

Banking Sector Reforms and Bank Performance in Sub-Saharan Africa: Empirical Evidence from Nigeria

Ali, Jude Igyo ¹, Ekpe Mary Jane ², Aigba Modupe Omotayo³

¹(Accounting and Finance Department Federal University of Agriculture, Makurdi Nigeria)

²(Department of Accountancy Federal polytechnic Nassarawa state Nigeria)

³(Credit Direct Limited FCMB Makurdi, Nigeria)

Abstract : *The study assessed the effect of banking sector reforms on the performance of deposit money banks in Nigeria with special emphasis on the 2004 bank reforms. The population of study consisted of the twenty four (24) deposit money banks operating in Nigeria as at 31st December 2009. Time series data for the pre-reform period (2001-2004) and the post-reform period (2006-2009) were generated from the Central Bank of Nigeria (CBN) Statistical Bulletin and analyzed with descriptive and inferential statistical tools. The Wilcoxon signed rank order test was used to test the hypotheses using the statistical package for social sciences (SPSS) version 17. The study reveals that the 2004 reforms have improved the bank performance variables assessed namely: bank capital (BC), bank deposit (BD) and bank liquidity (BL). However the improvement is not significant at 5% level. The study concluded that despite the reforms, Deposit Money Banks were still faced with post reform challenges of non-performance. The study therefore recommended that more efforts should be made to ensure adequate compliance with corporate governance provisions in improving performance. Frantic efforts should be made to improve on the capital of the Nigerian banking sector which to a large extent, contribute to bank failures.*

Keywords: *Banking Sector, Consolidation, Liquidity, Performance,*

I. Introduction

The Nigerian banking industry has witnessed and is still witnessing revolutionary transformation as a result of the reform programmes aimed at resolving the existing problems of the industry by the apex bank.

The most recent advocated reforms is the recapitalization, the abolishment of universal banking, reduction in the tenure of managing Directors/Chief executive officers of banks, withdrawal of public funds from the commercial banks and the introduction of Asset Management Company of Nigeria with its core obligation of purchasing back toxic assets from banks currently in need and return capital to the banks, improve liquidity and prepare grounds for the Central Bank of Nigeria(CBN) to withdraw from the affected banks (Okafor, 2012).

In a developing economy, such as Nigeria, financial sector development has been accompanied by structural and institutional changes and the sector generally has long been recognized to play a crucial role in economic development of the nation (Kanayo, 2011). Banking reforms have been an on-going phenomenon around the world, but it is more intensified in recent time because of the impact of globalization which is precipitated by continuous integration of the world market and economies (Adegbaju and Olokoyo, 2008). The role of the banking system in any economy cannot be overemphasized as the banking sector serves as a means through which the apex bank regulates the entire financial system by administering its monetary policies and also serves as a medium for mobilizing and circulating financial resources in an economy. The reforms are designed to enable the banking sector develop the required capacity to support the economic development of the nation by efficiently performing its functions as the head of financial intermediation (Lemo, 2005). This crucial role makes it pertinent for it to be regulated regularly to ensure efficiency and confidence in the system. A banking crisis can be caused by weakness in banking system characterized by persistent illiquidity, insolvency, undercapitalization, high level of non-performing loans and weak corporate governance, among others (Adegbaju and Olokoyo, 2008).

In a bid to ensuring prudence and an efficient banking system the Nigerian banking system has undergone remarkable changes in recent years, in terms of the number of institutions, ownership structure, as well as depth and breadth of operations (Olokoyo, 2013). These recent major reforms were carried out by the administrations of Soludo as governor of the Central Bank of Nigeria between 2004 to 2009. The key elements of the 13-point reform programme in Nigeria include: Minimum capital base of N25 billion with a deadline of 31st December, 2005; Consolidation of banking institutions through mergers and acquisitions; Phased withdrawal of public sector funds from banks, beginning from July, 2004; Adoption of a risk-focused and rule-based regulatory framework; Zero tolerance for weak corporate governance, misconduct and lack of transparency; Accelerated completion of the Electronic Financial Analysis Surveillance System (e-FASS); The

establishment of an Asset Management Company; Promotion and enforcement of dormant laws; Revision and updating of relevant laws; Closer collaboration with the EFCC and the establishment of the Financial Intelligence Unit.

To a large extent, banking sector reforms are based on a belief that their gains will be accrued through expenses reduction, increased market power, reduce earnings volatility, economies of scale and to create a vibrant banking system (Olokoyo, 2013). However, a critical look at the twenty four (24) banks that emerged after the recent banking sector reforms shows that most banks that were regarded as distressed and unsound reorganized under new names or merged into existing perceived strong banks not necessarily to correct the inefficiency in their operating system but to meet the mandatory requirements, to remain afloat and to continue business as usual (Okpara 2012). While these reforms no doubt have benefits, what is less clear is the effect of these reforms on the operating efficiency of the banks (Lemo, 2005).

Also Afolabi (2004) and Lemo (2005) assert that these reforms that change the structure and size of the Banking Sector in Nigeria had a primary objective of guaranteeing a platform to support banks efficiency, safety of depositors fund and become a major player in the global financial market.

However on assumption of office, Sanusi recognized continuous weakness in the system despite the recapitalisation of 2005. He identified weak corporate governance, operational indiscipline and global financial crisis as the major causes of the weakness and prescribed further decisive reforms to forestall total collapse of the sector. There is, therefore need to re-assess the state of the banking sector after these major reforms to know their consequent effects on the banking sector and largely the Nigerian economy.

Nevertheless, shortly after these reforms were carried out in 2004 under the watchful eyes of Soludo the overall gains of reforms appear not to have been achieved as banks were declared as weak and distressed by the Sanusi administration (Olokoyo 2013). This is an indication that the persistent reforms orchestrated by the apex bank had seemingly little or no effect on bank performance in Nigeria.

Also, the gap identified in the literature is that, none of the empirical studies reviewed specifically studied Bank Deposits (BD) and Banks Deposits (BD) as performance indices of the banking sector using aggregate data from CBN bulletin which is also a gap this study seeks to fill.

It is in view of the existing gap and the series of banking sector reforms in Nigeria with seemingly little or no meaningful effect on bank performance that constitutes the research problem which the researcher seeks to examine. Specifically the study seeks to resolve the lingering problem of whether or not the banking sector reforms carried out by Soludo have significant effect on the performance of deposit money banks (DMB). (10)

1.2 Statement of Hypotheses

This study specifically tested the following hypotheses:

- Ho1: There is no significant effect of banking sector reforms on the capital of deposit money banks (DMB).
Ho2: There is no significant effect of banking sector reforms on the liquidity of deposit money banks (DMB).
Ho3: There is no significant effect of banking sector reforms on the deposits of deposit money banks (DMB).

II. Conceptual Clarifications

2.2.1 Bank Reforms

Conceptually, economic reforms are undertaken to ensure that every part of the economy functions efficiently in order to guarantee the achievement of macroeconomic goals of price stability, full employment, high economic growth and create both internal and external balances (Okpanachi, 2011). Considering the foregoing, reforms are predicated upon the need for reorientation and repositioning of an existing status quo in order to attain more effective and efficient state. They could be fundamental bottle necks that may inhibit the functioning of institutions for growth and the achievement of core objectives in the drive towards enhancing and sustaining the economic and social imperatives of human endeavour. Carried out through either government institutions or private enterprises, reforms become inevitable in the light of the global dynamic exigencies and emerging landscape. Consequently, the banking sector, as an important sector in the financial scene, needs to be reformed in order to enhance its competitiveness and capacity to play a functional role of financing investment.

Adams (2005) indicates that banking sector reforms are propelled by the need to deepen the financial sector and reposition it for growth for it to be integrated into the global financial architecture and create a banking sector that is consistent with regional integration requirements and international best practices.

The ability of the financial system to engender economic growth hinges largely on the health, soundness, efficiency and stability of the banking system. Banking reforms are therefore undertaken to strengthen and reposition the banking industry to enable it contribute meaningfully to the development of the real sector through its intermediation process. It involves a comprehensive process of substantially improving the regulatory and surveillance framework fostering healthy competition in operation, ensuring an efficient

framework for monetary management, expansion of savings mobilization base, enforcement of capital adequacy, promotion of investment and growth through market-based interest rates.

The theoretical argument linking bank reforms to growth is that a well developed financial system enhances the efficiency of intermediation by reducing information, transaction, and monitoring costs. On the one hand, it broadens the deposit base of the economy and also it promotes investment by identifying and funding good business opportunities, facilitating the exchange of goods and services and also hedging and diversifying risk. (Sanusi, 2010).

Ultimately, bank reforms are aimed at ensuring financial deepening which implies the ability of financial institutions to effectively mobilize savings for investment purposes. The growth of domestic saving provides the real structure for the creation of diversified financial claims. It also presupposes active participation of financial institutions in financial markets, which in turn entail the supply of quality financial services in financial institution (Odedokun, 1989) cited by Okagbue and Aliko (2004).

2.2.2 Bank Performance

Bank performance is the adoption of set of indicators which are indicative of the bank's current status and the extent of its ability to achieve the desired objectives. An efficient banking system facilitates linkage between mobilization and use of resources, which accelerates the process of economic growth. It is a widely accepted belief that a banking system which relies on a wide range of banking products, is able to carry out this function because it increases the efficiency of a banking systems to a large extent by offering a broader and flexible array of services to the benefits of both borrowers and investors. The determinants of key performance indicators (KPIs) of private sector banks as captioned by Abduraheem, Yahaya, and Aliu (2011) include Accident Ratio, Opportunity Succession Rate, Cash Flow, Return on Capital Employed (ROCE), Liquidity, Customer Satisfaction Rate, Bank capital, Asset quality, Bank deposit Overall Equipment Effectiveness, Return on Investment (ROI), and Internal Promotion.

Considering performance in terms of bank capacity to generate sustainable profitability, European central bank (2010) argue that Profitability is a bank's first line of defence against unexpected losses, as it strengthens its capital position and improves future profitability through the investment of retained earnings. It is worthy of note that an institution that persistently makes a loss will ultimately deplete its capital base, which in turn puts equity and debt holders at risk. Moreover, since the ultimate purpose of any profit-seeking organization is to preserve and create wealth for its owners, the bank's return on equity (ROE) needs to be greater than its cost of equity in order to create shareholder value. Although banking institutions have become increasingly complex, the key drivers of their performance remain earnings, efficiency, risk-taking and leverage. In detail, while it is clear that a bank must be able to generate "earnings", it is also important to take account of the composition and volatility of those earnings. (ECB,2010).

Bank performance or efficiency refers to the bank's ability to generate revenue from a given amount of assets and to make profit from a given source of income. "Risk-taking" is reflected in the necessary adjustments to earnings for the undertaken risks to generate them (e.g. credit-risk cost over the cycle). "Leverage" might improve results in the upswing in the way it functions as a multiplier but, conversely, it can also make it more likely for a bank to fail, due to rare, unexpected losses (Abduraheem, Yahaya & Aliu, 2011).

For Mohammed (2005), the reasons for non-performance of the banking sector is the personalization in ownership and management structure which makes the banks incapable to finance large scale and long term projects due to limited liquidity at their disposal. The banking sector with import financing rather than encouraging domestic growth in the economy will bring loss of public confidence due to fear of liquidation, customer dissatisfaction on banking services as well as some obnoxious, unprofessional and other sharp practices within the industry. All these can cause great distortion in the financial system resulting to financial inefficiency, which will make investors not to get constant and high dividends as a result of inefficiency in terms of gross earnings, profit after tax and net assets. (Mohammed,2005).

Umoh (2004) opined that bank reforms through mergers and acquisitions are expected to address the problem of distress among insolvent banks without an initial resort to liquidation and ensure banking sector efficiency.

2.3 Theoretical Framework

For the purpose of this research work the pro-concentration theory of Allen and Gale, (2000) and buffer theory of capital adequacy of Calem and Rob (1996) was used.

2.3.1 Pro-Concentration Theory

Bank concentration of Allen and Gale, 2000 refers to the degree of control of economic activity by large banks. It states that the increase in concentration level could be due to considerable size enlargement of the dominant firm and size of the bank is largely determined by its financial capacity. The pro-concentration theory

proponents of banking sector argue that economies of scale drive bank capitalization, mergers and acquisitions so that increase in concentration can be used to achieve improvement and efficiency.

Proponents of this theory argue that a less concentrated banking sector with many small banks is more prone to financial crises than a concentrated banking sector with a few large banks (Allen and Gale, 2000). This is because economies of scale drive bank mergers and acquisitions (increasing concentration), so that increased concentration goes hand-in-hand with efficiency improvement. To strengthen this point, Soludo (2004) posits that the small size of most banks, each with expensive headquarters, separate investments in software and hardware, heavy fixed asset cost and operating expenses, with a lot of branches in few commercial centres led to very high average cost for the industry. All these will affect the growth of the real sector and several other factors because the cost of intermediation, the spread between deposit and lending rates will put undue stress on the banks. Also Boyd and Graham (1991) cited by Zhao (2009) in their study of the U.S bank holding companies conclude that there is an inverse relationship between size and the volatility of assets return. However these findings are based on the voluntary consolidation unlike the case with the Nigerian banking sector.

The proponents of the “concentration stability” are of the opinion that banks can diversify better so that a banking system that is characterised by a few large banks will tend to be less fragile than a banking system with many banks (Allen and Gale, 2000). Concentrated banking system may also improve bank capital and enhance profits and therefore lower bank fragility. High profit provides buffer against adverse shocks and increase the franchise value of the bank, reducing incentives for bankers to take excessive risk. Furthermore, a few large banks are easier to be monitored than many small banks, so that corporate control will be more effective and the risk of contagion is less pronounced in a concentrated banking system (soludo, 2004).

2.3.2 Buffer Theory of Capital Adequacy

The buffer theory of Callem and Rob (1996) states that a bank approaching the regulatory minimum capital ratio may have an incentive to boost capital and reduce risk in order to avoid the regulatory costs triggered by a breach of the capital requirements. However, poorly capitalized banks may also be tempted to take more risk in the hope that higher expected returns will help them to increase their capital.

The proponents of the theory argue that banks prefer to hold a buffer of excess capital to reduce the probability of falling under the legal capital requirements, especially if their capital adequacy ratio is very volatile. This is because bank capital requirements constitute the main banking supervisory instrument by the regulatory authorities in any economy (Ikpefan, 2006).

2.4 Reforms in the Nigerian Banking Sector

The Nigerian banking sector has experienced significant structural and institutional changes over the last few decades caused by restructuring and liberalization of the financial market which had significant implications on the nation’s banking sector (Olokoyo, 2013). The Nigerian banking industry since its inception (in August 1891 which saw a branch of the African Banking Corporation open in Lagos) had evolved in seven stages (Adolphus, 2013 and Okpara, 1997).

The first stage (1891-1951) was a free banking era, characterized by unregulated/unguided and laissez-faire banking practices and hence massive bank failure. The rest of the six stage fall under reform stages which started with the banking ordinance of 1952 that dominantly prevailed till 1959.

Thus, the first phase of bank reforms in Nigeria (1952 – 1959) bordered on definition of banking business, prescription of minimum capital requirements for the expatriate and indigenous banks, maintenance of a reserved funds, adequate liquidity and inculcating of examination, supervision and control habit into the banking management in Nigeria (Okpara, 1997).

Following the Paton Report in 1948, the first banking ordinance was enacted in 1952. The ordinance defined a bank as any company carrying out banking business or using bank or banking as part of the title under which it carries on business. Banking is also defined as the business of receiving money from the public on current account which is to be repayable on demand by cheque and of making capital requirements for expatriate and indigenous banks. The report further indicated that each banking candidate must obtain a license on paying a nominal capital of £25,000 with at least a paid up of capital of £100,000. Banks were required to maintain a reserve fund into which 20 per cent of the profit would be paid annually until the reserve fund equalled the paid-up capital and all capitalized expenditure must have been retired before any dividend pay-out. They were also expected to maintain adequate liquidity. No bank was allowed to make unsecured loans against its own shares for more than £300 to any of its directors or to a company associated with any of its directors. Thus, the ordinance made mandatory the supervision, examination and control of banks in the country by the government but failed to provide for the liquidation of banks or bank examiner (Okpara, 1997).

The second phase of the reform (1959-1986) came with the commencement of operations of the Central Bank of Nigeria in June 1959. The CBN actually took off on July 27, 1958 with Mr. R.P. Fenton of the

bank of England as the first governor. The preceding CBN Act of 1958 incorporated all the requirements in the 1952 ordinance and introduced mandatory liquidity ratio in the banking business. The CBN Act of 1958 marked the turning point in government's efforts and desire to harmonize the activities of the banks for national development and growth through the issue and regulation of currency, credit and foreign exchange control and the supervision of the financial system of the country.

Another banking act, in 1969 which has remained the pillar and base of banking laws in Nigeria to date was an addition to the companies' act of 1968 which made it mandatory for all banks, like other business operating in Nigeria to register as Nigerian companies. The 1969 act increased minimum capital requirement for both indigenous and foreign banks, raised the maximum lending to any single borrower to 33 1/2 per cent of the sum of the paid-up capital and statutory reserves of bank from the former 20 per cent level in 1958; provided that no bank should own any subsidiary company and clients, and give the apex bank extensive supervisory and regulatory power over all banks (Akinmoladun, 1992) as cited by Okpara (1997). The major amendments to the 1969 Banking Act were in 1970, 1972 and 1979 to strengthen the CBN to cater for recent developments in the banking system (Okpara, 1997).

The third financial sector reforms (1987 – 1993) led to deregulation of the banking industry that hitherto was dominated by indigenized banks that had over 60 per cent Federal and State government's stakes, in addition to credit, interest in Nigeria started in the fourth quarter of 1986 with the setting up of a foreign exchange market in September 1986, the reforms pertaining to the banking industry proper did not commence until January 1987 (Asogwa, 2005). The reform took the form of deregulation of the rate of interest both on loans and on deposits. Market mechanism was left to determine the rate of interest any bank would charge. Government also brought out new rules for setting up banks and issuing licenses that favoured new entrants most. This consequently led to a sudden upsurge in the number of banks which invariably increased from 56 in 1986 to 120 in 1993 (Okpara, 1997). Banks were also accommodated in trading in the exchange rate sector as the exchange rate was partially freed from government administration and paved way for auctioning forex system. Initially, the forex was divided into official and unofficial windows. While government sourced forex in the official market at administratively controlled rates, the licensed foreign exchange dealers usually banks, bid foreign exchange at the instance of market mechanism on behalf of their clients in the unofficial window.

This trading also appeals to the interest of the banking system and coupled with the favourable licensing issues, led to increase in the number of banks. The phenomenal growth in the number of banking institutions overstretched the regulatory capacity of the CBN while the growth sophistication in the design and use of financial instruments heightened the risks of malpractices and fraud in the industry. In particular, mismanagement such as insiders' abuse and poor credit appraisal systems, resulted in the accumulation of unpaid loans and advances which eventually contributed to the distress situation experienced in the banking system in the early 1980's and mid 1990's and the revocation of the licenses of 26 banks in 1997 (Asogwa, 2005).

To ensure the healthy platform for the system, Nigerian Deposit Insurance Corporation (NDIC) was established in 1988 and commenced operation in January 1989. In 1991 two new decrees were put in place to enhance the powers of the regulatory and supervisory authorities of the financial system to enable them manage the reform packages effectively. The first is the Central Bank of Nigeria Decree 24 of 1991 and the Banks and Other Financial Institution Decree (BOFID), 25 of 1991. The new banking sector regulatory reforms gave the CBN the powers to issue banking licenses and to revoke them. It also empowered the CBN to apply any type of measures to handle ailing financial system. By 1991 some of the reform measure of 1987 were reversed, a cap was replaced on interest rates standing at 21% for lending rates and 13.5% for deposit rates.

Also a maximum interest rate spread was specified at 4%. By 1992 government divested itself from the seven banks where it had 60% equity holding in line with the new private sector driven development and privatization. In 1993 the Open Market Operations as an indirect instrument of monetary control was introduced. The first discount house took off in 1993 known as Associated Discount house. The discount house intermediate between the central bank and the other banks, offloading government treasury securities from the CBN and auctioning some to the banks. Where the banks cannot pick – up all of the treasury securities, the discount house warehouse them (Oluyemi, 2005).

The table below shows the major events that took place during the third era of financial sector reforms in Nigeria.

Table 1: Stages of Bank Reforms (1987 – 1997)

S/No	Reforms/Event	Years
1	Deregulation of lending and deposit rate	1987
2	Deregulation of entry	1987
3	Partial Abrogation of Sectoral Allocation of Credit	1987
4	Determination of foreign exchange by the market forces	1987
5	Creation of deposit insurance corporation/scheme	1988

6	Change in minimum paid-up capital for banks (still on till date)	1988
7	Withdrawal of public sector deposit	1989
8	Creation of peoples banks (1989) & community banks (1990)	1989
9	Licensing of non-bank financial institutions	1990
10	Prudential Guideline	1990
11	Partial privatization of banks	1991
12	Reform of the regulatory and supervisory framework. i.e. CBN Degree and BOFID	1991
13	Indirect monetary control Allowing Discount House Entry	1993
14	Capital market reform	1997

Source: Adapted from Asogwa (2005)

The adoption of the IMF led structural adjustment programme in 1986 which included a broad program of financial liberalization with interest rates and entry into the banking system liberalization did not provide any significant improvement in Nigeria's key economic indicators as gross domestic product (GDP) as at 1980 declined constantly by 14.3% i.e. from 7.5% in 1988 to 6.5% at the end of 1989 while the inflation rate increased from 34.5% in 1988 to 50.5% at the end of 1989 (Ayanwale, 2007).

The introduction of the prudential guidelines attempts to bring order and harmony in the reporting of loan provision and classified risk assets. The prudential guidelines issued by the CBN in November 1990 were aimed at proper loan asset classification and income recognition. Before the introduction of the prudential guidelines, banks had their individual methods of classifying accounts, rating credit and categorizing account as performing or non-performing. They treated accrued interest on non-performing accounts as income. The implications of their actions were the declaration of high level of profit that was not actually realized (Asogwa, 2005).

In line with the foregoing, the country allowed the establishment of foreign banks in 1990 to improve this situation. This resulted to an increase in the number of banks from 106 to 155 by the end of 1997. In 1997, a Central Bank of Nigeria directive lifted the restrictions on equity ownership by individuals and corporate investors in Nigerian banks. Under the new directive, it was possible for an individual or corporation to own 100% of the share capital of a bank. Prior to this directive, the maximum shareholding possible for an individual was 10%, while for companies the limit was 30%. However, due to the distress that plagued many of these banks, the number of banks declined to 89 at the end of 1998 as the federal government liquidated twenty-seven ailing banks (Ayanwale, 2007).

The fourth phase began in the late 1993; (1994 – 1998), with the re-introduction of regulations. During this period, the banking sector suffered deep financial distress which necessitated another round of reforms, designed to manage the distress. In 1993 the Nigerian banking sector recorded 33 bank distress for the first time since the establishment of the Central Bank; and in 1995, the number peaked to 60 (Okpara, 1997). In 1994 another reforms measure was introduced. Hitherto banks in Nigeria which had not been paying interest on demand deposits (current account) were granted permission to do so.

The cash reserve ratio which before the reforms had been virtually stagnant was revised to now begin to work as an indirect instrument of credit control and granting of loans on the strength of foreign exchange held in foreign accounts was prohibited. All government deposits held by the commercial and merchant banks were withdrawn so that the banks could function without undue government interference (Asogwa, 2005).

The fifth phase corresponding to our pre-consolidation era began with the advent of civilian democracy in 1999 (1999 – 2003) which saw the return to liberalization of the financial sector, accompanied with the adoption of distress resolution programmes. This era also saw the introduction of universal banking which empowered the banks to operate in all aspect of retail banking and non-bank financial markets (Balogun, 2007).

Table2: Stages of Bank Reform 1999 – 2001

S/No	Reform	Year
1	Re-entry of foreign owned banks	1999
2	Institutionalization of foreign currency deposits	2000
3	Universal Banking Scheme	2001

Source: Adapted from Asogwa (2005)

By 1999, while the inflation rate had reduced from 50.5% to 13%, the GDP growth rate had significantly declined to 2.4% and the Central Bank of Nigeria minimum rediscount rate increased to 20.7% necessitating the reforms in the table above.

The sixth phase corresponding to our consolidation era began in 2004 to date and it is informed by the Nigerian monetary authorities who asserted that the financial system was characterized by structural and operational weaknesses and that their catalytic role in promoting private sector led-growth could be further enhanced through a more pragmatic reform program (Balogun, 2007).

Table 3: Stage of Bank Reform 2004 – 2005

S/No	Reform	Year
1	Bank consolidation	2004
2	Mergers & Acquisition	2005

Source: Adapted from Asogwa, (2005)

Prior to this reform, the banking system was characterized by low capital. High non-performing loans, insolvency and illiquidity, over dependence on public sector deposits and foreign exchange trading, poor asset quality, weak corporate governance, a system with low depositors' confidence and a banking sector that could not support the real sector of the economy at 25% of GDP compared to Africa average of 78% for developed countries (Ebong, 2006).

1. Minimum capital base from ₦2 billion to ₦25 billion with a deadline of 31st December, 2005
2. Consolidation of banks through mergers and acquisitions;
3. Phased withdrawal of public sector funds from banks, beginning from July, 2004; Adoption of a risk-focused and rule-based regulatory framework;
4. Adaptation of zero tolerance for weak corporate governance, misconduct and lack of transparency;
5. The automation of the rendition process of returns by banks and other financial institutions through the electronic analysis and surveillance system (e-FASS);
6. Establishment of a hotline and confidential internet address for all Nigerians wishing to share any confidential information with the governor of the CBN.
7. Strict enforcement of the contingency planning framework for system banking distress amongst others.

The seventh stage also called the post-consolidation period (2008-2011) witnessed interplay between the adverse effects of the 2007-2009 Global Financial Crisis and heavy risk concentrations in the previously consolidated banks. The CBN developed a blueprint under Sanusi for reforming the Nigerian banking industry built around four pillars chronicled as “**The Project Alpha Initiative**” for reforming the Nigerian financial system in general and the banking sector in particular. The reforms aimed at removing the inherent weaknesses and fragmentation of the financial system, integrating the various ad-hoc and piecemeal reforms and unleashing of the huge potential of the economy to include (a) enhancing the quality of banks, (b) establishing financial stability, (c) enabling healthy financial sector evolution, and (d) ensuring the financial sector contributes to the real economy. There was also greater emphasis on requisite disclosure, transparency and risk-based supervision (RBS) to restore sanity in the banking system (Adolphus, 2013).

2.6 Factors Responsible for the Failure of Banking Sector Reforms

According to Sanusi (2010) as quoted by Alade (2012), the Nigerian economy was hit by the second round effect of the financial meltdown between 2008 and 2009 and many Nigerian banks sustained huge losses, particularly as a result of their exposure to the capital market and downstream oil and gas sectors. He further added that a holistic view on what went wrong in Nigeria leading up to the banking crisis in 2008 found eight interrelated factors responsible. These were macroeconomic instability, major failures in corporate governance at banks, lack of investor and consumer sophistication, inadequate disclosure and transparency about the financial position of banks, critical gaps in the regulatory framework and regulations, uneven supervision and enforcement, unstructured governance/management processes at the CBN and weaknesses in the business environment. These factors brought the entire Nigerian financial system to the brink of collapse. Therefore, the CBN had to rescue eight (8) banks that were in serious liquidity problems through capital and liquidity injections, retirement of their top executives and prosecution of those who breached standard practices. These actions became necessary to restore confidence and sanity in the banking system.

2.6.1 Inadequacy of capital.

CBN (1997) posit that banks are expected to maintain adequate capital to meet their financial obligations, operate profitably and contribute to promoting a sound financial system. It is for these reasons that the CBN prescribes minimum capital requirements. This minimum ratio of capital adequacy has been increased from 6 per cent in 1992 to 8 per cent in 1996. It is further stipulated that at least 50 per cent of the component of a bank's capital shall comprise paid-up capital and reserves, while every bank shall maintain a ratio of not less than one to ten (1:10) between its adjusted capital funds and its total credit. When a bank's capital falls below the prescribed ratio, it is an indication that the bank may be heading for distress.

Bank examination reports showed that a good number of banks operating in Nigeria were grossly unrecapitalized. This situation has been attributed to the low level of initial capital, the effect of inflation, the adverse operating results mainly due to their inability to make appreciable recoveries from their non-performing assets and the large portfolio of non-performing loans maintained by some banks. These factors have combined

to erode the capital base of many banks. With the introduction of Prudential Guidelines, banks were required to suspend interest due, but unpaid, on classified assets and to make provisions for non-performing credit facilities, a good proportion of which was subject to losses.

In describing capital inadequacy, Ogundina (1999) argues that capital in any business whether bank or company serves as a mean by which losses may be absorbed. It provides a cushion to withstand abnormal losses not covered by current earnings pattern. Unfortunately, a good number of banks are grossly undercapitalized. This situation could partly be attributed to the fact that many of the banks were established with very little capital. This problem of inadequate capital has been further worsened by the huge amount of non-performing loans which have eroded the capital base of some of these banks. Available statistics on banks' capitalization reveal that as at the end of 1992, 120 operating banks in the country required the aggregate additional capital to the tune of N5.6 billion to meet the statutory minimum capital funds set by bank regulators in 1992. Ogubunka (2003) contends that when a bank is undercapitalized, it ought not to continue with its magnitude of operations prior to the depletion of capital.

2.6.2 Lack of Disclosure and Transparency

Sanusi (2002) posits that disclosure and transparency are key pillars of a corporate governance framework, because they provide all the stakeholders with the information necessary to judge whether or not their interest are being served. He sees transparency and disclosure as an important adjunct to the supervisory process as they facilitate banking sector market discipline. For transparency to be meaningful, information should be accessible, timely, relevant and qualitative. Ajayi (2005) argues that transparency and disclosure of information are key attributes of good corporate governance which banks must cultivate with new zeal so as to provide stakeholders with the necessary information to judge whether their interest are being taken care of. Sanusi (2010) opines that lack of transparency undermines the ethics of good corporate governance and the prospect for effective contingency plan for managing systemic distress.

Akpan (2007) observes that lack of transparency has obscured the way many financial and economic activities are conducted and has contributed to the alarming proportion of economic/financial crimes in the financial industry. 'Trust' and the fiduciary principle, which was the cornerstone of banking, has been completely jettisoned as banks now engage in all forms of sharp practices. Some of these sharp practices involve the deliberate manipulation or distortion of records to conceal the correct and true state of affairs. These records which form the bed rock of supervisory oversight by the regulatory authorities in monitoring the soundness of the system has thus been undermined. Such distortions therefore, would necessarily result in wrong information being sent to the regulatory authorities, which should have been in a position to take adequate measures to prevent further deterioration of the bank's position.

Imala (2004) contends that the issue of transparency has to be taken seriously in the new dispensation. Transparency has been a recurring problem in the financial industry in Nigeria, and unless improved upon, it has the potential of making nonsense of the efforts of the supervisors in implementing the New Accord.

2.6.3 Huge non-performing loans

A major revelation during an audit exercise shortly after Sanusi took over as CBN governor showed that many owners and directors abused or misused their privileged positions or breached their fiduciary duties by engaging in self-serving activities. The abuses included granting of unsecured credit facilities to owners, directors and related companies which in some cases were in excess of their banks' statutory lending limits, in violation of the provisions of the law (Oluyemi, 2005). A critical review of the nation's banking system over the years has shown that one of the problems confronting the sector had been that of poor corporate governance. From the closing reports of banks liquidated between 1994 and 2002, there were evidences that clearly established that poor corporate governance led to their failures. Ogundina (1999) observes that the Nigerian financial system over the years have been under severe stress as a result of large amounts of non-performing loans. The classified loans and advances of the whole banking industry in 1990 amounted to N11.9 billion, representing 44.1 percent of the total loans and advances. The problem of bad debts is usually exacerbated by the negligence on the part of the lending officers. Some of these loans were granted without regard to the basic tenets of lending, nor do they comply with any rational lending criteria. This makes it extremely difficult or impossible to recover a substantial part of the loans (Sanusi, 2010).

Also, the devaluation of the naira in the wake of Structural Adjustment Programme had its effect on the ability of borrowers to pay off. A devaluation by more than 700% ever since the introduction of SAP shore up foreign manufacturing input prices, leading to greater domestic capacity underutilization and reduced inability of business borrowers to repay their bank loans and advances (Balogun, 2007). According to CBN (1997), several of the distressed banks suffer from poor asset and liability management. The portfolios of assets of the majority of these banks were concentrated on loans and advances that became non-performing. Other assets such as treasury securities, investments and cash accounted for a small proportion of their asset portfolio. The

profile of poor asset and liability management exposed the banks to liquidity risk which weakened the confidence that the public had in the banking sector.

2.6.4 Political factors

These are politically induced issues, which turn out to have adverse consequences on the effective management of banks. For instance, Imala (2004) posits that political instability and indeed uncertainty associated with the annulled June 12, 1993 Presidential Elections, engendered fear in the populace which led to unanticipated massive withdrawal of funds from banks. Another example is political interference on the management of banks. In this instance, most government owned banks were politically influenced to grant loans and overdraft which soon after became hard core and remained unpaid.

2.6.5 Regulatory and Supervisory Factor

It is the responsibility of regulatory/supervisory agencies to husband the financial services sector to ensure its safety, soundness and stability. Some of the actions and inactions of these agencies encouraged distress in the system (Nnanna, 2004). For instance, the use of stabilization securities on both liquid and less liquid banks, for the purpose of excess liquidity control, exacerbated the problems of less liquid banks. Again, the withdrawal of government deposits from conventional banks to control banking system liquidity, created deep holes in the deposit profile of some banks and thus led to high loan/deposit ratios, indicating overtrading (Nnanna, 2004).

2.7 Empirical Review

For instance studies by Abdulraheem, Yahaya and Aliu (2011), Okpanachi (2011), Aransiola (2013), Agbada and Osuji (2013), Odeleye (2014) found that banking sector reforms in Nigeria had significant and positive effect on the performance of banking sector reforms in Nigeria especially Deposit Money Bank. However, the empirical evidence from the studies of Ibrahim (2013), Owolabi and Ogunlalu (2013), Oke and Azeez (2012), Okpara (2011), Agbada and Osuji (2013) are at variance with those reviewed in the foregoing. They found that banking reforms did not adequately and positively affect the bank performance and the economy in general.

III. Methodology

This session presents the procedures employed for this research. Specifically, it covers sample selection, measurement of variables, sources of data and method of data analysis.

The research design adopted for this study is the descriptive and inferential research designs. Time series data was collected from secondary sources from 2001 to 2004 and from 2006 to 2009 from CBN statistical bulletin. The population of this study is the entire Nigeria banking sector while the sample size of this study comprises of all the twenty four (24) Deposit Money Banks in Nigeria as at 31st December 2009. The researcher believes that the sample of the study is a good representation of the study area. However year 2005 is excluded from the analysis because it is considered as the transitional year. This period, also gives sufficient observation for the use of statistical tools for data analysis.

The tool used for data analysis in this work is the wilcoxon signed - rank test. The data analysis techniques used in this work are discussed below.

3.2 Wilcoxon Signed-Rank Test

For the purpose of this research work, the Wilcoxon signed-rank test is used to test the hypotheses of interest. The Wilcoxon signed-rank test is a non- parametric analytical technique which is suited for studies with small samples size (Jerome 2008) as cited by Tsegba and Herbert (2013). The model for the wilcoxon signed - rank test is:

$$W = \left| \sum_{i=1}^{N_r} [\text{sgn}(x_{2,i} - x_{1,i}) \cdot R_i] \right|$$

Where: $X_{2,i}$ represent the pre – reform measurement samples and

$X_{1,i}$ represent the post – reform measurement samples

R_i : is the absolute value of the sum of the signed ranks.

Sgn: is the sign function

N_r : represent the sample size and the number of pairs

The assumptions of wilcoxon rank – test are as follows:

1. Data are paired and come from the same population.
2. Each pair is chosen randomly and independently.

- The data are measured at least on an ordinal (i.e. Likert scale) and continuous level (i.e. interval or ratio variables), but need not be normal.

The consumer price index (CPI) is used to adjust the values of all nominal quantities in order to address concerns about changes in the values that are due to changes in economic conditions.

Formulae used for CPI is:
$$\frac{\text{Nominal value}}{\text{Current year CPI}} \times \text{Base year CP}$$

IV. Data Presentation and Interpretation

The general objective of this study is to examine the effect of banking sector reforms on the performance of deposit money banks (DMB) in Nigeria. As stated in foregoing, the specific hypotheses are analysed to determine the effect of banking sector reforms on the various bank performance indicators studied in this research work which include bank capital (BC), bank deposit (BD) and bank liquidity (BL).

Table 5: Wilcoxon Signed Rank Test Result of Data Analysis for the Test of Hypotheses

Variables	Mean Rank Pre	Mean Rank Post	Mean Rank differences	Sign Test Frequencies positive differences	Sign Test Frequencies Negative differences	Z-Statistic	Probability (two tailed)
Bank Capital	0.00	2.50	2.50	4	0	-1.826**	0.068
Bank Deposit	0.00	2.50	2.50	4	0	-1.826**	0.068
Bank Liquidity	3.00	1.00	2.00	1	3	-1.461	0.144

Source: Author’s Computation based on SPSS Print-Out

*Significant at 10% level; **Significant at 5% level; ***Significant at 1% level

V. Discussion of Results

As stated in the foregoing, to measure the effect of banking sector reforms on the performance of deposit money banks (DMB) in Nigeria, the study considers the aggregate performance indices of the banking sector which include; BC, BD, BL and BAQ of DMB’s for eight years i.e. four years before and four years after the reforms. The mean of each performance indicator is computed over the pre-reform (four years) and post-reform (four years) periods.

Considering the results of the Wilcoxon Signed Ranks - Test presented in table four (4) for the overall effect of banking sector reforms on the performance of deposit money banks (DMB) in Nigeria as indicated in the bank performance variables analysed in this research work shows that the 2004 reforms have improved the bank performance variables examined namely: bank capital (BC), bank deposit (BD) and bank liquidity (BL). However the variables studied i.e. BC, BD, BL are not significant at 5% level of significance with the Z statistics of -1.826, 1.826, -1.461, and -1.461 with the P-Value of 0.068, 0.068, 0.144 and 0.144 respectively. An improvement in the case of BC is a priori expectation because the reforms made deliberate attempt to increase the minimum capital base for all the deposit money banks (DMB) which was a mandatory requirement. But considering the Wilcoxon result it shows that the improvement is not significant at 5% level. Bank deposit also witnessed improvement in the post reform period meaning that customer’s confidence in the banking sector improved but marginally as the improvement is not significant at 5% level.

Also lack of significant improvement in the BL signify that bank’s non ability to meet up with maturing obligation without incurring unacceptable losses was impossible meaning that the banking sector was still weak and distressed even after the reforms. Consequently the null hypotheses for all the hypotheses tested i.e. BC, BD and BL are accepted.

This result is in line with the submissions of Sanusi (2010) and the empirical evidence of Owolabi & Ogulalu (2013) and Okpara (2011), which indicate that banking sector reforms in Nigeria did not adequately and positively improve the performance of the Nigerian banking sector and the Nigerian economy at large. In a nutshell the results indicate that reforms in the banking sector especially the 2004 reforms did not necessary improve the performance of the banking sector.

VI. Conclusion

This study investigated the effect of banking sector reforms on the performance of deposit money banks (DMB) in Nigeria in terms of bank capital, deposit, liquidity and asset quality using data extracted from the CBN bulletin from 2001 to 2004 and 2006 to 2009 while 2005 is considered as the transitional year. This has become necessary in the face of evolving developments in the banking industry in Nigeria especially with the series of reform programs by successive administrations..

The findings indicate that there is no significant improvement in the performance of DMB's in the post-reform era as regards the variables studied i.e. bank capital, bank deposit, bank liquidity, and bank asset quality in the Nigerian banking sector within the period under study.

As stated earlier the findings of this research work is quite in agreement with the submissions of Sanusi (2010) and the empirical evidence of Owolabi and Ogulalu (2013) and Okpara (2011). In addition, there is every gain saying that reforms in the banking sector are veritable tools for banking sector efficiency if its canons are fully adhered to and the regulatory authorities ensure strict compliance.

Recommendations

Based on the findings and conclusion, the study recommends as follows:

1. For a bank to enjoy depositors' confidence, it must have a strong capital base as evidence of its strength and as a tool for operating profitability so that as the confidence of depositors in the banking system increases they will make more deposits which invariably enhances the profitability of the entire sector. Hence more efforts should be made to ensure adequate and sustainable capital of deposit money banks in Nigeria.
2. The regulatory authorities should carry out their supervisory functions effectively and without bias to ensure efficiency, customer's confidence and maximum performance of the banking sector for it to service the economy and compete effectively in the global financial market.
3. Deposit money Banks should invest in liquid short term guilt edge financial assets such as treasury bills to ensure adequate liquidity.

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Appendix I Raw Data

Variable	2001	2002	2003	2004	2006	2007	2008	2009
Capital	364,258.8	500,751.2	537,207.8	686,076.6	1,388,856.0	2,225,394.2	3,364,693.4	4,930,613.0
Deposit	1,210,890.70	1,510,212.70	1,772,252.30	2,193,331.60	4,140,051.30	6,229,743.40	9,976,084.20	12,038,691.90
Liquidity	52.9	52.5	50.9	50.5	55.7	48.8	44.3	30.7

Source: CBN Bulletin 2012 Source: CBN Bulletin 2012 **DMB's DEPOSIT** (is the summation of demand deposit, Time, Saving, and Foreign currency deposits)