THE IMPACT OF BANK CONSOLIDATION ON SERVICE DELIVERY: A STUDY OF BANKS IN ZARIA; 2004 - 2014

BY

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A Thesis submitted to the School of Postgraduate Studies, Ahmadu Bello University, Zaria, Nigeria, in partial fulfillment of the requirements for the award of Degree of Masters in Political Science. Department of Political Science, Faculty of Social Sciences, Ahmadu Bello University, Zaria, Nigeria.

SEPTEMBER, 2015

DECLARATION

I hereby declare that this thesis entitled "THE IMPACT OF BANK CONSOLIDATION ON SERVICE DELIVERY: A STUDY OF BANKS IN ZARIA; 2004-2014" was written by me in the Department of Political Science under the supervision of Mal. Aminu Garba and Dr. O.D. Moveh. The information derived from the literature has been duly acknowledged in the text and a list of references provided. No part of this thesis was previously presented for another Degree or Diploma at any university. I take the sole responsibility for all errors therein.

……………………………… …………………….. ……………………….

Name of Student Signature Date

CERTIFICATION

This thesis entitled " THE IMPACT OF BANK CONSOLIDATION ON SERVICE DELIVERY: A STUDY OF BANKS IN ZARIA; 2004-2014" by Abduljalil Jega IBRAHIM meets the regulations governing the award of the Masters of Science in Political Science of Ahmadu Bello University, Zaria and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

This thesis is dedicated to Almighty Allah for making it possible for me to undergo this programme successfully.

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First and foremost, I would like to thank Almighty Allah for His divine guidance and mercy by enabling me to successfully undergo this programme and complete this thesis.

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Abstract

In 2004, a major reform policy was undertaken in the Nigerian banking sector with the view to removing or minimizing certain operational constraints thereby enhancing the fiscal strengths, stability and efficient service delivery of the banks. This study assessed the impact of banking consolidation in order to ascertain whether it has yielded or yielding desired results with an *empirical focus on Zaria based banks. The study is guided by the structural-functionalist theory. The data was quantitative and qualitatively generated and analyzed through tabulation and complimented with other primary and secondary sources. The study found out that Bank consolidation has positive impact on the service delivery to customers of the banks but not significant, which is due to pre-mature mergers, supervision practice and financial integration etc. It therefore recommends that regulatory mechanism should be improved and difficulties in services rendered by these banks should be minimized.*

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background to the Study

There has been a clear trend towards the abolition of geographic restrictions on banks and the consolidation of financial intermediaries around the globe in most recent years. This is fuelling an active public policy debate on the impact of banking consolidation on financial stability. The banking system is the engine of growth in any modern economy, given its function of financial intermediation. Through this function, banks facilitate capital formation and promote economic growth and development.

However, banks' ability to engender economic growth and development depends on the health, soundness and stability of its system. The need for a strong, reliable and viable banking system is underscored by the fact that the industry is one of the few sectors in which the shareholders' fund is only a small proportion of the liabilities of the enterprise. It is therefore, not surprising that the banking industry is one of the most regulated sectors in any economy (Oloyede,1994: 279).

It is against this background that the Central Bank of Nigeria (CBN), in 2004 under the governorship of Prof. Charles Soludo, outlined the phase of its banking sector reforms designed to ensure a diversified, strong and reliable banking industry. The primary objective of the reform is to guarantee an efficient and sound financial system. The reforms are designed to enable the banking system develop the required resilience to support the economic development of the nation by efficiently performing its functions as the fulcrum of financial intermediation.

Thus, the reforms were to ensure the safety of depositors' money, position banks to play active developmental roles in the Nigerian economy, and become major players in the sub-regional, regional and global financial markets (Uchendu, 2005). The key elements of the reform include: Minimum capital base of N25 billion, Consolidation of banking institutions through mergers and acquisitions; withdrawal of public sector funds from banks, beginning from adoption of a risk-focused and rule-based regulatory framework; zero tolerance for weak corporate governance, misconduct and lack of transparency etc.

Banking consolidation is defined as "the transfer of ownership in a payment and settlement context through mergers and acquisitions and other developments within the financial industry, such as alliances, joint ventures and the outsourcing of payment processing, that result in a higher degree of concentration of payment and securities settlement activities"(Aliyu, 2010; 32).

Prior to this period, most Nigeria banks were becoming personalized in ownership and management structure which made banks incapable to finance large scale and long term projects due to limited liquidity at their disposal (Rhoades, 1993:57). The sector was characterized by import financing rather than encouraging domestic growth in the economy; there was loss of public confidence due to fear of liquidation, customers' dissatisfaction on the services of banks in Nigeria among others. These negative developments affected banks greatly and has become a matter of concern in view of the importance of the banking system to the economy.

For banks to function effectively as financial intermediaries, it is imperative that they themselves are viable and healthy and that the entire industry is stable and sound. It is in appreciation of this that the industry worldwide is usually heavily regulated and supervised. A major objective of regulation and supervision, therefore, is to ensure that the industry is sound and stable, thereby engendering public confidence in the system. The reform was announced in 2004 with steady consolidation through recapitalization, merger and acquisition that have resulted in fewer banks holding a great value of the total assets in the sector (Okpanachi, 2011).

1.2 Statement of the Problem

The study assesses the impact of bank consolidation on service delivery in Zaria from 2004 to 2014. Since the announcement of the reform policy in 2004 by CBN, a number of merger and acquisition was recorded as a strategy for consolidation of banks with a view to enhancing efficiency in service delivery of banks. The study, therefore, examines whether the reform has yielded or yielding the desired objectives in service delivery aspect.

1.3 Research Questions

The study examines the following questions:

i. What is bank consolidation all about?

ii. To what extent are banks in Zaria being consolidated?

iii. To what extent has consolidation of banks impacted on service delivery to customers?

1.4 Objectives of the Study

i. To examine what bank consolidation is all about

ii. To analyse the extent to which banks in Zaria are being consolidated

iii. To suggest on how consolidation of banks can be impacted on service delivery to customers.

1.5 Research Assumptions

In line with the aforementioned research questions and objectives, the study is based on the following assumptions:

i. That banking reforms and the 2004 bank consolidation in particular was necessitated by host of operational weaknesses, shareholders and customers dissatisfaction on the performance and service of the bank.
ii. The 2004 consolidation was necessitated by host of operational constraints of many banks.
iii. That banking reforms and the 2004 consolidation has enhanced efficiency in service delivery of banks in Zaria.
iv. Consolidation has impacted positively, that is, it enhanced customers/shareholders satisfaction with the service delivery of their respective banks.

1.6 Scope and Limitations of the Study

The study covers the aspect of the impact of consolidation on service delivery with special focus on banks located in Zaria metropolis between 2004 to 2014. The choice of the period was informed by the fact that 2004 was the year major reform policies in the banking sector were initiated in which banks have to increase their capital based from N2billion to N25billion before 31st December, 2005 which led to merger and acquisitions of some banks. Towards the end of 2009, another banking reform took place which led to consolidation of some banks. All these were as a result of operational weaknesses, poor management as identified by some banks.

The limitations of the study include;

i. Time and financial constraints as well as limited resources to go round for data collection which limited the research within Zaria metropolis banks.
ii. Bureaucratic procedures in the banking sector also limited the accessibility of the relevant data to the study.
iii. Principal bank staff which the researcher needed to make contact with usually had tight schedules, hardly give attention to researcher and customers also are hardly willing to sacrifice time usually focus on what took them to the bank only.
iv. Shareholders of the banks are difficult to identify and most are not willing to grant the researcher the interview.

These limitations where overcome through the use of informant in the selected banks under study by providing the researcher necessary information in the banks, connect the researcher to the banks officials to be contacted, and given the contacts of the banks shareholders who the study contacted.

1.7 Significance of the Study

In spite of the existing literature on the impact of bank consolidation in Nigeria in general and 2004 bank consolidation in particular, a systematic examination on the impact of this consolidation on service delivery to customers has not been undertaken. In other words, none of the existing literature focuses on the service delivery aspect of the bank consolidation. The little done in the area of performance and efficiency are lopsided in capturing the specific impact of this consolidation in the selected banks under study. This indicates that there are gaps in the body of literature and this study is, therefore, a modest attempt at bridging these gaps.

Furthermore, it is hoped that a study of this nature will expand our understanding of the problems of bank in Nigeria, through the examination of factors associated with banks problems.

1.8 Research Methodology

Research methodology refers to the techniques or methods that researchers adopt for conducting research. For Catherine, (2002), it is a science of studying how research is conducted scientifically which a researcher acquaints with various steps generally adopted to study a research problem along with the underlying logic behind them. Hence it involves step by step approach in conducting a research.

1.8.1 Sources of Data Collection

Basically, there are two major sources of gathering data in social research; these are primary and secondary. The secondary refers to written materials or literature which includes Books, Periodic Journals, Unpublished articles, Magazines, Newspapers and Internet materials. These materials were sourced from various libraries which included Staff and Post-Graduate Students Library in the Department of Political Science and International Studies and Department of Economics, Faculty of Social Sciences and Kashim Ibrahim Libraries (KIL) all in the Main Campus of Ahmadu Bello University (ABU), President Kennedy, and Department of Business Administration Library both in Kongo Campus of ABU, Zaria were used. CBN and banks Annual Reports were reviewed.

Primary data was collected from the use of the two techniques/instruments as presented below.

i. Questionnaire; A questionnaire is a means of eliciting the feelings, beliefs, experiences, perceptions, or attitudes of some sample of individuals. As a data collecting instrument, it could be structured or unstructured. The questionnaire is most frequently a very concise, preplanned set of questions designed to yield specific information to meet a particular need for research information about a pertinent topic. The research information is attained from respondents normally from a related interest area. The dictionary definition gives a clearer definition: A questionnaire is a written or printed form used in gathering information on some subject or subjects consisting of a list of questions to be submitted to one or more persons. For the purpose of this study, a total of 500 questionnaires were distributed and administered between and among 15 customers of the selected banks based in Zaria.

ii. Unstructured In-depth interview. This is a direct face to face attempt to obtain reliable and valid measures in the form of verbal responses from one or more respondents. It is a conversation in which the roles of the interview and the respondent change continually.
An unstructured interview is an interview in which there is no specific set of predetermined questions, although the interview usually has certain topics in minds that they wish to cover during the interview. For this study, a total of 15 officials and 10 shareholders of the selected banks based in Zaria were interviewed respectively.

1.8.2 Population of the Study

The population of the study consists of three categories of respondents, that is, staff shareholders and customers of the selected banks. The table below indicates the names of banks and number of branches within Zaria metropolis. The study selected one branch of each banks mentioned in the table below.

Table 1.1 Names and Number of Branches of Zaria Based Banks.

S/No	Name of Banks in Zaria	No. of Branches
1	First bank Plc	3
2	United Bank of Africa Plc (UBA)	3
3	Mainstream Bank Plc	1
4	Zenith Bank Plc	1
5	FCMB Plc	2
6	GTBank Plc	1
7	Ecobank Plc	3
8	IBTC Bank Plc	4
9	Diamond Bank Plc	2
10	Fidelity Bank Plc	1
11	Access Bank Plc	2
12	Skye Bank Plc	1
13	Union Bank Plc	2
14	Unity Bank Plc	2
15	Keystone Bank Plc	1
	Total No. of Branches	28

Sources: Field Survey, 2014.

The table above indicates the banks within Zaria and number of branches each banks has, a total of 15 banks established in Zaria out of which they have 28 branches indicated accordingly.

Table 1.2 Shows the Number of customers from selected Banks.

S/No	Name of Banks in Zaria	No.of Customers	Sample Size Per-Bank
1	First bank Plc	30,679	68
2	UBA Plc	24,678	55
3	Mainstream Bank Plc	13,271	29
4	Zenith Bank Plc	9,722	22
5	FCMB Plc	11,629	26
6	GTBank Plc	12,394	28
7	Ecobank Plc	19,691	44
8	IBTC Bank Plc	10,213	23
9	Diamond Bank Plc	13,496	30
10	Fidelity Bank Plc	8,831	20
11	Access Bank Plc	11,842	26
12	Skye Bank Plc	7,827	18
13	Union Bank Plc	21,690	49
14	Unity Bank Plc	12,981	29
15	Keystone Bank Plc	14,629	33
16	Total	223,573	500

Sources: Field Survey, 2014.

The target population of the study are bank officials, shareholders and customers of the selected banks. For the bank officials and shareholders, purposive random sample was used to interview the respondents. The customers of the selected banks were sampling using Yamane's formula indicated below.

$$\frac{Number\ of\ customers\ per\ Bank}{Total\ population\ of\ the\ Banks} X\ Sample\ Size$$

Using the formula, the bank's sample population size was obtained by dividing the number of the population per bank with the total population of the 15 banks multiplied by the desired sample size of the study. This is what gave the sample size of each bank in the proportion to its population.

1.8.3 Sample and Sampling Techniques

The sample population of this study is 500 as indicated in table 1.2 above and Morgan and Krejicie (1970) criterion which says that a sample of 384 and above can represent the total population of 1,000,000 was used to arrive at that (Morgan and Krejicie, 1970).

In terms of Sampling Technique, Simple Random Sampling was used to select one in all the 15 banks within Zaria metropolis and Purposive Random Sample was also used to select the interview respondents who were bank officials and shareholders of the selected banks as listed below.

Table 1.3 Shows Banks and Numbers of Interview from each bank.

S/No	Name of Banks	No.of bank official Interviewee
1	Firstbank Plc	1
2	UBA Plc	1
3	Mainstream Bank Plc	1
4	Zenith Bank Plc	1
5	FCMB Plc	1
6	GTBank Plc	1
7	Ecobank Plc	1
8	IBTC Bank Plc	1
9	Diamond Bank Plc	1
10	Fidelity Bank Plc	1
11	Access Bank Plc	1
12	Skye Bank Plc	1
13	Union Bank Plc	1
14	Unity Bank Plc	1
15	Keystone Bank Plc	1
	Total No. of Branches	15

Sources: Field Survey, 2014.

The table 1.3 above indicates the selected banks and number of banks officials chosen for the study. Using purposive sampling techniques, the study interviewed one bank official from the selected banks under study.

For the shareholders, a total of 26 shareholders were identified from within the selected banks but due to some factors such as unwilling to agree for the interview but only 10 accepted the researcher's requests to be interviewed.

1.8.4 Hiring of Research Assistants

Three research assistants were used to help the researcher in the administration and retrieval of the questionnaires. The table below indicates the number of banks covered by each of the research assistant.

Table 1.4. Research Assistants used and number of Banks covered by each.

S/N	Tagged of each Research Assistant	No. of Banks Covered by each Research Assistant
1	A	First bank, Zenith Bank, FCMB, Union Bank and Unity Bank.
2	B	Mainstream Bank, Diamond Bank, Fidelity Bank, Sky Bank and Access Bank.
3	C	UBA, GTBank, Ecobank, Stanbic IBTC Bank and Keystone Bank.
	Total	15 Banks in all

Source; Field Survey, 2014.

1.8.5 Methods of Data Presentation and Analysis

This was done through tabulation method which is a method of transcription data from its gathering instruments to a tabular form that was generated from the questionnaires retrieve through the use of research assistants. The data was analyzed through the use of both quantitative and qualitative descriptive methods of analysis to summarize the results of the subject under investigation. Through quantitative descriptive analysis method, the researcher made use of simple percentage and frequency distribution tables to sum up the mass information that was generated during the field work. The quantitative data was complemented with the qualitative data collected through in-depth interview.

1.9 Definition of Terms and Concepts

Consolidation; This is a reduction in the number of banks and other deposit taking institutions with a simultaneous increase in the size and concentration of the consolidated entities in the sector.

Reforms; reforms means the improvement or amendment of policy that is unsatisfactory to the government or general public.

Insolvency; This arises when individuals or businesses have insufficient assets to cover their debts, or are unable to pay their debt when they are supposed to.

Shareholder; Someone who owns a share in a business or company or bank.

Economic Recession; Is a two or more consecutive quarters with a decline in the country's gross economic product (GDP).

Merger: This is the Combination of two or more companies into one new company or corporations.

Acquisition; A corporation action in which a company buys most, if not all , of the target company's ownership stakes in order to assume control of the target firm.

Financial Intermediaries; These are the key instruments for the economy to promote sustainable financial markets and provide a vehicle to channel funding to the micro, small and medium sized enterprise sector.

Deposit rate; This refers to the amount of money paid out in interest by a bank or financial institution on cash deposit.

Lending rate; This is the bank rate that usually meets the short-and-medium term financing needs of the private sector.

CHAPTER TWO

2.0 LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.1 Introduction

This chapter reviews literature in respect of consolidation as a policy in the banking sector, more specially efficiency, and service delivery of the consolidation policy. The review is thematically undertaken as follows:

2.2 Literature Review

2.2.1 Concept of Consolidation Policy

Consolidation is a combination in which all the affected companies are legally dissolved and a new company is formed. The two forms of business combinations are, however, generally referred to as merger. This is one of the aspect government used to problems especially in the banking sector. Acquisition is a situation whereby one company absorbs the other company in totality. According to Gaughan (1996), merger is a combination in which only one corporation survives and the merged corporation goes out of existence. In merger, the acquiring company assumes the assets and liabilities of the merged company, and merged corporation totally belong to the acquiring company. According to Oke (2006), consolidation is a term used by the Central Bank of Nigeria to describe the coming together of some banks within the country to become one bank and be able to meet CBN's requirement for capitalization. Gjirja (1999), considers merger and consolidation as different; a merger differs from consolidation, which is a business combination whereby two or more companies join to form an entirely new company. All of the combining companies are dissolved and only the new entity continues to operate. In the case of Nigeria, Unity Bank comprises of many banks that lost their identities and formed new entity as Unity Bank. Similarly, First Bank merged with other banks but retain its entity while the merged banks lost their identities. Despite the differences between them, the terms merger and consolidation are sometimes used interchangeably (Usman, 2011).

In general, when the combining firms are approximately the same size, the term consolidation applies, whereas when the two firms differ significantly by size, merger is the more appropriate term. But for the purpose of this study, the terms are used interchangeably. Soludo (2005:67), viewed merger as technically a combination of two or more companies in which all but one of the combining companies ceases to exist and the surviving company continues operation in its original name. Weston and Weaver (2001), viewed mergers and acquisitions as big money, buying another company is like making an investment decision; hence the basic principal of capital investment decision applies. The author further sees the concept of merger and acquisition as a worldwide phenomenon which has advanced various degrees of sophistication and intricate maneuvering in the highly industrialized and corporate capitalist economies. Peterside (2004), viewed mergers and acquisitions as a regular happening as a result of economic or technological factors.

Early mergers were recorded between 1874 to 1904 in Europe and America where most companies were merging for monopoly reasons. In such situation, two or more companies merged in order to create a bigger company that would dominate or have a lion share of the market. Although there are some cases of failed mergers because the resultant companies could not achieve improved efficiency and ultimate higher productivity, nevertheless, mergers and acquisitions have been part of business life worldwide (Spindt, 1993:63). Akinsulire (2005) said that the terms merger and takeover are often used synonymously in discussing acquisition. In general use, a merger or an amalgamation is viewed as a situation where two or more companies combine together and form a larger and stronger business organization. On the other hand, a takeover or an acquisition involves the purchases or controlling a major share in another company.

The concept of merger is said to occur when two or more companies come together into one company. It could be a situation where two or more companies come together or merge with an existing company, or may merge to form a totally new company. The main role of mergers and acquisitions is to enable firms adjust more efficiently to new challenges and opportunities. According to Giwa (1989), mergers and acquisitions must be seen as available means of saving companies from serious economic distresses and providing such business with new management and better access to new financial resources, such firms in distress are then provided with growth opportunities which they could hardly attain on their own effort at the same time. Ahmad (2000), stated that a merger is a unification of previously separate companies into a single corporation. The author went further to explain that mergers occur if one or two of the combining companies survive. Economic theory suggests that mergers can be an efficient means to restructure the industry and more efficient firms to obtain efficient scale (Ahmad, 2000:13). However, the evidence on the welfare gains from merger activity has mixed. Jayaratne and Hall (2006), sees bank consolidation as being beneficial if larger banks are more efficient than smaller banks. Moreover, consolidation may create a more stable banking system by enabling banks to extend their branches networks over a wide geographical area and thus, to reduce their dependence on any one sector of the economy. According to Howkins and Mihaljek (2001), bank consolidation is a matter of central banks as it may have adverse consequences on systematic stability. The magnitude of this effect depends on specific circumstances of each economy such as quality of the regulatory framework, supervision practices, international financial market sophistication.

In the views of Securities and Exchange Commission of 1977(SEC) there are various forms of business combinations or mergers which includes:

a- Vertical integration of merger is the combination of two firms which are in the same industry but different in the process of production and selling of their products, that is, it involves an activity that complements each other, such as mergers and acquisitions, community bank and commercial bank.

b- Horizontal integration of merger is where a firm takes over or merge with another company in the same industry and at the same level in that industry, that is the function of two or more firms that are in the same line of business or operation into one. Example is that of UBA and Standard Trust Bank now as UBA, with standard trust logo.

c- Conglomerate mergers or takeover: This is a term used when two or more companies that are unrelated in line of operation or business merge in order to diversify. Example is a commercial bank going into oil exploration business.

d- Conglomerate merger is a merger between two or more companies that are related in nature, but produce different specific product which at the end are related. Examples are commercial bank with insurance company.

Similarly, mergers, acquisitions, consolidations, and amalgamation are terms used to describe consolidation in Nigerian case because all these names were defined by different scholars from different parts of the world including Nigeria. Consolidation in Nigerian banking comprises of all of the above. The purpose of this is to raise their capital base to N25billion. Efficiency and strength is a broad concept that can be applied to many dimensions of firm activities. Therefore, by comparing the two periods of banks costs, one can access the impact, that is if bank cost is lower than before, then the bank is efficient, but if the bank cost is higher than before, then bank is not efficient. Efficiency is also one of the important issues of banking. Efficiency simply means the cost of producing one product of the organization which will not be more than the other cost of product or services of other organization within the same level of the organizations. In other words, cost of production of the total number of banks merged as one must be more than the cost of production of the consolidated banks, so one can say that bank is efficient. Then if cost of production is managed efficiently, profit will be maximized more than before consolidation.

2.2.2 Politics of Consolidation Policy

Policy document are one of several synthetic pieces written in the 1970s signaling an interest on the part of political scientists in making a systematic contribution to understanding policy decision making and program development. Many political scientists had assumed, until then, that the topic was managed under the rubric of public administration, for example Simeon (2008) in his comprehensive assessment helped shape the study of public policy by political scientists, but he described the state of policy analysis in quite discouraging terms. Policy, after all, is the realm in which the positive and the normative are worked out. Economics has always distinguished between its normative and its positive dimensions and never abandoned the latter, although its normative commitment often consists of a one-dimensional focus on maximizing economic surplus. For the most part, economists such as Daron and James (2013) have been content to achieve this objective using cooperationist strategies that take as given the current distribution of income and power. Political scientists like Harold Lasswell as noted by James et al (2006) are more attuned to the power differentials in society and the constraints they create. These power differentials are among the normative considerations that draw many to the study of policy in the first place.

Recent research on policy reform by political scientist like Joan et al (1997) conclude that reform such as consolidation of banks requires the empowerment of technocrats and insulated decision making. Stabilization and adjustment are likely to require institutional innovations that shift power to technocrats and the executive branch of government, frequently short circuiting the legislature. Rather than insulate policy reform from the demands of legislatures, reforms will be sustainable politically only if they are carried out in a democratic manner, even if the resulting packages is more costly or less economically rational. Some research suggest that initial stroke of the pen stabilization decision (interest rate or exchange rate decisions) should be set by insulated agencies but that adjustment policies (privatization, trade liberation, deficit reduction etc) need to be subject to legislative or popular influence (Debora, 2004). However, the latter group of policies also affects stability through their impact on consolidation and the government position should be drawn to benefits both the reforms and people.

2.2.3 Motives for Consolidation Policy

The primary motive for consolidation policy is maximizing shareholders value. In the absence of capital frictions, all actions by the firms, including consolidation activities, would be geared toward maximizing the value of shares owned by existing shareholders; the preferences of other shareholders would be taken into account only in so far as they affected the value of shares through the cost of funds, supply of labour or other factors of production, or the demand for services. In practice, however, managers and government affect consolidation decisions more directly.

It is difficult to determine the goal of merger and acquisition participants, but there is evidence consistent with the nation that some mergers and acquisitions are designed to increase market power which leads to increase in profit. Some Studies conducted by Vander in 1997 have suggested that in market merger and acquisition that subsequently increase market consolidation may increase market power in setting prices on retail services which will increase profit. Presumable, this was an expected consequence of many of these merger and acquisition and provided at least part of the motivation. Also supporting this presumption are the findings that about half of the US bank mergers and acquisitions are in market and European bank mergers and acquisitions are of this type as well, (vander vannet1997).

Berger and Humphrey (1992), suggests that merger and acquisition may increase efficiency, consistent with the presumption that expected efficiency improvements provide part of the motivation for merger and acquisition. In addition, a number of studies have found that in a substantial proportion of merger and acquisition, a large, more efficient institution tends to take over a smaller, less efficient institution, presumably at least in part to spread the expertise or operating policies and procedures of the more efficient institutions over additional resources. (Berger and Humphrey, 1992).

2.2.4 Technological Advancement

Technological progress may have increased scale economies in producing financial service, creating opportunities to improve efficiency and increase value through consolidation, new tools of financial engineering such as derivative contracts, off-balance sheet guarantees, and risk management may be more efficient produced by larger institutions. Some new delivery methods for depositor services such as phone center, ATM, and online banking may also exhibit greater economies of scale than traditional branching networks (Radecki, Wenninger, and Orlow 1997). The new tools of financial engineering, advanced depositor, delivery services, or payments technologies may be distributed to small financial institution through correspondent banking systems, through franchising or outsourcing to firms specializing in the technologies, shared ownership or mandatory sharing of payments networks etc.

2.2.5 Excess Capacity or Financial Distress

Consolidation may also be an efficient way to eliminate excess capacity that has arisen in the consolidating firms' industry or local market. When there is excess capacity, some firms may be below efficient scale, have an inefficient product mix. Merger and acquisition may help solve the efficiency problems. Merger and acquisition help remove excess capacity more efficiently than bankruptcy or other means of exit in part by preserving the preexisting franchise value of the merging firms. There is some evidence of excess capacity problems arising from US which have cost market to competing financial institutions on both sides of the balance sheet since the end of the 1979s. On asset side, US banks have lost a substantial proportion of corporate lending to foreign banks. Other intermediaries and capital markets although they have made up for some of this lost business through off-balance sheet activities, (Boyd and Gertler 1994, Berger, Kashyap and Scalise 1995). Consolidation may similarly be an efficient way of resolving problems of financial distress, which are not entirely distinct from excess capacity problems. Institutions that are troubled because of excess capacity in their industry or markets, their own inefficiency, or underperforming investments are often taken over as an efficient alternative to bankruptcy or other means of exit. Financial institutions tend to be relatively inefficient, have high non performing loan ratios, and have low capital ratio is consistent with financial distress motivating consolidation (Berger and Humphrey 1997).

Consolidation at the international environment has been happening either in the banking industry or other industries; consolidation is usually carried out at different times, with different motives, and from different angles. For example, Taiwanese's consolidation motives were stated by Yeh and Hoshino (2002) that motives behind merger and acquisitions in Taiwan were initiated to expand the market, other motives included diversification, technology acquisition, and verbal integration.

However, in European countries, their motives for consolidation as stated by Martynova and Renneboom (2006) for the first time, continental European firms were eager to participate as their US and UK counter parts, and mergers and acquisitions activity in Europe hit levels similar to those experienced in the US. It is widely believed that the introduction of the Euro, the globalization process, technological innovation, deregulations and privatization as well as the financial markets boom spurred European companies to take parts in merger and acquisitions during 1990s. Similarly, Malaysian mergers and acquisitions were introduced to transform, upgrade of the domestic financial sector to the world class status, preparing them to embark on open competition.

2.2.6 Merger and Acquisitions (M&As)

For Mohana, (2004) merger and acquisition have been a very important market entry strategy as well as expansion strategy in this present era known as completion era and Companies go for merger and enjoy sometimes monopoly. Corporate is waking up to the new millennium imparatives of merger and acquisitions in a desperate search for a panacea for facing the global competition. This is hardly surprising as shift competition is in a sane, implicit in any bid to integrate the national economy with the global economy. The ongoing process of liberation has exposed the unproductive use of capital by both public and private sectors. Consolidation through merger and acquisitions (M&As) is considered one of the best ways of restructuring of corporate units.

Basically, a merger involves a marriage of two or more entities and is defined as blending of two or more entity into a single entity. The shareholders of each blending entity will become the substantially the shareholders in the entity which is to carry on the blended entity.

2.2.7 Empirical Studies on Mergers and Acquisitions (Consolidation)

Merger and acquisitions study aims to contribute to a broad empirical literature on the merger and consolidation. Many studies were conducted by Okada and Adrian (2005), on the impact of merger in various industries, this study will consider the impact of mergers in banking industry only. Okada and Adrian (2005) study 10 mega-mergers among city banks in Japan during 1982-2000 and found that no improvement in x-inefficiency was observed but increases in cumulative excess stock returns and decreases in perceived default probability were found. The study's results suggested that the motivation of mega-mergers was not to improve efficiency but to take advantage of the government's too-big-to fail policy. Merger usually occurred in order to achieve personal objective, for example to monopolize the industry in order to control their profit or price or to influence government laws because they are too big in the economy. Yamori *et al.* (2005) studied financial holding companies of regional banks and found that profit efficiency tended to increase when the market share in the region increased. Hosono et al (2006) analyzed the motives and consequences of credit corporative (shrinking) banks during the period of 1984-2002. Their major findings were as follows; first, less profitable and cost efficient banks were more likely to be an acquirer and a target. Second, acquiring banks improved cost efficiency but still deteriorated their capital to asset ratio after consolidation. Finally, the consolidation of shrinking banks tended to improve profitability when the difference in the ex-ante profitability between acquiring banks and target banks were large. Berger *et al*. (1999) reviewed existing research concerning the causes and consequences of the consolidation of financial services industry, the researcher points out that the evidence is consistent with increases in market power, and especially in the case of consolidation within the same market (in market M&As); improvements in profit efficiency, and diversification of risk. Whenever such consolidation happens it always monopolized the industry, in order to control and dictate the price of the industry, so as to make huge amount of money as profit. Berger *et al* (1999) point out; the primary motive for consolidation would be maximizing the value of shares owned by existing shareholders. Consolidation of this kind is usually taking place for the purpose of improvement; as we know it is one of the problems that banking industry is facing, maximizing shareholders fund will step up the banks, but this only as objective (ie maximizing shareholders fund) will not solve the problem because other things must be considered such as minimizing the operational cost, building the economy, government policy objectives e.t.c. Hosono et al (2004) investigated the causes and consequences of bank consolidation and the major findings were: (1) consolidated banks tended to go through decline in ROA(Return on Asset) at first and then no increase of ROA about five years after mergers though these changes are not necessarily significant. (2) In market consolidation enabled consolidated banks raise the loan interest rate. (3) Consolidated banks tended to restrain loan to asset growth and not to increase advertisement expenses. Sincerely speaking five years after consolidation, there must be returns on assets, although there are different purposes for the consolidation. However, in Nigerian situation, consolidation yields returns on assets as some studies conducted by Adeyimi (2005) on Banks consolidation and human capital challenges. Of course in some countries, bank consolidation leads to the increase in interest on loan as their second finding stated, but in the Nigerian case we found that interest on loan is going down or staying as it is, as stated in similar studies.

Similarly consolidation in the industry leads to the reduction of the advert expenses, but the researcher forgot that advert has nothing to do with consolidation because if you do not advertise your product or service, at times peoples may not know it, which will lead to the lost of some customers.

Okazaki and Sawada (2006), studied the effects of consolidation promotion policy and found that the policy promotion consolidation had a positive effect on deposit growth, especially in the period when the financial system was unstable. On the other hand, it has a negative effect on profitability, particularly when there was no dominant bank among the participants or when more than two banks participated in the consolidation. Consolidation for the policy promotion can achieve the target, but sometimes, the achievement is useless because the target of this policy consolidation is to increase deposit which will lead to an increase in profitability; but, here, the increase in deposit is achieved whereas profitability decreases instead of increase in deposit which would lead to increase of profit.

Di patti And Gobbi (2002), investigated the effects of banking consolidation on corporate borrowers. Their main finding is that corporate borrowers not only do not appear to be negatively affected by involvement of their lenders in mergers or acquisitions but they experience an increase in the availability of credit after their lenders are acquired. In particular, acquisitions of marginal lenders tend to be associated with an increase in credit and an expansion in credit lines for high quality corporate borrowers. Despite the fact that they are expecting an increase in credit facilities as a result of merger and acquisition, there must be other restrictions or difficulties they may find, more than before mergers and acquisitions, or they may find increase in the interest rate more than before or not as before.

Erel (2006) studied the effect of bank mergers on loans price. He finds that on average mergers reduce loan spreads, and that the results are stronger for acquirers with large declines in operating cost post merger. Merger and acquisitions will not decrease spread of the loans because, by the time one or more banks merge together, at least they will be stronger more than before and that will allow them to spread credits to borrowers more than before.

Graig (2004) studied the impact of bank consolidation on small business credit availability. His study finds that credit access has been significantly reduced by banking consolidation. Banking consolidation cannot reduce loans spread to small business unless they cannot fulfill the requirements cited for them by the consolidated banks. Yeh and Hoshino (2002) studied the impact of bank merger and acquisition on shareholders wealth. It was found that mergers and acquisitions for technology-acquisition purposes most favoured the market while vertical mergers and acquisitions are detrimental to shareholders' wealth. Mergers and acquisitions for the purpose of technology acquisition favours the market, but on the other hand ruins the market, fraudsters flood banks and thieve depositor' funds via ATM and other networks.

Jayaratne and Hall (2006) examine recent consolidation trends among depository institutions (commercial banks and thrifts) for the period between 1989 and 1994. The study finds that measured concentration increased significantly, midsize commercial banks were gaining market share at the expense of large banks in most markets.

Roger and Ferguson (2009) studied the financial consolidation. Their study concluded with an extensive evaluation of the potential effects of financial consolidation on the efficiency of financial institutions, competition among such firms, and credit flows to households and small businesses. The study determines that if consolidation has some potential to improve operating efficiency, and has done so in some cases, the overall evidence in favour of efficiency gains is weak. The researchers suggested that policy makers should carefully examine claims of substantial efficiency gains in the proposed consolidations, especially in cases where a merger could raise significant issues of market power.

Roger and Ferguson (2009) attempted to shed some light on why academic researchers are less optimistic than business practitioners regarding the potential for consolidation to lead to efficiency gains. The study suggested four possible reasons, which are not mutually exclusive. First, practitioners may consider cost reductions or revenue increases per se to be a success, without also taking into account independent industry trends as a bench mark. Secondly, managers may focus on absolute cost saving rather than on efficiency measures that compare costs with some other variables such as asset or revenue. Thirdly, the researcher finds little or no efficiency improvements on average, but this also means that some institutions may improve efficiency while some suffer from lower efficiency. Managers with inside knowledge of their firm may be justified in believing that their institutions might be among those improving efficiency through a merger or acquisition. Lastly, post mergers and acquisitions may have suffered from regulations that reduce the benefits, and such regulations may not exist in the future. The effects of consolidations on competitions and credit flows are case specific and depend on the nature of markets for individual products and services. Some markets, such as those for wholesales financial services, generally show few problems. Others such as those for retail products and services, sometimes experience problems from consolidation.

Basu et al (2004) carried out an analysis using performance measures which included risk-adjusted returns and bank insolvency risk. Overall research finds a positive and significant effect of the bank consolidation on the bank performance, bank returns increases with consolidation, and insolvency risk is reduced. Furthermore, the study suggests that mergers and privatizations have a significant beneficial effect on bank returns. While a merger increases a bank's returns on equity and risk-adjusted returns on equity, the effects of bank acquisition on the returns on equity is however negative. The study also suggested that the healthy banks were encouraged to absorb weak and underperforming banks, an issue to be considered for further research. Acquisitions do not seem to have any significant effect on risk-adjusted returns. The study also finds that a bank's insolvency risk is reduced significantly through mergers and privatizations. The study finds that among the macroeconomic risk factors, country risk is the most significant factor, while among the bank-specific risk factors; a bank's leverage and its measure of loan portfolio diversification are the most significant factors.

2.2.8 Merger, Acquisition and Efficiency

Martynora and Renneboos (2006) surveyed mergers and acquisitions in Europe, and found that the bulk of European mergers and acquisition of the 1990's was expected to improve efficiency as they triggered substantial share price increases at the announcement, most of which were captured by the target- firm shareholders. Europeans merger and acquisitions were to improve efficiency, but merger differs depending on the continent and the purpose of the mergers. Although efficiency is part of the target of Nigerian merger and acquisition, it only one of several objectives. Based on the researcher's understanding, efficiency alone cannot lead to a merger because efficiency could be achieved even without the merger and acquisitions. Cummins *et al* (1999) find out that merger and acquisition improved the efficiency of target insurance firms because there is no evidence of increases in connection in insurance product line. They argue that market power is unlikely to be a motivation for mergers. Although insurance is not the industry we are reviewing, insurance falls under financial sector. Consolidation in insurance industry leads to efficiency of the insurance company but it does not show the evidence of increase in product line.

In the most exclusive study comparing the efficiency of domestic and foreign banks, Berger *et al* (2002), looked at profit and cost efficiency differences in five countries. The study reported that domestic banks are generally more efficient than foreign banks, but differences are significantly only in United States when foreign banks were broken down by their country of origin. The researcher uses only U.S data but we believe the result will not be the same with other countries, especially in the African countries. Foreign banks are more efficient than domestic ones in Africa (Berger *et al* 2002). According to Srinivasan (1998), for the US, there is little evidence of any improvement in cost efficiency following a merger. In particular, there seems to be no decrease in non-interest expenses or total cost and no improvement in operating income; cost efficiency also shows very little improvement. These scholars have proved the above ideas. Deyong(2004) in assessing the efficiency effects of bank merger in Sweden between the period of 1984 and 2002 finds that their total cost decreased by 20% while maintaining the same level of produced outputs. Evanoff and Ors (2009) investigated the market consolidation and bank efficiency using the overall sample. They reported that efficiency was not improving prior to merger activity. In fact the efficiency gains following mergers were greater in the sub samples. This is generally consistent with the previous finding: large banks may be more responsive to new or larger competitors and banks in highly concentrated markets potentially have the most room for efficiency gains from perceived increased competition. The present researcher gets similar results using the efficiency measures. The banks did not appear to be increasing their efficiency prior to the merger activity, but did see advances following merger although the impact appears weaker in the large bank and mature bank sub samples.

Shaffer (1992) and Mitchell et al (1996) evaluated the impact of mergers by calculating potential cost saving arising from hypothetical, simulated mergers, using cost functions estimated from real data. The majority of simulated mergers lead to increases in costs. Some studies that focus on profit efficiency report post-merger benefits include (Akhavein *et al* 1997). Cornett et al (2006) reported that geographically focused mergers provide both revenue enhancements and cost savings while Park and Pennacchi (2007) reported that mergers involving large multi market banks tend to enhance competition in loans markets, but damage competition in deposit markets.

Willson *et al* (2008) studied the consolidation in the US union; the study finds that the empirical evidence on the banks mergers suggested there is often little improvement in efficiency or performance of merged entity. The study also suggested that the hubris and agency motives for merger may be relevant, or that synergy derives more from enhanced market power than from cost savings. Recent empirical evidence suggested that information spillovers from previous mergers and learning-by-doing within banks have led to improved post-merger returns (Delong and Deyong, 2007).

2.2.9 Merger, Acquisition and Profitability

Amel *et al* (2003) viewed that consolidation may enhance revenues although results vary with countries and deals analyzed; moreover, the gains appear limited in magnitude. The evidence for Europe suggests that the more efficient banks tend to acquire institutions in worst shape that is why they will not get as much as possible gains. Vender Vanet (1996) finds that domestic mergers of equals in EC countries have a positive impact on profitability, mainly driven by improvements in operational efficiency.

Akhaent *et al* (1997) find little change in cost efficiency but an improvement in profit efficiency of large US banks after merger and acquisition, especially if the merger participants were relatively inefficient prior to the merger. Usually Profit cannot be improved until efficiency is improved, but this study finds that only profit improves. Berger (1998) finds similar results in a study that includes all US banks mergers, both large and small, from 1990 and 1995.

Haun (1996) assesses the success of mergers along five characteristics, namely, size, operational results, services, liquidity and profitability. He reported that the operating profitability decreases after the merger due to increased personnel costs. In addition, the assets growth as well as the amounts of total revenues worsens in the year after the merger, the results of regression analyses provide evidence that mergers had a positive effect for those of the involved banks with worse performance before the merger. But as usual, a year after merger banks are not making profit, but subsequent years will be profitable.

Williamson (1970) argues that companies like the Multi-Bank Holding Companies usually outperform differently structured competitors. The researcher particularly emphasizes the role of the decision power allocation between the center and the subordinate levels. Cost savings and x-efficiency gains could vary depending on which functions and decisions are decentralized and which remain at the center. Newman and Shrives (1993), test Williamson's hypotheses by analyzing the performance of over 1700 banks of different organizational forms. They divide the banks into four revenue groups, and estimate efficiency measures for each bank in the groups. The authors finds that the multi-bank holding subsidiaries are more efficient than one-bank holding structures in the middle of two revenue groups. Banks, in the largest revenue group, are not found to differ substantially in efficiency. There are a few studies on the effects of inter-company bank mergers.

Linder and Crane (1993) find out that in more than three-quarter of the 25 inter-company bank mergers they studied the returns on assets increases in the year following the merger and this improvement is sustained in the second year as well. Non –interest costs to assets, however, also increase after the merger compared to non-mergers pears.

Deyong (1993) studied 348 banks mergers of which 43 percent were intercompany ones. The author estimates pre- and post-merger cost efficiency by applying a thick frontier approach. Prior to merger, the acquiring bank was more cost efficient than the target in only 42 percent of the intra-company mergers. However, in the three years period after the merger, cost efficiency improved in about 64 percent of the cases. Elsas (2004) finds out a strong relationship between the financial performance of target banks and merger decisions among 3600 German savings and cooperative banks. Most of the target banks were in financial distress with large amounts of non-performing loans. The distress mergers in these cases usually resulted in portfolio improvements and a reduction of a bad loan provisions. In the medium term, however, a decrease in profitability was also registered. The overall post merger efficiency effects are considered satisfactory, having in mind the incentives behind most of the studied mergers.

Evanoff and Ors (2009) also evaluate profit efficiency changes in the markets following merger activity. The researcher again uses efficiency rankings to evaluate changes in the relative position of banks. Results for the full sample and alternative sub samples are presented. Profit efficiency was either deteriorating or remaining relatively unchanged following market merger activity. This could result from an increase in price, competition having significant effects on revenue, efficiency as banks may suddenly be required to charge more competitive loans rates or transaction fees than were previously charged. Combined with the cost efficiency finding, these suggest that the adverse revenue effects were quite significant.

Park and Pennacchi (2007) find out consolidation result to large multi banks impact on small banks profits are case specific. It is not surprising that empirical research on this issue is mixed. Whalen (2001) finds that during 1995-1999 small banks profit were lower when large multi banks had greater shares of their msa's between 1995 and 1996. Pilloff (1999b) reports that small banks profits in non-msa's rural countries increased with the presence of large multi banks. Using 1985 data for msa's and rural countries of eight unit banking states Wolken and Rose (1991) find that small bank profits declared with large multi banks market share.

Berger, et al (2007) show that a greater large multi banks market share increases, but small bank profitability during 1980s decreased it during 1990s. The surmise that technological progress in lending allowed large multi banks to more efficiently compete with small banks in recent years.

Hannan and prager (2006b) reported that during 1996-2003 an increased presence of large multi banks reduced small bank profits in non-msa countries but not in the less concentrated msa's. Consistent with our model, they find that impact of large multi banks in reducing small banks profit is the greatest in the most concentrated non msa countries.

2.2.10 Problems of Mergers and Acquisitions

Despite the fact that mergers and acquisition have shown positive contributions in some cases, but in some cases it is resulting to a negative contribution. Research has shown that at least 60 – 70 percent of mergers end up destroying rather than creating value (Business day: 20). Mergers and acquisitions are usually being costly and sometimes disappointing. By their nature, they are open to risk of failure and non-actualization of the strategic intent of the parties. However, global statistics shows significant level of such failure rate, growth through mergers and acquisition has remained a critical part of the success of many financial institutions operating in the economy. Poor management is most commonly cited problem of mergers, the reason is that the companies pay too much attention to valuation, projections and over estimations of synergies. Another problem noted with mergers is the integration process. This could be difficult, where customers, employees and supplies have negative impression in the value business. The management must decide, for example, when to disclose plans for mergers, what restrictions to place on insider use of information, what counts as fair and proper accounting and taxation, and how to treat employees who some may likely lose their jobs.

According to Jemission and Smith (1986), manager of the merging companies always wrestles with what is fair to the different sets of employees in a merging transaction and, what will help to build a cohesive organization with a single set of ethical standards of going forward. Brown and Modiff (1988), Lichtbery and Siegel (1990) report negative effects of the merger and acquisitions on employment in the USA. It is important to note that part of the evidence is based on the very restricted samples of the companies covering narrow segments of the US economy. For instance, Brown and Modiff (1988) obtain their estimates on the effect of merger and acquisitions on employment from a sample of companies located in the state of Michigans for the period 1978-1984. This may be the reasons for somewhat mixed results on the employment effects of merger and acquisition that have emerged from the USA.

Conyong et el (2000a, 2000b, 2000c), reports a negative effects of the mergers on the employment in the UK. By using data on the 277 listed companies over the period 1967-1996. Interestingly, the negative effects on the employment are particularly pronounced for related and hostile transactions. Girma and Gorg (2004), discover by using data from the UK electronics industry for the period 1980-1993 that the incidence of foreign takeover reduces the employment growth of a domestic establishment, in particular for unskilled labour. Hence, cross-border merger and acquisition have some effects on the determination of skill-mix in companies. Merger and acquisition decrease the number of independent players which concentrate the markets.

Salant, et al (1983) and Perry and Parter (1985) have shown that it does not pay to purchase another firm in order to decrease competition and or gain pricing power in the standard competition. However deviating from the Cournot framework, the positive effect of decreasing the number of the players on profit is, in any case, present in horizontal merger and acquisitions. Therefore, the tendency to internalize the strengthened market power by higher prices will be part of the horizontal merger and acquisition and one can expect that, for this part, merger and acquisition will reduce the scale of the production and labor impact too. Another implication of merger is in the area of vision.

Cartwright and Cooper (1992) viewed that acquisition often fails to create the value anticipated by the buyer due to post acquisition organizational problems. Some mergers lack vision, could this cause serious problem? This question is very important, because executive from each side might have different assumptions about strategy and management policy that will be best for the new company, these issues are often hidden during initial negotiation but after they have merged. Executive from one company may end up feeling that executives from the other company have taken over. Only a well conceived process of integration and a spirit of partnership could prevent a clash of such culture.

The human factor aspect, the factor according to Ndanusa (2004) is that the human factors can destroy the potential economic value of merger. According to him, misunderstanding at the senior level about who to run the new entity and how it should be run can cause post merger disruptions and sometimes scuttle the merger and acquisition business if these individuals cannot satisfy their down career and financial interests. Therefore, emphasis should be on the human resource issues in their adequate details in addition to the financial, legal and technical issues to avoid negative implications of mergers and acquisitions.

Similarly, Managers may be able to pursue their own objectives in consolidation decisions, particularly in banking where corporate control may be relatively weak. Banking regulations in the U.S. weaken the corporate control market by generating and allowing only other banks to acquire a bank. The regulatory approval/disapproval process may also deter some acquirers. In addition, most US banks are small and are not publicly traded. Perhaps as a result of these hustle, take over that replace management are rare in US banking (Prowse, 1997).

There is evidence that banking organizations may overpay for acquisitions where corporate governance structures are not sufficiently well-designed to align managerial incentives with those of owners. For example, banks that have addressed management agency problems through high levels of managerial shareholding and/or concentrated ownership experience high or less negative abnormal returns when they became acquirers than banks that have not addressed these agency conflicts as well. In addition, returns at bidder banks are increasing in the sensitivity of the CEOs pay to the performance of the firm and to the share of outsides on the board of directors (Allen and Ceboyan 1991; Suramanyam et, al 1997; Cornett, et al, 1998).

This evidence suggests that retrenched managers with little pay sensitivity to performance or outside directors may make acquisitions that do not maximize shareholder wealth. Hardlock et al (1999) found that banks in which managers hold a greater share of the stock are less likely to be acquired and that this effect is much larger at banks where management leaves following an acquisition. Many studies are consistent with the idea that management teams with large ownership stocks can block outside acquisitions (Kolain, et, al. 1996; Zardkoohi and Kolari 1997; Keeton 1996, 1997; Peek, Rosengren 1996, 1998).

Berger, et al (1998) study the effect of consolidation on the lending on small business. The most common finding is that consolidation of the large banking organizations tend to reduce small business lending, giving that large-bank mergers and acquisitions account for most of the assets involved in mergers and acquisitions, the overall effect on small business lending by consolidating institutions is generally negative.

2.2.11 Regulatory Framework of Mergers and Acquisitions in Nigeria

2.2.11.1 Security and Exchange Commission

The regulatory body of mergers and acquisitions in Nigeria is the Securities and Exchange Commission, which is an apex regulatory body of the capital market, established under the Securities and Exchange Commission act No. 71 of 1979 and re-enacted as decree No 29 of 1988. They have role in ensuring that mergers and acquisitions are properly handled. The commission is charged with the functions of regulating and developing the Nigerian capital market. However, section 8(3) provided exceptions to holding companies acquiring share solely for the purpose of and not for the purpose of using the share by voting or otherwise to cause or attempt to cause substantial restraint of competition or trend to create monopoly in any line of business enterprises. Also, section 8(4) exempted transactions undertaken under the authority given by any federal government agency vested with such power in effect, subsections where government agencies such as Bureau for Public Enterprises (BPE) with special statutory mandate

relative to mergers and acquisitions can proceed without recourse to the procedure enunciated under section 8(1) (2) of the sec Decree. Apart from SEC Decree, 1988 from which the commission primarily derives its power to regulate business combinations, parts xvii of the Companies and Allied Matters Decree of 2004, now Company and Allied Matters Act, administered by the SEC which dwells extensively on securities also regulate mergers and acquisition in Nigeria which is derived from two statues SEC decree 1988 and Companies and Allied Matters Decree 2004.

2.2.11.2 Company and Allied Matters (CAMA 2004)

The Company and Allied Matters Act (CAMA 2004) make provisions for reference to SEC. The SEC obtains its powers to issue guidelines for mergers and acquisitions from section 542(1)(d) of CAMA and of course from investment and securities act (ISA)2007. Investment and Security Act (ISA) no.45 of 2007, section 8, states that the SEC shall review, approve and regulate mergers, acquisitions and all forms of business combinations. Also Section 99(2) and (3) provide the responsibility and standards respectively, by which the SEC will carry out these assignments. In Nigeria, indirectly the Companies and Allied Matters Act of 1990 provides 22 sections (Sections 593 to 613) to deal with the subject of mergers and acquisitions. Indirectly derived from the provisions of the Nigerian Enterprises promotion act 1977, the SEC Act 1979, the listing requirements of the Nigerian Stock Exchange, the regulations or the Federal Board of Inland Revenue, and the International Accounting Standard (IAS). The main legal framework for the regulation of mergers and acquisitions and takeovers in Nigeria for both public and private companies is vested in the Investment and Securities Act, 1990 Section 8(o) (p99 to 102). Section 8(o) of ISA 2007 empowers the Securities and Exchange Commission (SEC) to review, approve and regulate mergers, acquisition and all forms of business.

2.2.12 Overview of Banking

In most of the countries of the world whether developed or developing economies, the banking industry is more heavily regulated than any other sector of the economy. This is due mainly to the crucial role of financial intermediation process played in the economies by the banks. According to Lence (1997) the main economic function of banks is matching the needs of the ultimate fund demanders (borrowers) with the needs of the ultimate financial capital suppliers (depositors or savers). Banks accept deposits from the general public or solicit such deposits. In this case, the primary responsibility of banks towards depositors is that of providing safe custody for such depositors and ensuring that depositors have access to such money on demand. Using the mobilized deposits, banks channel the funds into the economy by granting credits and making investments.

Banks contribute to the economic growth and development of the nation as a result of the role they play in the savings and investments process through the stimulation of savings, and their ability to ensure the most efficient transformation of these savings into real capital. Vensel (2005) and Dehejia et al (2003) drown on the banking history to show the effect which financial development has on the economic development. For banks to be able to discharge these various functions, they have to ensure safety of assets, guarantee the safety of depositors' money, adhere strictly to the safe and sound banking practices and maintain adequate internal control measures which will result to the efficiency and profitability.

2.2.13 Reforms Policy and Banking Sector Reforms in Nigeria

Reforms are predicated upon the need for reorientation and reposition of existing status quo in order to attain an effective and efficient state (Ajayi, 2005). Esfahani (1996) stressed that policy reform means " a renegotiation of contracts that entails direct government involvement in production towards more efficient market oriented ones". Also, Okeke (2007:30) posits that reforms are deliberate actions by the government to fast track, jump start and consolidate specified sector of the economy to achieve desired objectives. Financial reforms, according to Ebong (2006), are deliberate policy response to correct perceived or impending financial crises and subsequent failure.

Deccan (2004:20) also noted that reforms in the financial industry are aimed at addressing issues such as governance, risk management and operational inefficiencies. The vortex of most financial reforms is around firming up capitalization. Specifically, financial reforms are primarily driven by the need to achieve the objective of consolidation, competition and convergence in the financial architecture (Deccan 2004).

Like other emerging economies, Nigeria has been involved in financial reforms on a regular basis aimed at responding to the challenges posed by some factors and developments such as systemic crisis, deregulation, globalization and technological innovations, or acted proactively both to strengthen the financial system and prevent systemic problems as in the case in the current reforms. Aluko (2008), observed that financial sector reform in Nigeria was a component of the Structural Adjustment Programme (SAP), the introduction of the programme was on the heels of the rejection of IMF loan package with its conditionality, a decision that rejected the consensus of a national debate.

Nnanna *et al* (2004) argued that the major financial sector policies implemented were the deregulation of interest rates, exchange rate and entry/exit into banking business. Other measures implemented included establishment of the Nigeria Deposit Insurance Corporation (NDIC), strengthening the regulatory and supervisory institutions, upward review of capital adequacy standard, capital market deregulation and the introduction of direct monetary policy instruments (Nnanna *et al*. 2004: 30). They asserted that deregulation of the financial sector requires a set of indicators that can be used for effective policy formulation, implementation and evaluation. As such, there is no precise definition in the literature of "financial sector development". However, Fry (1978) observed that the key to financial sector development is the reduction and ultimate unification of fragmented financial markets. This involves a complete set of indicators mainly covering credit intermediation, liquidity management and the risk management characteristics of the financial system.

Onwioduokit (2006: 14) also posits that it is hard to find an indicator that can directly measure the development of the financial sector. However, from the recent literature, measures of financial development include the ratio of broad money to GDP, currency outside bank as a ratio of broad money, interest rate spread, real interest rate and gross savings as a ration of GDP. It has also been observed by Onwioduokit (2004), that well-spaced and implemented financial reforms have the ability to boost these financial development indicators. For the authors, peculiar feature of the reform programmes in Nigeria is associated with inconsistencies in policy implementation. However, Adam *et al* (2008) noted that some studies have shown that the Nigerian financial system has benefited largely from these reforms, but all the same, the system is still yawning for improvement (Adam and Agba 2006: 12).

Furthermore, Komolafe, (2008) observed that the banking sector reform and its sub-component, bank consolidation, have resulted from deliberate policy response to correct perceived or impending banking sector crisis and subsequent failures. The author noted that banking crisis can be triggered by the preponderance of weak banks characterized by persistent liquidity, insolvency, under capitalization, high level of non-performing loans and weak corporate governance among others, as observed in the Nigerian case. Uchendu,(2005:23), also added that highly open economies, especially those with weak financial infrastructure can be very vulnerable to banking crisis emanating from other jurisdictions through the contagion effect. A combination of many of these weak elements could jeopardize the health of the system.

In view of this, Ajayi (2005:19) is of the opinion that the facet of banking reforms aimed at ensuring a healthy ambience encompasses reforming the regulatory and supervisory framework, the safety net arrangement, crisis resolution mechanisms, shareholding structure, and structure of the banking industry and enthronement of good governance. Reform of the regulatory and supervisory framework is aimed at aligning the institutional framework governing the regulatory and supervising of financial institutions to the needs of a growing and complex financial system (2005). It involves issues of regulating independence, risk focused and rule based supervision while safety arrangements in reforms embrace the traditional lender of last resort note, deposit insurance arrangement which cater for both normal and financial crisis situations and prudential regulation and supervision.

Ajayi, (2005) added that reforms relating to corporate governance evolve in order to provide a well established governance structure and oversight process. This, according to the author, is essential in order to engender proper evaluation, understanding and mitigation of risk as well as permit banks to strength the stability of their operations and instill accountability. In this regard, the author observed that risk through the institution will be properly managed and improvement will be reflected in a stronger balance sheet.

Similarly, Deccan (2004:30), also argued that reforms in the banking industry are aimed at addressing issues such as governance, risk management and operational inefficiencies, the whirlpool of the reforms is around firming up capitalization. Deccan, (2004) noted that capitalization is an important component of reforms in the banking industry, owing to the fact that a bank with a strong capital base has the ability to absolve losses arising from non-performing liabilities. Thus, banking reforms are primarily driven by the need to achieve the objectives of consolidation competition and convergence in the financial activities.

Consolidation and convergence are achieved through mergers and acquisition. A merger is the combination of two or more separate forms in to a single firm. Akhvain, *et al* (1997:20) and Berger (1998:16) viewed the concept of consolidation through banks merger as not just about adjusting inputs to affect cost but also involves adjusting output (product) mixes to enhance revenues. They added that bank mergers tend to be associated with improvement in overall performance partly because banks achieved high valued output mixes through a shift toward higher yielding loan away from securities. This they noted also revealed that merged banks tend to experience a lowering of their cost of borrowed funds without needing to increase capital ratios. The lower cost of fund is consistent with a decline in overall risk of the combined bank, compared with that of the merger partners taken separately.

In the light of the foregoing, one can easily appreciate the wave of banking sector reforms across the globe in recent times. These reforms started in the industrially advanced countries of Europe and America. Thereafter, they spread to the emerging markets of Asia and now they have landed the shores of Nigeria and other African countries. Consolidation in the financial services sector in the USA and other industrialized countries has occurred along three lines, namely within the banking industry, between banks and other non-bank financial institutions, and across national borders. According to Kwan (2004:14), since the enactment of the Riegle-Neal Act, which allowed interstate branch banking beginning from 1997, the number of large bank mergers in the USA has increased significantly. As a result, the country's banking sector is reported to be in good shape, with record profits and relatively low volumes of problem loans.

Furthermore, judging by the structural effects that characterized the pre-consolidation phase in the history of Nigerian banking, one can safely infer that that era was typically typified by lack of marketing orientation. According to Ezeoha (2007:13), in the country's history of banking, 1892–1952 represents an era of free banking, considering that there was no legal framework for banking within the period. Even though he further maintained that since the commencement of conventional banking in 1952, the country has recorded reasonable degree of growth in the size and structure of banks, the distress and failures that subsequently befell Nigerian banks shows that the banks were not market-focused.

For instance, Umar (2009:22) submitted, "between 1994 and 2003, a space of nine years, no fewer than 36 banks in the country closed shops due to insolvency. He further held that in 1995 four banks were closed down. But 1998 may go down well in history as the saddest year for the banking industry as 26 banks closed shops that year. He added that three terminally ill banks also closed shops in 2000 and in 2002 and 2003 at least a bank collapsed. He also noted that those failed banks had two things in common – small size and unethical practices, and of the 89 banks that were in existence as at July 2004, when the banking sector reforms were announced, no fewer than 11 banks were in distress.

According to the CBN report (2004), between 69 and 79 of the banks were marginal or fringe players". Equally, the inept regulatory framework that engendered indiscriminate issuance of bank licenses led to unhealthy competition which in turn gave birth to unethical marketing practices (CBN, 2004). Soludo (2004) as cited in Adegbaju and Olokoyo (2008:20) said that low capitalization of the banks has made them less able to finance the economy, and more prone to unethical and unprofessional practices. These include poor loan quality of up to 21 per cent of shareholders' funds compared with 1–2 percent in Europe and America; overtrading, abandoning the true function of banking to focus on quick profit ventures such as trading in forex and tilting their funding support in favour of import-export trade instead of manufacturing; reliance on unstable public sector funds for their deposit base; forcing their female marketing staff into unwholesome conduct to meet unjustifiable targets in deposit mobilization; and high cost of funds (Soludo,2004:10).

Similarly, Oke in 2006, observed that the small size of most of the banks, each with expensive headquarters, separate investments in software and hardware, heavy fixed cost and operating expenses, and with bunching of branches in few commercial centers led to high average costs for the industry(Oke,2006:23). This, in turn, had implications for the cost of intermediation and the spread between deposit and lending rates. It also put undue pressure on banks to engage in sharp practices as a means of survival. "In essence, some of the banks were not engaging in strict banking business in terms of financial intermediation. They were merely traders trading in foreign exchange, in government treasury bills and sometimes, in direct importation of goods through shell companies" (Akanbi, 2005:10). According to Aliyu (2010:15), the major problems identified with Nigerian banks in the pre-consolidation period include:

1. Weak corporate governance, evidenced by high turnover in the Board and management staff, inaccurate reporting and non-compliance with regulatory requirements, falling ethics and de-marketing of other banks in the industry;

2. Late or non-publication of annual accounts that obviates the impact of market discipline in ensuring banking soundness;

3. Gross insider abuses, resulting in huge non-performing insider related credits;

4. Insolvency, as evidenced by negative capital adequacy ratios and shareholders' funds that had been completely eroded by operating losses;

5. Weak capital base, even for those banks that have met the minimum capital requirement, which then stood at N1.0 billion or US$7.53 million for existing banks and N2.0 billion or US$15.06 million for new banks, and compared with the N2.0 billion or US$526.4 million.

6. Over-dependency on public sector deposits, and neglect of small and medium class savers.

For Aliyu (2010), the foregoing factors have a number of marketing implications. First, in a situation where there is shaky corporate governance, gross insider abuses and non-compliance with regulatory requirements, satisfaction of the consumers which is the hub of bank marketing will definitely be traded for unethical business practices. Second, mismatching of funds equally made banks unreliable sources of revenue for practicing and potential marketers. Third, the existence of these problems betrayed public confidence in banks and subsequently stunting the growth of the existing banks.

Again, the weak operating capital base of the existing banks means that the intermediation role of Nigerian banks is hampered and this is capable of strangulating any meaningful marketing plan. Services wise, the weak operating capital base also militated seriously against the adoption of efficient processes and deployment of quality human resources that will boost services encounters and guarantee competitive advantage. The low capital base of banks equally means that banks lacked the resources to expand their network across the country and as such retail banking was not invoke. Yet, in the face of these internal improprieties that characterized Nigerian banks, price discrimination will be very difficult to curtail.

Furthermore, with the low operating capital base in the pre-consolidation period, it is clear that Nigerian banks fell short of the capacity to compete effectively and efficiently in the global financial market. Again, the share of the industry's market during the pre-consolidation epoch was controlled by few banks. Umar (2009:7) noted that the top ten (10) banks were found to control more than 50% of the aggregate assets; more than 51% of the aggregate deposit liabilities and more than 45% of the aggregate credits. This singular feature made competition skewed among the players in the banking industry. The marketing implication of this is that the few big players can do anything and get out with it.

However, Lemo (2005) observed that the post- consolidation proposal which represents the latest attempt by the CBN to tackle the problem of bank distress and failure and restore investors' confidence through building an industry that is strong, safe and sound has altered grossly the structure of the Nigerian banking system. First, the number of banks shrank from 89 to 25 and currently 24 just as there was an increase in minimum capital base from N2 billion as at July 2004 when the then CBN governor presented the consolidation proposal to N25 billion as at December ending 2005 that marked the expiration of the date which banks were given to meet the N25 billion minimum capital requirements.

Ezeoha (2007), had also noted that the number of bank branches has increased significantly from 3,300 as at July, 2004 to 5014 branches as at December 2009, this represents 34% increase (Ezeoha, 2007:13). He added that the proliferation in the number of bank branches is due mainly from the increase in the minimum capital requirement which the apex bank mandated banks to have and the need to meet the demands of the current market.

In terms of assets, Soludo (2004) opined that the total asset of all the 89 banks operating in Nigeria in 2004 prior to the consolidation was N3, 753.28billon (US$28.25billion) and rose to N6400.78billion (US$49.88billon) indicating a growth rate of 70.54.16 per cent within one year after consolidation (Soludo, 2004). The asset size of an average bank which was N42.172billion (US$0.3174 billion) grew geometrically to N267.482billion (US$2.0856billion) within a year after the consolidation exercise, a growth rate of 534.27 percent. This was an impressive performance as reported by Somoye, (2008) for such an increase in the growth rate.

Conversely, Fanimo (2006) noted that in many banks the changes in placements have resulted into serious job cuts and rationalization in both consolidated and non-consolidated banks. This the author said only serves to make bankers regard their jobs as unstable and Job cuts are continuous in the banking sector and it has the tendency to make employees less committed to their jobs and as well accentuate the already worsen labour turnover in the sector (Fanimo, 2006:14). For instance, the thirteen non-consolidated banks were dissolved and their operating licenses withdrawn. The implication here noted is that all their employees had lost their jobs and the number of those who lost their job as a result of the consolidation of banks was put at 45,000 employees involving all categories and cadres. This may be considered high in an economy in which labour market is saturated and graduate unemployment situation has remained very critical (Fanimo,2006:23).

These structural changes occasioned by the consolidation reform have some marketing implications. First, the author noted as the increase in the minimum capital requirement from the former N2 billion to N25 billion means that the ambience for operational economies of scale have been created. When firms enjoy economies of scale in their production process, they are likely to operate at lower cost which in turn translates to low retail prices leading to more patronages that indicate increase in the pace of marketing activities. This efficiency argument was clearly illustrated by the then CBN governor, Soludo (2004) which stated that the small size of most of our banks, each with expensive headquarters, separate investment in software and hardware, heavy fixed cost and operating expenses, and with bunching of branches in few commercial centers — lead to very high average cost for the industry. This in turn has implications for the cost of intermediation, the spread between deposit and lending rates, has put undue pressures on banks to engage in sharp practices as means of survival.

According to Imala (2005:16), the raised minimum capital base equally helped to equilibrate competition among the banks that survived the heat of the exercise and this went a long way in putting an end to the de-marketing powers and advantages formerly enjoyed by the few top leading banks during the pre-consolidation period. The upsurge in the number of bank branches indicates a shift from the conventional banking practices to retail banking. This the author said has become the case because consumers of banking services are gradually losing the taste of carrying money about and as such prefers those banks that have a wide network that will enable them transact their businesses anywhere in the country.

For Ernest (2012:8), the consolidation exercise has equally dealt a terrible blow on employees' working conditions. Nowadays, it is not uncommon to find bank managers who are compelled by their respective banks to involve in marketing for their banks. Conventionally, this ought to be outside their job description, but because of the accompanying unemployment scourge of the consolidation reform, which has further fuelled employment crises in Nigeria, these managers who have no other choice are now overstretched to even perform duties not found in their job description (Ernest,2012). The most nauseating aspect of this is that most of these managers are not trained marketers and as such may not do the job the way it ought to be done. This apart from affecting the way marketing practices are being carried out, have equally posed a serious concern for most managers as to how to adjust to the marketing job. All these mean that the execution of marketing programmes is now fraught with difficulties and inefficiencies.

2.2.14 Nigerian Economy since Adoption of the Structural Adjustment Programme (SAP)

Africa was faced with a myriad of economic problems. Some of these were high inflation and unemployment, increasing poverty, low economic growth rate, high fiscal deficits, huge balance of payments deficits, financial sector repression and worsening terms of trade. The economic crises have been attributed to two main factors, that is domestic policy failures and inadequate institutional capacity (Afolabi and Mamma 1994). This implies that the necessary conditions for growth and efficient economic management are the need for adoption of a consistent and appropriate macroeconomic policy framework and the existence of high quality institutions. The introduction of Structural Adjustment Programme (SAP) in July, 1986, as it was claimed is an effort to set the macroeconomic policy framework right. One of the components of SAP was the reform of the financial sector, aimed at increasing its efficiency amongst others.

Nwabgara (2004) argued that by the late 1970s and the turn of the 1980s, African countries like their counterparts in other developing parts of the world were confronted with massive economic decline and overbearing debt burden which were accentuated by the global economic down-turn. Necessitate the absence of finances which brought to a halt the implementation of vital national programmes of economic development and political modernization. Nwabgara (2004) added that such programme warranted the option of seeking the aid of the international financiers, which was not easily forthcoming due to the uncertainties about the ability of the borrowing countries to pay after accumulating huge debt. As a result, subsequent granting of financial assistance was tied with stringent conditionality of some form of structural adjustment in the internal structure of the economy of the borrowing countries. Thus, one of the obvious outcomes of developing nations‟ response to economic crisis is the mandatory adoption of structural policies manifesting either in the form of stabilization or structural adjustment, or both.

The recent upsurge of interest in this area on developing countries in the last couple of decades among scholars could be accounted for by the much debated globalization issue, especially the global economic crisis that has left most developing countries with huge debt burden. Of particular importance is the economic deterioration of the late 1970s and early 1980s that compelled most developing countries to adopt one form of economic transformation and adjustment programme or the other with the help of the World Bank/ International Monetary Fund (IMF). Eucharia (2011) argued that the introduction of SAP and the subsequent implementation of the IMF/World Bank conditionality attached to it, came with some negative consequences that affected many sectors of the economy such as agriculture and industry. In fact, SAP came at a time when Nigeria was beset by a charged political atmosphere fueled by the biting economic hardship that hit most families. Cognizance of the situation, the government in power still went ahead to implement the IMF conditionality that led to many unpleasant consequences such as workers losing their jobs through retrenchment, many people not being able to afford most of the basic necessities of life due to wage cuts and withdrawal of subsidies, skyrocketing inflationary situation occasioned by currency devaluation, high rates of unemployment, etc (Eucharia, 2011).

In the 1980s, the structural adjustment programme, (SAP) a phenomenon associated with developed nations as observed by Toye (1995) was transferred to governments of the developing countries as an avenue to enable them correct recurring resource imbalances and also adjust to structural changes on the terms of acquisition and expenditure of foreign exchange. In its original sense, SAP was a ploy used by economically advanced countries to hands-off responsibility on those state-owned industries that were no longer capable of competing with the new industrial capacity in developing countries (Toye, 1995). That had been the trend from the 1940s until the 1980s. Toye (1995) assert further that it was in the 1980s that SAP acquired a new meaning, the occurrence of which, remarkably changed the history of world economic development. With its new connotation, SAP since then came to be associated with the developing countries, including Nigeria.

Nwagbara(2004), also noted that SAP for the developing countries was occasioned by the desire to combat deteriorating economic conditions coupled with the socio-political crises of the time. By the 1980s, Nigeria was already in the midst of economic decline especially in the prices of crude oil, which was the country's main source of foreign exchange earnings. When it came on board in the political leadership of Nigeria, the then regime was mainly concerned with redressing the external debt crisis facing the country. Thus, alongside the initial conditions, like those of other African countries, was motivated by the desire to improve the domestic economic performance by increasing domestic savings, higher export earnings, and greater domestic production, among others factors. Nwagbara (2004) continued that Nigeria industries under SAP witness a tremendous fall in the sector which contributed to the inefficiency and inability of most domestically manufactured products to be competitive. The author noted resulted in to type of industrial policy the country adopted. The sector is characterized with low value added which have little intra-sect oral linkages and the inputs structures is highly import intensive which make the linkages with the rest of the economy weak. Today, most Nigerian industries are assemblies that put finishing touches to imported inputs.

For Balogun (2007), the debt crisis created by SAP that make the economy growth at slow pace and debt burden has been one major problem in Nigeria even before the SAP was initiated, but in order to address the problem properly the government adopted the SAP way of resolving it which compounded it and adversely affected local banks to the extent that some had to close down while some had to look for possible way of maintaining the status-quo. The author argues that Nigeria had witness four phases of banking sector reforms since the commencement of SAP. The first is the financial systems reforms of 1986 to 1993 which led to deregulation of the banking industry that hitherto was dominated by indigenized banks that had over 60 per cent Federal and State governments' stakes, in addition to credit, interest rate and foreign exchange policy reforms. The second phase began in the late 1993-1998, with the re-introduction of regulations. The author added that the banking sector during this period suffered deep financial distress which necessitated another round of reform designed to manage the distress. The third phase began with the advent of civilian democracy in 1999 which saw the return to liberalization of the financial sectors, accompanied with the adoption of distress resolution programmes. This era also saw the introduction of universal banking which empowered the banks to operate in all aspect of retail banking and non-bank financial markets. The fourth phase began in 2004 to date and it is informed by the Nigerian monetary authorities who asserted that the financial system was characterized by structural and operational weaknesses and that their catalytic role in promoting private sector led growth could be further enhanced through a more pragmatic reform. Although these reforms have been acclaimed to be necessary, it is however debatable if they yielded the anticipated results.

2.3 Theoretical Framework

The study adopts structural-functionalist theory in analyzing the consolidation policy of banks. Historically, structural-functionalist theory originated from sociology. It emphasizes on the concepts of societal changes which means certain social structures work in the society by ascertaining their function. The proponents of the theory includes Max Weber 1894-1920, Emile Durkheim 1858-1917, Talcott Parsons 1902-1979, Robert T. K Merton 1910, Herbert Spencer 1820-1903 just to mention but a few.

Structural-functionalism, or simply functionalism, is a theory that sees society as a complex system whose parts work together to promote solidarity and stability. This approach looks at society through a macro-level orientation, which is a broad focus on the social structures that shape society as a whole, and believes that society has evolved like organisms (Urry, 2000). This approach looks at both social structure and social functions. Functionalism addresses society as a whole in terms of the function of its constituent elements; namely norms, customs, traditions, and institutions. A common analogy, popularized by Herbert Spencer, presents these parts of society as "organs" that work toward the proper functioning of the "body" as a whole. In the most basic terms, it simply emphasizes "the effort to impute, as rigorously as possible, to each feature, custom, or practice, its effect on the functioning of a supposedly stable, cohesive system" (Spencer,1876). For Talcott Parsons (1975), "structural-functionalism" came to describe a particular stage in the methodological development of social science, rather than a specific school of thought. The structural-functionalism approach is a macro sociological analysis, with a broad focus on social structures that shape society as a whole (Talcott, 1975: 23).

The premise underlying this theory is that if the social existing state would either change to accommodate new social conditions or simply cease to exist. The classic evolutionary view sees changes occurring slowly, allowing for adoption and realignment of the various interrelated social institutions. A society which changes too rapidly is likely to experience structural misalignments in which part of the system do not fit snugly together leading to confusion or anomie for the society members.

The component parts of the system will eventually mesh and the expected harmonious interconnection of social institutions will again be achieved. Moreover, the theory primarily deals with large social units and attempt to understand how these units are interrelated. The unit strives to maintain a balance order, equilibrium, homeostatic, as such the social institution is connected to society and adapts to changes in the social environment.

Political scientists like Gabriel Almond and Bingham Powell in the 70s introduced a structural-functionalist approach to comparing political systems. They argued that, in order to understand a political system, it is necessary to understand not only its institutions (or structures) but also their respective functions. They also argued that these institutions, to be properly understood, must be placed in a meaningful and dynamic historical context (Gabriel, 1966).

In social system, various structures or agencies are created or established and charged with specific functions or responsibilities, depending on various factors structure may be efficient and effective in the discharge of its functions or not. When it fails, corrective measures became imperative, banks as an institution charged with specific functions in the society such as accepting deposits, granting advances, agent of customers etc. Due to problems such as corruption, weak capital base etc, most of the Nigerian banks failed to perform their responsibilities. This necessitated the dynamism in the banking sector which may serve as a corrective measure to reshape and repositioning the industry in a normal shape.

2.3.1 Criticism of the Theory

In the recent years, functionalism was criticized for being unable to account for social change, or for structural contradictions and conflict (and thus was often called "consensus theory"). Also, it ignores inequalities including race, gender, class, which causes tension and conflict. The refutation of the second criticism of functionalism, that it is static and has no concept of change, concluding that while Parsons' theory allows for change, it is an orderly process of change (Parsons, 1951:38), a moving equilibrium. Therefore, referring to Parsons' theory of society as static is inaccurate. It is true that it does place emphasis on equilibrium and the maintenance or quick return to social order, society was in upheaval and fear abounded. At the time social order was crucial, and this is reflected in Parsons' tendency to promote equilibrium and social order rather than social change.

Beside all the criticism, the theory seems to be relevant to the study because it has to do with changes in the society which lead to the accommodation of new ideas. In other words reform policy has to do with changes, and changes according to structural functionalists theory is necessitated to bring stability in any social structure in the society. The Central Bank reform policy was necessary to bring positive change in the banking sector which will lead to growth and stability in the sector. Although such policy may face some challenges but in the long-run economic benefit.

CHAPTER THREE

BANKING IN NIGERIA: EVOLUTION AND REFORM POLICEIS

3.1 Introduction

This chapter outlines the evolution of banks in Nigeria and assesses some of the key reform policies in the sector so far.

3.2 Evolution of Banks in Nigeria

The banking industry in the country evolved since 1892 when Nigeria's first bank, the African Banking Corporation, was established. No banking legislation existed until 1952, at which point Nigeria had three foreign banks (the Bank of British West Africa, Barclays Bank, and the British and French Bank) and two indigenous banks (the National Bank of Nigeria and the African Continental Bank) with a collective total of forty branches. A 1952 ordinance set standards, required reserve funds, established bank examinations, and provided for assistance to indigenous banks. Yet for decades after 1952, the growth of demand deposits was slowed by the Nigerian propensity to prefer cash and to distrust checks for debt settlements (Ahmad, 2000: 10).

British colonial officials established the West African Currency Board in 1912 to help finance the export trade of foreign firms in West Africa and to issue a West African currency convertible to British pounds sterling. But colonial policies barred local investment of reserves, discouraged deposit expansion, precluded discretion for monetary management, and did nothing to train Africans in developing indigenous financial institutions (Owokalade, 2006).

In 1952, several Nigerian members of the Federal House of Assembly called for the establishment of a central bank to facilitate economic development. Although the motion was defeated, the colonial administration appointed a Bank of England official to study the issue. He advised against a central bank, questioning such a bank's effectiveness in an undeveloped capital market. In 1957 the Colonial Office sponsored another study that resulted in the establishment of a Nigerian Central Bank and the introduction of a Nigerian currency. Depreciation accelerated after the creation of a second-tier foreign exchange market under World Bank structural adjustment in September (Jimmy,2008). The Central Bank of Nigeria, which was statutorily independent of the federal government until 1968, began operations on July 1, 1959. Following a decade of struggle over the relationship between the government and the Central Bank, a 1968 military decree granted authority over banking and monetary policy to the Federal Executive Council. The role of the Central Bank, similar to that of central banks in North America and Western Europe, was to establish the Nigerian currency, control and regulate the banking system, serve as banker to other banks in Nigeria, and carry out the government's economic policy in the monetary field (Imala, 2005:27).

This policy included control of bank credit growth, credit distribution by sector, cash reserve requirements for commercial banks, discount and interest rates; the Central Bank charged commercial and merchant banks and the ratio of banks' long-term assets to deposits. Changes in Central Bank restrictions on credit and monetary expansion affected total demand and income. For example, in 1988, as inflation accelerated, the Central Bank tried to restrain monetary growth.
During the civil war, the government limited and later suspended repatriation of dividends and profits, reduced foreign travel allowances for Nigerian citizens, limited the size of allowances to overseas public offices, required official permission for all foreign payments, and, in January 1968, issued new currency notes to replace those in circulation. Although in 1970 the Central Bank advised against dismantling of import and financial constraints, too soon after the war, the oil boom soon permitted Nigeria to relax restrictions. The three largest commercial banks held about one-third of total bank deposits (Ekundayo, 2008).

In 1973 the federal government undertook to acquire a 40-percent equity ownership of the three largest foreign banks. In 1976, under the second Nigerian Enterprises Promotion Decree requiring 60-percent indigenous holdings, the federal government acquired an additional 20-percent holding in the three largest foreign banks and 60-percent ownership in the other foreign banks. Yet indigenization did not change the management, control, and lending orientation toward international trade, particularly of foreign companies and their Nigerian subsidiaries of foreign banks.

At the end of 1988, the banking system consisted of the Central Bank of Nigeria, forty-two commercial banks, and twenty four merchant banks, a substantial increase since 1986. Merchant banks were allowed to open checking accounts for corporations only and could not accept deposits below N50,000. Commercial and merchant banks together had 1,500 branches in 1988, up from 1,000 in 1984. In 1988 commercial banks had assets of N52.2 billion compared to N12.6 billion for merchant banks in early 1988 (Aregbeyen, et al, 2011)

In 1990 the government put N503 million into establishing community banks to encourage community development associations, cooperative societies, farmers' groups, patriotic unions, trade groups, and other local organizations, especially in rural areas. Other financial institutions included government-owned specialized development banks: the Nigerian Industrial Development Bank, the Nigerian Bank for Commerce and Industry, and the Nigerian Agricultural Bank, as well as the Federal Savings Banks and the Federal Mortgage Bank. Also active in Nigeria were numerous insurance companies, pension funds, and finance and leasing companies. Nigeria also had a stock exchange (established in Lagos in 1961) and a number of stockbrokerage firms (Fry, 2008).

The Securities and Exchange Commission (SEC) Decree of 1988 gave the Nigerian SEC powers to regulate and supervise the capital market. These powers included the right to revoke stockbroker registrations and approve or disapprove any new stock exchange. Established in 1988, the Nigerian Deposit Insurance Corporation increased confidence in the banks by protecting depositors against bank failures in licensed banks up to N50,000 in return for an annual bank premium of nearly 1 percent of total deposit liabilities. Finance and insurance services represented more than 3 percent of Nigeria's GDP in 1988 (National Planning Commission 2004).

Economists agree that services, consisting disproportionately of nonessential items, tend to expand as a share of national income as a national economy grows. However, Nigeria, lacked comparable statistics over an extended period, preventing generalizations about the service sector. Statistics indicate, nevertheless, that services went from 28.9 percent of GDP in 1981 to 31.1 percent in 1988, a period of no economic growth. In 1988 services comprised the following percentages of GDP: wholesale and retail trade, 17.1 percent; hotels and restaurants, less than 1 percent; housing, 2.0 percent; government services, 6. percent; real estate and business services, less than 1 percent; and other services, less than 1 percent (NPC,2004)

3.2.1 The G.D. Paton Report

In the period 1892 – 1952, there was an enquiry by the then colonial administration to investigate banking practice in Nigeria. The G. D. Paton Report which emanated from the enquiry was the basis for the first Banking Ordinance of 1952. The ordinance was designed to ensure orderly commercial banking and to prevent the establishment of unviable banks. A draft legislation for the establishment of Central Bank of Nigeria was presented to the House of Representatives in March, 1958. The Act was fully implemented on 1 July, 1959 when the Central Bank of Nigeria came into full operations (Gehi,2011)

3.2.2 Central Bank Act, 1958

The Central Bank Act, 1958 (as amended) and the Banking Decree 1969 (as amended) constituted the legal framework within which the CBN operates and regulates banks. The wide range of economic liberalization and deregulation measures following the adoption, in 1986, of a Structural Adjustment Programme (SAP) resulted in the emergence of more banks and other financial intermediaries. Decree 24 and 25 of 1991 were, therefore, enacted to strengthen and extend the powers of CBN to cover the new institutions in order to enhance the effectiveness of monetary policy, regulation and supervision of banks as well as non-banking financial institutions. Unfortunately in 1997, the Federal Government of Nigeria enacted the CBN (Amendment Decree No. 3 and Banks and other Financial Institutions [BOFI (Amended)] Decree No. 4 in 1997 to remove completely the limited autonomy which the Bank enjoyed since 1991(Ebong,2005).

The 1997 amendments brought the CBN back under the supervision of the Ministry of Finance. The Decree made CBN directly responsible to the Minister of Finance with respect to the supervision and control of bank and other financial institutions, while extending the supervisory role of the bank to other specialised Banks and Financial Institutions. The amendment placed enormous powers on the Ministry of Finance while leaving the CBN with a subjugated role in the monitoring of the financial institutions with little room for the Bank to exercise discretionary powers (Dubey2007). The current legal framework within which the CBN operates is the CBN (Amendment) Decree No. 37 of 1998 which repealed the CBN (Amended) Decree No. 3 of 1997. The Decree provides a measure of operational autonomy for the CBN to carry out its traditional functions and enhances its versatility. Banks and other

Financial Institutions (Amendment) Decree. Furthermore, the regulatory powers of the CBN were strengthened by the Banks and other Financial Institutions (Amendment) Decree No. 38 of 1998 which repealed BOFI (Amendments) Decree No. 4 of 1997.

Through the amendments, the CBN may vary or revoke any condition subject to which a license was granted or may impose fresh or additional condition to the granting of a license to transact banking business in the country. By the Decree, the CBN's powers on banks, specifically those relating to withdrawal of licenses of distressed banks and appointment of liquidators of these banks, including the NDIC was restored. The CBN has also taken responsibility for nurturing the money and capital markets. In furtherance of this, the CBN introduced treasury bills in 1960, treasury certificate in 1968, and facilitated the establishment of Lagos Stock Exchange in 1961 and the capital issue committee now known as the Securities and Exchange Committee in the early 1970s. (Cartwright, 1995).

3.3 The Nigerian Banking Sector and its Crisis

The position of scholars on what is a financial crisis has over time varied from one author's perspective to another. Jickling (2008) affirms that there is no precise definition of phrase "financial crisis". Kindleberger and Aliber (2005) stated that financial crisis is being applied broadly to a variety of situations in which some financial institutions or assets suddenly lose a large part of their value. According to Portes (1998), financial crisis is a disturbance to financial markets that disrupts the market's capacity to allocate capital and hence investment comes to a halt.

Upholding Portes view, Jickling (2008) agrees that a common view of financial crisis are those disruptions in financial markets that rises to the levels of crisis when the flow of credit to households and businesses is constrained and the real economy of goods and services is adversely affected. Both Portes and Jicklings seemed to have opined the stand of Mishkin who perceived financial crisis as a disruption to financial markets in which adverse selection and moral hazard problems become worse, so that financial markets are unable to efficiently channel funds to those who have the most productive investment opportunity (Mishkin, 1991).

The trio position of Mishkin, Jickling and Portes on the meaning of financial crisis confirms that financial crisis is an economic disruption that alters efficient allocation of capital in an economy. In technical terms, financial crisis is clearly a case of global economic recession which by definition is a slowdown of a country's Gross Domestic Product (GDP) or a temporary decline in

economic activities, (Merriam-Webster, 2008 and Shiskin, 1974).When a country experiences continuous decline in GDP for two quarters or six months, the country is most likely to go into recession. Other factors that determine recession are Stock market, employment rate, investment spending, capacity utilization, household incomes and business profits. In fact some financial analysts prefer the more robust definition of a 1.5% rise in unemployment within twelve months

(Eslake, 2008).

The International Monetary Fund (IMF) yardstick however, accepts a financial crisis only if global growth is less than 3%, (Rogoff, 2002). It estimates that global recessions seem to occur over a cycle lasting between 8 and 10 years. Whichever of these model or conceptual framework is adopted, financial crisis reflects a decline in growth, capacity utilization, development and overall growth of financial intermediaries and their support structures with national and international confines. Bank failure or crisis could be loosely defined as the inability of a bank to meet up with its financial obligation to its customers. In technical terms, banks are defined as financially distressed when they are technically insolvent and/or illiquid (Brownbridge, 1998). In financial terms, to be insolvent means that a business is both unable to meet its current obligations and settle its outstanding debts (Bibeault, 1982; Glaessner and Mas, 1995). The authors also posit that insolvency (as described above) and financial distress/failure are two different things. This is mainly because distress or failure occurs when insolvency is officially recognized and the organisation is closed or measures are taken towards consolidation or merger. In Nigeria, the problem of bank distress has been observed as far back as 1930s. According to Soyibo and Adekanye (1992), between 1930 and 1958, over 21 bank failures were recorded in the Nigerian banking sector. The banking failures during that era may have been caused by the domination of foreign banks in terms of the exclusive patronage by British firms (Soyibo and Adekanye, 1992). Banks distress was also recorded in the 1990s and in the early parts of the 2000s. The number of distressed banks grew from 15 in 1991 to about 55 in 1994; 60 banks were known to be distressed in 1995 and by 1997, the number of problem banks had reduced to 47. As at the year ended 2002 that number reduced significantly to 13, then 15 in 2001 before dropping again to 10 shortly before the 2004 banking consolidation. (CBN and NDIC Annual Reports, 2002-2006).

A number of reasons have been attributed to financial distress of commercial banks. According to Sanusi (2002 cited in Musa 2010), one major cause of the distress in the sector was that the increase in the number of banks overstretched the existing human resources capacity of banks which resulted into many problems such as poor credit appraisal system, financial crimes, accumulation of poor asset quality among others. A result of the reason stated above is that most if not all of the banks that failed in Nigeria failed due to non-performing loans. Arrears affecting more than half the loan portfolio were typical of the failed banks. Brownbridge, (1998) argues that many of the bad debts were attributable to moral hazard: the adverse incentives on bank owners to adopt imprudent lending strategies. In particular, insider lending and lending at high interest rates to borrowers is the most risky segments of the credit markets contrary to the interests of the bank's creditors (mainly depositors or the government if it explicitly or implicitly insures deposits), which, if unsuccessful, would jeopardize the solvency of the bank (Brownbridge, 1998).

On close scrutiny, Somayo (2008:60) observed that the single biggest contributor to the bad loans of many of the failed banks in Nigeria was insider lending. Insider loans accounted for 65 percent of the total loans of the four banks liquidated in Nigeria in 1995, virtually all of which was unrecoverable (NDIC, 1994). Aluko (2008) also argued on the same line with Somayo and posit that the threat posed by insider lending to the soundness of the banks was exacerbated because many of the insider loans were invested in speculative projects such as real estate development, breached large-loan exposure limits, and were extended to projects which could not generate short-term returns (such as hotels and shopping centres), with the result that the maturities of the bank's assets and liabilities were imprudently mismatched.

The high incidence of insider lending among failed banks suggests that problems of moral hazard were especially acute in these banks. In addition, Komolafe (2008) observed several factors that are attributed to Nigerian banking crisis as follows; First, politicians were involved as shareholders and directors of some of the banks. Political connections were used to obtain public-sector deposits: many of the failed banks obtained their deposits from the public sector (Ministries and Parastatals). And because of political pressure, the parastatals which made these deposits are unlikely to have made a purely commercial judgment as to the safety of their deposits.

Moreover, the availability of parastatal deposits reduced the need to mobilize funds from the public. Hence, these banks faced little pressure from depositors to establish a reputation for safety. Political connections also facilitated access to bank licenses and were used in some cases to pressure bank regulators not to take action against banks when violations of the banking laws were discovered. All these factors reduced the constraints on imprudent bank management. The author asserted that the banks' reliance on political connections meant that they were exposed to pressure to lend to the politicians themselves in return for the assistance given in obtaining deposits, licenses, etc. It was as a response to yet another round of impending crisis on the banking sector that on July 6, 2004, the Central Bank of Nigeria announced a major reform programme that would transform the banking landscape of the country (see appendix 1).

The main thrust of the 13-point reform agenda was the prescription of a minimum shareholders funds of N25 billion for a Nigerian deposit money bank not later than December 31, 2005. Bello (2008) said reform expected banks to shore up their capital through the injection of fresh funds where applicable, but were most importantly encouraged to enter into merger/acquisition arrangements with other relatively smaller banks thus taking the advantage of economies of scale to reduce cost of doing business and enhance their competitiveness locally and internationally (Bello, 2008). Onalapo (2008) argued the same with Bello but observed that it was not the first time that Nigerian Banks were asked to shore up their capital base. From a modest value of N10million naira minimum paid-up capital in 1988, Nigerian commercial banks were required to maintain capital not below N50 million in 1991. Between 1991 and 2005 subsequent increases have also been made ranging from N500 million in 1997; N1billion in 2001; N2billion in 2002 to N25 billion in 2005 (Onaolapo, 2006:74). Brownbridge also noted that recapitalization was used as a strategy to address the insolvency of banks and forestall future possibilities of financial distress, for instance, in the 1990s crisis of the banking sector in Nigeria, policy makers thought that most of the failed banks were undercapitalized, in part because the minimum capital requirements in force when they had been set up were very low (Brownbridge, 1998). Recapitalisation is therefore thought not only to be capable of resuscitating insolvent banks but also strengthen them especially through mergers. According to Somoye (2008) the economic rationale for domestic consolidation is indisputable; it makes banking more cost efficient because larger banks can eliminate excess capacity in areas like data processing, personnel, and marketing or overlapping branch networks. Cost efficiency also could increase if more efficient banks acquired less efficient ones.

3.4 Pre-Reform Conditions of the Nigerian Banks

Prior to the banking sector consolidation programme induced by the CBN 13-point reform agenda of the Nigerian banking system was characterized generally by small-sized banks with very high overhead costs, low capital base averaging less than N1.4 billion, heavy reliance on public sector funds (20% of industry deposits from government sources), foreign exchange trading and neglect of small and medium scale private savers. Lemo (2005:56) also notes that the top 10 banks were found to control more than 50% of the aggregate assets; more than 51% of the aggregate deposit liabilities; and more than 45% of the aggregate credits. Also, 24 out of the 89 banks that existed had exhibited one form of weakness or the other: undercapitalization or insolvency, illiquidity, poor asset quality, weak corporate governance, corruption of top bank officials, dwindling earnings and in some cases, loss making. A review of the banking sector as at June 2004 revealed that marginal and unsound banks accounted for 19.2% of the total assets, 17.2% of total deposit liabilities while industry non-performing assets was 19.5% of total loans and advances (CBN, 2005:16). The implication of this unsatisfactory statistics as noted by Lemo (2005) is that there existed threat of a systemic distress judging by the trigger points in the CBN Contingency Planning Framework of December 2002, which stipulated a threshold of 20% of the industry assets, 15% of deposits being held by distressed banks and 35% of industry credits being classified as nonperforming. It was evident that the banking sector needed reform and it was only a matter of time (Lemo,2005).

3.5 Major Reform Policies in Nigerian Banking Sector

The first reform in the banking sector was the deregulation of the rate of interest both on loans and on deposits. Banks became free to charge whatever rates of interest they desired on their different products based on the forces of demand and supply. As interest rates were being deregulated government also brought out new rules for setting up of banks and issuing of licenses. The new rules made entry into the banking system much easier than previously. The immediate response of the system to these two policies was a sudden up-surge in the number of banks – from 56 (Merchant and Commercial bank) in 1986, the figure rose to 109 by 1990 and 120 by 1992 (Berger, 1999).

Alao (2010) argued that as reforms were taking place in the financial sector so were they taking place in the trade and exchange sectors. In the exchange sector, the exchange rate was freed from government administration and a market for auctioning forex was set up. At first there were two windows, the official window where forex was sourced for government imports and official transactions at administratively controlled rates, and the non-official window where licensed foreign exchange dealers (usually banks) bid for foreign exchange on behalf of their clients, and the foreign exchange rate was determined by forces of demand and supply (Alao.R, 2010).

Adeyemi, K.S (2005) also opined that by 1987 however the two foreign exchange windows were merged to form one door called the foreign Exchange Market (FEM). By 1988, in order to absorb the parallel foreign exchange market into the official market and cater for the needs of small users of forex government granted licenses for bureau de change operators. As government was granting licenses to the bureaux de change operators in the trade and exchange sector, it was also relaxing the rule that had hitherto forbidden banks from taking up equity position in firms (i.e. non-financial enterprises) while at the same time granting them permission to engage in insurance brokerage.

In the face of a much greater number of financial institutions especially banks, than the country had ever had, the government thought it expedient to protect depositors by setting up a deposit insurance scheme. Hence the Nigerian deposit insurance corporation was established in 1988 and started operation in Jan. 1989. The Central bank of Nigeria deployed some of its staff to start off the corporation which it's supposed to ensure financial stability and provide a healthy banking platform for the economy (Akintoye, *eta l,* 2008).

In 1991 two new decrees were put in place to enhance the powers of the regulatory and supervisory authorities of the financial system to enable them manage the reform – packages well. The first is, a Central Bank of Nigeria Decree 24 of 1991, and the Banks and Other Financial Institution Decree, 25 of 1991. The new – banking – sector regulatory reforms gave the CBN power to issue banking licenses and to revoke them. It gave the CBN power to apply any type of measure to handle ailing financial system. By 1991, some of the reform measure of 1987 were reversed, a cap was replaced on interest rates standing at 21% for lending rates and 13.5% for deposit rates. Also, a maximum interest – rate spread was specified; this was 4% (Berger, 1999).

Ajayi (2005), also noted that by 1992 government divested itself from the seven banks where it had 60% equity holding in line with the new private sector – driven development and privatization. It was believed a full private – sector owned banks would be more efficiently managed and hence more effective in its operations and have improved performance. In 1993, the Open Market Operations as an indirect instrument of monetary control was introduced. The first discount house took off in 1993 known as Associated Discount House, subsequently others followed, and by 2003 there were 5 discount houses. The discount houses intermediate between the Central bank and the other banks, off loading government treasury securities from the CBN and auctioning same to the banks. Where the banks cannot pick-up all of the treasury securities the discount houses warehouse them (Ajayi, M. 2005).

Ajayi, (2005) continued that the reforms introduced also affected the capital base of banks as the capital funds adequacy ratio was reviewed. The capital adequacy ratio was moved from 1:12 to 1:10. The purpose of adjusting the capital adequacy ratio was to ensure that the banks have sufficient capital to absorb shocks in times of operational losses, and also to ensure that shareholders in banks have sufficient stake in the system to do a thorough oversight job of bank management. Hence, the prudential Guideline was released by the CBN in 1990. As this was going on, other reform measures to deepen and expand the financial system were also going on. Special institutions were in 1989/90 created, this include – the People's Bank, the Community Banks, finance companies and Leasing companies (Ajayi, 2005).

Concerning the capital adequacy issue, government, through the CBN, Introduced a risk-weighted measure of capital adequacy. The regulation as noted by Lemo (2005) identified five risk-weights – these are – 0%, 10%, 20%, 50% and 100%. The banks were told to maintain capital funds of at least 7.26% of total risk weighted assets. The reform also required that at least 50% of a bank's capital must take the form of core or primary capital, i.e equity plus reserves. In 1990, the equity capital of commercial banks was raised from N20 million to N50 million while that of the Merchant banks rose from N12 million to N40 million (Lemo, 2005).

The 1990 Prudential Guideline as noted by Kwan (2004) has directed banks to make adequate provisions for bad and doubtful debt. Banks were required to stop accruing interest on non-performing loans while interest that had already accrued on such accounts should be discountenanced and not be recognized as income. Something that used to be in the system before deregulation was reintroduced; this is the stabilization securities. Stabilization securities are CBN's debt instrument made compulsory for banks to purchase, and they are non-transferable and non-negotiable. The Stabilization securities carry higher yield than treasury bills (Kwan,2004).

By 1994 another reform measure was introduced. Hitherto banks in Nigeria had not been paying interest on demand deposits otherwise known as current account, but now they were granted permission to do so. The cash reserve ratio which before the reforms had been virtually stagnant was revised, to now begin to work as an indirect instrument of credit control, granting of loans on the strength of foreign exchange held in foreign accounts was prohibited. All government deposits held by the commercial and merchant banks were withdrawn, so that the banks could function without undue government interference (Oyewole , 2008).

As Lemo (2005), noted there were reforms in the capital market too which included the freeing of stock-prices from administrative determination by the Securities and Exchange Commission (SEC) to a market determined system. By 1997, additional capital market reforms were introduced, while by 1999, fully – foreign owned banks were given licenses to operate. By the year 2000 foreign currency deposits had become institutionalized while by 2001 government went the whole hog and introduced universal banking, such that a bank can be a single-point unit for an investor, as a bank with a universal license can carry out merchant banking functions, commercial banking functions insurance functions and also deal in issue of securities (a capital market function) (Lemo, 2005). At the wake of universal banking, government introduced a new capital of N1000 million or N1 billion for each category of banks, and raised it by the year 2002 to N2 billion. By 2004 July the CBN announced a new capital base for banks, and this is N25 billion.

3.6 Effects of Banking Reforms on the Nigerian Economy: 1987 – 2004

The liberalization reforms introduced into any repressed financial system is supposed to work in the following ways: First free interest rates especially after a long-time of being kept low by regulation, this move tends to encourage higher level of savings. In the face of increased savings, all the investment projects at the margin can now find funding. What is more-with freedom of entry into the system the increased competition is supposed to ensure that the interest rates are kept within reasonable limits. The liberalization reform that brings a financial sector to the forefront is supposed to transform the financial system into a supply leading sector. As a supply leading sector the financial sector is expected to transform the traditional sector (Patrick 1966) by making large funds available (which for instance can transform a traditional subsistence agricultural sector into a large commercial plantations providing latest agricultural implements, sellings etc), and also making available technical expertise. The freedom of credit to move is supposed to promote efficiency in resource use, as credit is expected to move in response to the rate of return on it in a given sector. This is in contradistinction to the previous movement of credit to supposedly socially desirable sectors but that are not able to provide the expected rate of return. As productive sectors access funds, productivity is expected to rise, output is expected to rise and the rise in output is expected to bring down prices (Wheelen, *eta l*, 2008).

The increasing deepening and expansion of the financial system is expected to lead to increased variety of financial instruments, not only in the banking subsector but also in the capital market. Greater availability of varieties of financial institutions and instruments is expected to deepen the financial system. Financial deepening can be measured using several kinds of indices, a few of these are: the ratio of the growth rate of broad money to that of the gross domestic product, ratio of Total banking assets to GDP, Gross Savings in the economy to GDP as well as Gross Domestic Investment to GDP as well as the Interest Rate Spread (i.e. the difference between lending rate and deposit rate). The more deepened the financial system the more expanded the level of output and the rate of growth of output are supposed to be (Ezeoha, 2007).

A look at the Nigerian economy since the onset of liberalization reforms in 1986, especially financial sectors reforms, which started in 1987 really give cause for concern. However, from 1991 it started a steady plunge downward which reached its lowest ebb by 1994 when it hit the 1.33% mark. Thereafter the economy struggled to improve but could not. For the rest of that decade up to the new millennium the real GDP growth rate did not reach the IMF/WB recommended neither 5%, nor the millennium development Goals of 7% or the Asian countries performance of 9%. As for financial deepening the result of it shows that midway into the era of reforms the earlier results of increased financial deepening started to reverse it (Asikhia, 2009).

Though the spread came down by 1994, it was never as low as it used to be in the era of regulation, and in fact from 1997 it rose to much higher levels than before. This was noted by kwan (2004), and also an indication that whatever reform happened they did not seem to have improved financial system efficiency significantly. With respect to the improved savings mobilization effect of reforms, there was indeed a great measure of this from 1998 to 2001 after the system had experienced a great collapse that allowed the government introduced more painstaking supervision and surveillance on financial sector activities especially banking sector activities. The result of a more – closely watched regulation and supervision after a heavy collapse and some sanitization brought improved performance in terms of savings mobilization (Kwan, 2004).

There have been several research into the banking crisis that engulfed the Nigerian financial system a few years into the liberalization reforms. What happened is that the liberalization of the financial sector especially the banking sector posed some immediate challenges to the sector. First was that of insufficient skilled manpower to the several banks that have suddenly emerged at the same time. Second was the ability of the banking system to cope with competition having been stifled of all initiative and steam in the regulatory era. The third was the incidence of "bugging" in the system. This is a situation where borrowers go to borrow with no intention of paying back (Kayode and Odusala 2004).

This coupled with insider abuses as indicated by Somoye (2008) to ensure that a lot of the loans of some banks went bad. In fact, for some banks as much as 70% of the loans went bad. Their insider-abuses made loan recovery difficult if not impossible; sometimes the loans were given without collateral, where it was given with collateral the collaterals were not perfected. Junior managers gave loans above prescribed limits. All of these were aggravated by macroeconomic variables, continuously high fiscal deficits which fuelled inflation, caused lending rates to rise higher, and led to adverse selection (Somoye, 2008).

The effects of the systemic crises were erosion of the public's confidence, no wonder the proportion of currency relative to broad money went up as people lost confidence in banking instruments and would rather hold cash. Portfolio shift as a result of crises probably account in part for increased capital flight in Nigeria. The interest rates that are supposed to come down in the face of competition did not do so and investors could not access loans at the unduly high rates. No wonder ratio of investment to GDP plunged to as low as 2% in 1994, 1995, and 1996.

Similarly, in the year 2003, there was still evidence of looming crisis given the fragile capital base of the banks. The capital base of N2 billion proved too small for the needed functions of capital i.e. provision of cushion for operating losses, provision of funds for fixed assets and expansion as well as promotion or fostering depositors confidence (Akpan, 2009).

3.7 The Banking Reform Policy 2004-2014

The banking sector reform was guided by the provision in the National Economic Empowerment and Development Strategy (NEEDS) document. This was followed by a meeting of bankers committee held on July 6, 2004, the Board of the Central Bank of Nigeria has approved to facilitate consolidation in the banking industry in order to assist banks in meeting the approved capital base of N25billion by December 2005 (See Appendix 1).

The policy thrust was to build and foster a competitive and healthy financial system to support development and to avoid systemic distress in the Nigerian banking sector (Soludo 2006: 34,). The reform was to address the shallow depth of the Nigerian capital market, overdependence of banking institutions on public sector and foreign exchange trading as sources of funding and the noticeable lack of harmony between fiscal and monetary policies .As stated by Soludo (2008:22), the above policy thrust was to be achieved through the adoption of the followings strategies:

i. Embarking on a comprehensive reform process aimed at significantly improving the financial infrastructure;

ii. Restructuring, strengthening and rationalizing the regulatory and supervisory framework of the financial sector;

iii. Addressing the issue of low capitalization of financial institutions;

iv. Developing a structured financing for cheap credit to the real sector; and

v. Fostering financial deepening and accommodation for small and rural financial market.

According to Adam (2005:12), bank or corporate consolidation could be achieved by way of mergers and/or acquisition, recapitalization and proactive regulation. Bank consolidation is more than mere shrinking of the number of banks in any banking industry. It is expected to enhance synergy, improve efficiency, induce investor focus and trigger productivity and welfare gains (Nnanna, 2004:5). The reforms are designed to enable the banking system develop the required flexibility to support the economic development of the nation by efficiently performing its functions as the pivot of financial intermediation (Lemo, 2005:30). Thus, the reforms were to ensure a diversified, strong and reliable banking industry where there is safety of depositors' money and position banks to play active developmental roles in the Nigerian economy.

The key elements of the 13-point reform program include:

1. Minimum capital base of N25 billion with a deadline of 31st December, 2005;

2. Consolidation of banking institutions through mergers and acquisitions;

3. Phased withdrawal of public sector funds from banks, beginning from July, 2004;

4. Adoption of a risk-focused and rule-based regulatory framework;

5. Zero tolerance for weak corporate governance, misconduct and lack of transparency;

6. Accelerated completion of the Electronic Financial Analysis Surveillance System (e-FASS);

7. The establishment of an Asset Management Company;

8. Promotion of the enforcement of dormant laws;

9. Revision and updating of relevant laws;

10. Closer collaboration with the EFCC and the establishment of the Financial Intelligence Unit;

11. Launching of a new Micro finance policy and regulatory framework to serve the un-served 65 percent of the bankable public;

12. Reforming the Exchange rate management system -- adoption of the Wholesale Dutch Auction System (WDAS) and increase liberalization of the foreign exchange market (which since 2006 led to the convergence of the parallel and official exchange rates for the first time in 20 years);

13. Addressing issues of technology and skills in the banking industry especially in risk management and ICT (Enyi,2006:9).

Of all the reform agenda, the issue of increasing shareholders' fund to N25 billion generated so much controversy, especially among the stakeholders (see Apendix 1). Besides strengthening the Nigerian banks, the new capital, Soludo (2004:29) explained, is intended to stem the systemic distress that has continued to rock the system. According to him, "If we do not do anything today, several banks would go under and we will end up with more job losses, but with this measure, we will end up with more job savings than if we allowed banks to go under". Speaking further he said, "we have a duty to be proactive and to strategically position Nigerian banks to be active players and not spectators in the emerging world, adding that;

> the inability of the Nigerian banking system to voluntarily embark on consolidation in line with the global trend has necessitated the need to consider the adoption of appropriate legal and supervisory frameworks as well as comprehensive incentive package to facilitate mergers and acquisition in the country as well as crisis resolution option and to promote the soundness, stability and enhanced efficiency of the system.

Adeyemi (2005:6), grouped these challenges into two headings namely: pre-consolidation and post-consolidation. The pre-consolidation challenges encountered are timeline for consolidation, high cost of mergers and acquisitions, lack of cooperation from some of the consolidating banks, human resource issues, information and communication technology (ICT) and related issues while the post-consolidation challenges are corporate governance, challenge of increased returns on investment, post-consolidation integration. Banks consolidation through mergers and acquisitions and the N25bn recapitalization exercise and the thirteenth and first item on Professor Charles Soludo's 13-point reform agenda in the banking industry, came to an end precisely on 31st December, 2005 as promised. Banks that do not meet the minimum paid up capital by end of December 2005 or which remains un-sound/marginal would be liquidated by January, 2006" (Soludo 2006).

In the address dated 6th July, 2004, the then Central Bank Governor also said.

> The Nigerian banking system today is fragile and marginal. Our vision is a banking system that is part of the global change, and which is strong, competitive and reliable. It is a banking system which depositors can trust, and investors can rely upon. Evolving such a banking system is a collective responsibility of all agents in the Nigerian economy (CBN Annual Report; 2005:5).

He gave reasons such as persistent illiquidity, weak corporate governance, poor assets quality, insider abuses, weak capital base, unprofitable operations, and over-dependency on public sector funds, among others, which necessitated the banking sector reform. Furthermore, the CBN governor stated that:

> One of the recent developments in the banking system, which is of great concern to the monetary authorities is the significant dependence of many Nigerian banks on government deposits, with the three tiers of government and parastatals accounting for over 20 percent of total deposit liabilities of deposit money banks. Although the distribution among banks is not uniform, there are some banks whose dependency ratios are in excess of 50 percent. The implications are that the resources base of such banks is weak and volatile, rendering their operations highly vulnerable to swings in government revenue, arising from the uncertainties of the international oil market (CBN Annual Report, 2005: 9).

Soludo went on to justify the banking reform by painting the uncomfortable picture of the banking industry stating that "in recent times, many banks appear to have abandoned their essential intermediation role of mobilizing savings and inculcating banking habit at the household and micro enterprise levels (Soludo,2004).

The apathy of banks towards small savers, particularly at the grass root level, has not only compounded the problems of low domestic savings and high bank lending rates in the country, it has also reduced access to relatively cheap and stable funds that could provide a reliable source of credit to the productive sectors at affordable rates of interest." The governor opines that;

> The current structure of the banking system has promoted tendencies towards a rather sticky behavior of deposit rates, particularly at the retail level, such that, while banks' lending rates remain high and positive in real terms, most deposit rates, especially those on savings, are low and negative. In addition, savings mobilization at the grass root level has been discouraged by the unrealistic requirements, by many banks, for opening accounts with them." "The banks were expected to shore up their capital through the injection of fresh funds where applicable, but were most importantly encouraged to enter into merger or acquisition arrangements with other relatively smaller banks thus taking the advantage of economies of scale to reduce cost of doing business and enhance competitiveness locally and internationally."

Also in a paper titled "Post Merger Integration: Matters Arising", delivered at the bankers committee in 2004, the then Deputy Governor, Dr Shamsuddeen Usman in the paper said:

> The need to address the distress syndrome effectively and holistically informed the recent banking sector reforms initiative, which is anchored on a 13-point agenda that included, among others the injection of fresh capital into the industry to strengthen the banks recapitalization, in order to support the real sector of the economy; consolidation of banking institutions through mergers and acquisitions; creating better platform for more effective banking regulation and policy realization, making Nigerian banks become more internationally competitive, especially in West Africa, and establishment of an Assets Management Company as an important element of distress resolution. (Shamsudeen, 2004:11).

It was glaringly evident that the Nigerian banking industry was in desperate need for reform. After the 1986 SAP-induced boom that brought about banking license liberalization and the deregulation of interest rates, the distress syndrome slowly and surely crept into the industry as a result of which many banks were liquidated, either singly or in groups. This did not provide the final solution as the CBN had identified about twenty five banks as having liquidity problem.

The latest assessment by the Cowry Asset Management Limited in 2009 on the Nigerian banking report shows that while the overall health of the Nigerian banking system could be described as generally satisfactory, the state of some banks is less cheering. Specifically, as at March ending, 2004, the CBN's ratings of all the banks, classified 62 as sound/satisfactory, 14 as marginal and 11 as unsound, while 2 of the banks did not render any returns during the period.

Curiously enough, the report noted that neither the former CBN Governor nor the then Deputy Governor cited poor supervision by the regulatory bodies of CBN and NDIC in their presentations as one of the reasons that created the “distress syndrome” in the banking industry, which eventually saw the demise of many banks. Poor supervision creates room for poor governance, insider abuse, non-performing assets, and poor internal control, among others; which are the main reasons cited for the poor position of the `banks (Okonkwo, 2004).

By 1st January, 2005, after the close of the un-extended deadline, 24 banks emerged as having met the N25bn recapitalization requirement. The structure of the “Consolidated Banks” comprises of those that stand alone and merged banks. In a press release of 3rd January, 2005, that is immediately after the 31st December, 2004 deadline, the former CBN governor said “The program has resulted in the shrinkage of the number of banks from 89 to 24 through merger/acquisition involving 76 banks which altogether account for 93.5% of the deposit share of the market” (Soludo, 2005, extracted from Nigerian banking report 2009: 9).

However, in a paper he delivered on 16th January, 2005, titled “The Outcome of the Banking Sector Recapitalization and the Way Forward for the Undercapitalized Banks” Soludo revealed that Twenty-five banks emerged from 75 banks, out of a total of 89 banks that existed as at June 2004. The governor gave a list of 14 banks that failed to meet new capital requirement this way: “In the exercise of the powers conferred upon us by the Banks and Other Financial Institutions Act, the operating licenses of the following 14 banks are hereby revoked.” The table below shows the number of banks that existed before the banking reform and merged banks after the consolidation policy of 2004 with their capital base each:

Table 3.1 Number of banks that were merged after the December 2005 deadline for bank consolidation in Nigeria

S.No.	Name of Bank	Capital base (N billion)	No. of Domestic branches	Constituent Institutions
1	Access Bank	28	118	Access Bank, Capital bank Int’l and Marina Bank
2	Afribank	29	262	Afribank and Afribank International (Merchant)
3	Diamond Bank	33.25	250	Diamond and Lion Bank
4	Ecobank	Over 25	209	Ecobank

5	Equitorial Trust Bank	26.5	92	Equatorial Trust Bank and Devcom Bank
6	FirstCity Monument Bank (FCMB)	30	145	FCMB, Cop. Development Bank and NAMB Limited
7	Fidelity Bank	29	112	Fidelity Bank, FSB International Bank and Manny Bank
8	First Bank	44.62	478	First Bank of Nigeria, FBN Merchant Bankers, and MBC International Bank
9	First Inland Bank	28	151	First Atlantic Bank, Inland Bank, IMB International Bank and NUB Int'l Bank
10	Guaranty Trust Bank	34	154	Guaranty Trust Bank
11	Stanbic IBTC Bank	35	61	IBTC, Chartered Bank and Regent Bank
12	Intercontinental Bank	51.7	292	Intercontinental Bank, Equity Bank, Global and Gateway Bank
13	Citibank	25	13	Nigerian International Bank (CitiGroup)
14	Oceanic Bank	31.1	345	Oceanic Bank and International Trust Bank
15	Platinum Habib Bank	26	123	Platinum Bank and Habib Bank
16	Sky Bank	37	226	Prudent Bank, EIB International, Cooperative Bank, Bond Bank & Reliance Bank
17	Spring Bank	Over 25	191	Citizens International Bank, Guardian Express Bank, ACB Int'l Bank, Omegabank, Fountain Trust Bank &Trans International Bank.
18	Standard Chartered Bank	26	14	Standard Chartered Bank

19	Sterling Bank	25	101	Magnum Trust Bank, NAL Bank, Indo-Nigeria Bank and Trust Bank of Africa
20	United Bank for Africa	50	619	United Bank of Africa & Standard Trust Bank
21	Union Bank	58	383	Union Bank, Union Merchant Bank, Universal Trust Bank and Broad Bank
22	Unity Bank	30	204	Intercity Bank, First Interstate Bank, Tropical Commercial Bank, Pacific Bank, Centre Point Bank, NNB International Bank, Bank of the North, Societe Bancaire and New Africa Bank.
23	Wema Bank	26.2	150	Wema and National Bank
24	Zenith Bank	38	321	Zenith Bank
Total	24	Over 791.37	5014	--------------------------------------

However, apart from the above demonstrated successful consolidated banks, the 2004 bank reforms also enunciated that there were as many as 13 banks in Nigeria that failed to consolidate or did not scale through the recapitalization programme. Also, according to CBN report on merged banks 2006, the following banks were unconsolidated from the 2004 bank reform program;

1. All States Trust Bank

2. Hallmark Bank

3.Trade Bank

4.African International Bank

5. Societe General Bank

6. Fortune Bank

7.Liberty Bank

8.Triumph Bank

9.Eagle Bank

10.Metropolitan Bank

11.City Express Bank

12.Gulf Bank

13.Assurance Bank (CBN Annual Report, 2006)

Furthermore, Soludo opines that the unconsolidated banks have three possible options as follows: outright liquidation; forge alliance and merger with any one of the consolidated banks and finally be acquired by any of the banks that achieved the required minimum capital base. For the deposited funds in these banks that may be liquidated, Soludo has insisted that Nigerians need not fear about that. This is due to the fact that the central bank of Nigeria had made plans to repay all such depositors within 90 days from the date of liquidating these banks, while use will be made of Failed Bank Decree process to get these funds back from these banks that have mismanaged these deposits which indeed has happened during his tenure.

On June 4, 2009, Lamido Sanusi, former Managing Director of the First Bank, took office as Governor of the Central Bank of Nigeria. Early in his term, he empanelled a special joint committee of the Central Bank of Nigeria and the Nigerian Deposit Insurance Corporation to conduct a special examination of all 24 universal banks in Nigeria.

On August 14, 2009, the CBN announced the results of the examination of 10 banks and determined that five banks were insolvent – Oceanic Bank, Union Bank, Afribank, Finbank, and Intercontinental Bank. The aggregate percentage of non-performing loans of these five banks was 40.81 per cent. In addition, these banks were chronic borrowers at the Expanded Discount Window (EDW) of the CBN, indicating that they had little cash on hand. To improve the banks' liquidity, CBN, as the lender of last resort, injected N420 billion (roughly $2.8 billion) into these banks in the form of a subordinated loan. These banks in aggregate represented significant systemic risk as they held approximately 30 per cent of the deposits in the Nigerian banking system. Other senior executives of the insolvent banks have also been charged with crimes. In an unprecedented move, Sanusi published a list of the names of debtors of non-performing loans held by Nigerian banks.

Subsequently, the CBN completed its special examination of the remaining 14 universal banks in Nigeria to determine their solvency. As a result of this audit, on October 3, 2009, the CBN dismissed the CEOs of three additional insolvent banks – Bank PHB, Spring Bank, and Equatorial Trust Bank – and injected an additional N200 billion into these banks.

A fourth bank, Unity Bank, was determined to be insolvent but had sufficient liquidity to meet its current obligations. Similar to the banks receiving capital injections after the August 2009 audit, these three banks received funds through the Expanded Discount Window of the Central Bank of Nigeria in the following amounts: Bank PHB (N64 billion), Spring (N80 billion), and Equatorial Trust Bank (N56 billion of which N30 billion has been repaid).

The CBN appointed new managing directors for each of these eight banks. Sanusi has stated clearly that these actions were not intended as a nationalisation of these banks, rather they were intended to prevent serious disruption of the banking system.

Thus far, eight banks have received N620 billion or approximately $4.1 billion from the CBN, representing 2.5 per cent of Nigeria's entire 2010 GDP of $167 billion. Following the special examination and during the period from December 2008 to December 2009, Nigerian banks wrote off loans equivalent to 66 per cent of their total capital; most of these write offs occurred in the eight banks receiving loans from the CBN.

By year end 2009, all banks must change their accounting years to the calendar year, and all subsidiaries of the parent bank must follow the same accounting year. Different reporting years for Nigerian banks made financial comparison difficult among banks and limited transparency of bank financial results. The CBN's stated purpose for this policy change was "to further enhance the level playing field in the banking sector post-consolidation." The CBN is also seeking banks to adopt International Financial Reporting Standards (IFRS) by the end of 2012. Currently, most banks follow Nigerian GAAP while some Nigerian banks with international operations have issued their 2009 financial statements using IFRS.

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

In January 2010, the CBN issued regulations limiting the terms of CEOs of banks to a maximum of 10 years, which will require some sitting CEO's to resign by July 31, 2010.

The intent of the regulation is to improve corporate governance of Nigerian banks by avoiding the "sit-tight syndrome" where bank executives manage the bank as a personal business as opposed to a publicly held corporation accountable to shareholders, depositors, and government regulators. CEOs are limited to two renewable five year terms and are disqualified from serving as a director for three years after their second term as CEO expires.

This new policy resulted from the special examination discussed earlier that revealed serious corporate governance deficiencies among the insolvent banks. While some commentators have commented that life directorship is not consistent with company law, others have criticised this policy, arguing that its retroactive application is counter to Nigerian law, it usurps the rights of shareholders in electing management, and that there is no evidence linking the length of executive service to fraud committed by corporate executives.

Likewise, in March 2010, the Central Bank of Nigeria announced its plans to dismantle central tenet of banking regulation in Nigeria – the exclusivity of universal banks as the vehicle for conducting banking in Nigeria. The CBN plans to categorise banks by function and allow variety of banks to operate in Nigeria with varying levels of capital depending on the bank's function, as opposed to the single current minimum capital of N25 billion (approximately $173 million).

The intent is to allow the creation of banks that would serve different market segments, such as small and medium-sized enterprises, and to phase out the “one size fits all” requirement by September 2011. Each type of bank would apply for a different licence. This policy is a fundamental reversal of the consolidation policy of 2005 and is likely to encourage the development of an increased number of financial institutions in Nigeria. Critics of the proposed policy argue that the CBN does not have sufficient regulatory staff, in either number or professional skill, to supervise various types of banks.

A key component of the second phase of banking reform in Nigeria is the removal of toxic assets or non-performing loans from the books of the banks receiving government support. To that end, the Ministry of Finance and the CBN have introduced a bill in the National Assembly that will create an asset management company, which will purchase toxic assets from the banks. The legislation is currently under consideration by the Nigerian National Assembly.

In early March 2010, the legislation received its second reading and has become law. While the bill only provides N10 billion as the corporation’s initial capital, the CBN expected that the Asset Management Company (AMCON) has required capital of N700 billion which had been operational since September 2010. AMCON had focused its purchases of non-performing loans from the eight banks that have received government support. There are an estimated N1.06 trillion of non-performing loans in the Nigerian banking system (CBN,2010).

The concept behind the AMCON bill is a good bank – bad bank approach where AMCON will purchase the toxic assets from the banks and the banks after this purchase will have “clean” balance sheets. The bill grants broad powers to AMCON to purchase, maximise the value of, and eventually sell these non-performing loans.

After these transfers, the banks would be relieved of funding pressures from these non-performing loans because investors and depositors already have more confidence in the bank and its future stability.

Very important tasks had been to determine what entity will fund AMCON – the public or private sector – and what price will be paid for the toxic assets. The CBN states that AMCON’s purchase of non-performing loans will be “based on terms aimed at strengthening the balance sheets (of the banks) with a focus on asset quality, improving liquidity and capital adequacy as well as on reducing debt overhang relating to the stock market in order to stimulate activity in the capital market.

Critics of the bill noted that it focuses on banks only and does not deal with the distress in the capital markets, particularly securities firms that lent on margin with bank stock as collateral. AMCON will require personnel with specialised skills to deal with the non-performing loans and related collateral that it will purchase in the near future and such qualified personnel are in short supply in Nigeria.

In a forceful and uncharacteristically frank speech by a central bank governor, Sanusi analyzed the reasons for the financial crisis and then described the four pillars upon which financial reform in Nigeria will rest. Sanusi argues that eight factors caused the financial crisis: “ macroeconomic instability caused by large and sudden capital inflows, major failures in corporate governance at banks, lack of investor and consumer sophistication, inadequate disclosure and transparency about the financial position of banks, critical gaps in regulatory frameworks and regulations, uneven supervision and enforcement, unstructured governance and management processes at the CBN/weaknesses within the CBN, and weaknesses in the business environment." The reform programme advocated by Sanusi rests on four pillars: enhancing the quality of banks, establishing financial stability, enabling healthy financial sector evolution, and ensuring the financial section contributes to the real economy (Sanusi, 2010).

According to Sanusi, consolidation of the banking system into a smaller number of financial institutions is not an end in itself, a statement contradicting his predecessor Soludo's policy.

Considering other developing nations such as Brazil, Turkey, Malaysia and Indonesia, several different banking industry structures could serve Nigeria well. The CBN does play a major role in deciding on the structure of the Nigerian financial system. Sanusi noted that "foreign ownership played an essential role in raising standards in the industry" in Turkey, Brazil and Malaysia. Similarly, foreign banks in Nigeria could also raise standards. The CBN is reviewing the one-size-fits-all banking model and will attempt to introduce more diversity into the Nigerian banking industry. One conclusion from the recent special examination of Nigerian banks was that the recent consolidation of the banks in 2005 placed "pressure on banks to deliver high returns to their shareholders after the rapid expansion in their capital base post-consolidation" resulting in "the highly risky behavior that led to the collapse of some of the banks." Sanusi's rapid regulatory reforms since July 2009 has resulted in significant changes in the structure of the Nigerian banking industry and had likely create opportunities for banks and investors already operating in Nigeria and those new to the Nigerian market (Sanusi, 2011).

Further consolidation of Nigerian banks is very likely. The eight banks supported by the CBN had become attractive targets once their toxic assets have been transferred to AMCON. Likely purchasers include the better-capitalized Nigerian banks that have not received government support; foreign banks already operating in Nigeria – Stanbic-IBTC, Standard Chartered, and Citibank; and certain foreign banks, particularly those from South Africa. Sanusi's stated that his intention is to encourage foreign ownership of banks in order to transfer management expertise and skills lacking in Nigeria. A variety of institutions had provided financial services in Nigeria. The" one size fits all" universal banking model had weaken and the CBN had license institutions to provide different services (corporate banking, small and medium sized business lending, Islamic banking) to different markets. This change in licensing requirements will create opportunities for financial service providers, other than commercial banks, to enter the Nigerian market. The CBN had played a more interventionist role in the Nigerian economy. Under Sanusi, the CBN had expanded its role in promoting economic development and even ease its inflation target in order to grow the economy and alleviate poverty.

However, in order for all of these reforms to succeed, the pervasive corruption in the Nigerian economy and the weak rule of law must also be addressed. The rapid pace of reform under Sanusi does not appear to be slowing. A key development to watch is the progress of the AMCON bill and the subsequent operation of AMCON – its success (or failure) will be a harbinger of the long-term effectiveness of Sanusi's reforms to the Nigerian banking system.

3.8 Challenges to Banking Reforms in Nigeria

The Nigerian banking reforms, despite its laudable achievements were confronted with certain challenges as was noted by Aliyu (2010). These include:

3.8.1 Wrong perception of the intent of the reform: The introduction of the new banking model, and in particular, the specialized banking (non-interest banking), is intended to broaden the scope of financial services offered by banks in Nigeria. However, this has been given a religious connotation. The wrong perception and stiff resistance to the policy could potentially deter prospective investors in the industry. The reluctance of Nigerians to accept positive changes in global dynamics is another challenge: There is incontrovertible evidence that the excessive liquidity in the system measured by broad money, narrow money and currency in circulation is partly attributable to the high cash transactions for economic activities. This has continued to undermine the efforts to achieve price stability. Yet the cashless policy has faced significant resistance, despite its prospect for economic growth and development and the global trend in the intensity of usage of e-payments.

3.8.2 Poor state of infrastructure: The cost of doing business in Nigeria is still high when compared with developed countries and some emerging economies owing to the decay of infrastructure. The 10^{th} edition of Doing Business report series, recently released by the International Finance Corporation (IFC) and the World Bank, ranked Nigeria 131st out of 185 countries surveyed.

3.8.3 The quality of manpower: The competitive financial sector environment requires a highly skilled workforce that would effectively contribute to value creation within financial institutions. Real strategic change can only take place with competent and committed workforce that is constantly exposed to training and development.

3.8.4 Poor banking habit in the country: The perceived high growth rates of the financial sector recorded in the last five years have not been inclusive, implying that it has not transcended into sustainable development. This situation is responsible for the high unemployment and poverty levels, which inevitably affect our banking habit. According to a survey on “Access to Financial Services in Nigeria” carried out recently by Enhancing Financial Innovation & Access (EFInA), less than 21% of the populations have bank accounts in contrast with the developed economies where 90-95% citizens have bank accounts. The survey revealed that about 39.2 million Nigerians, representing 46.3% of the adult population are unbanked (financially excluded) while only 25.4 million Nigerians, representing 30% of the adult population are banked meaning they have bank accounts.

The quality of Nigerian banks have been enhanced by enforcing good corporate governance, installing macro-prudential guidelines, and limiting of the tenure of banks’ managing directors and external auditors. The current reform has reversed the policy of universal banking to ensure that banks played within the areas of their strength and curtail their risk appetite. To ensure the stability of the industry, the CBN has curtailed bank lending to the capital market and the prohibition of banks from using depositors funds for proprietary trading and venture capital investment. The CBN established credit bureau and credit registrars to strengthen credit management system of the banks. Today, the reform is hailed as the only "banking sector intervention or bailout where depositors did not lose their deposits with banks." There has been improved lending to various sectors of the economy due to enhanced capital base of the consolidated banks (Aliyu S, 2010).

CHAPTER FOUR

4.0 ANALYSIS OF THE IMPACT OF BANK CONSOLIDATION ON SERVICE DELIVERY

4.1 Introduction

This chapter contains the presentation and the analysis of data collected through both primary and secondary sources on the subject under study in the light of which deductions or findings are drawn and verified against the propositions posed in chapter one. The analysis begins with data obtained from primary source that is questionnaires which are complimented with the interviews conducted with some bank officials and other secondary source.

4.2. Field Data: Questionnaire and Interview

4.2.1. Questionnaire Administered and Retrieval

A total of five hundred (500) questionnaires were distributed between and among some selected customers of the banks under study and the retrieval rate was 378 which represent 76 % rate of the respondents and 122 were missing. Table 4.1 below shows the questionnaires distributed and retrieved.

Table 4.1 Administration and retrieval of Questionnaire

S/N	Banks	No. of Questionnaire Distributed	No. of Questionnaires Retrieval	Percentage (%)
1	Access Bank	26	20	5.3
2	Diamond Bank	30	23	6.1
3	Econ Bank	44	33	8.7
4	FCMB	26	20	5.3
5	Fidelity Bank	20	15	4
6	First Bank	68	51	13.5
7	GT Bank	28	21	5.6
8	Keystone Bank	33	25	6.6
9	Mainstream Bank	29	22	5.8
10	Stannic IBTC Bank	23	17	4.5
11	Sky Bank	18	14	3.7

12	Unity Bank	29	22	5.8
13	Union Bank	49	37	9.8
14	UBA Bank	55	41	10.8
15	Zenith Bank	22	17	4.5
16	TOTAL	500	378	100

Source: Field Survey, 2014

As the above table indicates, a total of 500 questionnaires were administered in all the 15 banks chosen in Zaria based on their respective number as calculated in chapter one (Table 1.2). Out of the 500 administered, 378 (76%) were retrieved and all the 378 were properly filled, therefore considered to be valid for data analysis.

4.3. Bio-Data of Variables Distribution

Table 4.2 Sex Distribution of Respondents

Option	Frequency	Percentage (%)
Male	230	61
Female	148	39
Total	378	100

Source: Survey Report 2014

The table above shows the distribution of respondents according to their sex. The survey research reported that 61% of the respondents are male and 39% are female. This has clearly indicated that the male respondents far outnumber the female.

Table 4.3 Age Distribution of Respondents

Option	Frequency	Percentage (%)
18-29	79	20
30-39	139	37
40-49	113	30
50 and above	47	13
Total	378	100

Source: Survey Report 2014

Observation from the table above shown that 20% of the respondents from the age between 18-29, 37% represent 30-39 age, while 40-49 age represent 30% of the respondents and 13% represent 50 years and above. The table therefore indicated that age range between 30-39 has the highest percentage and therefore shown that most of the respondents are young.

Table 4.4. Distribution of Marital Status

Option	Frequency	Percentage (%)
Single	135	36
Married	243	64
Total	378	100

Source: Survey Report 2014.

The above table represents the marital status of the respondents. The figures 135 representing 36% of the respondents are single, while figure 243 representing 64% of the respondents are married. This indicates that most of the respondents are married.

Table 4.5. Educational Qualification of Respondents.

Option	Frequency	Percentage (%)
Primary	0	0
O Level	95	25
Tertiary	213	56
Others (specify)	70	19
Total	378	100

Sources: Survey Report 2014

The above table indicates that percentage of the respondents that have primary certificate represent 0%, while those respondents with O' Level certificates represent 25%, 56% are those respondents with Tertiary education certificate and 19% of the respondents have qualification above Tertiary level. The table therefore shows that most of the customers of the banks under study belong to Tertiary education level.

Table 4.6. Respondents number according their banks

Options	Frequency	Percentage (%)
Access Bank	20	5
Diamond Bank	23	6
Econ Bank	33	9
FCMB	20	5
Fidelity Bank	15	4
First Bank	51	13
GT Bank	21	6
Keystone Bank	25	7
Mainstream Bank	22	6
Stannic IBTC Bank	17	4
Sky Bank	14	4
Unity Bank	22	6
Union Bank	37	10
UBA Bank	41	11
Zenith Bank	17	4
TOTAL	378	100

Source: Field Survey, 2014

Result from the table above indicates banks that the respondents have been banking with. The table therefore shows that the first bank have the highest number of respondents with 13%, while Fidelity, Stanbic IBTC, Sky , and Zenith banks have a total of 4% respondents each which is the lowest.

Table 4.7. Respondents Years of banking with the bank identified with.

Option	Frequency	Percentage (%)
0-9	70	19
10-15	144	38
16-20	92	24
21-30	62	16
31 and above	12	3
Total	378	100

Source: Survey Report 2014

The result from the survey in the table above shows that 19% of the respondents which fall between 0-9 years have been banking with the bank they have identified with while 38% of them are between 10-15 years of banking with the bank, also 24% of the respondents fall in 16-20 years while 16% of the respondents are in between 21-30 categories and 3% of them fall between 31 and above. The result from the table clearly indicates that most of the customers of the banks under study have been banking with the banks even before the 2004 consolidation reform policy representing figure 114, that is 38%.

4.4 Impact of Bank Consolidation on Service Delivery

This section presents the respondents views on the impact of consolidation on the banking operations within the 15 banks chosen in Zaria. Divergent views are expressed by the respondents and the analysis was made and complemented with the interview from table 4.9 to 4.17.

Table 4.8. Assessment of the rate of banks operations after consolidation

Responses	Frequency	Percentage (%)
Good	126	33
Fair	188	50
Bad	64	17
Total	378	100

Source: Field Survey, 2014

The table above indicates the rate of banking operations of the banks chosen after consolidation, 33% of the respondents treated it as good while 50% of the respondents treated it as fair and 17% of the respondents said the rate of banking operations of these consolidated banks is bad. This has indicated that most of the respondents are of the opinion that banks rate of operations after the consolidation is fair which have the highest percentage rate.

Similarly, most of the banks officials interviewed posited that the consolidation policy was necessitated due to the fact that operations of some banks prompted the reform (Interview, 2014). They further argued that the bank consolidation has yielded positive result to their banks in terms of banks operations and considering some of their performance on various years since when the consolidation policy was introduced. Some further argued that the gross earnings of their banks have grown by 16.7%, 14.8,% 15.6% etc respectively as against their initial gross earnings 6.4%, 8.2%, 8.3% etc respectively before the merger (Interview, 2014).

Besides, Yinker (2013: 15) also argues that "…bank consolidation affected banks profitability performance positively in Nigeria. It revealed that bank consolidation has improved the efficiency of the banks and it has also shown that bank consolidation programme is a great success".

But for shareholders, the profitability on consolidation, which some banks claimed to have profited was not shown in their dividend received time to time. This is due to the fact that the same amount of dividend received before consolidation was the same received after some time even lower than that, although some attributed such to lack of uniform policy on shares that is there exist different platforms of shares by banks (interview, 2015).

Table 4.9. Respondents satisfaction with the current banking system

Responses	Frequency	Percentage (%)
Yes	156	41
No	132	35
No Idea	90	24
Total	378	100

Source: Field Survey, 2014.

The above table presents the respondents' views on current banking service such as withdrawer deposit etc. as can be seen from the table, 157 of the respondents representing 41% attested to the current banking service by answering 'yes'. 132 representing 35% of them are still not satisfied with the current banking service while 90 of them representing 24% had no idea.

This issue was attest to most of the bank officials interviewed who assert that there was big improvement from the banks with regard to customer's withdrawer and deposit. Unlike before, customers are only liable to transact any form of withdrawer and deposit to the bank branch where he/she opens an account with but after the consolidation, customers can make any withdrawer or make a deposit from any of the bank branch in the country. Also, easy transfer of funds from one bank to another where accessed by most of the banks after the consolidation (Interview, 2014).

Some of the officials of the bank opine that even though their bank did not merged with any bank but they have to work to be able to meet up the standard set by the CBN and they claim that their banks were the first to even commence such services (Interview, 2014).

Kehinde argued that;

> even as some of the consolidated banks have made serious efforts to integrate by adopting common banking application software, customers have continued to experience incessant system down time for on-line services such as withdrawals, deposits and transfers, among others. These banks only enjoy placing adverts daily claiming that they are on-line, real-time across their branch network in the country. In some of the banks a simple cash deposit from one branch to another at different locations takes as long as two weeks! As if this is not inconveniencing enough, some of them have the un-professional habit of cutting short their banking hours on the last day of the month to run end of the month processing- they enjoy

> paying lip service to “best practices” in banking in twenty first century (Kehinde, 2011: 22).

Table 4.10. Respondents views on services rendered by the banks before and after.

Responses	Frequency	Percentage (%)
Greatly Improved	99	26
Slightly Improved	204	54
Did not Improve	50	13
Worsened	25	7
Total	378	100

Source: Field Survey, 2014

The table above represents the respondents’ view on comparing this services rendered by these banks before and after consolidation. As indicated from the table 99 of the respondents representing 26% agreed that services rendered by banks had greatly improved after the consolidation. 204 representing 54% of the respondents were of the opinion that services rendered by these banks had slightly improved while 50 representing 13% of the respondents said that services did not improve even after the consolidation and 25 representing 7% of the respondents said that the services had worsened .

The shareholders on the other hand are of the view that such services were not seen in their dividend because the same method of delivery their share dividend still in operation and sometimes if one share dividend in out, such person will not see it until he/she has been coming to the bank asking for it. They however suggested that since everything is now online, shareholders should be able to access their dividend on line and not always coming to the bank asking for dividend letter (interview, 2015).

This was also noted from the interviews by the bank officials that the banking sector was sighted as industry redefining development. They noted that;

> the idea was entirely consistent with strengthening and consolidating the banking system to ensure a diversified, strong and reliable banking sector which has ensured the safety of the depositors’ money, play an active developmental role in the Nigerian economy and produces operators that will be competent and competitive players in the country, Africa and global financial system (Interview, 2014).

To achieve all what was pointed above, they continued that their staff are being sent for training on quarterly basis and online training of staff is being carried out time to time which was not how it was done previously that is before the merger to equip staff better experience in the banking sector and also customers to get one of the best services in the banking industry. But this was opposed by Abdullahi who pointed out that;

> staffing in most of the banks is inadequate. As a result of this, a staff may be overloaded with jobs meant for three staff or more. This becomes obvious when the same staff is called upon to attend to a customer at a point of delivering service on another product to a different customer. No company can expect to beat the competition unless it has the best human capital and promotes these people to pivotal positions (Abdullahi, 2012).

He continued that;

> when one come closer to such staff would discover that they are nonchalant, de-motivated, frustrated, un-interested, and therefore just hanging on before another job opportunity comes up. Such staff must have sat for an aptitude test on another job opportunity or even attended interview and are awaiting the result. When they eventually leave they hardly give one month's notice salary in their accounts. This explains why some of the banks recorded or are still recording high percentage of staff attrition (Abdullahi, 2012).

Table 4.11. Respondents views of security of their savings before and after consolidation

Responses	Frequency	Percentage (%)
Yes	194	51
No	87	23
No Idea	97	26
Total	378	100

Source: Field Survey, 2014

The table above presents respondents views on the security of their savings after the consolidation. The table indicates that 194 of the respondents representing 51% are much confident that their savings are more secured than before while 87 of the respondents representing 23% still don't have confidence of their savings and 97 of the respondents representing 26% have no idea if their savings is still not secured compare to the period before consolidation. The result has indicated that although other problems may arise from the consolidation period but still people trust such period in terms of security of the savings unlike before when one wakes up and discover that the bank he/she had been saving little money garethered had been liquidated and all his/her savings had gone also.

However, some commentators argue that despite the confidence that the merger has restored on the customers, it is fully satisfying them as argued by Abdullahi (2008) that “even with recapitalization and consolidation, most of the banks have failed in this essential medium that is actually behind the figures they declare year in, year out, leaving their customers and shareholders with mouths agape”. This indicates that the impact of consolidation of the banks under study benefits only one side of the coin not both because shareholders and customers still do complain about services delivered by the banks after the consolidation.

Similarly, most of the banks officials are of the view that customer savings are more secured and save guarded like before. This is because they continued;

> that given customers attention is regarded as the attitude of professionalism, friendliness and helpfulness that satisfies customers and leads to a repeat business or patronage. This makes the banks to reposition itself so as to provide enough confidence from the customers in terms of their savings which are paramount to them. Unlike before where customers have been affected at differing levels depending on whether they are deposit or credit. Delayed accounts reintegration both at the front and backend operations has affected customer service delivery in terms of efficiency and effectiveness. Deposit customers especially those that are victims of unhealthy mergers or acquisition are being confronted with very serious uncertainty with regards to utilization of their deposit balances. While credit customers also affected by renewed credit terms especially with regards to pricing and maturities. On the whole, banker-customer relationship is affected very often in a negative way (Interview, 2014).

According to some of the shareholders, there was fear of unknown with regard to the consolidation because the process of transferring one shares from the banks that lost their identity through acquisition becomes a problem. They opined that some have to forfeit their shares in that process because they don’t have access to the new bank and some were required to have certain amount of shares before they can be considered in that bank as shareholders (interview, 2015).

Table 4.12. Respondents views on new banking methods such online banking etc.

Responses	Frequency	Percentage (%)
Yes	180	48
No	128	34
No Idea	70	18
Total	378	100

Source: Field Survey, 2014

The table above presents respondents views on satisfaction of new banking methods such as ATM, online banking etc of the banks under study. The table therefore indicates that 180 of the respondents representing 48% are satisfy with the methods, while 128 of the respondents representing 34% are not satisfy with the methods such as ATM Machine etc and 70 of the respondents representing 18% have no idea on the issue because they have not been using the new methods.

The banking facilities like ATM do cause unnecessary delay in terms of network for services delivery as captured by Razaq (2010: 236) that “computer usage and poor ATM network especially at the end of the month when salaries have been paid has not led to significance productivity improvement, poor and obsolete communication facilities as caused by low level of technological development have also hindered electronic payment system”. This shows that the so-called improved facilities of the banks have not ensured very effective delivery of services to customers.

But this idea was debunked by most of the bank officials interviewed, who assert that most of the problems is being attributed to over usage of the machines, maintenance repair and end of day’s closing of books for taking of figures and records to be sent to CBN. To address these problems they urge their customers to be more patient with them because some of these problems are beyond their control and are inevitable (Interview, 2014).

Bello also observed that;

> the rate at which Automated Teller Machines, ATMS, are being deployed at both the branches of the banks and other outlets like filling stations, shopping malls, restaurants, multinational companies, etc. however, customers of the banks that want to avoid the congestion and long queues at the branches already being frustrated by the machines; or the machine jams due to lack of clean notes, or the machine will recognize the withdrawal by debiting the customer’s account without releasing the cash. Before the ATMs are fully deployed this service delivery has already started encountering challenges (Bello, A. 2009).

To shareholders, the new banking services also didn’t work in their favour because for one to get his/her shares in the banking become a problem due to the process involved. According to some, the process had made it difficult in accessing one shares. They are appealing to regulatory authorities in the banking sector to consider the fate of shareholders, especially sleeping shareholders when such reform is to take place. They opined that a lot of people have lost confidence in the banking industry which was due to changing or transferring of banks to another without considering what shareholder will face in the other bank. They further advise that banks activities should be checked from time to time in the sense that banks operate different platforms of shareholders dividend which makes them not to understand how dividend are shared (interview, 2015).

Table 4.13. Respondents views on assesibility of large fund than before

Responses	Frequency	Percentage (%)
Yes	134	35

No	66	17
No Idea	178	47
Total	378	100

Source: Field Survey, 2014

The table above presents respondents views on accessibility of withdrawing large amount of money than before which a customer has to give the bank notice before such transaction can be made. The table indicates that a total of 134 of the respondents' representing 35% believe that large withdrawals are easily accessible than before without given any notice customer can easily come to the bank to make a large withdrawal. 66 of the respondents representing 17% did not believe that large withdrawal is more accessible than before and 178 of the respondents representing 47% have no idea. This indicate that majority of the respondents don't withdraw large amount.

Although the views of those who supported that large sum of withdrawals are more accessible than before were few, but such was agreed by the bank officials who were interviewed that large withdrawer are now better, unlike before, customers have to be given some days notice before he/she can get his/her money, but presently customers can withdraw large amount. Also, most of the banks have provided a separate room for this withdrawal and cash can be transferred from one account to another, from one bank to another without any delay in transaction (Interview, 2014).

Table 4.14. Respondent views on new bank charges.

Responses	Frequency	Percentage (%)
Yes	189	50
No	94	25
No Idea	95	25
Total	378	100

Source: Field Survey, 2014

The above table presents respondents' views on present bank charges and before on the banks under study. The table indicates that 189 of the respondents representing 50% believe that bank charges now are relatively lower when compared to the period before consolidation. 94 of the respondents representing 25% don't believe that bank charges have gone down when compare with pre-consolidation era and 95 of the respondents representing 25% also have no idea regarding the issue. This indicates that most of the respondents are of the view that bank charges are lower than before.

This argument was supported by the bank officials who opine that there was an improvement from the bank charges. For instance, the Commission On Turnover (COT) is presently N3 per-mill, that is N1000 per-N3 against N10 per mile (Interview,2014).

Table 4.15. Respondent views on effective network in the bank.

Responses	Frequency	Percentage (%)
Yes	88	23
No	210	56
No Idea	80	21
Total	378	100

Source: Field Survey, 2014

The above table presents respondents views on the effectiveness of the network service in the banks under study. The table indicate that 88 of the respondents representing 23% believe that network in the banks are more effective than before while 210 of the respondents representing 56% don't believe on that, and 80% of the respondents representing 21% have no idea. The table therefore has indicated that most of the respondents are not satisfied with the present network system of the banks.

This can be supported by the fact that poor network services have been the bane of the banking industry before and even after the consolidation reforms. However, "the reasons for this poor services delivery among the banks are legion, and some of them are deliberate and calculated as strategies to maximize the bottom-line and minimize overhead costs" (Abdullahi, 2008: 2). The author further argues that:

> One of the reasons for the poor service delivery by some of the banks is congestion and long queues. Most of the banks' banking halls are always congested throughout the month. This situation leaves the halls stuffy, untidy, and choking as the air conditioners have been rendered ineffective. Passing in front of some of these banks before they open their doors to the customers at eight o'clock one will see customers blocking the main gate – some even form queues from there. If you will be patient enough for the gate to be opened you will see some potential Olympic 100 meters sprinters in front, all in an effort to reach the service counter before others (Abdullahi, 2008: 2).

The customers are doing this simply because they know what they would go through if they missed front-runner opportunity. At a peak period, withdrawal or cash deposit may take you three hours on the average, and God helps you if present a third party cheque. This situation brings us back to the tally number and mat days as one of the banks in those days tried to differentiate itself from other banks in cashing their customers cheques.

But most of the bank officials argued during interview that this should not be over emphasized. This is because;

> things are now better than before, then banks use flex tube network and it is not stable network sometimes such bank spent a whole day without network and everything will be done manually until when the

> network is back, but presently banks use finacil network and is more efficient and powerful than before but that doesn’t mean we may not have one problem or another here and there, most of these are inevitable (Interview,2014).

Table 4.16. Respondents views on accessibility of personal loan than before.

Responses	Frequency	Percentage (%)
Greatly Improved	94	25
Slightly Improved	179	47
Did not Improved	27	7
Worsened	18	5
No idea	60	16
Total	378	100

Source: Field Survey, 2014

The table above presents respondents views on how customers of the banks under study have more access to personal loan. The table indicates that 94 of the respondents representing 25% believe that issue of accessing personal loan have greatly improved than before. 179 of the respondents representing 47% believe that it has slightly improved when compared to the period before. 27 of the respondents representing 7% have the opinion that issue of having access to loan have not improved while 18 of the respondents representing 5% also believe that having access to loan have gone worst instead, and 60 of the respondents representing 16% have no idea. This has indicated from the table above that most of the respondents are of the opinion that accessing loans in the banks have slightly improved compared to the period before.

Most of the bank officials are of the view that banking loan has been structured in such a way that both the bank and customers will not be affected one way or another. Then, all loans are charged manually and people are given loan without proper documentation which at long run either affect the bank or the customer. But presently everything has been computerized, that is, the loan and monthly charges as well as interest rate of the loan. Also, astounding performance on capital adequacy and liquidity ratios good, size of non-performing loans as percentage of the total loans declined significantly. This has been a good news not even to the banks, to but customers as well (Interview, 2014).

4.5. Discussion of Major Findings

From the data presented and analyzed above, the following deductions or findings were drawn;

1. The reform policy in general and 2004 consolidation in particular in the banking industry was necessitated in order to restructure the industry so as to conform with international standard or

to eradicate other negative vices such as financial integration, poor service delivery etc which affect the industry. This has helped in supporting the research first assumption which says that 'banking reforms and 2004 consolidation in particular was necessitated by host of operational weaknesses, shareholders and customers dissatisfaction on the performance and services of the banks'.

2. Bank consolidation has positive impact on the performance and efficiency in the banking sector. This has also confirmed the second research assumption that says the 2004 bank consolidation policy has impacted positively on the performance and efficiency of most Zaria metropolis based banks. This is because most of the banks that reside in the study area have tried to improve their efficiency, wider coverage, e-banking connect to the wider world in terms of various transactions within the country and beyond, activities which before are not common.
3. Furthermore, the 2004 consolidation of the banks under study have not successfully reduced to the lowest minimum difficulties faced by shareholders in accessing their shares and customers in withdrawing cash either through ATM machine or by the counter. This was noted in both the interview and responds to questionnaires conducted.
4. Also shareholders dividend was not given consideration during the consolidation policy which makes them to suffer in the hands of those banks.
5. There are certain rules that govern and protect the right of customers in the banking sector, but these rules are not being followed or supervised by the regulatory authority against the banks.
6. The banking sector is also lacking expertise from the manpower development this is because from what has been observed from the study, most of the banks prefer cheap labour through out-sourced applicants with qualification such as OND, the branches lack experienced and tested staff capable, this has rendered the quality of their job sub-standard.

7. The regulatory authorities have not beamed their searchlight on the area of service delivery to customers and shareholders from these banks instead they pay attention to the figures the banks submit to them. This made the customers and other investors to continue to suffer in the hands of some of these banks that have relegated service delivery to the background.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION, AND RECOMMENDATIONS

5.1 Introduction

This chapter concludes the study. It provides summary and recommendations in the light of findings on the subject studied.

5.2 Summary

In chapter one, the study examines preliminaries to the study such as background to the study, problematic of the study, objectives, research assumptions and methodology.

Chapter two of this study reviewed the previous literature on the banks consolidation for efficiency and service delivery, especially to customers in banking industry. This included conceptual definition by different scholars and review of the international, national empirical research papers, where-by conclusions on the impact of consolidation in different areas of banking industry have been reviewed. Some studies concluded that consolidations have had positive impact on the efficiency or service delivery while on other hand; some researchers concluded that consolidations have had negative impact on the banks' efficiency and service delivery.

Basically, financial reforms are primarily driven by the need to achieve the objective of consolidation, competition and convergence in the financial sector. Nigeria has been involved in financial reforms as a regular basis aimed at responding to challenges posed by some factors and development such as systemic crisis deregulation, globalization and technological innovations, or acted proactively both to strengthen the financial system and prevent systemic problem as in the case in the 2004 reform policy.

Chapter three is on the overview of evolution and banking reform polices in the country, effects of bank reforms on the Nigerian economy. The introduction of SAP policy and the subsequent implementation of its conditions came with some negative consequences that affected many sector of the economy including the banking sector.

Chapter four of the study presents and analyzed the data generated from the field which was complemented with other source. This is the study final chapter which analyses and revealed that bank consolidation through merger and acquisition of banks despite its challenges has sharpened the banking sector through reduction of number of banks and more efficient and service delivery to customers in the banking sector. Although there has been some problems with the operations of the banks but little or more achievement have been recorded which are better than before. Lastly, the result of the study also showned that bank consolidation, reforms and merger have great positive impact in the banking activities in Nigeria. This is because the policy has limited a lot of financial wrong doing such as corruptions, weak capital base etc in the banking sector as it was so before.

5.3 Conclusion

Consolidation is one of the policies that characterized banking industry restructuring in Nigeria although the level and magnitude of changes of efficiency and service delivery are still less significant than in developing countries. This trend interrelates with the expansion of banking activities in the domestic economy and international integration of the financial sector. Banking consolidation is a matter of concern to CBN, as it may have adverse consequences on the systematic stability. The magnitude of this effect depends on specific circumstances of each economy, such as regulatory framework, supervision practices, international financial integration, and financial market sophistication. However, since consolidation is likely to continue in the financial markets, further policy measures may be necessary in order to maintain a competitive environment and strengthen market efficiency and various services are reaching bank customers. To achieve the intended purpose, these policies have to work with the incentive structure of market forces, including technological progress and international financial integration.

5.4. Recommendations

In order to ensure that dividend of bank consolidation on service delivery to customers, which manifested in form of merger and acquisition, is fully realized in the industry and economy at large the following recommendations are pertinent:

1. The regulatory authorities should take special interest in the human resource component. This is because the effective and efficient operation of the banking sector in particular and financial system in general, is determined by the quality of manpower in the sector. It is through the human resource that development can be sustained in the entire economy.

2. In a bid to ensure the practice of good corporate governance, which is a system by which corporations are governed and controlled with a view to increasing shareholders values and meeting the expectations of the customers and stakeholders in the sector, the CBN and other regulatory agencies like Security and Exchange Commission, Nigerian Stock Exchange, Nigerian Deposit Insurance Corporation among others should not allow any of the banks to have weak corporate governance in their bank.

3. Also greater accountability and transparency should be firmly embedded as the hallmark of the banking sector. This will build and retain public confidence and avoid run in the banking industry.

4. The difficulties in accessing the services rendered by the banks to their customers and shareholders should be investigated by the regulatory body and if the need be the affected bank should be sanctioned.

5. Shareholders should be considered when consolidation is to embark upon and they should be monitoring their shares via electronic media system, that is, email, internet etc.

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APPENDIX I

CENTRAL BANK OF NIGERIAGUIDELINES AND INCENTIVES

ON CONSOLIDATION IN THE NIGERIAN BANKING INDUSTRY

AUGUST 5, 2004

GUIDELINES AND INCENTIVES ON CONSOLIDATION

IN THE NIGERIAN BANKING INDUSTRY

1.0 INTRODUCTION

Following the Governor's address to the Bankers' Committee on July 6, 2004, on the Nigerian banking sector reform and the subsequent interactions with various stakeholders, the Board of the Central Bank of Nigeria has approved the guidelines and incentives to facilitate consolidation in the industry in order to assist banks in meeting the approved capital base of N25 billion by December 2005.

2.0 DEFINITION OF TERMS

For the purpose of the guidelines, the following definitions shall apply:

2.1 Capital base: paid-up capital and reserves unimpaired by losses.

2.2 Reserves: all reserves except asset revaluation surplus resulting from revaluation in the course of consolidation.

2.3 Paid-up capital: ordinary shares plus non-redeemable preference shares

2.4 Parties to the Consolidation: the banks that are merging, their boards and managements, financial/investment advisers, lawyers, accountants, auditors, shareholders and any other persons involved in the transaction.

3.0 CONSOLIDATION OPTION

The only legal modes of consolidation allowed are mergers and outright acquisition/takeover. A mere group arrangement is not acceptable for the purpose of meeting the N25 billion. Therefore, all banks that have other banks as subsidiaries or have common ownership are encouraged to merge.

4.0 INCENTIVES

The CBN intends to provide the following incentives for banks that consolidate and/or are able to achieve the set minimum capital base within the stipulated period:

4.1Authorisation to deal in foreign exchange

4.2 Permission to take public sector deposits and recommendation to the fiscal authorities for the collection of public sector revenue.

4.3 Prospects of managing part of Nigeria's external reserves, subject to prevailing guidelines. In order to ensure that banking institutions do not bear additional burden due to consolidation which they otherwise would have not borne, and also to encourage consolidation, the following additional incentives are being worked out:

4.4 Tax incentives in the areas of capital allowances, company income tax, stamp duties, among others, the details of which will be released after the on-going consultation with the fiscal authorities.

4.5 Reduction in transaction costs, the details of which will be released after the on-going consultations with the Securities and Exchange Commission, Nigerian Stock Exchange, Corporate Affairs Commission and all other parties involved in the scheme –

- Financial Advisers

- Solicitors to the scheme

- Stockbrokers to the scheme (where applicable)

- Reporting Accountants to t he scheme

- Auditors to the scheme

4.6 The CBN will provide and pay for a team of experts to provide technical assistance to the banks from August 15, 2004.

4.7 There will be the CBN Governor's distinguished industry leadership award which would be based on the following:

4.7.1 Speed of completion of the consolidation exercise

4.7.2 Successful acquisition of marginal and unsound banks; and

4.7.3 The number of banks involved in each consolidated group

4.8 The CBN will provide a help desk to fast-track approvals.

5.0 FOREBEARANCE

5.1 The CBN will negotiate the possible write-down of its exposure to the distressed banks that would be acquired as a way of improving their balance sheets as well as the treatment of the distressed banks' bad assets. The negotiation will also address the interests of the current owners of the distressed banks in the new arrangement.

5.2 The CBN will encourage and facilitate the setting up of an Assets Management Company (AMC) in collaboration with other relevant agencies.

6.0 LEGAL ISSUES

6.1 The banks should comply with the legal requirements on mergers and acquisitions as contained in S.100 – 123 of the Investment and Securities Act No. 45, 1999 and all other regulatory requirements.

6.2 The banks should obtain the approval of the Governor of the Central Bank of Nigeria as required under S.7 of the Banks and Other Financial Institutions Act [BOFIA] as amended before any merger and/or acquisition is consummated and/or announced.

6.3 The legal and regulatory requirements for effecting a consolidation will be obtainable from the CBN Help Desk, team of experts, the Securities and Exchange Commission (SEC) and the Nigeria Stock Exchange.

6.4 The CBN will actively collaborate with all agencies to fast-track the process of mergers and acquisitions.

7.0 ACCOUNTING ISSUES

7.1 The valuation of the shares should be carried out by reputable and independent advisers registered by SEC.

7.2 The valuation method should be agreed to by all the parties for the purpose of determining the consideration.

7.3 The valuation principles must be consistently applied to all parties involved in the combination.

7.4 Any revaluation of fixed assets carried out in the case of a merger should not be incorporated into the financial records of the consolidated bank except as approved by the CBN.

7.5 Subject to 7.4 above, the revaluation of fixed assets carried out where one bank acquires the other bank should be incorporated into the financial statements as these assets would be acquired at fair market value

7.6 The valuation should be to the satisfaction of the CBN that such a revaluation represents the fair value of the assets acquired.

7.7 It is the responsibility of the parties to the transaction to ensure that they conduct due diligence of one another as a necessary step in the consolidation process.

7.8 All the capital of whatever form, shall be denominated in Naira.

7.9 Both ordinary and preference shares shall be recognized in making up the minimum capital base of N25 billion.

7.10 Consideration in respect of all mergers by banks should be by exchange of shares and not monetary payments except where dissenting minority shareholders are to be bought out under the law, provided that any such payment does not impair the financial condition of the surviving bank.

8.0 CORPORATE GOVERNANCE

8.1 All parties to the consolidation must have access to all material information.

8.2 Each party should have an independent adviser except where the acquired bank is a wholly owned subsidiary of the acquirer.

8.3 The structure of the emerging organization should reflect defined lines of responsibility and hierarchy. Co-Chairman and/or Co-Chief executive officer arrangements will not be allowed.

8.4 The number of non-executive directors in the enlarged bank should be more than the number of executive directors subject to a maximum board size of 20 directors.

9.0 SOCIAL SAFETY NET

9.1 The CBN and the NDIC will ensure that the banks protect the interest of the depositors

9.2 To ameliorate the effect of possible job losses or redundancies, any staff exiting as a result of the consolidation should be compensated by the consolidated entity in line with industry standards, but not below the terms of their sustaining employment.

9.3 In addition, the CBN will work with the Bankers' Committee to assist the staff that will be disengaged to access the SMIEIS Fund to set up their own SMEs and consequently create jobs and wealth.

10.0 AMNESTY FOR PAST MISREPORTING

10.1 Banks are enjoined to be open in their negotiations by placing the actual value of their assets on the table. Sanctions shall not be imposed for any previous misreporting detected in the course of consolidation.

10.2 However, if any of the parties to the consolidation is found, after the consolidation exercise, to have presented false or misleading information to the other parties and/or the regulatory authorities, such a party will bear the full legal and regulatory consequences of such misbehaviour.

AUGUST 5, 2004

APPENDIX II

DEPARTMENT OF POLITICAL SCIENCE

FACULTY OF SOCIAL SCIENCES

AHMADU BELLO UNIVERSITY, ZARIA

QUESTIONNAIRE

Dear Respondents,

SECTION A; INTRODUCTION

I am a post-graduate student in the above mentioned Department and institution, conducting a research on 'The **Impact of Bank Consolidation on Service Delivery: A Study of Banks in Zaria, 2004 - 2014.**

This research questionnaire is designed purposely for obtaining information that will help and assist the researcher in the conduct of the study in partial fulfillment of the award of Masters Degree of Science (M.Sc) Political Science. I wish to solicit your maximum cooperation. Also, all the answers provided will be treated confidential and will only be used for the purpose of this research. Thank you.

ABDULJALIL IBRAHIM

M.SC/SOC-SCI/5733/2009-2010

Kindly tick [ ] the appropriate options given and write were it is necessary

SECTION B: BIO-DATA

1. Gender : Male [ ] Female [ ]
2. Age: 18-29 [ ] 30-39 [ ] 40-49 [ ] 50 and above [ ]
3. Marital Status: Single [ ] Married [ ]
4. Educational Qualification: Primary [ ] O'Level [ ] Tertiary [ ] Others [ ]

5. Which Bank you bank with ………………………………….

6. For how many years have you been a customer in the bank identified in question 5 above

0-9 [ ] 10-15 [ ] 16-20 [ ] 21-25 [ ] 31 and above [ ]

SECTION D: IMPACT OF THE CONSOLIDATION ON BANKS

7. How can you rate the operations of bank after consolidation
   Good [ ] Fair [ ] Bad [ ]

8. Are you satisfy with the current banking operations in terms of withdrawer, deposit etc? Yes [ ] No [ ] No Idea [ ]

9. How would you compare the services render by the bank before and after consolidation?
   Greatly Improved [ ] Slightly Improved [ ] Did not Improved [ ] Worsened [ ]

10. Are your savings more secured than before consolidation?
    Yes [ ] No [ ] No Idear [ ]

11. Are new delivery methods in the bank such as ATM, online banking, P.O.S etcsatisfy by you?
    Yes [ ] No [ ] No Idea [ ]

12. How did you rate accessibility of large withdrawer now than before consolidation?
    Good [ ] Fair [ ] Bad [ ]

13. How did you compare bank charges now than before consolidation?
    Good [ ] Fair [ ] Bad [ ]

14. Is network service more effective now than before?
    Yes [ ] No [ ] No idea [ ]

15. How would you compare accessibility of personal loan than before?
    Greatly improved [ ] Slightly Improved [ ]
    Did not Improved [ ] Worsened [ ] No idea [ ]

16. What is the interest rate of the loan?
    ………………………………………………

17. What other problems did you face presently in the bank?
    ……
    …………………………………

18. What did you think are possible solutions to these problems?
……
…………………………………….

APPENDIX III

Schedule of the Interview

S/N	Names of Interviewees	Banks	Date of Interview
1	Mr. Tunde Afolabe	Access	30/06/2014, 4:25pm
2	Sa’adatu Mustapha (Mrs)	Diamond Bank	23/06/2014, 30:30pm

3	Mr. Tolani Abdulrasheed	Ecobank	27/06/2014, 10:22am
4	Mr. Lukman Mohammed	First City Monument Bank (FCMB)	18/06/2014, 1:30pm
5	Mr. Kazeem Shitu	Fidelity Bank	27/06/2014, 3;00pm
6	Mal. Nasiru Abubakar	First Bank	18/06/2014, 11:00am
7	Mr. Lanry Abekoye	Guarantee Trust Bank	24/06/2014, 5:00pm
8	Mal. Abdullahi Ibrahim	Mainstream Bank	25/06/2014, 4:00pm
9	Mr. Anthony Oguche	Keystone Bank	24/06/2014, 4:35pm
10	Mal. Muhammed Mustapha	Skye Bank	27/06/2014, 3:32pm
11	Mr. Ibrahim Ahmad	Stanbic IBTC	18/06/2014, 11:30am
12	Mal. Abbass Yusuf	Union Bank	18/06/2014, 11:45am
13	Hajia Asma'u A. Ango (Mrs)	Unity Bank	24/06/2014, 3:25pm
14	Mr. Dalhatu S. Mohammed	United Bank of Africa (UBA)	27/06/2014, 4:00pm
15	Ladidi Ibrahim	Zenith Bank	27/06/2014, 4:35pm
16	Mansur Ibrahim Mohammed	Shareholder	01/04/2015, 5:30pm
17	Ajayi Solomon Onafuje	Shareholder	03/04/2015, 10:00am
18	Aneke, Onyinyechukwu U.	Shareholder	07/04/2015, 6:00pm
19	Gadzama Maru Maji	Shareholder	07/04/2015, 4:05pm
20	Muhammed Usman	Shareholder	04/04/2015, 11:00am
21	Audu, Oladimeji	Shareholder	13/04/2015, 2:16pm
22	Shaibu James	Shareholder	10/04/2015, 5:20pm
23	Adeniyi, O. Julius	Shareholder	14/04/2015, 4:00pm
24	Agwujo Mathew Agburu	Shareholder	09/04/2015, 3:40pm
25	Esther Yusuf	Shareholder	17/04/2015, 12:00pm