

## **The Role of Bank Inspection in the Viability of Commercial Bank (A Case Study of United Bank of Africa)**

**Chinwe .L. Duaka**

*Department of Accountancy, Ramat Polytechnic Maiduguri, Borno State, Nigeria.*

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**Abstract:** *The research examined the role played by bank inspection in the viability of commercial banks ( a case study of UBA). It adopted a questionnaire-based method of evaluation based on five point likert scale and tested the efficacy of the Hypothesis using the chi-square method. The study revealed that the Bank inspection functions have not been effective in creating stability in the commercial banking system. Bank inspection functions have not been effective in improving Corporate Governance issues in commercial banking system. Bank inspection have not stemmed the incidence of widespread bad loan portfolio in the commercial banking system. Effective inspection would boost the volume and the value of transactions witnessed in commercial banks.*

**Keywords:** *Bank, inspection, viability, United Bank for Africa*

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### **I. Introduction**

Bank inspection, is the process of monitoring banks to ensure that they are carrying out their activities in a safe and sound manner and in accordance with laws, rules and regulations. It is a means of determining the financial condition and of ensuring compliance with laid down rules and regulations at any given time. Bench (1993) asserts that effective supervision of banks leads to a healthy banking industry. Dimitri (1990) also believes that good regulation and supervision will minimise the negative impact of moral hazard and price shocks on the banking system, thereby leading to a reduction in bank failures and banking system distress. Traditionally, the role of banks whether in a developed or developing economy, consists of financial intermediation, provision of an efficient payments system and serving as a conduit for the implementation of monetary policies. It has been postulated that if these functions are efficiently carried out, the economy would be able to mobilize meaningful level of savings and channel these funds in an efficient and effective manner to ensure that no viable project is frustrated due to lack of funds.

Banking regulation was first introduced in Nigeria in the early 1950s in response to the failure of local banks. The 1952 Banking Ordinance imposed minimum requirements for paid up capital and the establishment of reserve funds. This was followed by the enactment of the 1958 Central Bank Act and the Banking Ordinance of 1959. The banking legislation was further strengthened with the enactment of the Banking Decree of 1969. This consolidated previous banking legislation; raised minimum paid up capital requirements and empowered the CBN to specify a minimum capital/deposit ratio (Nwankwo 1980; Ekundayo 1994). It also empowered the CBN to impose liquidity ratios and placed restrictions on loan exposure and insider lending (Oloyede 1994).

Despite the creation of inspectorate unit in the bank for internal control, it is not clear on the adequacy of human and non-human resources for efficient operations of banking industry. This is because managers still grant credits (loans) beyond their power limit without collateral security. Secondly, cases of bad debts result from loan given to customers that has not been recovered. Hence the CBN (1990) prudential guideline has not been obeyed and the effect is reported on minimal profit. Thirdly, there has been cases of computer fraud deflation and outright removal of physical cash by employee's and out sectors. This has created imbalance looks and records with obvious effect of huge loses. Another problem is the extent of frequent rationalization and entrenchment in the banking industry. This creates job insecurity and workers may tend to indulge in any act for survival in case of eventualities. All these motivated the researcher to study the role of bank inspection in the viability of commercial banks in Nigeria.

The present paper is to examine the role of bank inspection in the viability of United Bank of Africa.

#### **HYPOTHESIS 1**

Ho: Bank inspection functions have been effective in creating viability in United Bank of Africa

H1: Bank inspection have not been effective in creating viability in United Bank of Africa

### **II. The Study Area And Methodology**

The United Bank for Africa (UBA) was established in 1961, it is the largest financial services group in Nigeria and West Africa, with a balance sheet size in excess of N1, 64 trillion, the first Nigerian bank ever to achieve this feat in the history of the Nigeria and West African Banking Industry. UBA has grown from more than just a bank to a one-stop-shop financial services institution, providing solutions to more than 6 million core

and walk-in customers through its expansive retail network of over 630 business offices. Having presence in all the commercial centers and major cities in Nigeria, UBA is often referred to as the neighborhood bank, which aligns with the banks strategic intent and brand strap "Africa's Global Bank". UBA's aim is to deliver what the customer wants and expects; closeness and proximity, choice, convenience and customization. Today's United Bank for Africa PLC (UBA) is the product of the Merger of Nigeria third (3<sup>rd</sup>) and fifth (5) largest banks, namely the old UBA and the erstwhile standard Trust Bank Plc (STB) respectively and a subsequent acquisition of the erstwhile continental Trust Bank Limited (CTB). Founding of the old UBA in 1961, and the erstwhile STB and CTB both in 1990. although today UBA emerged at a time of industry consolidation induced by regulation, the consolidated UBA was borne out of a desire to lead the domestic sector to a new era of global relevance by championing the creation of the Nigerian consumer finance market, leading a private/public sector partnership at supporting the acceleration of Nigeria's economic development, and growing the institution from a banking to a one stop financial services institution, while spreading its foot prints across Africa to ear the reputation as the face of banking in the continent.

Today, the consolidated UBA is the largest financial services institution in West Africa with a balance sheep size in excess of one trillion Naira (under USD8b) and more than six million (6m) customer accounts, operating out of the two most vibrant economic in the sub-region-Nigerian and Ghana it has over six hundred and thirty (630) retail distribution centers across Nigeria, its main operational base, and eight branches in Ghana outside Africa, it also has presence in New York and Cayman Island. United Bank for Africa Plc, (UBA) is the product of a merger of two of Nigeria's top five banks, UBA and Standard Trust Plc (STB). Today, consolidated UBA is largest financial services institution in sub-saharan Africa (excluding south Africa) with a balance sheet size in excess of 400 billion Naira (approx US dollar 3bn) and over two million active customer accounts. With over 400 retail distribution outlets across Nigeria, UBA has also a presence in New York, grand Cayman Island and Ghana.

### **Methodology**

The research borrowed from related research material which was appropriately referenced. It adopted a questionnaire-based method of evaluation, testing the efficacy of the Hypothesis using the chi-square method and comparing the result with empirical statistical evidences in order to form a basis of opinion. In order to assess the degree of respondents' opinion, the study made use of a five-point likert scale statements and the degree of their answers measured on the following scale as shown below:

Strongly agree (5)

Agree (4)

Strongly disagree (3)

Disagree (2) and

Undecided (1)

The research distributed 120 questionnaire randomly to different branches of United Bank of Africa (UBA) and was only able to retrieve 100. The retrieved questionnaires is what the analysis was base on.

### **III. Result**

The result of the findings revealed the followings:

- i. The responses in Table 1(1) tries to affirm whether the stability in the banking system was as aresult of sound inspection of UBA From the responses, 18 (18%) of the respondents strongly agreed, 22 (22%) agreed, 30 (30%) and 26 (26%) strongly disagreed while those that were indifferent are 4 representing (4%). The break down indicates that most respondents believe that the stability in the banking system was not as a result of inspection.
- ii. Table 1(2) presents a breakdown of the analysis. From the summary table, 41 respondentsrepresenting 41% of the sampled population strongly agreed that the routine inspection has helped in ensuring a healthy banking system and further reducing incidence of interest rate abuses. 20 respondents representing 20 % of the population only agreed while 15 respondents or 15% of the population size and 17 respondents representing 17% of the populations disagreed and strongly agreed respectively. 7 respondents (7%) remained indifferent. The conclusion from this breakdown is that respondents believe that routine inspection has helped to ensure a healthy banking system and also further reduce the incidence(s) of interest rate abuse.
- iii. On analysing the responses in Table 1(3), on-site inspection has helped in reducingunprofessional and unethical conduct in UBA, it was discovered that a total of 27(27%) and 23(23%) of the respondents strongly agreed and agreed respectively that on-site inspection of banks has helped in reducing unprofessional and unethical conduct in commercial banks; it was also discovered that about 22(22%) and 16(16%) of the respondents strongly disagreed and disagreed respectively while those that are indifferent represent only 12 (12%) of the respondents. Based on this analysis, most respondents were of the view that

on-site inspection of banks has helped in reducing unprofessional and unethical conduct in commercial banks.

- iv. The summary of responses in Table 1(4) shows that 22(22%) of the respondents strongly agreed that banking inspection has helped to address corporate governance issues in banks and incidence of widespread bad loan portfolio in the commercial banking system, 20(20%) agreed; 26(26%) disagreed; 24 (24%) strongly disagreed while 8 (8%) of the respondents were indifferent. The breakdown analysis shows that banking inspection has not helped to address corporate governance issues in UBA banks and widespread bad loan portfolio.

**Table 1. Respondents' assessment of the role of bank inspection on United Bank of Africa (UBA)**

S/ N	Question	Response					Total
		Strongly agree No (%)	Agree No (%)	Strongly disagree No (%)	Disagree No (%)	Undecided No (%)	
1	The stability in the banking system was as a result of inspection	18	22	30	26	4	100
2	Routine inspection has helped to ensure a healthy banking system and further reduced interest rate abuse	41	20	15	17	7	100
3	On-site inspection has helped in reducing unprofessional and unethical conduct in the business of banking in Nigeria.	27	23	22	16	12	100
4	Banking inspection has helped to address corporate governance issues in Commercial Banks and incidence of widespread bad loan portfolio the commercial banking system.	22	20	26	24	8	100

Field Survey, 2015

### Hypothesis Testing

The researcher adopted the Chi-Square goodness-of-fit test to test the hypothesis. The Chi-Square statistics formula is given as

$$X^2 = \text{Summation of } (O_i - E_i)^2 / E_i$$

Where  $O_i$  = Observed frequency

$E_i$  = expected frequency

The degree of freedom  $n = 5$ ,  $V = 5 - 1 = 4$

Level of significance = 5% or 0.05

Note:  $E_i$  = total frequency 100 divided by 4 = 25

### Hypothesis

Ho: Bank inspection functions have been effective in creating viability in commercial banking system

H1: Bank inspection have not been effective in creating viability in the commercial banking system

### Decision Rule

If the Chi-square calculated value is greater than the Chi-square table value, accept the alternative hypothesis, but if otherwise, reject the alternative and accept the null hypothesis.

Since  $X^2$  calculated, of the value 35.78 is less than the value of  $X^2$  derived, i.e. 36.23 at (n-1) degree of freedom, we reject H1 (alternative hypothesis) at 5% level of significance and accept Ho (null hypothesis). By this analysis, it shows that the bank inspection have been effective in creating viability in the commercial banking system.

## IV. Discussion

The findings of result in table 1 (1) suggests that the viability and stability in the United Bank of Africa is not as a result of inspection but as a result of merger and acquisition. This finding confirm that Today's United Bank for Africa PLC (UBA) is the product of the Merger of Nigeria third (3<sup>rd</sup>) and fifth (5) largest banks,

namely the old UBA and the erstwhile standard Trust Bank Plc (STB) respectively and a subsequent acquisition of the erstwhile continental Trust Bank Limited (CTB). Founding of the old UBA in 1961, and the erstwhile STB and CTB both in 1990. although today UBA emerged at a time of industry consolidation induced by regulation, the consolidated UBA was borne out of a desire to lead the domestic sector to a new era of global relevance by championing the creation of the Nigerian consumer finance market, leading a private/public sector partnership at supporting the acceleration of Nigeria's economic development, and growing the institution from a banking to a one stop financial services institution, while spreading its foot prints across Africa to ear the reputation as the face of banking in the continent.

Routine inspection has helped in ensuring a healthy banking system and further reducing incidence of interest rate abuses because of the close monitoring, regulation of CBN and the internal control units known as the inspectorate division. This division carries out daily and periodic supervision and inspection of all operations of the bank. In the entire banking sector, the inspectorate is a household name, as it exists in all banks though under different names. The setting up of the inspectorate divisions is aimed at stopping any form of financial distress in the Nigerian banking industry as well as other undesirables to both the bankers and customers. Some banks like the UBA Plc have continued to survive – playing their major roles in the Nigerian Financial Market, despite all difficulties. This is in agreement with Bench (1993) that asserts that effective supervision of banks leads to a healthy banking industry and Dimitri (1990) who also believes that good regulation and supervision will minimise the negative impact of moral hazard and price shocks on the banking system, thereby leading to a reduction in bank failures and banking system distress.

In addition, the nature of banking business (being highly geared and conducted with greater secrecy when compared with other real sector businesses) provides added reason for strict inspection. This is to constantly beam a search-light on the sector's activities with a view to ensuring that operators play by the rules of the game and imbibe sound and safe banking practices. Furthermore, such a unit inspection is intended to assist supervisory authorities in timely identification of deterioration in banks' financial conditions before it degenerates to threaten the stability of the banking system or even the economy. This was the view of Iyade (2006), radical reforms to the system of prudential regulation and supervision have been implemented since the late 1980s. These reforms are essential because the prudential system has proved ineffective in ensuring sound bank management, as the scale of financial distress among the state government and local banks indicates.

Banking is in the service industry. The quality of services rendered by our banks have not been so encouraging. The government functionaries, businessmen, the media and the general public are all very critical of banking services. The complaints usually made and include: Inefficiency, poor treasury management, cases of bad debts and frequent rationalization and retrenchment of staff.

## **V. Conclusion**

The research examined the role played by bank inspection in the viability of commercial banks (a case study of UBA). The research theme was guided by a hypothesis. The research borrowed from related research material which was appropriately referenced. It adopted a questionnaire-based method of evaluation, testing the efficacy of the Hypothesis using the chi-square method and comparing the result with empirical statistical evidences in order to form a basis of opinion.

From the investigation carried out by the researcher, the study draws the following conclusions:

- i. The Bank inspection functions have not been effective in creating stability in the commercial banking system.
- ii. Bank inspection functions have not been effective in improving Corporate Governance issues in commercial banking system.
- iii. Effective inspection would boost the volume and the value of transactions witnessed in commercial banks.
- iv. Bank inspection have not stemmed the incidence of widespread bad loan portfolio the commercial banking system.

## **Recommendation**

Based on the findings of this study, the banking inspection unit currently being pursued should stay with some slight modification.

- i. There should be enforcement of effective inspection of bank returns and
- ii. Enforcement of stringent minimum standards for the ownership and management of banking institutions.

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