



Course information 2024-25

FN2029 Financial Intermediation

General information

MODULE LEVEL: 5

CREDIT: 30

NOTIONAL STUDY TIME: 300 hours

MODE: Locally Taught and Independent Learner Route Only (not available for Online Taught students)

Summary

This is a dynamic subject which aims to provide insights into and understanding of theories and practices relating to financial intermediation and the risk management techniques currently being used in major banks throughout the world.

Conditions

Please refer to the relevant programme structure in the EMFSS Programme Regulations to check:

- where this course can be placed on your degree structure; and
- details of prerequisites and corequisites for this course.

You should also refer to the Exclusions list in the EMFSS Programme Regulations to check if any exclusions apply for this course.

Aims and objectives

The objectives specifically include:

- To develop understanding of the functioning of the financial system and of theories of financial intermediation.
- To develop understanding of concepts and practices relating to the bank asset-liability management, and risk management process and techniques applied within major financial intermediaries.
- To develop understanding of key topics in financial risk management and regulation, including credit risk models, securitisation, derivative instruments, and capital adequacy.
- To develop understanding of how emerging trends in non-bank financial intermediation, including Fintech, are reshaping the banking industry.

Learning outcomes

At the end of this course and having completed the essential reading and activities students should be able to:

- Discuss and evaluate key theories relating to the role of banks as financial intermediaries.
- Discuss and evaluate the risks which banks face and explain how these risks are managed, with particular focus on techniques of asset and liability management, and credit risk measurement and management.
- Discuss the importance of capital in bank management and the role of securitisation and explain the importance of capital adequacy within banking regulation.
- Describe and analyse the various means of analysing bank performance.
- Explain the principles and techniques involved in the use of derivative instruments for hedging credit, interest rate and exchange rate risk.
- Describe the role of financial technology and the new players competing with banks in the provision of services and explain the main applications in the broader context of finance.

Employability skills

Below are the three most relevant employability skills that students acquire by undertaking this course which can be conveyed to future prospective employers:

1. Complex problem solving
2. Decision making
3. Collaboration

Essential reading

Bessis, J. Risk Management in Banking. (Chichester: Wiley, 2015) fourth edition [ISBN 9781-118-66021-8].

Casu, B, Girardone, C., and Molineaux, P. Introduction to Banking, (Pearson 2022) third edition [ISBN-13: 9781292240336].

Mathews, K., and Thompson, J. The Economics of Banking. (Chichester: Wiley, 2014) third edition [ISBN 978 1118 639207].

Saunders, A., Cornet, M.M., and Erhemjamts, O. Financial Institutions Management: A Risk Management Approach. (New York: McGraw Hill, 2021) tenth edition [ISBN 9781260013825].

Assessment

This course is assessed by a three-hour and fifteen-minute closed-book written examination.

Syllabus

The course addresses both theoretical and practical aspects of financial intermediation and financial risk management. The syllabus brings together the upstream issues of bank management and performance with the downstream issues of the process of risk management and the implementation of hedging programmes. Whereas traditional financial intermediation focuses on banks, modern financial intermediation is concerned with the role of both banks and non-bank financial intermediaries, as financial technology is reshaping the provision of financial services in innovative ways.

Section 1: The functions of the financial system and the role of financial intermediaries. Taxonomy of major financial intermediaries.

Section 2: Theories of financial intermediation: Financial intermediation as delegated monitoring; Liquidity transformation, bank runs and maturity transformation.

Section 3: Risks in banking: Investigation of the principal risks in banking, including credit risk, liquidity risk, interest rate risk, market risk, sovereign risk, solvency risk, and operational risk; The risk management process; risk measurement; value at risk techniques.

Section 4: Credit risk: default risk, exposure risk and recovery risk; internal and external credit ratings and the uses of rating systems; Principles of credit risk management; credit risk models.

Section 5: Balance sheet management, liquidity risk and interest rate risk: asset and liability management; techniques for managing assets and liabilities; the liquidity gap; interest rate gaps.

Section 6: Bank regulation: Bank run, the regulatory framework of Basel Accords, capital and liquidity regulation, stress testing, resolution, macro-prudential regulation.

Section 7: Risk Transfer Techniques: securitisation and Credit derivatives. Mechanics and economics of securitisation deals. The use of credit derivatives Implications for capital management.

Section 8: Analysing bank performance: Accounting and market value-based performance measures; Risk-adjusted performance. Risk-adjusted return on capital; Economic value added.

Section 9: Risk Management: Derivatives pricing and hedging: linkages between the state preference model and arbitrage pricing, between option pricing models and delta hedging, and between forward pricing and hedging. Hedge ratios; managing credit risk with derivatives, including forwards, options, swaps, credit linked notes, and collateralised debt obligations; managing interest rate risk with swaps; managing foreign exchange risk with the forward hedge, money market hedge, and currency swaps.

Section 10: Financial technology; fintech lending; artificial intelligence; cryptocurrencies; distributed ledger technologies; smart contracts; decentralised finance.