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The Impact of Banking Sector Reforms on the Performance of Commercial Banks in Nigeria

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Abstract: *The appointment of the new Governors of Central Bank of Nigeria (CBN) Lamido Sanusi, has introduced a spate of reforms in response to the global financial crisis and the mismanagement of certain Nigeria banks. Major changes to the financial industry are under way in Nigeria, the populous nation in sub-Saharan Africa, the populous nation in the world and the seventh largest exporters of oil. The CBN under Sanusi intends to raise the quality of banks supervision and bank operations to a world standard and has signalled its more interventionist role in the Nigeria economy.*

I. Introduction

The appointment of the new Governors of Central Bank of Nigeria (CBN) Lamido Sanusi, has introduced a spate of reforms in response to the global financial crisis and the mismanagement of certain Nigeria banks. Major changes to the financial industry are under way in Nigeria, the populous nation in sub-Saharan Africa, the populous nation in the world and the seventh largest exporters of oil. The CBN under Sanusi intends to raise the quality of banks supervision and bank operations to a world standard and has signalled its more interventionist role in the Nigeria economy.

The articles briefly reviews the history Nigerian banking places this latest reform effort within the context of that history analyzes this reform effort and then suggests some implication and these reforms for Nigeria and for potential investors in Nigeria banks and the Nigeria economic generally the current reform effort by Governor Sanusi follows a significant reform effort begun by his predecessor, Charles Soludo in 2004 that resulted in the consolidation of the banking industry in Nigeria.

Soludo took office as governor of the central bank Nigeria in June 2004. The following months he announce a new policy to increase the minimum paid in capital of bank to billion (US $ 173 million) from N2 Billion (US $14 Million. Banks were required to obtain this capital by the end of December 2005. Roughly 18 months from the policy announcement. The intend of the policy was to consolidate the existing bank into fewer, larger, and financial stronger banks.

In 2004, the banking industry of Nigeria consisted of 89 banks. The industry were fragmented into relatively small, weakly capitalized banks with most bank having paid in capital of $10 Million or less. The best capitalized bank has capital of $240 Million as compared to Malaysia where the least capitalized bank had capital of $526 Million at the time. As a result of this much larger capital requirement was the consolidation of banks into larger entities. During this 18 months period, there were a number of mergers and acquisitions among Nigeria banks in order to meet this now capital requirement. In the end the 89 banks that exited in 2004 decreased to 25 larger better capitalized banks.

Thirteen (13) banks did not meet the deadline for increasing their capital and their banking licenses were revoked. On June 4, 2009, Lamido Sanusi, former managing director of first bank took office as Governor of Central Bank of Nigeria (CBN). Early in his term, he empanelled a special joint committee of the Central Bank of Nigeria and the Nigeria deposit insurance corporation to conduct a special examination of all 24 universal banks in Nigeria on August 14, 2009, the CBN announced the result of the examination of 10 banks and determined that five (5) banks were involve; Oceanic, Union Bank, AfriBank, FinBank and International Bank. The aggregate percentage of non performing loans of there five banks was 40.81 percent.

On January 18, 2010 CBN issued a circular detailing the type and format of financial information that must be disclosed by banks in their yearly financial statement. As illustrated by these actions, CBN is aggressively pursuing accounting reforms to improve disclosure to regulators, investors and depositors regarding the financial health of Nigeria banks.

In March 2010 the Central Bank of Nigeria announced its plant dismantle Central tenet of banking regulation in Nigeria, the exclusive of universal banks a vehicles for conducting banking in Nigeria.

The CBN plans to categorised bank by functions and allowed variety of banks to operate in Nigeria with varying level of capital depending on the bank functions as opposed to single current minimum capital of N25 Billion (approximately $173 Million).

The intend is to allowed the creation of banks that would served different market segment, such as small and medium sized enterprise, and to phase out the one size fits all requirement by September 2011. Each types of bank would apply for different license.

The reforms programmes advocated by Sanusi, rests on four (4) pillars, enhancing the quality of banks, establishing financial stability, enabling healthy financial sector revolution and ensuring the financial section contribute to the real economy.

A bank reform means for promoting banking growth and development of the economy as a whole in Nigeria. In most cases, bank reforms are embarked upon to forestall banking crises, the effects of recent crisis. Baking sector reforms have come into play due to bank inability to meet up to required obligations or satisfy their stakeholders which overtime have led to subsequent failures and crises. A bank crisis can be triggered by weakness in banking system characterized by persistent illiquidity, insolvency, under capitalization, high level of non performing loans and weak corporate governance among others (Adegbaju and Olokoyo, 2008).

Statement Of The Problem

Most banks in Nigeria did not meet the dead line for increasing their capital and their banking license were revoked, also inability to satisfy their stakeholder which subsequently led to failure of banks, and crisis, failure of CBN, governing bodies with oversight functions for the financial sector, lack of co-ordination among regulators prevent a CBN from having comprehensive consolidated bank view of its activities and regulation concerning the major causes of the crisis were often impolite, as well as weak financial infrastructural can be vulnerable to banking crisis emanating from other countries through effectively, as such banking crisis usually starts with inability of the bank to the meet its financial obligations to its stakeholders.

It is as a result of this, the bank reforms are implanted to strengthen the banking system, embrace globalization, improve healthy competition, exploit economic of scales, adopt advanced technologies raise efficiency and improve profitability.

Objective Of The Study

The main object of the study is to asses the impact of bank reforms in Nigeria. The other objectives are:

- To strengthen the banking system of Nigeria
- To strengthen the international role of banks and to ensure that they are able to performed their developmental role of enhancing economy growth which can led to overall economic performance and societal welfare.
- To asses the impact of the bank reforms in Nigeria
- To adopt advance technology toward the development of the Nigeria economy.
- To assess whether the profitability of the Nigeria banking system has improve or not.
- To ensure a diversified, strong and reliable banking industry why there is safety of depositor’s money.

Research Question

This paper intent to answer the following question

- What is bank reform?
- What are the impacts of bank reforms toward the development of Nigeria economy?
- What ways does bank reforms strengthen the banking system?
- What are the roles plays by bank reforms in Nigeria?

Statement Hypothesis

This paper develops the following hypothesis;

Ho: Bank reforms have not significant impact to the development of Nigeria economy.

Scope And Limitation Of Study

This study limited to the impact of bank reforms in Nigeria, bank reforms means fostering a banking growth and development of the economy in Nigeria as whole. The studies cover a period of Seven (7) years from 2007 to 2013 of which 2007 to 2008 was the pre-era reform of the banking system.

The limitations of the study are:

- Lack of enough statistical data
- Lack of logistic
- Lack of capital
- Time constraint
- Incorrect information from the respondents

II. Literature Review

Bank: is a business that keeps and lend money and provides other financial services (Longman Dictionary of contemporary English 1995). This means that banks not only accept deposit from customers, they also lend money and offer other service related to finance Lawal et al (1999) used bank as public limited liability company, which undertake all kinds of banking activities.

Reforms: Oxford English Dictionary (1991) referred to reform as amendment of what is defective, victous, corruptor depraved. Which a program that is geared toward turning around a bad situation.

The Origin Of Bank And Banking Reforms In Nigeria

Era of free Banking (1894 – 1952)

The first bank to be established in Nigeria according to Lawal et al (1999) was the bank for British West Africa (now First Bank of Nigeria Plc) in 1894. Elder Dempsey and company had determined to establish the bank despite its initial failure in 1892 to establish the African Banking Corporation. The notion for the bank of British West Africa was born to facilitate international trade, mainly by distributing the British silver currency and repatriate the profit of the foreign firm.

The bank became the registered company in London in 1894 with initial authorized capital of N10,000 which was later raise to N100,000 the same year. Other branches were opened in major West African cities. Such as Accra, Freetown with Lagos branch in 1899. A second Nigeria branch of the bank was opened in Calabar in 1900. To break the monopoly of the Nigeria banking scene by the Bank for British West Africa, another bank known as Anglo-African Bank was founded in old Calabar by the Royal Niger Company in 1899. A third expatriate bank called the British and French Bank (now United Bank for Africa Plc), was incorporated in 1949. All this to render services to international trade.

Hence from 1914 and early 1930s several abortive attempts were made to establish indigenous to break the foreign dominants.

Green light started top show in 1929 when a handful is patriotic Nigerians established Commercials and Industrial Bank which later liquidated in 1930, due to under-capitalization, band financial management aggressive competition and the wave of economy depression of that period. Many banks like National Bank of Nigeria were established in 1933, Agboridge in 1945 by chief Okige which was taken over by the Western Region government and renamed WEMA Bank. Tinubu properties limited established by Dr. Nnamdi Azikiwe in 1948.

Establishment of Central Bank of Nigeria (CBN 1959 – 1985)

The appreciation of the development role or a stable and efficient financial system was demonstrated by the concerted effort to have a Central Bank of Nigeria (CBN) established. These efforts brought about the enactment of the Central Bank of Nigeria subsequently commenced operation in July 1959. Shortly often the establishment the CBN introduced short term government debt instrument (Treasury Bill) in 1960, to supplement commercial papers that were already in the market in a bid to encourage the development of the money market.

Impact Of Bank Reform On The Performance Of Bank In Nigeria And Prospect

1. **Public confidence and Bank habit**: The Nigeria public will again trust the bank and begin transacting business with bank based on the confidence that such banks are indeed strong and healthy and would not go into distress putting than into economic hardship by denying them of their hard earned money.
2. **Improve Financial Intermediation**: The core activities of banks are to be financial viable to intermediate, that is, the mobilization of fund from surplus ends to deficit ends. However to be prudent and avoid reckleness in lending there are regulation on the percentage of banks capitals based that can be borrowed by the public on increase in the capital would therefore translate to more funds being available to the bank for onward lending to the public translating to the facts that sufficient fund would be available to real or productive sector.
3. **Increased Capacity to Finance major project**: The proponent of the reforms opine that increase size could potentially increase bank return through revenue and bank efficiency gain.
4. **Better Regulation Banks**: With virtually all the bank now publicly quoted there wider regulator over sight, with SEC and CSE joining the team regulatory source would now focused on fewer and stable banks (Soludo, 2006).
5. **Employment Generation**: Oshioke (2005) stated that it was myopic for anybody to feel that the increase to N25 Billion capital base of banks would lack to unemployment perhaps due to the closure of certain allying banks or the reduction on the number of banks in the industry. He continued that on the long run the strong

bank will get bigger and expand in branch network to enable them cover the nation effectively and do good business.

6. **Healthy Competition**: It is established fact that the fastest route to improving efficiency in any industry is to foster competition among the operators.

Problems And Challenges Of The Reforms

1. **Legal, Supervision/Regulatory Framework**: The legal framework guiding the banking industry in Nigeria are; CBN Act 1991, as amended, bank and other financial institution Decree (BOFID) 1991, SEC 1978 (NDIC) 22 (1988), (AMA Act 1990) and the regulatory , the Nigeria stock exchange, corporate affair commission, etc the issue is whether the legal and regulatory authorities are able to contain the problems of the present reforms.
2. **Ighomwenghian (2006)** enthused that those who thought that the process of liquidating banks that failed to meet the N25 Billion minimum capitalization requirement would be an easy sail have been disappointed, going by the number of count cases institute by some of the former owner of the to stop liquidation. The pronouncement by the CBN to pay the failed banks depositors within 90 days is also yet to see the light of day. All this bring to question preparedness of the regulatory agonies for the eventualities of the reforms.
3. The huge complexity of the reforms programme of the kind embanked upon by the CBN demand caution, constant appraisal of strategies and action and full attention to identify and emerging challenges. Growth pattern of newer generation banks has proved so far, that mergers are not sufficient condition for growth – a vision, a strategy, and solid commitment to both are the key (Adepipe, 2005).

III. Research Methodology

This study is designed to assess the impact of bank reform and the performance of bank in Nigeria.

Source Of Data

For the purpose of this research both primary and secondary data would be use to collect data from the respondents.

Primary Data: The sources of the primary data will be the three selected banks in Maiduguri metropolitan by the used of questionnaires, interview and direct observation.

Secondary Data: shall be collected through the used text, journals, annuals, periodical publication and unpolished work presented by academics.

Method Of Data Collection

The method of the data collection is to administered questionnaire will contain both structure and unstructured questions. The structured question will require YES or NO or choice answers while the unstructured will be open ended questions to enable respondents freely express their opinion on some issues. The close-ended and the open ended questions will be made easy to reduce the risk of a respondent not attempting the questions at all.

Statistical Tools

The data collected from the issuance of the questionnaire will analyze and evaluated using simple percentage and charts. The hypothesis will be tested using binominal distribution (Z – score) technique. The simple percentage derived its base from a number of responses for or against a particular question.

The formula of the Binominal Distribution Technique is presented below:

$$Z = \frac{{}^\wedge P - P}{\sqrt{\frac{{}^\wedge P \, {}^\wedge q}{n}}}$$

Where:

^p = proportion of positive responses

^q = (1 - ^p) is the proportion of negative responses

p = probability of either outcome

n = number of sample population

Research Population, Sample Size And Sample Techniques

The population of the study shall comprises the employees of the selected banks in Maiduguri and their customers. The sized of the sample population shall be eighty (80) that is fifty (50) employees and Thirty (30) customers and the sample techniques shall be used in stratified random sampling technique.

Data Presentation And Analysis

This section dwells entirely on the presentation and analysis of the primary data gathered which proved necessary to the research. The analysis was based on the questionnaire administered to the staff and customers of the banks in Maiduguri.

The three where the questionnaires were distributed were on the bases of banks that stand alone, merged or acquired other bank. The binominal distribution techniques (Z – score) were utilized in testing the statistical hypothesis. The result of the tests was use either to accept or reject the hypothesis. Equal numbers of the questionnaire were administered to both the staff and customers of the three (3) banks, bringing the total sample size to Eighty (80). All the questionnaire administered were returned.

Topical Data

1. Table 4.1: Were you aware of the N25 Billion Reform?

Responses	**Frequency**	**Percentage (%)**
YES	80	100%
NO	-	
Total	**80**	**100**

Source: Field survey, 2015.

The table show that all the respondents are aware of the N25 Billion reforms of Nigeria Banks; this is clear from the responses all affirmative depicted by 80 respondents and 100% respectively.

2. Table 4.2: Were there timeless of the reform

Responses	**Frequency**	**Percentage (%)**
YES	68	85%
NO	12	15%
Total	**80**	**100**

Source: Field survey, 2015.

Table above shows that 68 (85%) agreed that there was time for the reform to take place while 12 (15%) said No. The result tallies with the CBN governors proactive steps to reforms the economy and the World Bank vanguard for all countries to reposition their economies to meet the present day economic condition.

3. Table 4.3: Were their solution to the problem created by the N25 Billion reform.

Responses	**Frequency**	**Percentage (%)**
YES	68	85%
NO	12	15%
Total	**80**	**100**

Source: Field survey, 2015.

From the table above shows that 68 (85%) brought about by the present reform could be solved. While 12 (15%) are opine that the problem will have solution might be exemplified by the number of court cases institute by the bank that did not achieved the reform margin.

4. Table 4.4: The impact of bank reforms in Nigeria has significantly contributed to the development of Nigeria economy.

Responses	**Frequency**	**Percentage (%)**
YES	68	85%
NO	12	15%
Total	**80**	**100**

Source: Field survey, 2015.

Table 4.4 above show that 68 (85%) from the sample population are of the opinion that the bank reform in Nigeria has significant impact to the development of Nigeria economy. While 12 (15%) said not. This means that the majority of the population are saying that the impact of bank reform have significantly contributed to the development of Nigeria economy.

Test Of Hypothesis

Information gathered from the banks and their customers was used in testing the hypothesis reliabilities is assured by involving the two parties in the test.

Formula:

$$Z = \frac{\hat{}P - P}{\sqrt{\frac{\hat{}P\ \hat{}q}{n}}}$$

Where:

^p = proportion of positive responses
p = probability of either outcome
n = number of sample population
^q = (1 - ^p) is the proportion of negative responses
Hence if Ho > P (accept); H1 < P (reject) on the critical value of 0.05 or 5%.

The responses generated from table 4.4 which state that the impact of bank reform in Nigeria has significantly contributed to development of Nigeria economy. To test the hypothesis stated.
Ho: The impact of bank reform – Nigeria has not contributed to the development of the Nigeria economy.
Table 4.4 Bank reform has contributed to development of Nigeria economy.

3. Table 4.3: Were their solution to the problem created by the N25 Billion reform.

Responses	Frequency	Percentage (%)
YES	68	85%
NO	12	15%
Total	**80**	**100**

Source: Field survey, 2015.
Computation:
^P = 68/80 = 0.85; ^q = 1 – 0.85 = 0.15
n = 80, p = 0.5
Z_{cal} =

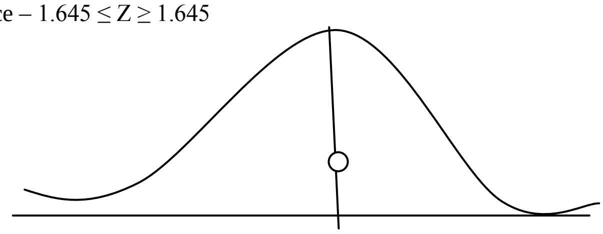
$$Z = \frac{0.85 - 0.5}{\sqrt{\frac{(0.85)(0.15)}{80}}}$$

$$Z = \frac{0.35}{\sqrt{\frac{0.1275}{80}}}$$

$$Z = \frac{0.35}{\sqrt{0.0017}}$$

$$Z = \frac{0.35}{0.00412}$$

= 85.05375192
= 85.054
Hence $-1.645 \leq Z \geq 1.645$



Za – Z0.05 = - 1.645 Za = 20.05 = 1.645
Since – 1.645 < 85.054 Z1.645
Ho: rejected and H1 is accepted and conclude that:

Decision Rule
Reject Ho: which state that the impact of bank reform in Nigeria does not significantly contribution to the development of Nigeria economy.

IV. Conclusion

The major research findings generated from the data presentation and analysis are as follows:

i. That the major problems of the regulatory authority of the financial system are inadequate laws, technology and bribery.
ii. Although merged bank must have been getting over most of their problems like product harmonization and acquisition cost, but management problems still remain.
iii. Most customers are still ignorant of the some of the banks devices.
iv. The merging of bank lending to the real sector is still low
v. Although these finds reveal some issues, which need attention, the reform has not done badly.

The review and analysis of the N25 Billion reform of bank in Nigeria show that stakeholders face greater challenges ahead. Therefore, there is a need for the regulatory authorities and the existing banks to harness their talent and keep their house in order for the full benefit of the reform to be realized. It has been discover that management has been a perennial problem in Nigeria; this is due largely to unskilled management staff, lack of experience, lack of constant training, and selfish interest among others.

In choosing management staff, it is suggested that proper tests are carried out on the candidate, history and the family background should be properly examined. The curtail bribery among the members of the supervisory authorities of Nigeria financial system stick law should be enacted.