DISTRESS IN THE NIGERIAN BANKING INDUSTRY: CAUSES AND RESOLUTION STRATEGIES

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CERTIFICATION

This project report entitled "DISTRESS IN THE NIGERIAN BANKING INDUSTRY: CAUSES AND RESOLUTION STRATEGIES" by NZONZO FRIDAY CLEMENT, meets the regulation governing the award of the degree of Masters of Business Administration of Ahmadu Bello University, Zaria and is approved for its contribution to knowledge and literary presentation.

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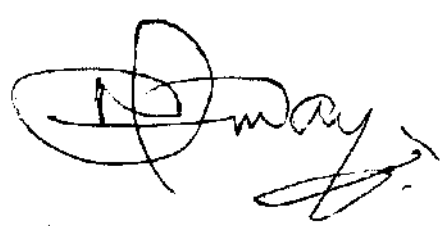
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DECLARATION

In my capacity, do I, NZONZO FRIDAY CLEMENT declare that this project is to the best of my knowledge and belief, a product of my effort and that secondary data information contained therein are from published sources as identified by references.



NZONZO FRIDAY CLEMENT

DEDICATION

This Thesis is specially dedicated to my loving and untiring mum MRS VERONICA H. ALEYI DEINO and to the Glory of God Almighty.

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This Thesis would not have been possible without the assistance of people whom in one way or the other helped me either directly or indirectly.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Banks in Nigeria are the most important financial institutions that play a vital role in the economic development of this country by giving loans and advances to customers and also for investment in the different sectors of the economy.

The establishment of modern banking in Nigerian dates back to the colonial era when the African Banking Corporation was formed in 1892 to distribute currency notes of the Bank of England for the British Treasury – subsequent development were encouraged by colonial entrepreneurs who need banking institutions to back up colonial trade. In order to address the credits needs of indigenous entrepreneurs, Nigerians later ventures into the banking business initially through private initiative and later through deliberate government policy

Since independence the banking industry has grown substantially. From 8 banks with 160 branches in 1959, it grew to 120 banks with 2,541 branches country wide by 1994. This phenomenal increase was noticed also in total deposit base and profitability in the past 25 years.

The problem of distress in the financial sector, including outright bank failure, has been observed in Nigeria as far back as 1930 when the first bank failure was reported during the free banking era Indeed, between 1930 and 1958 when the Central of Nigeria (CBN) was established over 21 banks failure was recorded. However, the degree of intensity and scope of the distress has never been as serious as has been observed since June 1989 when The Government directive to withdraw deposits of government and other public sector institution from banks to CBN exposed the week financial condition of most banks since then, the number of distress banks and the severity of the problem has progressively increased. The distress condition has been traced to a wide range of causes some of which we will discuss in the subsequent chapters. Also I have taken time to outline the effects of distress to the Nigeria economy and the citizenry. Because of the negative implication of this distress to Nigeria economy, its necessitate the study of distress resolution strategies.

1.2 STATEMENT OF THE PROBLEM

Distress in the banking industry has assume alarming dimension this part three years. Since 1989 when the federal government withdrew it deposits from commercial and merchant

banks to CBN, its lead to serious liquidity crises within the banking system. This action couple with several other factors both internal and external precipitated the conditions of banks to various stages of distress. By the year of 1995 about 36 banks were liquidated, thousands of staff were retrench, billions of depositors funds were lost and the confidence of the populace on the banking industry were seriously eroded.

Consequent of the negative implication of this distress phenomenon, its necessitated the researcher to study the causes of distress and resolution strategy with the view to advice the potential depositors of the bank, the owners of the banks and the regulatory authorities on how to deal with distress phenomenon.

1.3 OBJECTIVE OF THE STUDY

The aim of this study is to objectively determine the real factors that causes the current distress in the banking industry with the view to inform the current and potentials investors of the real and inherent danger in investing in distress bank. Its also aim to inform the general populace of the signs and the effects of distress banks in the economy in totality and recommend appropriate resolution strategies.

The specific objectives of the study were as follows:

1.1 Undertake a comprehensive review of development in the banking industry in Nigeria, particularly during the period 1986 – 1997, for necessary insights into the operations of the Nigerian Banking system.

2.1 To objectively determine the causes of the present distress condition in the country banking systems

2.2 To inform the investors, employees, government parastatals and the general public on the effects of distress phenomenon on the economy.

2.3 On the basis of the finding of the study, propose a comprehensive and effective recommendation

toward resolution of the distress problem in Nigeria banking sector

1.4 SIGNIFICANCE OF THE STUDY

The selection of the project title is no doubt a reflection of importance of distress as one of the central preoccupation in the country financial market today. Distress affects all segment of the society, so it is paramount to study the causes and resolution strategies. The significant of this project work is thus found in the following areas:

i. This will shade more light on the causes and effects of distress in banking industry to the academic community particularly the faculty of Administration in ABU Zaria.

ii. To inform the current and potential investors on distress signals in the banking industry. This will act as warning signal to the danger inherent in distress bank.

iii. The research work would afford the management of banks an opportunity to appraise the causes of distress in line with their operational procedure. This will help them device prudence and better ways of allocation of scarce resources to avoid all the pitfall that lead to distress condition.

iv. To advice the regulatory/supervisory authorities on the appropriate resolution strategies with the view of finding a lasting solution to lingering distress syndrome.

1.5 SCOPE OF THE STUDY

This research project is restricted to Banking industry. It does not cover the entire financial service industry. For the purpose of this study, the Banking industry is defined to include commercial and Merchant Banks, Community Banks Peoples Bank and Development Banks.

The study also covers the source of information on the distress syndrome base on the published sources from CBN/NDIC (Regulatory authority). Survey method was employed

to extract the relevant data for the purpose of this study. The scope of the issue examined is limited by the overall objective of the study.

1.6 RESEARCH METHODOLOGY

The survey research method was used in this study. The research started with the review of the text books, Journals, periodical and thesis; in order to obtain the secondary data necessary for the literature review.

Since the study is largely empirical in nature efforts were made to provide a complete picture of the nature, causes and resolution strategies of the distress condition in the Nigerian banking system, using both primary and secondary data. The primary data were generated from country wide sample survey of all categories of players (Corporate and individuals) in the financial industry conducted by CBN/NDIC. The result of the respondent to the questionnaires were subsequently published by CBN/NDIC. Based on the respond, the survey was carried out by the researcher to draw conclusion as to the causes and resolution of distress in Nigerian banking industry.

1.7 LIMITATION OF THE STUDY

This research project was posed with the following limitations:

First and foremost, it was difficult for the researcher to make the research as exhaustive as it should have been due to time constraint.

The non availability of and difficulty in obtaining required data and information have pose major problems in the conduct of this study. Due to the nature of the banking industry in this country certain information are considered top secret hence obtaining them was not possible, this attitude force the researcher to rely mainly on the published sources from the CBN/NDIC.

CHAPTER TWO

LITERATURE REVIEW

In This chapter, effort was made by the researcher to outline some relevant theoretical and empirical studies which will provide an analytical platform for the study of distress in Nigerian Banking industry. It is superfluous, to emphasize the fact that there is death of materials (theoretical and empirical) for analyzing distress in the banking industry. Nevertheless, very recently some work have been done on early warning models which have become popular as a tool for distinguishing between "healthy and unhealthy banks". This has become useful in analysing distress in banking system (West, 1984, Platt and Plat,1990; crouchy and galai, 1991; and Espahbodi, 1991). In Nigeria, the work of Jimoh (1993); Nyong (1994) and CBN/NDIC (1995) could be described as having established formal empirical bases for analysing distress in the Nigerian banking system. The present work aim to building upon these earlier attempts by developing an analytical frame work that is capable of explaining the causes and Resolution strategies of distress in the Nigerian banking industry.

For the study to make more sense, it is imperative for us to have a good understanding of what distress means and how it is measured. We shall also review relevant literature on causes, effects and implication and distress resolution strategies.

2.1 DEFINITION OF DISTRESS

Several attempts have been made in the past to define "distress" in the banking industry in ordinary parlance, the word "distress" connotes " Unhealthy situation" or a state of inability or weakness which prevents the achievement of set goals and aspirations! Benston etal (1986) on the other hand describe distress as a situation of complete or near complete loss of shareholders funds.

In order to evolve a working definition of distress in banking industry, it may be desirable for the definition to reflect the broad set objective and aspirations of a typical banking institution. Thus, a banking institution will be describe as unhealthy if it exhibit severe financial, operational and managerial weaknesses. The broad objectives and aspirations of a typical

financial institution on the other hand will be to meet its obligations to its customers as and when due as well as to its owners and the economy within which it operates. (Ebhodaghe, 1993) From the foregoing, it is possible to describe a distress bank as one with severe financial, operational and managerial weaknesses which have rendered it difficult for it to meet its obligations to its customers, owners and the rest of the economy as and when due. Consequently, distress in banking industry are used to describe closely related conditions of the institution, namely insolvency and illiqiudity. While insolvency refers to a condition in which the sum total of assets of the bank is less than the sum total of its liabilities, a situation which prevents it form honouring its obligations to depositors and other shareholders, illliguidity, on the other hand, describes the problematic cash flow position of a firm. It is important to note here that while a technically insolvent bank could remain sufficiently liquid long after it become insolvent particularly if it has a large and stable deposit base, a bank could run into liquidity problems arising from a mismatch between the maturing profiles of its assets and liabilities. Also illigudity if unassisted can turn into insolvency if the bank had to sell its assets at distressed price to pay above market rates on deposits in a desperate acquisition for liquid funds.

Distress in the banking industry, will therefore occur when a fairly reasonable proportion of banking institutions in the system are unable to meet their obligations to their customers as well as their owners and the economy as a result of weaknesses in their financial, operations and managerial conditions which have rendered them either illiquid and or insolvent in other words, financial sector distress can be described as a situation in which a sizeable proportion of financial institutions have liabilities exceeding the market value of their assets which may lead to run and other portfolio shift and eventual collapse of some financial firms.

2.2 EXTENT AND DEPTH OF DISTRESS

Based on the extend and depth of the problem Banking system distress can either be of generalized nature or systemic. Generalized distress exists when its occurrence is spreading fast and cuts across all the sub-sectors of the industry, but its depth, in terms of the ratio of

total deposits of distressed banks to total deposits of banks in the county; The ratio of total assets of distress institutional total assets of the industry; and the ratio of total branches of distress institution to total institutional branches of the industry. The problem may become systemic and of serious concern to the relevant supervisory/regulatory authorities when its prevalence and the contagious effects becomes endemic and pose some threats to the stability of the entire system, with its attendant negative effects on the nation's payment system, saving mobilisation, financial intermediation process and depositors confidence under this situation, the ratios of the relevant variables should have risen to a level that public confidence in the system would be completely eroded.

The level at which the system will get to before its trigger off runs on the entire system will vary from country to country, depending on the level of awareness in a country, the existence of deposit Insurance scheme and the level of alertness of the regulatory authorities in swiftly taking corrective actions. In a country where the level of awareness is high, no explicit deposit insurance scheme in existence, where the regulatory authorities are not capable of taking prompt corrective actions, even at lower levels of the ratio of relevant variables, runs on the system could be triggered off. On the other hand, where the level of awareness is low, a functional explicit insurance guarantee exist and the regulatory authorities are capable of taking prompt corrective actions even a much higher level of ratios of the relevant variables may still not trigger off runs on the entire system.

In the Nigeria situation available record from NDIC shows that the number of distressed commercial and merchant banks had reached 57 as at the end of 1995 out the these 26 were liquidated in 1997. The total deposits of these distressed banks stood at N47.9 billion or 24.6 percent of the banking sub-sector's total while their total asset stood at N68.5 billion or 18.5% of the total assets of all banks. Even though this ratios could be considered high, the public confidence in the entire system has not been adversely affected to a level that can trigger runs on the system.

This is attributable to prevailing low level of awareness in the country, the existence of a functional deposit insurance scheme and the ability of the monetary authorities to quickly restore sanity in the systems. What is obtained right now is the licensing incidence of flight

to safety within the same system. The Nigerian distress condition, can be described as a generalized and not systemic

2.3 CAUSES OF DISTRESS IN BANKING INDUSTRY

The causes of distress in the banking industry is an empirical one. As observed by Balino (1991) when discussing the crises in various countries.

> "The diversity of experiences with distress owing to cross country difference in macro economic conditions, the regulatory framework, the intensity of the crisis and the approaches used to deal with it, makes it difficult to generalise and develop stylized description or standardized prescriptions"

Nevertheless, available literature has identified a long list of potential causes of distress in a banking system to include weak management, inadequate capital base, fraudulent and corrupt practices of owners and managers, poor asset and liability management, macro economic instability, political instability/interference and inadequate legal framework and structure. Others include delayed supervisory action towards insolvent institutions, economic recession and inadequacy of the regulatory framework, among others.

In an attempt to analyse distress in some developing countries, some researches have identified causes of distress to include macro-economic shocks, effects of financial reforms, changes in prudential regulations and how the authorities of the affected countries have responded to the crisis. For instance, it was discovered that in the cases of countries like Argentina, Chile, Malaysia, Japan, Thailand and Uruguay the crises periods were closely associated with periods of strong reductions in real output, down-turn in investment, adverse external shocks, and balance of payment difficulties. While the effects of the overall macro-economic problems on financial distress are of varying degrees, what has been established is that it is difficult to separate distress in the financial services industry of a country from the severity of the recessions witnessed by the economy (IMF, 1991).

In the case of Nigerian while some of the above factors have been identified as possible causes of distress in the banking system, there is no consensus on the effect of the regulatory factor. Gomos (1994) opined that the primary responsibility of ensuring a stable and healthy

banking system is vested in the CBN/NDIC by Decree 24 and 25 of 1991. The Bank (CBN) has legal backing necessary to discharge this responsibility. By this reasoning the effectiveness of the CBN in the discharge of this responsibility can be assessed vis-à-vis the prevailing financial condition of the operators in the system. However, the CBN has always absolved itself of blame, insisting that the affected banks were victims of institutional factors like inept management, boardroom infighting, greed and unprofessional practices among others. In addition, while the new CBN and BOFI Decrees (1991) were promulgated to permit the CBN to take prompt and decisive actions with respect to problem financial institutions and to provide clear guideline for sound, safe and efficient financial system, undue bureaucracy and political interference have made timely intervention by the apex institution very difficult since, according to the decree, the ultimate decision on what to do with distress institutions and when to do it rests with the president. This factor, it is argued by CBN has limited the effectiveness of the provisions of the two decrees. However, one can attribute lack of technical staff by the regulatory authorities and corrupt practice of the supervisor makes it difficult to dictate early distress signals.

From the foregoing, therefore, what constitutes, the matrix of factors responsible for distress in the Nigerian banking industry can only be empirically determined. Even then, since most earlier work used cross sectional data to analyze distress, the effects of many of the above mentioned causes, like regulatory, economic and political factors, could not be directly captured. Nevertheless, the researcher is of the view that these factors do influence the operational results of the banks on which the performance ratios were computed. Thus, for detail study of distress, it was necessary to complement the analysis based on the use of Secondary date with a survey of the affected institutions to empirically established the causes of distress in the Nigerian Banking industry.

2.4 EFFECTS OF DISTRESS ON THE BANKING SYSTEM AND THE ECONOMY.

The effect of distress condition on Nigerian Banking system has far reaching implication not only on the institutions in the banking systems but also on the overall national economy. Some of the effects were manifested in the deposit base of the banks. The capitalisation of banks and the level of interest rates in the economy. The effects of distress on the economy on the other hand included the erosion of public confidence in the banking system, the

reduction on the flow of investible resources that could be channeled to the most competitive investment outlets and the massive influx of retrench workers into an already over saturated labour market.

It also compromised the effectiveness of the newly adopted market-based systems of monetary control. Other effects of distress are the increased distortion of information on financial conditions of banks arising from attempts to hide the facts. Debtors morality had also been negatively affected as some debtors who obtained bank loans and who were in a position to pay refused to do so in an era of generalised default. Some of the above points are elaborated upon below.

Given the inability of several distress banks to meet depositors withdrawals, they found it increasingly difficult to retain their customers, not to mention attracting new deposits. This seriously weakened the deposit base of the affected banks and even other banks since the distress banks were not know to members of the public. Furthermore, the existence of a high proportion of non-performing loan is a major cause of distress in the banking system which significantly erodes the capital base of the affected banks, resulting, in extreme cases of negative network. Available statistics indicate that more than two-thirds of the aggregate loans and advances of distressed banks are non-performing, and their aggregate adjusted capital was in the negative, amounting to N9.2 billion in 1994. The classified loans and advances of the technically insolvent banks amounted to N11.9 billion in 1990, by 1994 it has increased up to N45.9 (NDIC, 1995). Also their ratios of classified loan and advance to shareholders funds was 344% in 1990, in 1994 it climbed to 568 percent.

The distress in the banking system with the attendant liquidity squeeze led to significant increases in the level of interest rates. Several banks engage in distress borrowing despite the high prevailing market rates, in order to cover customer demand and other maturing obligations. The healthy banks were reluctant to lend to those in distress and so the distressed bank had to obtain such loans through third parties resulting in the tiring of interest rates. The defaults that eventually arose led to the collapse of the interbank market.

The macro-economy was not spared the deleterious effect of distress in the financial system. Public confidence in the banking systems was seriously weakened as depositors lost a lot of

money in insolvent banks that had to be liquidated. As is well known a vibrant banking sectors facilitates economic growth, but whenever its health is impaired, it inhibit the flow of investible funds both form local and international investors, and to that extend the overall interest of the Nigerian economy is negatively affected. With the deregulation of financial sector, monetary control gradually shifted from direct to indirect method of control However, the transition has been impeded by the generalized distress in the baking industry.

2.5 IMPLICATION AND CONSEQUENCES OF THE DISTRESS CONDITION ON THE ECONOMY

Inability of the authorities to arrest further deterioration in the distress condition of banks in the financial sector could have several adverse consequences on the sector and the economy in general. Those consequences as identified recently by a sub-committee of the financial service regulation coordinating committee (FSRCC) on financial sector distress include:

i) Lost of confidence in the financial system leading to deposit run, disinvestment in the capital market and failure to ensure business and other exposures.

ii) Disintermediation and demonetization resulting in massive portfolio shift to safer assets such as foreign exchange and foreign currency denominated assets, short-term government securities and non-monetary assets or inflation hedges;

iii) Crowding-out of the real sector in the provision of credit in an attempt to reduce risk exposure;

iv) Resolving the problem of distress in the system increases the cost of supervision and regulations; and

v) Increase in unemployment and its attendant social implication.

2.6 MEASURES OF DISTRESS

The categorization of banking organisation as a "distress" bank is usually base on the CAMEL rating system (Sinkey, 1980; West, 1985, Ebhodaghe, 1993, and Nyong, 1994). Under this system, the regulatory/supervisory authorities assess a banking institution's

performance in five areas, namely, capital adequacy, assets quality, management competence, earnings strength and self-sustainability in terms of its liquidity position.

As observed by Ebhodagbe (1993), a financial institutions in distress is usually one where the evaluation depicts poor condition in all or most of the five performance factors as follows:

(a) Gross under-capitalisation in relation to the level of operation.
(b) High level of classified loans and advance;
(c) Illiquidity reflected in the inability to meet customers cash withdrawals.
(d) Low earnings resulting from huge operational losses, and
(e) Weak management as reflected by poor credit quality, inadequate internal controls, high rate of frauds and forgeries, labour turn-over etc.

Using these parameters, an institution's financial condition is assessed against some standard benchmarks like minimum capital adequacy ratio, liquidity ratio, and ratio of non-performing credits to shareholders fund among others, to make statement about the health of bank. When these ratios deviate negatively from the predetermined critical level by the relevant authorities, the bank is described as exhibiting symptoms of distress. However, the use of the ratio along may not permit the determination of the extent of distress in a particular bank.

Consequently, to make for a more effective measures of distress through the establishment of thresholds, attempts are now being made to develop a composite measure base on these CAMEL parameters that will enable supervisors to determine on a uniform platform the extent of distress in each of the banks and by extension in the entire banking system.

This composite measure is simply a weighted average of the CAMEL parameters in which the weighted parameters sum to unity (or 100 per cent). The weight are made to reflect supervisor opinion on what to emphasize in bank operations and to this extend the assigned weights are usually arbitrary. but because theirs is some reasonable degree of agreement on the critical indicators of good and bad banking practices, this arbitrariness is within a narrow range. These general considerations have informed the weighting of the CAMEL parameters and also explain the variations observed in such weight across countries that use such rating. The monetary authorities in Nigeria have recently embraced on the development of a rating system for banks in Nigeria. This was initiated by CBN /NDIC and the rating system provides for classifying banks as shown below, given their composite score.

Table 2.1

CLASSIFICATION OF BANKS BASED ON NDIC/CBN RATING SYSTEM

Class	Composite Score (Percentage)
A	86 –100
B	71 – 85
C	56 – 70
D	41 – 55
E	0 - 40

Source: CBN/NIDC

The table shows the range of composite scores for each rating, and if a threshold is agreed upon, it could enable the authorities determined those banks that are distress and whether marginal or terminally. Details of the weights and the financial ratios used for assessing each CAMEL are shown in Table 2.1.

The Table 2.2 is self-explanatory, except for the fact that the scoring under "Management" factor is based on their performance in other factors. Hence, for Management Factor, the score is the sum of the weighted score in other factors divided by 85 and represented by a weight of 5. The reasoning for this approach to scoring management factor is that management quality is reflected in the other factors and that other quantitative indicators of management performance would fit into one or more of the other CAMEL factors.

There has also been a commendable private initiative at developing a bank rating system in Nigeria by Augusto and Co. However, the researcher preference is regulatory authority rating model (RARM) which reflect the monetary authorities opinions and experiences of what constitute good banking practices, given Nigerian peculiarities and global supervisor standards.

Table 2.2

PROPOSED FACTOR/COMPONENT WEIGHTS

S/N	Factor	Component	Component Weight (%)	Total Weight (%)
1	Capital	(a) Capital to Risk-Weighted Asset Ratio	15	
		(b) Adjustment Capital Ratio	5	25
		(c) Capital Growth Rate	5	
2	Asset Quality	(a) Non-performing Risk Assets to Total Risk Assets	15	
		(b) Reserve for losses to non-performing Risk Assets	5	
		(c) Non-performing Risk Assets to Capital and Reserves.	5	25
3.	Management	(a) CAEL/85	5	
		(b) Compliance with law and Regulations	10	15
4.	Earnings	(a) Profit Before Tax to Total Assets.	5	
		(b) Total Expenses to Total Income	5	
		(c) Net Interest Income to Total Earning Assets.	5	
		(d) Interest expenses to Total Earning Assets.	5	20
5.	Liquidity	(a) Liquidity Ratio	10	
		(b) Net Loans and Advances to Total Deposits	5	15
	Total			100

Source: CBN/NDIC

2.7 DISTRESS RESOLUTION STRATEGIES

This study will be incomplete if no attempt is made at reviewing the literature on combating distress in banking industry after identifying its causes. On this, available literature has identified two broad measures, namely Short-run (emergency) and the long-run measures. The emergency measures aim at stabilizing the financial system as rapidly as possible.

Measures that are often adopted in this regard include making available lender of last resort facilities and special credit facilities, as was done in the Philippines and Thailand for banking institutions showing signs of illiquidity. In addition, there is the intervention by the apex banking institution in the management of ailing banks to help raise confidence as was done in the cases of Argentina, Chile and Spain during the early periods of their banking crises. Finally, there is the institutions of explicit deposit insurance Scheme (DIS) as was the case in Argentina, Chile and the U.S.A.

On the other hand, when the problem is that of insolvency, long term measures that have been widely used include mergers and sale; recapitalisation, take over by government with the aim of turning the institutions round and then selling the clean institutions through competitive bidding. The ultimate treatment of terminally distressed institutions is of course outright liquidation . All the above mention option have been applied in countries like Malaysia, Norway, Spain, USA, Senegal and Nigeria. That have suffered from severe financial distress, with a view to sanitizing their various financial system.

In the next chapter, the researcher present the analysis of the nature, cause and extend of distress in the Nigerian banking industry using both the primary and secondary data. Detailed analysis of Resolution Strategies proffered by various respondents was treated.

CHAPTER THREE

RESEARCH METHODOLOGY AND HISTORICAL BACKGROUND OF BANKING IN NIGERIA

3.1 METHODOLOGY OF THE SURVEY

The survey, was planned to generate all encompassing information relevant to the subject of distress in banking industry and directed at banks, their clients (corporate and individuals) and the regulatory/supervisory authorities, specifically, the information required include the following:

i. The banks management perception of the causes of distress and ranking the causes as very strong, strong and marginally weak:

ii. Their assessment of the various distress resolution strategies including the role of the respective regulatory/supervisory agencies;

iii. Bank management assessment of their individual situation with regard to the distress condition, ranking their condition in the scale as healthy, mildly distressed, terminally distressed;

iv. Their views as to what contributed to their perceive condition;

v. Banks operators suggestions for ensuring a faster and more resolution strategies of the distress conditions.

vi. The perceptions of customers of banks concerning the causes of distress problem and their assessment of the role of supervisory/regulatory agencies;

vii. Customer's suggestion for effective resolution of the distress condition;

viii. Supervisory/regulatory agencies perception of the causes of distress situation, ranking as very strong, strong and slight;

ix. Their assessment of existing distress resolution measures and suggestions for ensuring a lasting solution.

The questionnaire featured a wide range of issues pertaining to causes of distress in banking industry. These included potential causes of distress classified under institutional factors; economic factors and political factors. This questionnaire is base on the one designed by CBN/NDIC and sent to banks.

3.2 SAMPLING PROCEDURE AND ANALYTICAL TECHNIQUES

A sample of each types of Banking institutions and the users of their services were selected to give a representative national coverage. The list of existing banks their branches and customers were obtained form CBN/NDIC publications. Thereafter, a combination of stratified and purposive sampling techniques was then employed to select the sample of institutions/customers to be covered in the survey. In addition all the regulatory authorities were covered.

The analysis of the survey return was based on simple descriptive analysis frequency distribution of relevant statistical information on the respondent.

3.3 EVOLUTION OF THE BANKING SYSTEM

The developments in Nigerian banking systems are categorised into four broad phases in line with the existing literature. These four development phases are hereby examined below:

(a) The Era of Free Banking (1892 – 1951)

This period is characterized by two main features. One is the absence of any banking legislation. Anybody could set up a banking company, provided he registered under the companies ordinance. Once registered, the company could engage in any type of banking business without any restriction. It is the absence of banking legislation which earn the period the accolade of the free banking era.

The second feature of the period is that it was during this free banking era that the three biggest foreign banks were established which were commercial banks. Thus the early stages

of the Nigeria Financial systems were synonymous with commercial banking. The added dimension in the Nigeria case was that owing to our colonial heritage, not only were the pioneer commercial bank of foreign origin but also the banking systems itself was designed to facilitate colonial business interest. This consisted largely of commerce as against direct investment in productive activities.

Banking in Nigeria dates back to 1892 with the formation of the African Banking Corporation, which was in 1894 taken over by the Bank of British West Africa Ltd (BBWA). This bank (BBWA) enjoyed virtual monopoly of banking business until 1925 when Barclays Bank DCO was established. Thereafter, several other foreign and a host of indigenous banks were established. The establishment of indigenous banks was initially propelled largely by nationalistic consciousness rather than the existence of relevant resources, including basic skill manpower, for running such institutions. Consequently, most of the early indigenous banks collapsed in rapid succession, the way they were established. Banks that fail during this period were largely those with problems of inadequate capital, fraudulent practices and bad management (Okigbo, P. 1981). The few survivors out of the host of indigenous banks include National Bank of Nigeria Limited – 1933, African Continental Bank – 1948, Agbonmagbe Bank now Wema Bank – 1945. However, at the time that Mr. Paton commission reported in 1958, there were only five banks, three indigenous, and two expatriates. Consequently upon the report of the Commission, the first banking legislation was passed in 1952.

(b) **Emergence of Banking Regulation (1952 – 1958)**

The high rate of bank failure led to the first efforts directed at regulating the banking system base on paton commission report.

Four main features characterize this period: The effectualisation of the Paton Commission report in the 1952 ordinance; the collapse of the indigenous banking boom; an absence of new banking establishment and the absence of Central Banking. The enactment of this ordinance represented the initiate efforts directed at regulating the banking systems as well as a watershed between the era of experimental banking and that of modern banking. The ordinance provide for licensing requirements as well as procedures and standards for the conduct of banking business. It also prescribed prudential requirements for capital and

reserves. The major successes of this ordinance were the limitation of banking business to establishments holding valid banking licences; prevention of establishment of unviable banks; and the introduction of more orderly commercial banking environment. However, this did not prevent the collapse of badly managed banks due to non existence of Central Banking facilities.

(c) **Era of Consolidated Growth following the Establishment of the Central Bank of Nigeria (1959 – 1985).**

The third phase in the evolution of banking systems in the country opened with the establishment of CBN in 1959. Indeed, to all intents and purposes, 1959 can be regarded as a watershed in the annals of Nigeria banking. Not only was CBN established in that year but also, as we have seen, the foundations of the Nigeria money and Capital markets were laid in that year. For instance, the Treasury Bill Ordinance, forming the basis for the first issue of Treasury Bills in April 1960, was promulgated in 1959. The Bar back Committee set up in 1958, reported in 1959 as a result of which the Lagos Stock Exchange was established on 5 June 1961. The Investment Company of Nigeria (which was reconstituted to form NIDB in 1964) was established in 1959. 1959 was also the year when the first public issue of shares and the first Federal Government Development Loan Stock were issued. It was during this phase of development that the Nigerian agricultural and cooperative Bank (NACB) (established in 1973) and the Federal Mortgage Bank of Nigeria (FMBN) established in 1977). The other segment of this market included the regional companies, namely,: The Northern Nigeria Investment Ltd, The Eastern Nigeria Development Corporation and the Odua Investment Ltd. The era also witnessed substantial development of the Non-bank 'financial institutions.

The development of the legal/regulatory frame work for the financial system during this phase started with the review of the 1952 Banking ordinance and the subsequent enactment of the 1969 Banking Act. This together with the CBN Act of 1958 and 1969 as well as the company Act of 1968, constituted the legal instrument that guided the banking system during the period. The CBN Act and the 1969 Banking act subjected the execution of CBN's supervisory function to the consent of the Federal Ministry of Finance which in addition had the authority for granting banking licence. The federal Ministry of Finance also supervised

some other segments of the financial system such as Insurance sector and other non-bank financial institutions.

The Nigeria banking system retained these essential features up until 1985, except for minor fine-tuning in response to both domestic and international macro economic developments. One of such developments was the indigenisation of the Nigeria economy including the banking sector. This was to lead to the demise of the purely foreign banks and the emergence of jointly owned banks as well as a new generation of private banks.

(d) **Era of Financial System Deregulation (1986 – date)**

The Banking system witnessed radical structural changes following the adoption of the structural Adjustment Programme (SAP) in 1986 by Babangida regime. The introduction of SAP was a response to the severe distortions that had characterized the Nigeria economy especially since 1982. The central focus of the economic reform programmes was the deregulation of the economy, including the financial sector which was expected to play a pivotal role in the reform process. The SAP era witnessed the most significant policy changes in the banking sector. Apart from the introduction of measures and instruments to deregulate the practice of banking, the techniques and the range of products offered by the industry also changed significantly. The fundamental reason behind the deregulation of financial sector was to enhance economic efficiency and effective resource allocation through service-driven competition and improvement in quality and spread of banking service deliver in the country. The key measures introduced included the following:

(i) Relaxation of the condition for licensing new banks. This led to an astronomical growth in the number of banks in the country from 41 banks in 1986 to 120 by 1992. This phenomenal growth resulted in several challenge for the industry and subsequently force the government to place an embargo on the licensing of new banks.

(ii) The change in law governing the foreign exchange bring about the introduction of Inter-bank foreign exchange market (IFEM) and the establishment of the system of Foreign currency Domiciliary Accounts, which led to increased earning for many

banks. The exchange differential between the official rate and the parallel markets provided a greater incentive for the establishment of many banks. This easy source of income attracted so many people who had no business being in banking to become bank owners and directors;

(iii) Deregulation of the interest rate regime resulting in the unprecedented rise in lending rates which as a great disincentive for long-term investments although it encouraged significant increase in saving mobilisation;

(iv) Promulgation of new CBN and Banks and Other Financial Institutions Decrees 24 and 25 of 1991, respectively. This is with the aim to strengthen the regulatory and supervisory capacity of the CBN.

(v) Establishment of the Nigeria Deposit Insurance Corporation (NDIC) with the promulgation of Decree 22 of 1988, to safeguard customer deposits and promote banking stability.

(vi) Licensing of Discount Houses to enhance efficiency in money market operations.

(vii) Re-introduction of stabilization securities as an instrument for checking excess bank liquidity.

(viii) Introduction of Open Market Operation (OMO) to influence the level of liquidity in the economy in place of the inefficient direct control through Credit ceiling.

(ix) Establishment of the Nigerian Inter-bank settlement system to enhance inter-bank market transactions and ensure a more efficient payment system; and

(x) Promulgation of the Failed Banks (Recovery of Debts) and Financial Malpractice in Banks Decree 18 of 1994 to help sanitize the financial service industry.

3.4 STRUCTURE OF BANKS IN NIGERIA

The structure of Commercial and Merchant Banks in Nigeria is tailored towards that prevailing in the UK. Other countries in the Commonwealth, and indeed most countries of

the western world, have the same structure which can be described as the branch banking system. Branch banking is characterized by a single banking company conducting operations at two or more locations. Usually, the branches are controlled from a central point. The branch offices may be located in the same city, state or in another state depending on the banking law. Particularly the commercial banks can have as many branches as possible within the same city. But Merchant Banks because of their operation which is tailored toward high network individual usually have one branch covering certain areas. Branch banking is practiced fully in Nigeria. This is characterised by a few large banks with a wide network of branches extending throughout the country.

Banking institution in this country has 2 broad ownership structure. The purely indigenous banks owned 100% by Nigerians (Governmental and individuals) and the mixed banks with a majority indigenous shareholding (at least 60% equity), and minority foreign interests. With the recent promulgation of decree allowing full ownership of banks by foreigners, some foreign banks have acquired completed ownership of some banks.

3.5 TYPES OF BANKING INSTITUTIONS

There are different types of banking institutions in the Nigerian Financial systems, with the CBN at the apex of the system. However, our emphasis for this study is on banking industry. The component of the banking industry are hereby discussed below:

a. Commercial and Merchant Banks

(i) Commercial Banks

Commercial Banks are retail baking institutions that are involved in numerous transaction. Some of their functions include mobilisation of saving and other deposits; extension of credit facilities to customers; providing facilities for the transfer of funds; management of customers investment and advising on insurance matters; creating money; providing facilities for financing of international trade; safe keeping of valuables; brokerage services; providing

foreign exchange facilities for travelling; business advisory service and providing business status reports and references.

The laws governing the transitions of commercial banks and their relationship with other organizations are spelt out in Banks and other Financial Institutions (BOFI) Decree of 1991. There are as at 1994 about 65 commercial banks with 2,259 branches in operation. As result of the distress condition, about 12 of them were liquidated by NDIC. Out of all those banks still in existence 41 of them had their headquarters in Lagos, while the remaining had theirs in different state capitals.

As noted earlier, the first generation banks established by Nigeria were dominated by foreigners. However, the indigenisation policy introduced in 1972 and modified in 1977 led to government take over of 40% and later 60% equity holding of these foreign banks. However, with the promulgation of commercialization decree 25 of 1988 caused the reversal of that policy. Many of Government owned bank were privatized.

(ii) **Merchant Banks**

Merchant Banks are wholesale bankers. They are govern by the same statutory and Central Bank regulations as the Commercial banks. The first Merchant Bank in the country was established in 1960 which is called NAL Merchant Bank Ltd. In Nigeria Merchant Banks provided specialist services like acceptance of bills of exchange, corporate finance, portfolio management and equipment leasing. Their principal functions are the provision of medium and long-term lending and acting as issuing houses. BOFI 1991 allows merchant banks to engage in all banking activities except that they are not members of Nigerian Clearing house. They are to pass their cheques though commercial banks for clearance. As at now there is high level discussion within CBN to allow universal banking practice within the country whereby merchant banks can become member of Nigerian Clearing House.

During 1994, three merchant banks (Alpha Merchant Bank Plc, Capital Merchant Bank Ltd and Financial Merchant Bank Ltd) with five offices nation-wide were liquidated by NDIC. By 1997 about 18 Merchant Banks were also liquidated leaving the balance of 33 merchant

banks in the country. Out of the remaining Merchant banks about 40% of them are in various stages of distress.

(b) **Development Banks**

Development banks in Nigeria were establishment to meet the long-term credit needs of particular sectors of the economy. They undertake detailed technical and credit appraisals and finance projects through equity participation or long term loans. Currently, such banks include the following:

(i) **Nigerian Industrial Development Bank (NIDB)**

This was established in 1964 through the reconstitution of the Investment corporation of Nigeria which had been in operation since 1959. The NIDB is jointly owned by the Federal Government of Nigeria (60%) and the Central Bank of Nigeria (40%). Some of the functions of the Bank include provision of medium and long-term finance for the public and private sectors; identification of investment bottlenecks in the economy, thereby helping to determine investment priorities; promotion and development projects; advice and assistance to indigenous enterprises and serves as a channel for bringing into Nigeria investible funds from International organizations etc.

The principle guiding the operation of NIDB include: The Bank only finance Limited liability companies, it does not take deposit from the public. It borrows from institutional lenders like banks or insurance companies or through refinancing by the CBN.

(ii) **Nigerian Bank for Commerce and Industry (NBCI)**

NBCI was established by decree No. 22 of 5 May 1973 as result of indigenisation decree of 1972. This was established with the prime objective of aiding the implementation of the indigenisation of the economy. Thus it provide medium and long-term finance for the acquisition, expansion and establishment of viable business by Nigeria individuals and corporate bodies. NBCI is also expected to conduct merchant banking and Commercial banking business as deemed appropriate. Some of the functions of the bank include share underwriting; provision of facilities for take-over activities; assist indigenous business by the provision of Consultancy services; and it functions as a member of Nigerian Stock Exchange.

The NBCI does not take deposit from the public. It borrows from institutional lenders like banks or insurance companies and from Federal Government and Central Bank. Equity participation is by both the Federal Government and the Central Bank.

(iii) **Nigerian Agricultural and Co-operative Bank (NACB)**

The NACB was established in 1973 by the Federal Government with an initial capital of N12 million. The bank was set up in order to improve the level and quality of all aspect of agricultural production, to enhance the availability of storage facilities and to promote the marketing of agricultural products through liberal credit to farmers.

The NACB is funded almost entirely by the Federal Government and the CBN through grants and loans or by refinancing. It has not been feasible to raise funds from the capital market as the banks preferential lending rates militate against this.

(iv) **Federal Mortgage Bank of Nigeria (FMBN)**

The FMBN was established in 1977 as a reconstitution of the Nigerian Building Society which was established in 1957 jointly owned by the Federal Government and the common wealth Development Corporation. The ownership of the structure is Federal Government (60%) and the Central Bank (40%). Its main objective was to mobilize funds for mortgage development in the country. The bank provides advances for individuals and Commercial enterprises. More recently, the FMBN was restructured into the Federal Mortgage Finance Ltd (FMB) and the new Federal Mortgage Bank which is the supervisory organ of the Primary mortgage institutions (PMIs) over 279 PMI were in operation as at the end of December, 1997.

c. **Specialized Banks.**

(i) **The peoples Bank of Nigeria (PBN)**

The Bank was established in October 1989 when the first branch was commissioned in Ajegunle Lagos. The bank was specifically designed to meet the credit needs of low income earners namely: artisans and petty traders in both urban and rural areas. The bank provide low interest loans to enable them start up. The bank is wholly owned by the Federal Government of Nigeria and get all its financing from the Government.

(ii) **Community Banks**

The approval for the establishment of communities bank was given in 1990 Federal Government Budget. This category of banks is expected to carry out banking business but at purely local community level. That is why the take up capital was stipulated at N250,000.00 their role is to provide effective financial services for the rural communities as well as micro-enterprises in the urban centres. Unlike the Peoples Bank, the community banks are privately owned, except that the Federal Government has undertaken to provide matching loans and technical support services to needy community banks. Government establishes National Board for Community Bank (NBCB) with responsibility among others, for appraising applications and issuing provisional licenses to incorporated community banks. The number of community banks issue with provisional license had increased to over 1,048 as at December, 1997. Also the distress phenomenal in the banking industry has greatly affected community banks many have closed shops already.

3.6 SUPERVISORY/REGULATORY INSTITUTIONS

i. Central Bank of Nigeria

The Act establishes the CBN was promulgated by 17th March 1958 and became fully operational on the 1st July 1959. CBN stand at the apex of the banking system of this country. It is government representative in the banking sector and act mainly as banker to the government. It has a very close association with both the government and the banking sector of the economy, advising the government on monetary policy and implementing the policy on behalf of the government. The main functions of the CBN include:

1. Issuance of legal tender currency in Nigeria;

2. Banker to other banks, a function which includes supervision and examination, cheque clearing and lender of last resort;

3. Maintenance of external reserves in order to safeguard the internal value of the currency.

4. Banker to the government

5. Promotion of monetary stability and a sound financial structure.

6. Public debt management and foreign exchange management.

7. Supervision of banking activities.

The current legal backing for CBN operations rests mainly in the CBN Decree 24 of June, 1991 which supercedes the Act of 1958 and its subsequent Amendment Acts. The promulgation of the Decree marked an important land-mark in the history of banking development in Nigeria because of the expanded powers conferred on the CBN to executive its primary functions. To further strengthen its supervisory capability, the banks and other financial institutions Decree 25 of 1991 was also promulgated. Because of powers conferred on CBN they play prominent role in distress management and resolution. The thrust of this study recommendation towards distress resolution is to CBN.

(ii) **The Nigerian Deposit Insurance Corporation (NDIC)**

NDIC was established by Decree No 22 of 1988. It commenced operation in 1989 with Head office in Lagos. NDIC is partly owned by Federal Government and CBN.

The Corporation provides deposit insurance and related services for banks with a view to promoting confident in banking system. It also provide short term credit facilities to banks which are in temporary liquidity problems. It is empowered to examine the books and affairs of insured banks and other deposit taking financial institutions and apply adequate sanctions and corrective measures when lapses are observed as well as undertake the liquidation of failed banks. By the end of 1997 NDIC are currently managing the liquidation of 30 banks in the country.

(iii) **The Securities and Exchange Commission (SEC)**

SEC, the apex regulatory authority in the capital market .came into existence through securities and Exchange Commission Decree 1979, later repealed by the New SEC Decree of 1988. Prior to the recent Financials Sector reforms, the functions of the commission included

valuation of all eligible securities to determine the price, amount and timing of all public offers of securities. Under the on going deregulation of the capital market, the pricing of securities is now done by Issuing Hoses. SEC is however responsible for registering all eligible securities offered in the capital market as well as stock Exchanges, Issuing Houses and stock brokers. It is also maintain surveillance on the securities market to ensure strict compliance with the requirement of just and equitable dealing. The relationship between the SEC and banking industry is in the control of Issuing House activities of the banks and also when the banks are raising finance through the capital market.

(iv) **Other Supervisory/Regulatory agencies**

The Federal Mortgage Bank was recently restructured given it regulatory authority over *Primary Mortgage institutions in the country. It control and direct the activities of PMI in* additional National Board for Community Bank (NBCB)(for regulating and supervising insurance companies and brokers) was established. The existence of several regulatory bodies for various segments of activities in the financial services industry dictated the need for the establishment of the Financial services regulation coordinating committee (FSRCC) to coordinate and hormonise set standards and supervisory efforts of these various apex regulatory bodies.

3.7 RECENT DEVELOPMENT IN THE NIGERIAN BANKING INDUSTRY

As mentioned earlier, the introduction of SAP in 1986 bring about dramatic structural changes in the Nigerian banking industry. Deregulating the economy with the aim of increasing competition and promoting more efficient financial intermediation through freeing of interest rates, licensing new banks lifting of credit ceiling and the introduction of Open Market Operation (OMO) as a tool of monetary management bring about fundamental changes in the landscape of Nigeria banking scene. The introduction of new prudential guidelines for banks in respect of credit recognition in bank books, this Prudential guideline exposes sharp practice among bank in bad debts management. Also the new legal framework for CBN greatly affect banking system

The above efforts to deregulate and liberalized the banking system exposed the banks to increased risk in face of inflation and balance of payment difficulties. The situation was

further worsen ;by political instability occasioned by the annulment of June 12, 1993 election. This consequently led to mass withdrawal of deposit and panic buying of Foreign exchange. As result, the initial positive impact of this reforms was offset by the general poor state of the banking sector which was characterised by liquidity problem and even outright bank failure.

The banks could not cope with these external shocks due to their internal structural weaknesses such as inadequate capitalization, poor assets quality, bad management, insider abuses and political interference. Also, the access of newly licensed banks to the lucrative foreign exchange market did not allow them to cultivate appropriate banking tradition for survival. Supervisory weakness were conducive to loose banking practice and made it difficult to arrest an accumulation of non-performing loans at an early stage.

Financial distress in banking sub-sector become noticeable in 1989, when the Federal government decide to transfer public sector deposit from all banks to Central Bank of Nigeria; Several banks become illiquid and some of them either suspend deposit withdrawal altogether or place limit on amounts withdrawable. Thus, create some panic in the banking system (CBN, 1994).

Another aspect of the distress is the movement of deposit by customers from weak banks to stronger and well managed ones. This action exacerbate the liquidity woes of those weak banks. There was high demand for cash holding by customers. Consequently the ratio of cash to narrow. Money that had been declining in the past witnessed a sharp increase during the period.

Another major effect of distress in the banking sector was the emergence of rather very high rates of interest for deposits and inter-bank funds in desperate bid to attract deposits.

Furthermore, the accounts of many banks with the CBN remained in debit, and several banks were unable to honour maturing interbank obligations leading to widespread defaults and cross-defaults in the interbank market. Thus, from 8 in 1990, the number of banks adjudged as technically insolvent rose to 28 in 1993 and up to 45 by the end of 1994. As at June 1995,

the number of distress banks had risen to about 57 banks. By the end of 1997, 30 distress banks were liquidated already.

TABLE 24
NUMBER AND BRANCHES OF COMMERCIAL AND MERCHANT BANKS IN NIGERIA

Year	Commercial Banks				Merchant Banks		Both Banks			
	Number of Bank	Branches Urban	Branches Rural	Total	Number of Bank	Branches (Urban)	Number of Bank	Branches Urban	Branches Rural	Total
1970	14	–	–	273	1	–	15	–	–	273
1971	16	–	–	318	1	–	17	–	–	318
1972	16	–	–	367	1	–	17	–	–	367
1973	16	–	–	385	2	–	18	–	–	385
1974	17	–	–	403	3	–	20	–	–	403
1975	17	–	–	436	5	–	22	–	–	436
1976	18	–	–	463	5	–	23	–	–	463
1977	19	474	13	487	5	1	24	475	13	488
1978	19	511	98	609	5	7	24	518	98	616
1979	20	533	133	666	6	7	26	540	133	673
1980	20	565	168	733	6	12	26	577	168	745
1981	20	622	240	862	6	15	26	637	240	877
1982	22	676	308	984	8	19	30	695	308	1003
1983	25	694	407	1101	10	24	35	718	407	1125
1984	27	810	432	1242	11	25	38	835	432	1267
1985	28	839	451	1290	12	26	40	865	451	1316
1986	29	879	481	1360	12	27	41	906	481	1387
1987	34	947	529	1476	16	33	50	980	529	1509
1988	42	1057	602	1659	24	46	66	1103	602	1705
1989	47	1093	756	1849	34	56	81	1149	756	1905
1990	58	1169	765	1934	49	74	107	1243	765	2008
1991	65	1495	774	2269	54	84	119	1579	774	2353
1992	66	1577	775	2352	54	116	120	1693	775	2468
1993	66	1577	775	2352	54	126	120	1703	775	2478
1994	66	1634	763	2397	54	144	120	1778	763	2541

Note: Commercial Banks' overseas branches: 5(1977-78); 6(1979); 7(1980-87); 6(1988-89); 5(1990-91); 6(1992-94)

Sources: (1) Central Bank of Nigeria, *Statistical Bulletin*, Vol. 5, No. 1, June, 1994.
(2) Central Bank of Nigeria, *Annual Report and Statement of Accounts*, December, 1993/94.

TABLE 32

TRENDS IN THE TOTAL ASSETS OF THE FINANCIAL SYSTEM BY TYPE OF INSTITUTION

(₦'million)

	1970		1975		1980		1985		1990		1994	
	Value (₦'m)	% Share	Value (₦'m)	% Share	Value (₦'m)	% Share	Value (₦'m)	% Share	Value (₦'m)	% Share	Value (₦'m)	% Share
1 Commercial Banks	1,151.8	84.0	4,308.0	84.9	16,340.4	89.3	31,997.9	82.2	82,057.8	69.4	315,541.5	73.8
2 Merchant Banks	16.7	1.2	188.6	3.7	1,008.2	5.5	5,021.1	12.8	28,593.4	23.9	69,977.0	16.4
3 Savings Banks	4.9	0.4	8.1	0.2	7.3	0.0	8.1	0.0	-		-	
4 Development Banks	54.1	3.9	159.5	3.1								
5 Insurance Companies	46.5	3.4	187.3	3.7	948.9	5.2	1,934.5	5.0	8,060.1	6.7	11,579.5	2.7
6 Provident Fund	86.5	6.3	179.2	3.5								
7 Mortgage Bank	11.1	0.8	41.1	0.8								
8 Mortgage Institutions	–	–	–	–	–	–	–	–	–	–	3,884.0	0.9
9 People's Banks	–	–	–	–	–	–	–	–	–	–	958.3	0.2
10 Community Banks	–	–	–	–	–	–	–	–	–	–	4,117.2	1.0
11 Finance Companies	–	–	–	–	–	–	–	–	–	–	11,660.9	2.7
12 Discount Houses	–	–	–	–	–	–	–	–	–	–	9,583.2	2.2
TOTAL	1,371.6	100	5,071.8	100	18,304.8	100	38,941.6	100	119,611.3	100	427,301.6	100

Sources: CBN, *Statistical Bulletin*, Vol. 5, No. 1, June, 1994
CBN, *Annual Reports*, various issues
Ohigbo (1981), p. 31

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1 INTODUCTION

The causes of distress in the Nigerian Banking industry has being attributable to variety of factors, ranging from institutional to economic and political as discussed in the last chapter. There is need for these impression to be verified by empirical testing in the Nigeria situation. The approach employ is based on the experiences of other researchers. This involves a survey of major actors in the industry, including the various operators and their clients (Corporate and individual) as well as their regulatory/supervisory agencies to find out what they perceived as the causes of their problems.

4.2 SELF APPRAISAL BY THE BANKS

TABLE 4.1

SELF APPRAISAL BY THE BANKS (PERCENTAGES)

Financial Condition	All banking Institution	Commercial Banks	Merchant Banks	Community Banks	Peoples' Banks
Healthy	58.5	60.9	52.1	54.1	33.3
Mildly distressed	28.7	26.8	39.7	40.0	66.7
Severely distressed	10.5	11.8	6.8	1.2	-
Non-Response	2.3	0.5	1.4	4.7	-
TOTAL	**100**	**100**	**100**	**100**	**100**

Source: The Questionnaire

4.2.1 Nature and Extent of Distress in Banking Sector

Available response on self-appraisals by financial institution (Banking sector) showed that about 58.5% of them felt they were very healthy; 28.7 agreed that they are mildly distress; 10.5% reluctantly agree that they are severely distress, while the remaining bank did not assess their condition.

Based on the available response it is difficult to measure gravity of the distress. .However, the detailed institutional responses will be discussed later.

4.2.2 Causes of Distress

Available results showed that all the respondents acknowledged that all the factors commonly cited were indeed the causes of the distress condition in the Nigeria banking sector. The different were largely those of degree of the causative factor.

Table 4.2

ANALYSIS OF CAUSES OF DISTRESS BY TYPE OF RESPONDENTS

(Percentages)

Respondents/ Factors	Banking Institutions	Corporate Customers	Individual Customers	Total
Political Instability	7.9	8.6	14.7	11.4
Economic Instability	8.2	9.7	9.6	9.2
Both Political and Economic Factors	40.3	43.0	41.9	41.0
Institutional Factors	41.0	37.7	33.6	37.3
Others	2.6	1.0	0.2	1.1
TOTAL	**100**	**100**	**100**	**100**

Source: The Questionnaire

According to the results (Table 4.2), about 41.0% of all the banking institutions though institutional factors were largely responsible for their distress condition while about 40%

attributed the condition to a combination of both political and economic factors. It is noteworthy, however, that political and economic factors taken separately, recorded relatively low scores. This is an obvious indication that respondents recognised the strong relationship between the two group of factors. Corporate and individual customers of the financial institutions also associated the distress condition with institutional factors, although both gave the first position to political/economic factors.

Table 4.3

FINANCIAL INSTITUTIONS' ASSESSMENT OF THE CAUSES OF DISTRESS IN THE INDUSTRY (Percentages)

CAUSES	All Financial Institutions	Commercial Banks	Merchant Banks	Community Banks	Peoples' Banks
Bad Loans and Advance	19.5	30.1	12.9	17.2	19.4
Fraudulent Practices	16.7	16.4	18.8	18.5	17.7
Under-Capitalisation	11.8	7.6	9.6	12.7	14.5
Rapid Changes in Government Policies	10.8	9.8	5.5	16.9	9.7
Bad Management	17.9	13.1	21.7	14.0	14.5
Lack of Adequate Supervision	16.9	20.1	29.4	17.5	17.7
Undue Reliance on Forex	6.4	2.9	2.1	3.2	6.5
TOTAL	**100**	**100**	**100**	**100**	**100**

Source: The Questionnaire

Further detailed (Table 4.3) based on banking institution assessment of the causes of distress reveal the following ranking for some of the critical factors. Poor lending practices (19.5%), bad management (17.9%) inadequate internal supervision (16.9%) and fraudulent practices

(16.7%). About 11.8% of the respondent cited under-capitalization of financial institutions as a factor while bare 6.4 percent recognised foreign exchange management as an issue.

Given the strong association between bad lending practice and fraudulent practices with bad management one would conclude therefore that bad management was indeed the most serious cause of distress in the Nigerian banking industry.

Table 4.4
RESPONSES ON THE ECONOMIC FACTORS PERTINENT TO DISTRESS
(Percentage)

FACTORS	Financial Institutions				Corporate Customers				Individual Customers			
	Strong	Moderate	No Effect	Total	Strong	Moderate	No Effect	Total	Strong	Moderate	No Effect	Total
1. Upsurge in No. of Financial Institutions between 1989 - 1994	47.2	35.4	17.4	100.0	49.3	32.3	18.4	100.0	67.6	22.6	9.8	100.0
2. Poor Credit Policy Administration	78.9	18.2	2.9	100.0	69.1	27.8	3.1	100.0	-	-	-	-
3. Poor Loan Recovery Method	70.2	26.9	2.9	100.0	64.7	29.2	6.1	100.0	68.0	26.5	5.5	100.0
4. Fraud in Banks	52.9	41.9	5.2	100.0	-	-	-	-	-	-	-	-
5. Insider Dealings/Abuse	52.2	41.1	6.7	100.0	71.5	21.0	7.5	100.0	76.2	20.9	2.9	100.0
6. Inadequate Banking	47.6	44.6	7.8	100.0	-	-	-	-	-	-	-	-
7. Interference by Shareholders	43.9	36.9	19.2	100.0	-	-	-	-	-	-	-	-
8. Inadequacy of Professionally Trained Manpower	46.7	44.6	8.7	100.0	-	-	-	-	-	-	-	-
9. Poor Management	-	-	-	-	21.8	59.7	18.5	100.0	-	-	-	-
10. Others	-	-	-	-	100.0	-	-	100.0	-	-	-	-
Total Responses	**54.8**	**36.2**	**9.0**	**100.0**	**60.9**	**29.6**	**9.5**	**100.0**	**70.5**	**23.3**	**6.2**	**100.0**

SOURCE: QUESTIONAIRE

From Table 4.4, Corporate clients of banking institutions on the other hand gave top place among the strong causes of distress to insiders abuses (71.5%); followed by poor credit policy (69%) and poor loan recovery (64.7%). The pattern was broadly the same for individual customers, except that for them the second place went to the deregulation of banking sector which caused the increase in the numbers of bank in the country between 1989 and 1997 followed by poor credit policy/administration (Table 4.4).

Table 4.5
RESPONDENTS' RANKING OF EFFECTS OF VARIOUS ECONOMIC FACTORS ON DISTRESS
(Percentage)

FACTORS	Financial Institutions				Corporate Customers				Individual Customers			
	Strong	Moderate	No Effect	Total	Strong	Moderate	No Effect	Total	Strong	Moderate	No Effect	Total
1. Inflationary Pressure	69.2	26.6	4.2	100.0	83.5	13.9	2.6	100.0	76.4	21.2	2.4	100.0
2. Monetary Policy Changes	39.6	28.3	32.1	100.0	74.0	24.0	2.6	100.6	66.7	28.3	5.0	100.0
3. Use of Stabilisation Security	35.7	51.1	13.2	100.0	-	-	-	-	-	-	-	
4. Non Availability of Forex	48.9	35.8	15.3	100.0	89.3	7.1	4.0	100.4	-	-	-	
5. High Exchange Rate in Parallel Market	56.5	28.8	14.7	100.0	-	-	-	-	-	-	-	
6. Others	-	-	-	-	-	-	100.0	100.0	-	-	-	
Total Responses												

SOURCE: THE QUESTIONAIRE

From Table 4.5, with regard to the ranking of the impact of various economic factors specifically, about 69.2% of the banking institution blamed inflation while about 35.7% faulted the stabilization securities. Frequent changes in monetary policy came next with 39.6%; while instability of interest rate policy was surprisingly not considered as a serious factor in distress. Corporate customers, on the other hand, gave the top places to non availability of foreign exchange (89.3%), inflationary pressure (83.5%) and frequent changes in monetary policy (74.0%) . For individual customers, inflationary pressure came first with (76.4%) followed by frequent changes in monetary policy (66.5%)
(Table 4.5).

Table 4.6
RESPONDENTS' RANKING OF EFFECT OF POLITICAL FACTORS ON DISTRESS
(Percentage)

FACTORS	Financial Institutions				Corporate Customers				Individual Customers			
	Strong	Moderate	No Effect	Total	Strong	Moderate	No Effect	Total	Strong	Moderate	No Effect	Total
1. Political Uncertainty	74.7	21.7	3.6	100.0	82.4	15.9	1.7	100.0	78.2	18.5	3.3	100.0
2. Uncertainty Associated with June 12	44.5	41.6	13.9	100.0	51.0	35.8	13.2	100.0	51.0	34.0	15.0	100.0
3. Panic Withdrawal by Depositors	54.1	36.5	9.4	100.0	100.0	-	-	100.0	-	-	-	-
4. Others	100.0	-	-	100.0	-	-	-	-	-	-	-	-
Total Responses	**58.3**	**32.9**	**8.8**	**100.0**	**68.2**	**24.9**	**6.9**	**100.0**	**65.3**	**25.9**	**8.8**	**100.0**

SOURCE: the questionaire

Respondents rating of the impact of the different element under political factor was also very revealing. Banking industry gave top positions to the general political uncertainty (74.7%) followed by the anniversary of June 12 crisis which led to panic withdrawal of deposits by many banks customers (54.1%). Most corporate and individual customers blamed the distressed problem on political uncertainly and the June 12 crises (Table 4.6).

Table 4.7

ANALYSIS OF FINANCIAL INSTITUTIONS' ASSESSMENT OF FACTORS RESPONSIBLE FOR THEIR BEING HEALTHY

(Percentages)

FACTORS	All Financial Institutions	Commercial Banks	Merchant Banks	Community Banks	Peoples' Banks
Strong Capital Base	30.0	31.7	28.6	29.2	20.5
High Liquidity Position	24.3	24.8	31.3	22.2	18.2
Good Management and Competent Staff	15.3	9.6	6.3	14.1	27.3
Minimum Fraud/Sound Internal Control	7.2	7.6	3.6	11.3	4.5
Strict Discipline	16.0	18.7	26.0	11.9	25.0
Non-Interference by Shareholders	7.2	7.6	4.2	11.3	4.5
TOTAL	**100**	**100**	**100**	**100**	**100**

Source: The Questionnaire

In term of specific institutions self appraisal, the result showed that financial institutions which felt they were healthy attributed their condition to strong capital base, high liquidity position, strict supervision and good management in that order (Table 4.7). commercial banks and insurance companies accorded strong capital top place among the factors responsible for their healthy condition.

Table 4.8

ANALYSIS OF FINANCIAL INSTITUTIONS' ASSESSMENT OF FACTORS RESPONSIBLE FOR THEIR BEING HIGHLY DISTRESSED

(Percentages)

FACTORS	All Financial Institutions	Commercial Banks	Merchant Banks	Community Banks	Peoples' Banks
Poor Capitalisation	33.1	27.7	27.1	27.0	25.0
Poor Loan Recovery	23.6	25.5	24.3	28.8	8.4
Bad Credit Policy	23.6	22.7	24.3	25.0	33.3
Political Crises	19.7	24.1	24.3	19.2	33.3
TOTAL	**100**	**100**	**100**	**100**	**100**

Source: The Questionnaire

Institutions which admitted being mildly distress attribute their condition mainly to poor capitalization (33.1%), followed by poor loan recovery machinery (23.6%) and bad credit administration (23.6%) about (19.7%) of the respondents, however, attributed their situation to the lingering political crises (Table 4.8).

Table 4.9

ANALYSIS OF FINANCIAL INSTITUTIONS' ASSESSMENT OF FACTORS RESPONSIBLE FOR THEIR BEING SEVERELY DISTRESSED

(Percentages)

FACTORS	All Financial Institutions	Commercial Banks	Merchant Banks	Community Banks	Peoples' Banks
Economic Depression	25.0	23.5	-	-	N.A
Political Crises	17.9	17.6	33.4	50.0	N.A
Bad Credit Policy	25.0	29.4	33.3	-	N.A
Undue Interference from Board Members	32.1	29.5	33.3	50.0	-
TOTAL	**100**	**100**	**100**	**100**	**N.A**

Source: The Questionnaire

On the other hand institutions which conformed they were severally distressed blamed their situation mostly on undue interference in the internal operations by board members (32%) bad credit policy (25%); economic depression (25%) and lingering political crisis (17.9%) (Table 4. 9). A further break down of the results showed that highly distressed banks (Commercial and Merchant banks) attributed their situation largely to interference from board members, bad credit policy economic depression, and political crisis in that order respectively. (Table 4.9)

4.3 ANALYSIS OF PERFORMANCE OF THE SUPERVISORY/ REGULATORY AUTHORITIES

Most of the respondent in the banking sector rate the supervisory/regulatory authorities performance poorly, except in respect of introduction of the Prudential guidelines. Performance in most other areas of responsibility, namely, interest rate policy, exchange rate management, liquidity management through OMO, Supervision and discount window operations were rated low by the respondents. The use of stabilization securities was scored very low because of its affects on the liquidity positions by banks. Frequent changes in monetary policy was also blamed for making efficient planning difficult. The CBN holding actions for problem banks, such as moratorium on lending when deposits were mounting and

exclusion form clearing House and participation in FEM, were also blamed for accelerating rather than solving the problem of distress. Public disclosure of the names of institutions banned from clearing House or FEM was also blamed for worsening distress conditions as they were usually misunderstood by bank clients, thereby precipitating runs on the affected banks.

Table 4.10

ANALYSIS OF RESPONDENTS' SUGGESTIONS FOR ENHANCING EFFECTIVENESS OF SUPERVISORY/REGULATORY BODIES' ROLE IN ARRESTING DISTRESS IN FINANCIAL INSTITUTIONS

(Percentages)

Suggested Actions	All Financial Institutions	Commercial Banks	Merchant Banks	Community Banks	Peoples Banks
Strengthen Supervision	37.8	4.4	5.9	50.5	47.6
Enforce Compliance with Prudential Guidelines	22.5	29.2	23.5	9.3	19.0
Ensure Emergence of Realistic Exchange and Interest Rates	18.9	17.7	14.7	25.8	19.0
Stop or Reduce the use of Stabilisation Security	14.4	27.4	23.5	14.4	14.4
Curb Abuses in Clearing House	6.4	21.3	32.4	-	-
TOTAL	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: The Questionnaire

Further, what was promised depositors by the NDIC in the event of liquidation of an insured institution was also seen as being grossly inadequate to sustain the confidence of depositors.

Table 4.11

ANALYSIS OF RESPONDENTS' SUGGESTIONS FOR ADDRESSING THE ECONOMIC, POLITICAL AND INSTITUTIONAL PROBLEMS FACING FINANCIAL INSTITUTIONS

(Percentages)

Suggestions	All Financial Institutions	Commercial Banks	Merchant Banks	Community Banks	Peoples' Banks
Free Market Economy	4.4	7.7	7.9	-	-
Curb Inflation	6.8	6.9	6.9	5.0	19.6
Eradication of Corruption	12.1	11.9	11.9	10.0	10.9
Stable Policy	16.8	15.8	15.8	4.2	17.4
Enforce Law and Order	11.5	7.4	6.9	16.7	10.9
Maximum Shareholding	6.3	3.9	3.4	20.8	8.7
Recruit Professionals	14.8	18.8	18.8	16.6	-
Training of Staff	15.9	19.0	19.8	16.7	21.7
Prudent Lending	11.4	8.6	8.6	10.0	10.8
TOTAL	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: The Questionnaire

Suggestion to mitigate economic and political factors ranged from the need to eradicate corruption and enforce laws and order to enhance security of life and property (Table 4.11) with regard to the role of government specifically, respondents gave high priority to the need for close cooperation between government and professional bodies in the formulation of relevant economic policies.

Table 4.12

WHAT GOVERNMENT SHOULD DO TO CURB DISTRESS IN FINANCIAL INSTITUTIONS

(Percentages)

Suggested Actions	All Financial Institutions	Commercial Banks	Merchant Banks	Community Banks	Peoples Banks
Involvement of Professional Bodies	29.7	15.9	20.9	73.7	37.5
Ensuring Autonomy of Regulatory Bodies	21.2	30.3	28.4	13.2	-
Stop Wasteful Spending and Curtail Inflation	17.2	20.7	19.4	13.1	15.6
Scrap Stabilisation Securities	14.2	23.9	22.4	-	21.9
Effective Tribunal for Debt Recovery	17.7	9.2	8.9	-	25.0
TOTAL	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: The Questionnaire

The need for autonomy for regulatory/supervisory agencies in the Banking sector, especially CBN scored highly (21.2%) followed by efficient tribunal to assist in loan recovery (17.9) (Table 4.12)

(b) **Analysis of Respondents Recommendation for tackling Distress**

Respondents believed in the need for a realistic approach to distress resolution. Consequently various options including those currently being used were given prominence either as short term or long term measures. Under short term measures for instance, the respondents accorded the need to assist banking institution to tackle the capitalization deficiency problem (25.6%) by encouraging dilution of ownership.

Table 4.13

RESPONDENTS' RECOMMENDED SHORT–TERM MEASURES FOR RESOLUTION OF DISTRESS IN FINANCIAL INSTITUTIONS

(Percentages)

Short – Term Resolution Options	All Financial Institutions	Commercial Banks	Merchant Banks	Community Banks	Peoples' Banks
Recapitalisation of Problem Institutions	25.6	26.4	27.2	28.4	20.0
Overhaul Management	23.3	31.0	31.8	13.7	11.1
Stiff Penalties for Bank Fraud	13.8	9.5	9.1	18.4	26.7
Engage Professionals	11.0	10.6	10.2	5.3	26.7
Deregulate Economy	12.7	14.4	13.6	8.4	6.7
Political Stability	13.6	8.1	8.1	25.8	8.8
TOTAL	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: The Questionnaire

This was followed by the need to strengthen management in the various banking institution (23.4%); discourage fraud through stiff penalties (13.8%); need for political stability (13.6%); deregulation of the economy (12.7%) and need for more professional in the workforce of banking institution (11.8%) (Table 4.13).

The long term solutions gave prominence to the need for action to liquidate terminally distress institutions (40.8%). This was followed by the need to enhance discipline within the industry (25.7%) and the need to encourage merger and acquisition. (17%) (Table 4.14).

Table 4.14

RESPONDENTS' RECOMMENDED LONG-TERM MEASURES FOR TACKLING OF DISTRESS IN FINANCIAL INSTITUTIONS

(Percentages)

Long - Term Measures	All Financial Institutions	Commercial Banks	Merchant Banks	Community Banks	People Bank
Liquidate Terminally Distressed Banks	40.0	38.5	38.2	50.0	23.5
Financial Discipline	25.9	21.6	21.8	30.0	26.5
Patriotism	17.1	15.5	14.5	20.0	14.7
Merger and Acquisition	17.0	24.4	25.5	-	35.3
TOTAL	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: The Questionnaire

(c) **Analysis of Response of the Regulatory/Supervisory authorities.**

The regulatory and supervisory bodies in their response to the survey attributed the unsatisfactory state of the financial services industry to institutional factors. And political and economic crises. They acknowledged that the upsurge in the number of banking institutions between 1986 and 1991, poor internal controls, insider dealings, fraud and poor credit policy and administration were factors that contributed to the banking sector distress.

In addition to resolution option recommended by the authorities in the previous chapter, the regulatory/supervisory authorities offer the following short term and long term resolution options;

Short term:

i. Comprehensive framework for failure resolution.

ii. Effective supervision and compliance enforcement through imposition of sanction.

iii. Mergers, acquisitions, sales and restructuring as well as liquidation of terminally distressed banks.

Long-run measures suggested were:

i. Amendment of existing legal provisions to strengthen the performance of the industry.

ii. Restructuring and self-regulation in the in the banking industry.

iii. Restoration of macro economic stability.

Finally, the supervisory and regulatory authorities still need to be given more powers to enable them overcome the deficiencies of the existing legislation, to check abuses in the system and to allow them act decisively and promptly in an emergency.

The survey result indicated that on the average, (56.9%) of respondents felt the supervisory authorities were performing their functions fairly well while (20.4%) indicated that the supervision of banks had been poorly performed. The survey showed that (15.9%) of the respondents believed that staff training was very crucial to the resolution option while (16.8%) emphasized stable policy. (Table 4.11)

There is therefore the need for strong political commitment and leadership for ensuring a lasting resolution of the distress in the Banking system. This would require a recognition at the highest policy making level that resolution of distress in the banking industry is a top national priority requiring equally urgent action. A decision needs to be taken to implement a carefully sequenced, coherent, and comprehensive plan for distress resolution that would protect the interests of depositors while ensuring the stability and soundness of the financial systems.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.1 SUMMARY

The purpose of this research work is to study in details the distress in Nigeria banking industry; the causes and resolution strategy.

The study commences with an overview of the Nigerian banking system since its inception 1892. The review showed that the past 100 years of baking in Nigeria have been characterised by significant growth in the number, structure, and spread of banking institutions. The growth was most phenomenal between 1986 and 1990 when the economy was deregulated through Structural Adjustment Programmed (SAP), the process of licensing new banks was liberalised. This growth in the banking institution, does not have available manpower to man those institutions, thus creating serious skilled manpower gaps in the industry. The phenomenal growth also outstripped the regulatory/supervisory capacity of the monitoring authorities. The period since the SAP has also been characterised by political instability that tended to exacerbate the economic crisis in the country with serious adverse consequences of the banking industry. All these factors contributed in bringing about the prevailing crisis in the banking system, which is far more deep-seated and wide spread than the ones experienced earlier in the history of the development of the Nigerian banking system before the establishment of CBN.

This study relied on the experiences of other countries which had passed though similar experiences as well as existing literature on the subject of distress in banking institutions for the conceptual and analytical frame work. It is pertinent to observe however, that there was generally a dearth of relevant literature on the subject, particularly with regard to the definition, measurement and causes of distress. The deficiency was even more glaring in the case of Nigeria where the few studies available did not provide much comprehensive and indepth analysis of the causes and resolution strategy of the past or present crisis in the banking industry. This explains that hitherto piecemeal nature of the efforts to achieve an efficient and enduring distress resolution strategy.

5.2 FINDINGS SUMMARY.

Because of the importance of the study, the survey of major actors in the industry was carried out. The survey covers wide range of respondents made of banking institutions, corporate customers, individual customers, and all regulatory/supervisory authorities. Because of the way the questionnaires were administered, virtually all the institutions covered responded. The data generated were analyzed using simple descriptive statistics (Frequency analysis).

The survey informed the existence of distress among a significant proportion of virtually all categories of operators in the Nigerian banking industry. However, it was established that, though generalised, the distress situation could not be described as systemic as a good number of institutions still remained health to which many customers have "run for safety" on the whole, about 58.5% of all the financial institutions felt they were healthy; 28.6% believed they were mildly distressed; while 10.5% confirmed being terminally distressed. The survey results showed that all the major causes of distress identified under the literature review, namely: Institutional, economic and political factors, contributed, in varying degrees, to the distress in the banking industry.

The institutional factors as a group were, however, rated highest amongst the three group of factors. The institutional factors identified as causing distress, in order of ranking were poor management, poor credit policy, ineffective machinery for debt recovery, insiders abuses, fraud and poor credit management.

The economic factors which were strongly attributable to the cause of distress were economic recession, inflationary pressures, and frequent changes in monetary policy. Respondents also attached strong weight to the use of stabilisation securities by monitoring authorities as factor responsible for distress particularly illiguidity. The political factors were defined to include such issues as long transition programme, the annulment of the June 12 election and resultant political crisis which led to the panic withdrawal of deposits from many financial institutions. Incidentally, these factors were not given the high prominence by the respondents as was expected by the public; rather these factors took the back –stage relative to the institutional and economic factors. Among the major elements of the political factors, respondents attached higher weight to political instability generally rather than the specific events such as

the annulment of the June 12 Presidential elections in 1993. This probably suggested that for effective distress resolution, Nigerians expected an enduring arrangement that would ensure a stable political environment based on democratically elected government.

The respondent assessment of the role of regulatories/supervisory authorities is that, CBN had not been firm enough enforcing its regulations over the years thus missing the early opportunity of discovery distress signals and proffering resolution strategy in time. NDIC was also described generally as a bad insurer, which hardly provides sufficient cover even for the small depositors as N50,000 maximum compensation was considered grossly inadequate. The various regulatory/supervisory authorities were also in broad agreement with the financial institutions over the factors they considered as being responsible for the distressed.

The main prescriptions for the distress resolution strategy were broadly divided into short and long term. The short term measure involve the adoption of a comprehensive frame work which should include effective supervision, enforcement of compliance with the regulations and imposition of sanctions for non-compliance, mergers, acquisitions, sale and liquidation. The long term measures suggested include the amendment of the existing legal provisions to strengthen the performances of the supervisory authorities who should be allowed to take action independently without waiting for outside approval, restoration of macroeconomic stability, restructuring and self-regulations of banking industry and outright liquidation of terminally distress banks.

5.3 CONCLUSION AND RECOMMENDATION

In conclusion, this research work has demonstrated that a significant proportion of operators in the Nigerian banking industry, have been experiencing varying degrees of distress particularly during the period 1989 to date. The causes are both external and internal to the system. The problem has been most pronounced in Merchant banks and community banks. A number of banking institutions are still considered healthy. Thus, the study has also established that, although the spread of distress in the banking system is generalized, it has not become systemic.

On the causes of the distress, the study showed that factors endogenous to financial institutions were mainly responsible for their distress conditions. In order o importance, the factors included poor management, inadequate capitalization, bad loans and undue interference of board members. Both economic factors and political instability had therefore merely exacerbated the distress problem with regards to the proposal for distress resolution strategy, the study give strong preference for a comprehensive distress management strategy rather than adhoc measures to prevent the problem form infesting the entire system. Equally high priority is given to the need to overhaul the management of the various institutions, recapitalisation and strengthening of internal controls. When that is done, it will bring long lasting relief to the entire banking system.

APPENDIX A3

SURVEY OF DISTRESS IN THE NIGERIAN FINANCIAL SYSTEM
AUTHORISED BY THE CBN AND NDIC

CONFIDENTIAL
FORM CBN/NDIC/RD

PRIVATE CUSTOMERS

1. What is the nature of your business ? (Please tick as appropriate)

☐ Mining and Quarrying
☐ Manufacturing and Processing
☐ Agriculture, Forestry and Fishing
☐ Transport and Communication
☐ Building and Construction
☐ Trading and Business services
☐ Other activities (SPECIFY BELOW)

_____
_____
_____

2. Which of the following financial institutions do you use ? (Please tick appropriate box).

☐ Commercial Bank
☐ Merchant Bank
☐ Community Bank
☐ Peoples Bank
☐ Discount House
☐ Finance House
☐ Primary Mortgage Institution

3. Do you believe that the financial services industry is in distress ?

☐ Yes ☐ No ☐ Don't know

4. If yes, what in your opinion do you think is the cause ?

☐ Political instability
☐ Economic depression
☐ Both political and economic crises
☐ Institutional factors such as inadequate supervision, poor management, bad policies, etc.
☐ Others (Please specify) _____

5. If you believe the distress in the financial sector is caused by political crisis, to what extent did the following factors contribute ?

	Strongly	Slightly	No effect
(a) Political uncertainty	☐	☐	☐
(b) Uncertainties associated with June 12	☐	☐	☐
(c) Others (Please specify) _____			

6. If the problem is economic, to what extent did the following factors contribute to the distress in the financial sector ?

	Strongly	Slightly	No effect
(a) Inflationary pressure	☐	☐	☐
(b) Change in government policy on interest rate and exchange rate	☐	☐	☐
(c) Poor credit policy and administration	☐	☐	☐

(d) Others (Please specify) _____

7 If the problem is institutional, to what extent did the following factors contribute to the distress in the financial sector ?

	Strongly	Slightly	No effect
(a) Upsurge in the number of financial institutions between 1989 and 1994	☐	☐	☐
(b) Insider abuse/fraud in banks	☐	☐	☐
(c) Poor loan recovery mechanism	☐	☐	☐

(d) Others (Please specify) _____

8. Please suggest ways you think the problem of distress in the financial services industry could be resolved ?.

(a) Streamlining the number of participants ☐

(b) Timely execution of bail-out programmes ☐

(c) Improved and timely supervision ☐

(d) Prompt regulatory intervention ☐

(e) Enforcing the free entry and free exit in the industry ☐

9. Give any other suggestion that could help the supervisory authorities of the financial sector in solving this problem.

(a) _____

(b) _____

(c) _____

(d) _____

(e) _____

8. Do you think more of such institutions should be closed?

☐ Yes ☐ No

9. If yes, why ? _____

10. If no, please explain why. _____

11. How do you assess the under listed regulatory/supervisory institutions ?

	Outstanding	Just Above Average	Average	Poor
CBN	☐	☐	☐	☐
NDIC	☐	☐	☐	☐
FMBN	☐	☐	☐	☐
NISB	☐	☐	☐	☐
NSE	☐	☐	☐	☐
NBCB	☐	☐	☐	☐
CAC	☐	☐	☐	☐
FMF	☐	☐	☐	☐

Please justify exceptional ranking (Outstanding or Poor) _____

12. What do you suggest the regulatory/supervisory institutions should do to address their shortcomings identified in (11) above.

(i) _____

(ii) _____

(iii) _____

(iv) _____

(v) _____

13. How do you rate the performance of CBN in respect of the following areas of responsibility?.

	Good	Fair	Poor	N/A
(i) Interest rate policy	☐	☐	☐	☐
(ii) Exchange rate policy	☐	☐	☐	☐
(iii) Reserve management	☐	☐	☐	☐
(iv) Prudential requirements	☐	☐	☐	☐
(v) Stabilisation securities	☐	☐	☐	☐
(vi) Open market operations	☐	☐	☐	☐
(vii) Supervision	☐	☐	☐	☐
(vi) Discount window operations	☐	☐	☐	☐

(vii) Others (Please specify)_____

_____

N.B Please justify exceptional ranking (i.e good or poor) _____

_____

_____

14. How would you rate your own institution under the following scale of distress condition?

Healthy ☐

Mildly distressed ☐

Severely distressed ☐

15. Please justify the rating indicated in (14) above.

(a)_____

(b)_____

(c)_____

(d)_____

16. What role should the Government play in arresting the present distress condition in the financial services industry generally and your particular sub-group specifically?

(a)_____

(b)_____

(c)_____

(d)_____

(e)_____

(f)_____

17. Please suggest ways you think the problem of distress in the financial services industry should be resolved.

Short Term

(i) _____

(ii) _____

(iii) _____

(iv) _____

Long Term

(i) _____

(ii) _____

(iii) _____

(iv) _____

Name and Address of Institution _____

_____

Designation _____

Affix Company Stamp (Optional)

Signature (Optional) _____

DATE _____

APPENDIX A3

SURVEY OF DISTRESS IN THE NIGERIAN FINANCIAL SYSTEM
AUTHORISED BY THE CBN AND NDIC

CONFIDENTIAL
FORM CBN/NDIC/RD

PRIVATE CUSTOMERS

1. What is the nature of your business ? (Please tick as appropriate)

☐ Mining and Quarrying
☐ Manufacturing and Processing
☐ Agriculture, Forestry and Fishing
☐ Transport and Communication
☐ Building and Construction
☐ Trading and Business services
☐ Other activities (SPECIFY BELOW)

_____
_____
_____

2. Which of the following financial institutions do you use ? (Please tick appropriate box).

☐ Commercial Bank
☐ Merchant Bank
☐ Community Bank
☐ Peoples Bank
☐ Discount House
☐ Finance House
☐ Primary Mortgage Institution

3. Do you believe that the financial services industry is in distress ?

☐ Yes ☐ No ☐ Don't know

4. If yes, what in your opinion do you think is the cause ?

☐ Political instability
☐ Economic depression
☐ Both political and economic crises
☐ Institutional factors such as inadequate supervision, poor management, bad policies, etc.
☐ Others (Please specify) _____

5. If you believe the distress in the financial sector is caused by political crisis, to what extent did the following factors contribute ?

	Strongly	Slightly	No effect
(a) Political uncertainty	☐	☐	☐
(b) Uncertainties associated with June 12	☐	☐	☐
(c) Others (Please specify) _____			

6. If the problem is economic, to what extent did the following factors contribute to the distress in the financial sector ?

	Strongly	Slightly	No effect
(a) Inflationary pressure	☐	☐	☐
(b) Change in government policy on interest rate and exchange rate	☐	☐	☐
(c) Poor credit policy and administration	☐	☐	☐

(d) Others (Please specify) _____

7 If the problem is institutional, to wi t extent did the following factors contribute to the distress in the financial sector ?

	Strongly	Slightly	No effect
(a) Upsurge in the number of financial institutions between 1989 and 1994	☐	☐	☐
(b) Insider abuse/fraud in banks	☐	☐	☐
(c) Poor loan recovery mechanism	☐	☐	☐

(d) Others (Please specify) _____

8. Please suggest ways you think the problem of distress in the financial services industry could be resolved ?.

(a) Streamlining the number of participants ☐

(b) Timely execution of bail-out programmes ☐

(c) Improved and timely supervision ☐

(d) Prompt regulatory intervention ☐

(e) Enforcing the free entry and free exit in the industry ☐

9. Give any other suggestion that could help the supervisory authorities of the financial sector in solving this problem.

(a) _____

(b) _____

(c) _____

(d) _____

(e) _____

10. If the problem is economic, to what extent did the following factors contribute to the distress in the financial sector ?

	Strongly	Slightly	No effect
(a) Inflationary pressure	☐	☐	☐
(b) Change in government policy on interest and exchange rates.	☐	☐	☐
(c) Insufficient foreign exchange to the productive sector	☐	☐	☐

(d) Others (Please specify) _____

_____

11. If the problem is institutional o what extent did the following factors contribute to the distress in the financial sector ?

	Strongly	Slightly	No effect
(a) Upsurge in the number of financial institutions between 1989 and 1994	☐	☐	☐
(b) Insider abuse/fraud in banks	☐	☐	☐
(c) Poor credit policy and administration	☐	☐	☐
(d) Poor loan recovery mechanism	☐	☐	☐
(e) Poor Management	☐	☐	☐

(f) Others (Please specify) _____

_____

12. In what ways has the distress in the financial sector affected your business ? Please explain briefly.

(i) _____

(ii) _____

(iii) _____

(iv) _____

13. Please suggest ways you think the problem of distress in the financial services industry could be resolved.

(a) Streamlining the number of participants	☐
(b) Timely execution of bail-out programmes	☐
(c) Improved and timely supervision	☐
(d) Prompt regulatory intervention	☐
(e) Enforcing the free entry and free exit in the industry	☐

14. Give any other suggestion that could help the supervisory authorities of the financial sector in solving this problem and ensure sound financial system.

(a) _____

(b) _____

(c) _____

(d) _____

Name and Address of company
(Affix Company Stamp)

14. Give any other suggestion that could help the supervisory authorities of the financial sector in solving this problem and ensure sound financial system.

(a) _____

(b) _____

(c) _____

(d) _____

Name and Address of company
(Affix Company Stamp)

APPENDIX A3

SURVEY OF DISTRESS IN THE NIGERIAN FINANCIAL SYSTEM AUTHORISED BY THE CBN AND NDIC

CONFIDENTIAL
FORM CBN/NDIC/RD

PRIVATE CUSTOMERS

1. What is the nature of your business ? (Please tick as appropriate)

☐ Mining and Quarrying
☐ Manufacturing and Processing
☐ Agriculture, Forestry and Fishing
☐ Transport and Communication
☐ Building and Construction
☐ Trading and Business services
☐ Other activities (SPECIFY BELOW)

_____
_____
_____

2. Which of the following financial institutions do you use ? (Please tick appropriate box).

☐ Commercial Bank
☐ Merchant Bank
☐ Community Bank
☐ Peoples Bank
☐ Discount House
☐ Finance House
☐ Primary Mortgage Institution

3. *Do you believe that the financial services industry is in distress ?*

☐ Yes ☐ No ☐ Don't know

4. If yes, what in your opinion do you think is the cause ?

☐ Political instability
☐ Economic depression
☐ Both political and economic crises
☐ Institutional factors such as inadequate supervision, poor management, bad policies, etc.
☐ Others (Please specify) _____

5. If you believe the distress in the financial sector is caused by political crisis, to what extent did the following factors contribute ?

	Strongly	Slightly	No effect
(a) Political uncertainty	☐	☐	☐
(b) Uncertainties associated with June 12	☐	☐	☐
(c) Others (Please specify) _____			

6. If the problem is economic, to what extent did the following factors contribute to the distress in the financial sector ?

	Strongly	Slightly	No effect
(a) Inflationary pressure	☐	☐	☐
(b) Change in government policy on interest rate and exchange rate	☐	☐	☐
(c) Poor credit policy and administration	☐	☐	☐

(d) Others (Please sperify) _____

7 If the problem is institutional, to what extent did the following factors contribute to the distress in the financial sector ?

	Strongly	Slightly	No effect
(a) Upsurge in the number of financial institutions between 1989 and 1994	☐	☐	☐
(b) Insider abuse/fraud in banks	☐	☐	☐
(c) Poor loan recovery mechanism	☐	☐	☐

(d) Others (Please specify) _____

8. Please suggest ways you think the problem of distress in the financial services industry could be resolved ?.

(a) Streamlining the number of participants ☐
(b) Timely execution of bail-out programmes ☐
(c) Improved and timely supervision ☐
(d) Prompt regulatory intervention ☐
(e) Enforcing the free entry and free exit in the industry ☐

9. Give any other suggestion that could help the supervisory authorities of the financial sector in solving this problem.

(a) _____
(b) _____
(c) _____
(d) _____
(e) _____

SURVEY ON DISTRESS IN THE NIGERIAN FINANCIAL SYSTEM
AUTHORISED BY THE CBN AND NDIC

CONFIDENTIAL
FORM CBN/NDIC/RD

REGULATORY/SUPERVISORY AUTHORITIES

1. What do you think is responsible for the unsatisfactory state of the financial services industry ?

   ☐ Political instability ☐ Economic depression ☐
   ☐ Both political and economic crises.
   ☐ Institutional factors such as inadequate supervision, poor management, bad policies, etc.
   ☐ Others (Please specify)

2. If you consider more than one factor, please rank them in order of importance:

   _____
   _____
   _____

3. If you believe the distress in the financial sector is caused by political crisis, to what extent did the following factors contribute ?

	Strongly	Slightly	No effect
(a) Political uncertainty	☐	☐	☐
(b) Others (Please specify)			

4. If the problem is economic, to what extent did the following factors contribute to the distress in the financial sector ?

	Strongly	Slightly	No effect
(a) Inflationary pressure	☐	☐	☐
(b) Frequent changes in Government policy on interest rate	☐	☐	☐
(c) Inadequate foreign exchange to service the needs of the economy	☐	☐	☐
(d) Exchange rate instability	☐	☐	☐
(e) Others (Please specify)			

5. If the problem is institutional, to what extent did the following factors contribute to the distress in the financial sector ?

	Strongly	Slightly	No effect
(a) Upsurge in the number of financial institutions between 1986 and 1991	☐	☐	☐
(b) Insider abuse/fraud in banks	☐	☐	☐
(c) Poor credit policy and administration	☐	☐	☐
(d) Poor loan recovery mechanism	☐	☐	☐
(e) Poor internal control	☐	☐	☐

(f) Others (Please specify) _____

_____

6. What additional strategies will your institution adopt to arrest the current wave of systemic distress in the financial sector ?

Short Term

(i) _____

(ii) _____

(iii) _____

(iv) _____

Long Term

(i) _____

(ii) _____

(iii) _____

(iv) _____

7. What are the factors constraining the effective performance of your institution's statutory functions ?

(a) _____

(b) _____

(c) _____

(d) _____

(e) _____

8. What roles should government play in the management of current distress in the financial services industry?

1 _____

2 _____

3 _____

4 _____

Name and Address of institution:
(Affix official stamp)

APPENDIX A5

SURVEY OF DISTRESS IN THE NIGERIAN FINANCIAL SYSTEM
AUTHORISED BY THE CBN AND NDIC

CONFIDENTIAL
FORM CBN/NDIC/RD

MINISTRY OF FINANCE AND THE PRESIDENCY

1. What do you think is responsible for the unsatisfactory state of the financial services industry ?

☐ Political instability ☐ Economic depression

☐ Both political and economic crises

☐ Institutional factors such as inadequate supervision, poor management, bad policies, etc.

☐ Others (Please specify) _____

2. If you consider more than one factor, please rank them in order of importance:

_____

_____

_____

3. If you believe the distress in the financial sector is caused by political crisis, to what extent did the following factors contribute ?

	Strongly	Slightly	No effect
(a) Political uncertainty	☐	☐	☐

(b) Others (Please specify) _____

_____

4. If the problem is economic, to what extent did the following factors contribute to the distress in the financial sector ?

	Strongly	Slightly	No effect
(a) Inflationary pressure	☐	☐	☐
(b) Frequent changes in government policy on interest rate	☐	☐	☐
(c) Inadequate foreign exchange to service the needs of the economy	☐	☐	☐
(d) Exchange rate instability	☐	☐	☐

(e) Others (Please specify) _____

_____

5. If the problem is institutional, to what extent did the following factors contribute to the distress in the financial sector ?

	Strongly	Slightly	No effect
(a) Upsurge in the number of financial institutions between 1986 and 1991	☐	☐	☐
(b) Insider abuse/fraud in banks	☐	☐	☐
(c) Poor credit policy and administration	☐	☐	☐
(d) Poor loan recovery mechanism	☐	☐	☐
(e) Poor internal control	☐	☐	☐

(f) Others (Please specify) _____

_____

6. What role can government play in arresting the current wave of systemic distress in the financial sector ?

(a) _____

(b) _____

(c) _____

(d) _____

(e) _____

7. What is your assessment of the regulatory/supervisory agencies ?

☐ Outstanding ☐ Above average

☐ Average ☐ Poor

8. In what ways can the role of the regulatory/supervisory agencies be improved to arrest the distress in the financial services industry ?

(a) _____

(b) _____

(c) _____

(d) _____

(e) _____

9. What are the factors constraining the performance of the regulatory/supervisory authorities ?

(a) _____

(b) _____

(c) _____

(d) _____

(e) _____

10. Please suggest ways you think the problem of distress in the financial services industry could be resolved.

Short Term

(i) _____

(ii) _____

(iii) _____

(iv) _____

Long Term

(i) _____

(ii) _____

(iii) _____

(iv) _____

11. Any other suggestions:

Name and Address of institution:
(Affix official stamp)

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