

# **FIN 255: Management of Financial Institutions**

**Nature of course:** Concentration

**Full Marks:** 100

**Lecture Hours:** 150

**Pass Marks:** 35

## **Course Objective**

The course aims to lay the foundation of students on the management of financial institutions by imparting the fundamentals concepts and techniques of operation of financial institutions. By the end of this course, students will understand various types and functions of financial institutions, the role of the central bank and monetary policy, and understand the areas of activities in which the securities firms are engaged in.

## **Course Description**

Financial institutions are important components of market economy. Students studying finance courses must be familiar with the purpose and functions of the financial institutions. Therefore, this course deals with fundamental aspects of financial institutions as they operate in an economy. This course includes: An overview of financial institutions, interest rate determination, the central bank and monetary policy, commercial banks, microfinance, saving and credit cooperatives, insurance companies, investment companies, pension funds, and securities firms and investment banks.

## **Course Details**

### **Unit 1: Introduction**

**LH 10**

Overview of financial institutions: Types of financial institutions, Role of financial institutions in the economy; Risks in financial institutions, Development of financial institutions in Nepal.

### **Unit 2: Determinants of Interest Rates**

**LH 15**

Interest rate fundamentals; Review of loanable fund theory; Movement of interest rates over the time; Determinants of interest rates for individual securities: Inflation, real risk-free rate, default or credit risk, liquidity risk; Special provision or covenants; Term to maturity; Term structure of interest rates: unbiased expectation theory, liquidity preference theory, market segmentation theory; Forecasting interest rates.

### **Unit 3: The Central Bank and Monetary Policy**

**LH 15**

Functions of central bank; Balance sheet of central bank; Monetary tools: Open market operation, the discount rate, and reserve requirements; Effects of monetary tools on various

economic variables; Money supply versus interest rate targeting; Central bank and monetary policy in Nepal.

#### **Unit 4: Commercial Banks**

**LH 20**

Overview of commercial banks; Size and structure of commercial bank; Functions of commercial banks; Financial statements: Balance sheet, off-balance sheet items, other fee generating activities, statement of profit or loss; Financial statement analysis using a return on equity framework; Regulation of commercial banks; Capital adequacy regulations of Nepalese commercial banks with reference to Basel III.

#### **Unit 5: Microfinance**

**LH 10**

Concept of microfinance; Microfinance revolution, Rationale of growing microfinance; Key principles of microfinance; Objectives of microfinance institutions; Product and services of microfinance; Designing saving and lending products; Interpreting financial statements of microfinance institutions; Performance evaluation of microfinance institutions.

#### **Unit 6: Saving and Credit Cooperatives**

**LH 20**

Meaning, types and structure of cooperatives; Rationale of growing cooperatives, Key principles of cooperatives, Saving and credit cooperatives: Rationale, growth and structure; Product and services of saving and credit cooperatives; Interpreting financial statements of saving and credit cooperatives; Performance evaluation of saving and credit cooperatives.

#### **Unit 7: Insurance Companies**

**LH 20**

Overview of insurance companies; Life insurance companies; Types of life insurance companies, Fair value computation of annuity insurance policy; Property-casualty insurance companies; Types of property-casualty insurance companies; Measuring costs and overall profitability of property-casualty companies; Insurance company operations: Rate making, underwriting, production, claim settlement, reinsurance, alternative to traditional reinsurance, investments; Financial operations of insurers: Financial statements and performance analysis of life and non-life insurance companies in Nepal; Role and functions of Beema Samiti (Insurance Board) in regulating insurance in Nepal.

#### **Unit 8: Investment Companies and Hedge Fund**

**LH 10**

Overview of investment companies; Organizational structure of mutual fund; Different types of mutual funds; Net asset value; Mutual funds costs and returns; Mutual fund balance sheet and recent trends; Performance of mutual fund; Mutual funds and their regulations in Nepal. Hedge funds: meaning, significance and structure.

**Unit 9: Pension Funds****LH 10**

Overview of pension funds; Types of pension funds: Defined benefit versus defined contribution pension funds, insured versus non-insured pension funds, private versus public pension funds; Retirement benefit calculation using: Flat benefit formula, career average formula, and final pay formula; Return and impact of asset allocation; Pension fund regulation and its management practices in Nepal; Social securities fund in Nepal.

**Unit 10: Investment Banks and Securities Firms****LH 10**

Services offered by investment banks and securities firms; Securities firms and investment bank activity areas: Regulations of investment banking, securities firms and businesspersons in Nepal.

**Project Work****LH 10**

The students shall have to prepare and submit a project work in the area studied in the course. The subject teachers have to discuss with students on possible topics of the project work, availability and sources of literature, availability of data, data collection methods, appropriate tools of data analysis etc. relevant to the subject within 10 lecture hours.

**Text Book**

Saunders, A. & Cornett, M. M. *Financial institutions management: A risk management approach*. New York: McGraw Hill Irwin

**References**

Saunders, A. & Cornett, M. M. *Financial markets and institutions*. New York: McGraw Hill Irwin  
Madura, J. *Financial institutions and markets*. Delhi: Cengage Learning India Private Limited.