 authorised the establishment of this form of investment bank (The scope, conditions and minimum standards for merchant banks regulations). The CBN granted them a licence and controlled them. Nevertheless, the minimum capital base is N15 billion, and cash deposits are not permitted until they exceed 100 million naira (CBN 2010). Merchant banks can provide advisory services, function as an underwriter, issuing house, asset management services, custodial services, and debt factoring services under the CBN Act of 2010. Coronation merchant bank, RMB merchant bank, Nova merchant bank, FBN merchant bank, and FSDH merchant bank are the registered merchant banks in Nigeria.

Boutique Investment Bank

This investment bank category consists of medium-sized investment banks. This category excels in one or two aspects of investment banking. They may, however, lack the magnitude, size, and scope. Diamond Capital, Fidelity Capital, Cordros Capital, Cardinal Stone, Lotus Capital, and others are examples.

International Banks

These are multinational banks that conduct cross-border transactions and consequently provide investment banking services to international clientele. In the global financial market, these organisations may generate significant funds for firms and governments. They do extensive study and trade securities across many geographical zones. Citibank Nigeria, Standard Chartered Bank, and Renaissance Bank are a few examples (Citigroup, 2022).

4.0 PROBLEMS ASSOCIATED WITH INVESTMENT BANKING

There are several modern issues confronting the investment banking business, which have influenced the execution of its responsibilities such as raising capital, asset management, insurance operations, consulting, and so on. Higher capital costs, frozen cost bases, inflexible and layered technology with regulatory complexity, market electrification & digitalisation, and reporting are all difficulties in investment banking.

The discussion of the problems and challenges of investment bank are discussed below.

Regulation compliance

Many regulatory changes have occurred over the previous two decades, and this has had a substantial influence on the cost, profitability, and viability of investment banks. This put a lot of burden on investment banks' financial infrastructure as they worked to satisfy the IFRS 9 criteria. This resulted in changes to their business and operational models, which the banks had to account for, increasing costs and decreasing earnings (Artamonov, 2015, Awrey at el, 2016)

The regulatory mandate places enormous pressure on banks to design acceptable models to satisfy the obligation, and the data requirements for compliance reporting are large, creating difficulties.

According to KPMG (2019), investment banks such as Barclays and HSBC were put under pressure to stress test their liquidity needs due to financial conduct authority rules.

Additionally, the adoption of Basel 3 has renewed the emphasis on capital and liquidity requirements (Arnold 2016). Investment banks, particularly in Nigeria, must maintain core liquidity and leverage ratios that should be decreased, including short-term funding, keep more liquid assets, emphasis greater long-term wholesale funding, and considerably reduce on and off-balance-sheet items.

Furthermore, the Dodd-Frank Act limits investment banks' proprietary trading and sets investment limits for hedge funds and private equity companies. This hampered the bank's profits.

Additionally, there are differences in Nigeria between national regulators (the Central Bank of Nigeria, the Securities and Exchange Commission, and the Nigerian Deposit Insurance Commission) and other international organisations (Basel committee). The result of these circumstances is several levels and duplication of reporting, both of which cost time and money.

In the Nigerian context, the influence of regulatory compliance on Nigerian investment banks might lead to systemic issues in the present financial climate due to the economy's poor development (CBN 2019). High capital and liquidity requirements, stress testing, recovery and resolution plans are all required, which poses a difficulty in a rising country like Nigeria.

The demand for high compliance expectations for fair customer service and top management responsibility is foreign to Nigerian investment banks. The regulators' rigorous enforcement programmes, which need more data, place operational burden on investment banks.

Technology management

In a rising economy like Nigeria, the influence on the investment bank is enormous. The investment banks' outmoded physical infrastructure hampered its movement and expansion in the present digital age. This is due to banks continuing to embrace conventional infrastructure banks in terms of physical and technological needs, resulting in little or no change (Arnold 2016). Investment banks' capacity to survive in a dynamic industry is hampered by poor technology management. The ongoing need to maintain its infrastructure and find qualified suppliers to operate on the investment bank's system without exposing sensitive information is concerning, especially in an emerging economy such as Nigeria.

In addition to the foregoing, the bridge between the old and new systems is costing the investment banks a fortune. This infrastructure repair and upgrade has an effect on the business earnings.

This is especially problematic in Nigeria, as third parties to create updates are scarce and investment banks must come in expertise from abroad, which is expensive (Cunningham & Moore, 2017).

Cyber risk

This is a major issue in the Nigerian economy, since advance fee fraud is wreaking havoc on the economy. This is the financial loss, interruption, or harm to the investment bank's reputation caused by an information technology system failure. Rapid adoption of new technology without sufficient testing has potentially raised the likelihood of cyber risk and exposed the investment bank to cyber-attack (Carlin and Mayer, 2003)

Additionally, cyber risk is elevated due to an overreliance on legacy infrastructure developed for a bygone era. Keeping up with changing company demands and countering dangers is a critical issue. This is particularly risky in Nigeria, since there is no organisation monitoring cyber risk like the NCNC in the UK.

Scarcity of Capital

Arnold (2016) discussed the importance of capital in investment banks in his study. He went on to say that the lack of capital was caused by the impact of Basel 3 implementation on investment banks. This is because it will have an effect on product profitability. According to Arnold (2016), complex derivatives and pre-crisis transactions have brought down the ROE as a result of Basel 3. This is because investment banks must account for such hazardous investments. As a result, banks have shifted towards the formation of non-core divisions in order to dispose of unproductive transactions and portfolios, notably in Nigeria. This has had a profound impact on the capital bases of investment banks. According to Artamonov (2015), commoditised exchanges traded OTC items have had a substantial impact on investment banks' margins and capital management, as a result of increased transparency and passing via central clearing, which was recently adopted in Nigeria.

Pressure on cost as suboptimal ROE bites

Investment banks will face growing cost-cutting pressures in 2020. The cost base is rising, and authorities, notably in Nigeria, have underlined the importance of investment banks considerably lowering their costs in order to grow the economy. This is because the cost may easily be passed on to consumers, making the investment bank's services very expensive, and as a result, the investment bank's role as a catalyst for growth will be lost.

According to the KPMG (2019) research, just 6% of investment banks would be successful, with even fewer in Africa. This is due to the failure of the transformative cost programmes adopted to provide the desired outcomes to the banks in terms of the difficult infrastructure and governance problems they must overcome. For example, an investment bank will need to offer power, water, and a variety of infrastructures to their office space, which will increase the cost structure.

The emergence of Fintech companies

The development of Fintech businesses in the financial industry generated a disruptive market, notably in Nigeria. The vibrating African financial services sector established a climate for the fintech market to flourish, and as a result, the African financial market was linked to the world market, with Nigeria at the centre. This increased access to a wide range of products, causing upheaval throughout the investment banking value chain.

As a result, investment banking activities in Nigeria are no longer sustainable. For example, Barclays and HSBC have shuttered their Nigerian branches. Additionally, blockchain and cryptocurrencies have drastically altered the landscape of cross-border financing (Barclay, 2018).

Ring-fencing

The most successful Nigerian investment banks have affiliations and associations with commercial banks. The administration of this holding company protects retail banks from the trading hazards of investment banks, especially when retail banks' assets are used to support the investment bank. As a result, the investment bank's cost of funding has increased, and if they go insolvent, the government may be unwilling to bail them out. As a result, the economy suffers a significant loss (Coffee 2014).

Transaction costs

The major rationale for the presence of financial intermediaries is to reduce transaction costs. Three explanations have been highlighted for financial intermediaries' competitive advantage in creating financial commodities: (1) specialised economies, (2) scale economies in information gathering, and (3) cost reductions in search. This reasoning may be expanded to explain why investment banks are used in acquisitions; they may be able to find takeover targets, value them, and put together an offer at a lesser cost than individual companies. As a result, we anticipate that corporations will depend more heavily on investment bank guidance if a certain offer is likely to include greater transaction costs.

Many firms are unable to use the services due to the high transaction costs associated with conducting business in Nigeria. This was exacerbated by the high cost of infrastructures such as energy, internet consumption, and labour prices.

Asymmetric information problems.

According to this study, the requirement for investment bank guidance increases as the knowledge asymmetry between the acquirer and the target increases. Asymmetric information concerns may, of course, be conceived of as transaction costs. Yet, because they are distinct from the previously described transaction costs, we will address them individually. Clients have more information than Investment Banks, forcing the Investment Banks to interact at the highest level feasible. To compensate for the risk, investment banks charge higher rates to solve the asymmetric knowledge problem. Yet, if perfect knowledge is available, investment banks would not charge the risk premium.

Contracting costs

The study stressed that corporations employ underwriting services to issue new securities because investment banks monitor the firm and offer investors with a signal of firm quality. The incentive to monitor arises from the fact that investment banks are responsible for prospectus misrepresentations. A analogous monitoring argument might be used to justify paying for an investment bank's services in an acquisition. Although the incentives to fulfil the monitoring role correctly in acquisitions are less obvious than in the issuing process, they are not necessarily weaker. The worth of an investment bank's reputation capital is determined by the quality of its advice.

This study shown that investment banks lose market share when they fail to appropriately underprice these concerns. As a result, this is a serious problem in Nigeria, where macroeconomic instability and volatility are widespread.

Having discussed some of the problems of Investment Banks in Nigeria, this research will examine functions of Investment banking.

5.0 FUNCTIONS OF INVESTMENT BANKING

Investment banks fulfil numerous economic roles by providing various financial services to its clients, such as assisting firms in locating investors for debt financing, underwriting stock offerings, acting as financial advisors, conducting mergers and acquisitions, and so on.

An investment bank acts as a go-between for investors and issuers, assisting customers in raising funds through debt and stock offerings. It offers a wide range of financial services. The top seven investment banking functions are given below.

Initial Public Offer

This investment banking function, also known as an IPO, is an initial public offering in which a firm engages an investment bank to issue an IPO.

The following are the stages that a firm takes in preparation for an IPO:-

Companies employ an investment bank before issuing an IPO. The investment bank is picked based on many variables such as market repute, industry experience, research quality, and distribution networks, among others. Investment banks do underwrite, acting as a middleman between investors and issuing firms. Under the underwriting agreement, they hash out the financial aspects of the IPO.

They decide the offer price after approval, and following issue, the bank performs aftermarket stabilisation, in which the bank evaluates aftermarket stabilisation and establishes a market for the shares. The bank gives an estimate of the issuing company's valuation and earnings. One of the most important investment banking responsibilities is the initial public offering (IPO). An investment bank assists a firm in preparing for and listing an initial public offering (IPO) on a stock market.

Merger and Acquisitions

These include business finances, management, and strategy for acquiring or merging with other firms. In exchange, an investment bank charges fees for M&A. A mergers and acquisitions firm employs a bank. Investment bank that specialises in mergers and acquisitions. They play two kinds of roles here: seller representation and buyer representation. They played an important part in the valuation of firms involved in mergers and acquisitions. They also develop strategies and business models for the firms. The investment bank also does financial provisioning for a business involved in Mergers and Acquisitions to identify whether or not the firm will require a large amount of cash.

It assists a firm in raising finances for a merger or acquisition as well as issuing new securities to the market. When a suitable target is located, this investment banking function assists a small corporation in projecting itself and designing a merger. It contributes to the success of the merger, which is carried out with the assistance of an investment bank.

Risk Management

Risk management is an important role of investment banks. This entails mitigating risk that might result in capital loss. It established a limit to avoid trading losses. Investment banks can assist a business in the following ways: - Investment banks assist businesses in managing financial risk such as currencies, loans, liquidity, and so on. This bank assists a corporation in identifying the lost area. This credit risk-control investment spreads out counterparties, and banks trade on stock markets. An investment bank controls several risks such as business risk, investment risk, legal and regulatory risk, and operational risk. Risk management is practised by investment banks at all levels to identify hazards and how they may be mitigated.

Research

One of the most essential investment banking responsibilities is equity research investment banking. This study assists in providing a rating to the firm to assist investors in making investment decisions. Based on a company's rating, research reports advise whether to purchase, sell, or hold. This allows one to determine the company's worthiness. Analyzing and comparing numerous corporate reports and performance reports is used in research. The major function of investment banks is research, which may be of many forms such as equities research, fixed income research, macroeconomic research, qualitative research, and so on. These reports are shared with clients by investment banks, allowing an investor to gain profits through trading and sales.

Structuring of Derivatives

Derivatives goods have a high rate of return and a large margin, thus there are numerous risks associated. These derivatives are prepared by investment banks using a technique based on single and multiple securities. Investment banks require a competent technical staff to work on such a complicated derivative structure for this Investment banking activity, namely derivative structuring. Investment banks create securities with many derivatives options. The major purpose for developing such a product is to attract investors and boost profit margins. This bank adds features, such as bonds. It offers futures and options derivatives, among other things.

Merchant Banking

This investment banking function is one of the investment bank's personal operations, and the bank also provides consulting to their clients. It serves as a business financial engineer. They offer advice on financial, marketing, legal, and management issues. Merchant banking functions include: raising finance for clients, acting as a stock exchange broker, project management, money market operations, leasing service, portfolio management, obtaining government approval for industrial projects, managing a company's public offering, and providing special assistance to small businesses and entrepreneurs. Investment banks offer a wide range of additional services to its clients.

Investment management

An investment banking function is a basic task of an investment bank that helps investors buy, manage, and trade various assets. Investment banks generate reports based on corporate performance and make financial securities decisions through this investment bank. Investment advice is given depending on the client's goal, risk tolerance, investment amount, and time frame. Investment management is classified into three types based on the customer segment: private customers, private wealth management, and wealth management. In this case, an investment bank administers a client portfolio and advises investors on whether to sell, purchase, or keep stocks.

6.0 POLICY RECOMMENDATION

This section elaborated on the policy recommendations that will enhance the performance and operation of Nigerian investment banks. This role is critical since only functional investment banks can act as a spur for economic growth and carry out its core functions.

This research provided the following recommendations:

Cost reduction strategy

The high cost of doing business in Nigeria, particularly for investment banks in a developing country, was found in the research. The investment banking business is experiencing a cost-cutting and productivity crisis. The investment bank might optimise their business lines and legal entities, assets, and sourcing, resulting in increased efficiency and productivity. This is significant because investment banks have a short-term cost-cutting strategy that may not be sustainable. This is especially critical in Nigeria, where the cost base for investment banks is fundamentally greater, and they require inventive and aggressive cost-cutting methods to improve efficiency and productivity, which would raise investment bank profitability. According to the findings, investment banks should prioritise the following optimisation areas:

Firstly, ***business line and entity optimization***. This can be accomplished by simplifying the investment bank's business operations. This will aid in performance improvement. Investment banks could begin by simplifying their business operations, adjusting their emphasis to cover all of their diverse interests, particularly across their portfolios, and eliminating non-profitable business lines, including legacy companies that are not in line with current reality.

Secondly, ***Asset optimization***. The investment bank's asset base is a significant aspect in generating profits. A robust asset base will boost profitability, but a decaying asset will reduce profit. Based on this, the report suggests that investment banks use an asset optimisation approach that identifies weak and delinquent assets that are not functioning and sells or replaces them with new and cost-effective equipment. Additionally, risk-weighted asset (RWA) optimisation methods, which have been shown to result in 15%-20% savings, should be implemented. This study suggests that investment banks alter their business models by deleting or reducing their balance sheets to provide a fair viewpoint that is not one-sided.

Thirdly, ***Cost optimization***. This study stressed that investment banks may save money by examining and re-engineering core business processes within the organisation. According to the findings of this study, investment banks should reduce operating costs across all sectors of their operations. This may be accomplished by asking investment banks if they need to continue to execute inefficient business operations, discontinue them, or re-engineer them. They must also examine the required degree of service for internal and external consumers. Services should be altered as needed, whether by lowering service quality or decreasing the number of consumers in accordance with the cost structure. Also, rather of duplicating actions across several branches, specified activities may be performed centrally.

Fourthly, ***Sourcing strategy***. According to the report, sourcing choices is a significant technique that may assist investment banks convert their performance to a new level. This study suggests that investment banks determine if a certain aspect of their company is core or non-core. If they are non-core tasks, and if investment banks decide that they are not cost effective to execute in-house, they might be outsourced to save money.

Cultural Transformation

The organisational structure of any organisation is critical in moulding employee behaviour with their clientele. A good organisational structure can promote more consumers, which can equate to a solid financial situation. Investment banks have experienced huge trading losses as a result of cultural difficulties. This may be ascribed to a lack of control and staff behaviour that is not aligned with the mindset of providing excellent customer and shareholder value, which has resulted in additional costs to the organisation. Additionally, investment banks may struggle to attract top talent to work for them. Over time, this may have an influence on the quality of their workforce, and challenges may occur that impair service delivery and, as a result, their financial condition.

This report suggests that top management recognise the necessity of cultural transformation and develop agendas/reforms that will work towards changing their culture. Additionally, investment banks should form internal review committees to critically examine and comprehend problematic practises in order to remedy organisational culture challenges. This safeguard protects your reputation. This is due to the fact that if the company's image suffers, a sustainable corporation will become loss-making, causing many people to lose their employment and shareholders to lose their investment.

Investment banks should go beyond high wages as the sole instrument for engaging, motivating, and retaining talented, quality employees. It is necessary to seek a culture transformation that aligns employee behaviours with those of consumers and shareholders. This should begin at the top, with senior executives properly articulating acceptable behaviours and norms that are broadly disseminated.

Lastly, there should be improved communication and training that emphasises expectations and values. To strengthen cultural transformation, roles and duties must be defined. They should also be aligned in terms of pay, with a focus on risk-adjusted performance indicators. Cultural transformation will occur as a result of the development of new ethics codes and the establishment of an ethical committee to regularly evaluate and update the ethical code. There should be a system in place to reward excellent behaviour.

Customer Centric focus

Nigerian investment banks are dealing with a major trust issue. Many feel that investment banks are not acting in their best interests. They think they are being overcharged for the level of services provided by the bank. It is, unfortunately, a prevalent viewpoint in the sector. As a result, public faith in investment banks is eroding. This paper suggests that investment banks create trust with the public and regulators in order to represent the core activities of servicing their customers.

This paper advises that a considerable shift be made from the old operating model to one that reflects product priority and a business centred on product innovation in order to drive the bottom line of the business. Investment banks should provide a system that monitors customer happiness in order to actively assess satisfaction, as well as an effective claimant process and procedure, as well as contact connection with clients, in order to progressively rebuild destroyed confidence. There should be required trainings on how to handle and respond to the requirements of consumers.

Technological Development

In today's financial environment, technology plays an important role. There has been considerable market restructuring, takeovers, business existence, and profit growth in the previous 15 years. Nevertheless, there was no corresponding investment in technology, and IT departments have been continually under pressure to meet demand for their services.

It was suggested that investment banks' IT expenditure is modest, despite the fact that the challenge for the bank is so high that service delivery is severely affected. Additionally, three-quarters of investment banks' IT funds are spent on system maintenance rather than investment. This is especially tough in a developing country like Nigeria, where the cost of doing business is quite high. Additionally, a significant amount of money is spent on third-party suppliers, who take a significant portion of the investment bank's earnings.

This paper suggests that Nigerian investment banks invest in business transformation while attempting to optimise their business processes in order to improve their financial position. Legacy IT, collateral management systems, new trading systems, customer-centric solutions, security, resilience, and surveillance, business model optimisation, and data management systems should all be addressed in the IT investment pipeline scheme. This will improve the performance and financial situation of the investment bank.

Development of Financial Depth

According to the research, Nigeria's financial landscape is shallow, which may be due to the economy's relative openness. When an economy is fully open, the capital market expands. Yet, in a closed economy, the financial market is shallow and the capital market suffers. Investment banks' activities would be restricted when the capital market is underdeveloped. The development of the capital market will allow investment banks to raise cash for expansion. When this occurs, investment banks can readily function as an economic development accelerator.

Development of sustainable banking framework for Investment banks

The government's engagement in the financial industry is crucial to the development of long-term banking. The government, via the efforts of the Central Bank of Nigeria, should ensure the establishment of a functional framework for long-term investment banking. This study suggests that such efforts should be directed on improving transparency, accountability, and good corporate governance in the Nigerian banking industry. Additionally, this study suggests that the sustainable framework should focus on good practises in the investment banking sector in particular, as well as the banking industry in general. Additionally, the responsibilities, tasks, power, composition, salary, and disciplinary procedure of the board of directors should be emphasised. Lastly, the interaction of investment banks with its stakeholders, with a focus on long-term concerns, risk management processes, audit procedures, accountability and a code of ethics.

SUMMARY AND CONCLUSION

The study identified important issues confronting investment banks in a developing country. This is important for understanding Nigeria's investment banking activity. The research identified the following important roles of investment banks: initial public offering activities, mergers and acquisitions, risk management, research, derivatives, merchant banking, and investment management.

According to the research, in order for the performance of investment banks in Nigeria to significantly improve, the following should be pursued aggressively: a cost-cutting strategy, cultural transformation, a customer-centric approach to business, technological development, financial depth development, and the development of a sustainable investment bank framework.

This study believes that if the recommendations are adopted, the profit of investment banks would improve, allowing them to execute their core functions and contribute to the growth of the economy, particularly in a rising economy like Nigeria.

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