ANALYSIS OF THE CAUSES AND EFFECTS OF DISTRESS BANK ON THE AGRICULTURAL SECTOR OF THE NIGERIAN ECONOMY

BY

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BEING A PROJECT SUBMITTED TO THE POSTGRADUATE SCHOOL, AHMADU BELLO UNIVERSITY, ZARIA IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA) OF AHMADU BELLO UNIVERSITY, ZARIA.

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Declaration

I hereby declare that the work in this project titled *Analysis of the Causes and Effects of Distress Bank on the Agricultural Sector of the Nigerian Economy* has been performed by me in the Department of Business Administration. The information derived from the literature has been dully acknowledged in the text and a list of references provided. No part of this project report was previously presented for another degree of any university.

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Certification

This to certify that this project titled *Analysis of the Causes and Effects of Distress Bank on the Agricultural Sector of the Nigerian Economy* meets the regulations governing the award of the degree of Master of Business Administration (MBA) of Ahmadu Bello University Zaria and it is therefore approved for its contributions to the knowledge and literary presentations.

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Dedication

This work is dedicated first and foremost to the Almighty God who gave me the life, strength and the resources to undertake this course.

Acknowledgement

I must express my profound gratitude and appreciation to Allah Almighty who made it possible for me to complete my course. I will like to also thank my supervisor, Mohammed Zubair for his patience, advice and assistance during the course this project work. Also, to the memory of my late father Mr Peter U. Taavaan, my wonderful mother Mrs. Anthonia Taavaan whose, Commitment, affection in raising us her children to become responsible persons in the society is legendary. I cannot forget the invaluable guidance of my supervisor Mal. Sahnun Ladan, the support of my lectures and course mates especially Michael Odeyinde, Malik and Seun, am indeed indebted to you all. May God bless.

Abstract

Bank distress is a phenomenon which involves poor liquidity, under capitalization, maturity obligations of deposits, excessive growth (over – trading) and lack of regulation, supervision and politicization. The phenomenon surfaced in the Nigerian Banking system in 1930 when about twenty one (21) banks failures were recorded prior to the establishment of the Central Bank of Nigeria in 1958, resumed in the fifties and nineties and in recent times has re-surfaced.(CBN 1968, Anyahuru 2001). This study was carried out in order to identify the causes of repeated bank distress and its effects on the Agricultural sector of the Nigerian economy and to identify ways of preventing future occurrence. The study involved ten banks from Abuja the Federal Capital Territory using well structured questionnaire. Descriptive statistics were employed in the presentation of the data while the Chi – Square(X2) figures was adopted for the purpose of data analysis. The result of the study shows that the major causes of bank distress in Nigeria include poor quality management, bad loans and advances and fraudulent practices. The effects of such distress are bank ruins, demonetizations and erosion of public confidence among others. The vital conclusion drawn from the study is that whereas it is not possible to have distress – free banking system, it can be reduced or managed such that the pains of distress can be spread. The responsibility for sound banking practice rests squarely on the management, the board and the government. It is therefore expedient to adopt a resolution strategy that will help to ensure a stable banking system and engender public confidence in the industry.

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

Financial service industry such as financial institutions, instruments and market plays a crucial role in the development process of a country. The basic economic activity of the financial sector is intermediation, that is, acting as a conduit for the efficient transfer of resources from net service to net borrowers. This process engenders an increase in capital accumulation through institutionalization of savings as well as investment. The gains to real sector of the economy depend on how efficiently the financial sector performs this basic function of financial intermediation.

In the financial sector, the major channel for mobilizing saving is the banking system which mobilizes financial resources from surplus spending economic agent or allocation to the deficit spending units. In addition, banks serve as channels, for implementing monetary policies. But banks like other business, carry the risk of bankruptcy with depositor losses capable of undermining public confidence in the banking system. The macroeconomic setbacks that such loss of public confidence could precipitate included disintermediation, depletion of money stock, slow, ex cetera.

The country witnessed a rapid growth of indigenous banks between the period of 1947 and 1952. The increases in the number of indigeneous banks were followed by a high rate of failures of such banks. By 1954, twenty one (21) out of twenty five (25) indigenous banks operating in nigeria had collapsed. The failures were attributed

largely to mismanagement of assets, lacks of adequate captial inexperienced personnel and lack of regulation to mention but few.

As a result of increasing number of bank failure the central bank of nigeria come into being in 1959 to regulate the operations of the banks. Although, it did not assume effective control of the banking supervision until 1966 as the treasure department of the ministry of finance. Through its monetary policies and other stringent regulations, the central bank of nigeria ensured that the depositors funds are adequately protected as a number of operational mechanisms were established to supervise the entire banking system.

Implicit in the supervision and control of the central bank of nigeria on banks is the fact that any threatened bank failure had to be provided with moral, physical and financial support in order to out such failing banks which also ensured the protection of the depositions funds.

After a number of years of trials and failures in supporting financial stability, the establishement of nigeria deposit insurance corporation NDIC becomes inevitable in the existing financial scenario of the nations economy through Act No. 22 of 1988 (as amended) to ensure deposit liabilities licensed banks and other deposit taking financial institution operating in nigeria.

1.2 Statement to the Problem

It is common for financial institutions to overlook and ignore regulatory guidelines meant to mitigate risks and failure. Going by the recent experience environment, like every other system worldwide, one can admit that the nigerian financial system is not

immune from bank distress. A good number of banks had failed and some are still disressed. It was no surprised therefore that the distress that plaque the industry culminating in the liquidation of thirty four banks between 1994 – 2002 was a direct result of weakness in the financial, operational and poor quality of management. Therefore, this becomes a matter of great concern to depositors, investing public, operators, regulatory authorities and government. The consequential dearth of investible funds could truncate economic growth and development.

It is therefore, the focus of this research to criticall examine how the nigerian deposit insurance corporation (NDIC) discharge its primary responsibilities of protecting the interest of present and potential depositors and to recommend a sound operational procedures that enhances the growth of the nigerian financial system.

1.3 Objectives of the Study

The main objectives of this study is :

i. To examine the effectiveness of the role of Nigerian Deposit Insurance Corporation in carrying out its function since its establishment in the country.
ii. To exmaine the contirbution of NDIC on the nigerian financial system.
iii. To highlight some of its operational problems that serve as impediment in achieving the stated objectives.
iv. To assess the role of the NDIC on the nigerian financial system

1.4 Research Questions

i. How effectiveness is the Nigerian Deposit Insurance Corporation in carrying out its function since its establishment in the country.

ii. Has the NDIC contributed significantly to the nigerian financial system.

iii. What are the operational problems of Nigerian Deposit Insurance Corporation that serve as impediment in achieving the stated objectives.

iv. What is the role of the NDIC on the nigerian financial system

1.5 Research Hypothesis

1. **H_0:** The Nigerian Deposit Insurance Corporation is effective in carrying its role on the Nigerian Financial System.
2. **H_0:** The Nigerian Deposit has contributed significantly to the development of the Nigerian Financial System.

1.6 Significance of the study

This research is undertaken with a view to provide the general public, depositors and other financial institutions a clear picture, existence and function of nigerian deposit insurance scheme. More so, to create awareness with a view to making them informed about the procedures to be followed in the event of bank failure. Similarly, the reserach shall assist monetary authorities in the formulation and implementation of banking policy so as to ensure sound banking practice and fair completion among banks in the country.

1.7 Scope of the Study

The focus of this research is nigerian deposit insurance corporation and by virtue of its statutory function as deposit insurance corporation, its offices are distributed on regional basis. Due to time and financial constraints, the research made use of abuja head office for collection of data and information. The data collected relates to all the branches and cores the operations of NDIC.

1.8 Limitation of the Study

This research work was greatly limited by fund. Though effects were made to source for all financial requirements needed for this work, but there are few things that could be done due to inadequate finance i.e. some materials could not be gotten from local or regional offices, which will involve travelling to Lagos, Abuja e.t.c. where head office is located, and fund is inevitable to embark on such journals. Access to needed data in that, the researcher would have conducted a more extensive research. Enough data were not obtained owing to the concept of secrecy in the organization and unavailability of information that are central to this topic in the journals made available to the researcher. Again, some customer's respondent does not fully understand why the researcher was asking some questions. Due to this limitation, only three banks were selected for the research work. Also, time need to be share between researcher's work and this research, this greatly limited the progress of the research work as time had to be share between the two and other intervening factors.

CHAPTER TWO

LITERATURE REVIEW

2.1 Conceptual Framework

Deposit insurance scheme was developed as a result of the need to provide some form of protection for depositors who stood the risk of loosing their hard earned money in the event of bank failure. Coupled with this was the need to regulate the banking system from instability that could result from runs and loss of depositor;s confidence.

Based on its role and focus in the financial system, a deposit insurnace scheme can be defined as a financial guarantee to protect depositors in the event of a bank failure and also to offer a measure of safety for the banking system (Ebhodaghe, 1997). However, this financial guarantee is not mainstream insurance as often mis contrue by some people. The difference with ordinary insurance shows in such area as admissibility from cover rating sysem, off-site surveillance and on-site examination of a deposit insurance scheme (DIS) tends to be of secondary importance when compared ot the protection offered by the scheme to the banking system against runs and failure.

In most economies, where the scheme exists, it serves as one of the complementaty supervising agencies employed by the monetary authorities for effective management and orderly resolution of problems associated with bothe failure and failoing depository institutions. The scheme also provides government with a framework for intervention and sterilization of distuptive effects on the economy following the failure of deopsit-taking institution.

2.2 The Deposit Insurance Corporation

A deposit insurance scheme developed out of the need to protect un-informed small depositors from the risk of loss their deposits and also to protect the banking system from instability occasioned by runs and loss of depositors' confidence.

The origin of the scheme is credit to the united states of america (USA), where it is on record that during the pre-civil war years in that country, six states established depoisti insurance scheme to deposit state bank notes. However, the first nationwide deposit insurance scheme was introduce by former Crechoslovakia (now Czech and Slovak Republics) in 1924. The united states government followed suit in 1933 with the establishment of the federal deposit insurance corporation (FDIC). In the asian continent, india established its scheme in 1961, the Phillippines in 1963 and in Lansca in1987. In europe, the germans scheme which was established in 1979 while france introduced its own scheme in 1980. In africa, kenya established its scheme in 1985 while the nigerian scheme was established by decree No.22 of 1988.

In all these countries, the deposit insurance scheme (DIS) has beaen taken as one of the several tools employed by the supervisory authorities to control and contain the risk associated with failure of deposit taking institutions.

2.3 The Nigerian Deposit Insurance Corporation

The Nigerian deposit insurance corporation (NDIC) was established by decree No. 22 of 1988 and commenced operation in March 1989. The NDIC is an autonomous body (i.e. an independent agent of government) which acts as additional supervising authority over licensed banks and other deposit taking financial institutions. For now,

the NDIC insures only commercial and merchant banks and therefore limits its supervirory activites to them. The NDIC not only provides financial guarantee to depositor in case of bank failure but also ensures that banks comply with regulations and practices which foster safety and soundness in the financial market. The NDIC is empowered to apply sanctions and corrective measures when lapses are observed in the operations of insured banks.

The NDIC is empowered to examine the banks and affaires of insured banks and other deposits taking financial institution. Licensed banks are mandated to pay 15/15 of 1 percent of their total deposit activities as insurance premium to the NDIC. A depositr's claim is limitd to a maximum of ₦50,000.00 in the event of a bank failure.

2.4 Evolution and Growth of Nigerian Financial System

The historical development of the financial system in nigeria dates back to 1892 when medium banking business commenced and a formal and institutional channel of savings mobilization was introduced into the economy with the establishement of the african banking corporation (ABC). The operations of ABC were later taken over in 1894 by the british bank for west africa (which later becomes standard bank and subsequently, first bank of nigeria. Thus, the early stage of the nigerian financial system development was synonymous with development in the money market. Another dimension, in the nigerian case was that woing to the colonial heritage, not only were the pioneer commercial banks of foreign origin, but also the system itself was designed to facilitate colonial business interest which consisted largely of commerce as against direct investment in productive activities. The establishment of

indigenous banks was initially propelled largely by nationalistic consciousness rather than the existence by relevant resources, including basic skilled manpower, for running such institutions. Consequently most of the early indigenous banks collapsed in rapid succession the way they were established. Banks that failed during the early stage of the evolution of the nigerian financial system were largely those with problems of inadequate capital, poor management, and fraudulent practices among other factors.

An important features of the nigerian financial system, especially before the establishment of the central bank of nigeria (CBN), was the complete absence of any form of institutional regulatory framework which would provide the necessary guide for both the operations and orderly development of the system. Another important characteristic of the system during pre-CBN era ws the small scope of operation of the system. It was a period when many investors interested in investing in short terms fund had to subscribe to treasuring bills in London. What existed in the country then was more or less a financial system linked to the London money market.

The small scope of operation of participating foreign insititutions in nigerian financial system and the absence of a regulatory framework were some of the reason behind the slow development of the financial system during the pre-CBN era. Things however changed perceptibly form 1958 when the CBN was established. Ever since, series of efforts has been made by relevant authorities to promote the growth and development of the nigerian financial system. For example, the need to develop the system and create awareness for investime of suppplement to commercial papers that were already in the market. In 1962, the call money scheme which was aimed at asisting banks

liquidity management and bill finance scheme for the marketing boards were introduced. Other money market instrument after the establishment of the CBN but prior to the introduction of the structural adjustment programme (SAP) includes treasuring certificates in 1960, certificates of Deposit in 1975 and bakers unit founds as well as stabilization securities in 1976.

The establishment of the CBN also aided the development of the capital market. This was achieved by ensuring the emergence of the securities markets and instrument (primary and secondary) and by promoting the establishment of development banks. For instance, the first securities market, the lagos stock exchanged was established in 1960. It was reconstituted into the nigerian stock exchanged (NSE) in 1977 with branch in Ibadan, Kano, Kaduna, Port Harcourt and Onitsha. The establishment of the NSE enhanced trading activities in both government long-term securities and in shares and debentures of public companies.

In order to foster the development of particular sector, some development finance institutions were established. These include the nigerian industrial development bank (NIDB) established in 1964, the nigerian bank for commerce and industries (NBCI) established in 1973, the nigerian agriculture and corporative bank (NACB) established in 1973 and the federal mortgage bank of nigeria (FMBN) established in 1977. Also during this period a number of non-bank established in 1961 (now the nigerian social insurance trust fund (NSITF)) as well as a large number of insurance companies.

In order to ensure orderly development of the securities market, the capital issues committee was established in 1967. This committee later becomes the capital issue commission in 1973 and the securities and exchange commisssion (SEC) in 1978. The

SEC represents the apex regulatory institution for the capital market with responsibility for the overall capital market with responsibility for the overall capital market development, surveillance and investor protection. Following the adoption of the structural adjustment programme (SAP) in 1986, the financial system witnessed radical changes. The introduction of SAP represented an effort to set the macroeconomic framework right and provide appropriate price signals to producers in the productive sector of the economy. The structural adjustment programme was put in place primarily to alter and realign aggregate domestic expenditure and production patterns so as to minimize dependence on imports, diversify the revenue and productive bases of the economy and bring the economy back on the path of steady and balanced growth. The basic policies constituting the SAP framework includes public expenditure stabilization, foreign exchange market deregulation, selective import liberalization, agrculture pricing policy reforms, rationalization of public enterprises and the deregulation of the financial system, among others.

2.5 Structure of Nigerian Financial Institution

Over the years, the nigerian financial system has undergone a series of structural and institutional changes. The system has moved from an under-developmed financial market with a few bnks in the 1960's to a role diversified and competitive industry with an avalanche of commercial and merchant banks finance houses mortgage institutions, insurance companies and stock brokerage firms.

The institutions that make up the financial systm can be broken down into three broad categories, namely, regulatory/supervisory institutions, banking institutions and non-

bank financial institution. The central bank of nigeria (CBN), as the apex financial institution, and the federal ministry of finance have regulatory roles over the financial system while the nigerina deposit insurance corporation (NDIC), the national board of community banks (NBCB) and the supervisory ministries to the development banks have their regulatory/supervisory activities restricted to the banking sector. The security and exchange commission (SEC) regulates the captial market. The banking sector consists of the commercial and marchant banks. The non-banking financial institution the nigerian stock exchangte, the stock brokerage firms, share registrars, and discount houses.

In order to prevent the collapse of the payment mechanism in the economy, ensure monetary stability, encourage efficient and competitive system protect consumers interest and ensure safe and sound financial industry, government usually regulate the financial sector more than any other sector of the economy. The origin of regulation in the financial service industry in nigeria dates back to the early 1950's following the tragic failure suffered by largely unregulated indigenous banks – a phenomenon that caused untold hardship for many banks customers.

This incidence led to the enactment of the 1952 banking ordinance and repealed in 1969 following enactment of the 1969 banking decree. This was later repealed following the promulgation of the central bank of nigeria No. 24 and banks and other financial institution (BOFI) decree No. 25 both of 1991. These decress update the innovations in the financial system consequent upon the deregulation of the system and now cover non-bank financial institution. We now have various statutes to regulate the different segments of the financial service industry in nigeria. Like the

practice in many other countries, financial services industry regulation in nigeria is carried out by government agencies such as CBN, NDIC, FMF, e.t.c.

2.6 Recent Development in The Nigerian Financial System

The nigerian financial system has undergone some remarkable changes in recent time. Some of the developments include the promulgation of the failed banks (recovery of debt) and financial malpractice in banks decree No. 18 of 1994. This facilitates the preventiong of those who contributed to the failure of banks and recover the debt owned to the failed banks.

Another major development was the inauguration of a financial services regulation coordinating committee (FSRCC) by the CB in 1994. The aim is to coordinate and standardize the regulatory policies of all financial institution in the system with a view to evolving coherence and comprehensiveness. The CBN also granted forbearance to financial companies operating in nigeria whereby they were given a maximum of four years to amortize their classified assests portfolio against their current profits. The minimum borrowing of the financial companies had been reviewed downward from N100,000.00 to N50,000.00 since 1994.

Two importance decrees to further sanitize and streamline the financial system were promulgated in 1995. These were:

Money Laundering Decree

The money laundering is formed mainly to prevent drug money and other illegally acquired assets from entering the nigerian financial system in order to forestall the damaging effects of such money. The decree limits the maximum amount of cash payment that can be made an accepted ot N500,000.00 for an individual and N2 million for corporate bodies, and in 2011 individual N150,000 and N1,000,000 for corporate bodies. Amount in excess of these limits are to be reported to appropriate authorities.

Foreign Exchange Decree

The foreign exchange (Monitoring and miscellaneous provisions) decree established an autonomous foreign exchange market. The decree empowered the CBN with the approval of the financial minister, to issue guidelines to regulate the procedures for transaction in the market as well as other matters which may enhance the effective operation of the market. The decree provides for any convertible currency to be traded in the marke. It also allows an individual, resident in or outside nigeria, to invest in any security in nigeria.

In 1997, the CBN decree 24 and BOFI decree 14 both of 1991 were amended. The highlights of the amendments include the withdrawal of the autonomy of the CBN with its supervision placed under the Federal Ministry of Finance. However, the powers of the bank over the institutions are now under its supervision, including the development financial institutions. A new insurance decree was also promulgated which stipulates new captial requirement for insurance companies and also created the national insurance commission as the regulating organ in the industry.

A computerized trading system was introduced in the nigerian stock exchange to facilitate trading on the floor of the exchange and enhance processing and settlement of transactions and facilitates the internationalization of the exchange. The nigeria deposit insurance corporation decree 22 of 1988 was amended to give more powers to corporation to deal with insured bank and to act independent of the CBN on some matters affecting problem banks.

2.7 Roles of Nigerian Deposit Insurance Corporation (NDIC)

In performing the various functions, financial institutions are expected to ensure prudent management of assets and guarantee the safety of customers' funds. They are expected to adhere strictly to the principle of safe and sound practices, maintain adequate and appropriate internal control measure to prevent incidence of frauds, forgeries and other financial malpractices to ensure stability and engender public confidence in the financial system. Here lies the concern of the monetary authorities and hence the need for financial sector regulation by the regulatory/supervisory authorities. The regulation of the finance industry has involved so many goals including protection of depositor, ensuring monetary stability, encouragement of an efficient and competitive system and the protection of consumer interest.

Protection of Depositors

The most basic reason for financial regulation is depositor's protection. Bank depositors have difficulty in protecting their interest when compared to bank creditors and investor. Given the increased number of banks in the system, the

shift in government bank support policy and the bitter experiences of prior bank failure in the country, the need for regulation to protect depositors becomes rather imperative.

In 1969, several provisions were enacted in law to cater for the interest of bank depositor and bank customer in general.

Again it was the Nigerian government that such provisions would serve the purpose of protecting bank depositors. The provision, which had been adopted in subsequent banking review, includes the following:

i. Maintaining of Reserve fund and restriction of dividends. It is mandatory for licensed banks to maintain reserve funds. The banks are expected to transfer to such funds specified proportions of their net profit each year before dividend is declared. However, no, transfer is made unless past losses have been made good.

ii. Disclosure of interest by top official of banks. The need to have honest and dedicated management staff, who would protect their proprietors and customers interest alike, calls for a legal provision which forbids banks official from having interest in advance/loan facilities of their banks. Similarly, no lending in usually authorized unless it is done in accordance with the rules and guidelines of the bank.

iii. Restriction of certain activities of licensed banks. Usually, banks are not allowed to engage in number activities which could be detrimental to any of their customers. Banks are not allowed to grant to any person without prior approval on writing of the CBN, any advance, loan, or credit facility or give any

financial guarantee on incur any other ability on behalf of any person so that the total value of the facility is at any time more than 20% of the shareholders fund union paired by losers or in the case of merchant bank, not more than 50% of their shareholders fund unimpaired by losses.

iv. Maintenance of proper books of account one of the major provisions of banking laws in all economies is the stipulation of the rules which guide the maintenance of books of account to serve as the mirror with which central banks view and asses the performances of banks so as to protect all the interest group they serve.

The most basic reason for prudential regulation on baking is depositor protection. This is particularly so for small depositors as they are unable to or unlikely to have access to sufficient information to permit them to evaluate the solvency of banks in which they deposit their money. It is for this reason that most deposit insurance scheme have had relatively low cut off points

Monetary Stability

Bank regulation promotes financial stability by encouraging a flexible banking system that can always meet the public's transaction needs and by discouraging banking practices may disrupt the payment system. In this way, monetary stability could lesson or prevent occurrence of banking companies and their disruptive effect on the economy and thus be linked with the goal of depositors protection.

L.S. Goodman and Shaffer (1993) reason that government involvement in deposit insurance schemes has macroeconomic justification because "deposit insurance acts as

a stabilizer by preventing dangerous Deduction in the nations money stock through bank failure" At least there is a general agreement among economist (whether monetarist of fiscalist) that changes in money supply are an important determinant of the level of economic activities. When a bank fail, in the absence of deposit insurance, the money supply drops by the amount of lost deposits and the stability of banks to create more money is covered. Deposit insurance scheme by replacing the potentially lost amount, stabilizers the money stock at thee pre-failure level.

Efficient and Competitive Financial System

One aspect of good banking is that customers are provided with quality services at competitive prices. One of the purposes of bank regulation, therefore, is to create regulatory framework that encourages efficiency and competition. Competition is a vehicle for achieving efficiency since in a competitive banking system, banks are forced to operate efficiently if they are to keep their customers and remain in business.

The promotion of an efficient and competitive banking system carries a number of implications for regulation. Competition and efficiency depend on the number of m banks operating in a market, the freedom of other banks to enter the market and compete and whether banks are of an appropriate size and strength for serving their customers. Consequently, regulators are concern with the concentration of resource in the industry and the level of entry, expansion and consolidation so as to foster a banking system that can adapt quickly to changing economic and technology advances.

One aspect of a good banking is those customers are provided quality services at competitive prices. One of the purposes of bank regulation therefore, is to create a regulation framework that encourages efficiency and competition among the insured financial institutions. This is because a bank failure is made less painful to depositors and to the economy. Consequently, monetary authorities are free to adopt a more liberal attitude towards bank regulation and licensing of few institutions. The new banks so licensed can more readily challenge existing banks. All the banks should have the same competitive advantage as the scheme imposes a flat-rate of premium on them. Competition is a vehicle for achieving efficiency since, in a competitive banking system, banks are forced to operate efficiently if they are keep their customers and remain in business.

Consumer Protection

Another goal of regulation of the finance is to protect consumer interest in certain aspect of financial relationship. Broadly interpreted, these objectives could encompass most financial regulation as well as legal protection generally given to all customers. It could thus include regulation designed to protect depositors.

Bank Examination

All licensed banks are subject to periodic detailed formal examinations. External bank examinations are investigation required by law and are performed by regulatory agencies to ensure that a bank is solvent, acting within the law, and not in imminent change of collapse. Bank examination takes two forms: off-site surveillance (analysis of bank returns) and on-site (field) examination.

Off-Site Surveillance - The off-site surveillance receives banks prudential returns, check for their completeness, accuracy and consistency, as well as compliance with prudential ratios and regulation. Basically, the bank off-site supervision is to analyze the reports submitted by the banks, identify possible problem and propose remedies to banks.

On-Site Inspection - the on-site inspector (field examiner) verify the accuracy of the periodic report submitted to the supervisory agencies as well as analyzing those aspect of a bank's activities that cannot be adequately monitored by off-site surveillance. On-site extermination basically focuses on banks main activities and on the potential problem identified by off-site surveillance. In particular, they assess the quality of assets, management, capital and funds management, as well as bank's internal control, audit, management information and accounting system.

Generally, a bank examination performed by these regulatory authorities serves to assure the public depositors and shareholders that a bank's financial condition and management are sound.

Self Regulation

Self regulation is the most important of all the approaches to banking regulation and supervision available to a bank. Basically in all banks, the primary responsibilities for the prevention and detection of frauds and error rest with the management.

Self regulation generally is the various independent checks and reviews put in place by the bank itself to insure that its sounds procedures do not deteriorate. Self regulation may vary from bank to bank. However those that are common to all banks internal audit and control, external auditing and board audit committee.

Capital Requirement

Adequate capital is very importance for any business and banking is not an exception. The importance of adequate capital in banking system from the following functions being performed by capital, viz: capital provides cushion for absorbing operational losses; it provides a measure of shareholders confidence and stake in the bank; it reveals the bank's ability to finance the capita expenditure and fixed asset; and it provides protection to depositor funds among others. It is therefore necessary to have enough capital so as minimized depositor's risks.

According to the 1991 monetary policy guide lines, banks shall maintain not less than 7.5 percent of either risk assets as capital. In addition, at least 50 percent of a bank's capital for this purpose shall comprise of paid -up capital and reserves. Furthermore, to strengthen bank capital, every licensed bank is required by the provision of section 9 of the banking decree 1969, to maintain a reserve fund out of its net profit each year, before declaring dividend.

A bank's capital acceptance is based on the capital ratio which involves the weighting of a bank's capital base against the portfolio of risk assets carried.

Loan Concentration

Leading limits, as a percentage of capital and reserves are required to prevent the concentration of risk in a single borrower, a group of related borrowers, or a particular industry. Lending limits permit banks to have sufficient capital to attain a scale of operations that will enable them to compete effectively and serve a large number of customers.

Accordingly, the Nigeria Deposit Insurance Corporation usually directs banks to diversify their lending activities. Section 20(1) of BOFI decree limits commercial banks lending to a single borrower to not more than 20 percent of the banks' shareholders' funds unimpaired by losses while for the merchant banks the limits is 50 percent. Also, banks are required to report large borrowings to the CBN in the statutory returns.

Liquidity Ratio

Banks are required to maintain a minimum requirement by ensuring that the level of cash flows is matched by expected receipts so that they can meet their obligations as they fall due. Liquidity is achieved through effective fund management. Given the critical role of liquidity in banks operations, it is essential for banks to provide for both expected as well as the unexpected fluctuations in their business as reflected in their balance sheet and to provide funds for growth.

Bank suffers from the obligation from others. This leads to assets/liabilities mismatch as well as gaps between receipts and payments. When illiquidity occurs, it portends that the bank can no longer accommodate decreases in deposit or meets its obligation to its depositor. In such a solution, the affected bank would not be able to flow and

would be forced to acquire additional liabilities jnder adverse market conditions at excessively high rates. This would worsen the a [r]eady illiquid position of the affected bank and may result in insolvency.

To aver, such change, the NDIC in collaboration with CBN prescribed a minimum liquidity rate 30 percent, out of which 10 percentage points should be in treasury, security. The mcnetary authorities conduct checks on banks' stock of liquidity and analyze the liquidity asset to ensure that excess liquidity which lead to inflationary pressures on the economy is minimized through direct and indirect methods of monitory management

Provisioning

There is the need for banks to make provision for non-performing credit facilities. The provisioning should be adequate so as not to mislead the depositor and the general public on the true state of affairs of the bank. These provisions are made on the basis of perceived risk of default on specific credit facilities. The provisioning is also applicable to performing loans because these loans also carry some element of risk of lose, no matter how small.

Internal Control System

Good internal control is very essential in order to minimize fraud and other malpractices which can lead to loss of assets. It also helps in ensuring compliance with the laid down rules and regulations on banking business by the operation. These reasons explain why NDIC focus on the internal control system of banks during bank examination.

Bank Supervision

The corporation supervised bank so as to protect depositors; ensure monetary stability; ensure effective and efficient payment system, and promote competition and innovation in the banking system. Banking supervision is therefore an essential element of a deposit insurance scheme as it seeks to reduce the potential risk of failure and ensures that unsafe and unsound banking practices do not go completely, unchecked. It also provides the oversight required to preserve the integrity of and promotes public confidence in the banking system. The corporation shares the responsibility with and adequately complements the effort of the Central Bank of Nigeria in the supervision of banks and other financial institutions. Although the two institutions are required by law to cooperate in the supervision and exchange report, they developed a kind of frame work to eliminate overlaps and duplication of effort to ensure that no bank escape supervision and all banks are examined approximately once a year.

Public Enlightenment and Provision of Banking Information

Since NDIC commenced operations in 1989, a series of efforts have been made to let the banking public knows and be fully, aware of the corporation's regulatory roles, its mission and objectives within the nation's banking industry. Efforts publicizing the corporation are aimed at assuring bank depositors of the safely of their depositors in the licensed banks. Such assurances are basically to engender more confidence in the industry. Through the corporation's annual reports, the NDIC quarterly and series of lectures, the NDIC has been providing information on the financial condition of

licensed banks to the general public. We also contribute to issues in the banking and the entire financial industry through these publications.

Information disclosure by banks in basically designed to ensure that depositors, investors and the general public are adequately informed of a bank performance/condition. It is in this regard that various statutes have been relating to information disclosure by banks. These statistics as applicable to insure banks are the banks and other financial decree No 25 of 1991; Nigeria Deposit Insurance Corporation Decree No 22 of 1988 and companies and allied matters No 1 of 1990.

As stated in section 24 (1) of the BOFI decree No 25 of 1991 "Every bank shall cause to be kept, proper books of account with respect to all the transaction of bank".

As regards the publication of annual accounts of banks, section 27 (1) of the BOFI decree provides the subject to the prior approval in writing of the bank (CBN), a bank shall, not later than 4 months after the end of its financial year.

a. Cause to be published in a daily newspaper printed in and correlating in Nigeria and approved by the CBN.

b. Exhibit in a conspicuous position in each of its offices and branches in Nigeria.

c. Forward to CBN copies of the bank's balances sheet and profit and loss account.

To ensure that banks maintain a reasonable level of standard in the presentation of information to be disclosed, the Nigeria Accounting Standards Board (NASB)

issued in October, 1990 a Statement of Accounting Standard (SAS). This statement seeks to provide a guide for accounting policies and methods that should be followed by banks in the preparation of their financial statements.

Liquidity Support to Banks

In order to arrest the deteriorating financial condition in the banking system and engender confidence in the industry, the NDIC provides, when the need arises, liquidity support to the licensed banks. In some years back, an NDCI accommodation facility to the tune of £42.3 billion had to be given to 10 banks to bail them out of serious problem of liquidity that resulted in the withdrawal of government fund from commercial and merchant banks to the CBN. In addition to lending liquidity support, NDIC management has been actively involved in restructuring exercises in many of the financially distressed banks. The corporation has in this report taken over the management of distressed banks. The corporation has also been involved in settling disputes between management and director of many insured banks in fulfilling their regulatory functions.

Contribution to Banking Policy

In fulfilling its regulatory obligation to the system, the corporation also contributes to the annual banking policy formulation in the country. The NDIC partake in periodic meeting with the CBN governor, who is also the chairman of the corporation, and is deputies over general development n the Nigeria financial service industry.

Deposit Insurance

This is perhaps the most significant and distinct role of the corporation. As an insurer NDIC guarantees' the payment of deposits up £450,000 to a deposit or in the event of failure of an insured financial institution. Balances in all deposit accounts held in the same right and capacity by a deposit or in all branches of the closed insured institution net of outstanding debts are aggregated to determine the maximum insured amount. NDIC could pay the insured deposit claims either directly (cash/cheque) or through agent bank or by way of insured deposit transfer to healthy banks. Upon payment to a subrogated to the corporation to the extent of the payment made.

The Decree mandate the corporation to ensure the deposits of licensed bank, both commercial and merchant, except the deposits of staff and director, counter claims and such other deposit as may be exempted form time to time by the NDIC board.

Deposit insurance promotes a sound and stable banking system. It is a financial guarantee scheme which seeks to protect depositor's funds against losses associated with bank failures.

The Nigerian Deposit Insurance Corporation (NDIC) is an agent of the Federal Government of Nigeria to insure the deposit taking financial institution operation in Nigeria. The decision of the federal government of Nigeria to establish the NDIC was informed by a number of factors. Some of which are:

i. To protect the banking system against destructive runs;

ii. To protect the depositors particularly the small serves who are likely to have access to sufficient information that will enable them to evaluate the solvency of those banks where they hold their savings and

iii. To ensure fair play amongst the competing banks and thus lead to their innovativeness and efficiency.

Generally, the NDIC was established to insure bank deposits, strengthens banking supervision, as well as assist the central bank of Nigeria in formulating and implementing banking policies in Nigeria. Like most deposit insurance schemes, the NDIC maintain a formal and off point for insurance coverage. Thus, as upper limit of £450,000 available by any one depositor in any bank in the event of actual pay-off is currently maintained by the NDIC. This limit could be reviewed whenever it is appropriate to do so.

Distress Resolution

One of the primary roles of NDIC is to ensure that failing institutions are resolved in a timely and efficient manner that will result in the least cost to the deposit insurance fund and the banking system. The corporation is empowered to provide financial and technical assistance to failure or distressed banks in the interest of depositors and to also prevent failure if such institution has difficulty in meeting its obligation to depositors or suffer liquidity deficiency or has accumulated losses that have eroded its shareholders funds. The financial assistance can take the form of loans, guarantees for loan taken by the bank or acceptance of accommodation bills. On the other hand, the

technical assistance may include takeover of management and control of the bank, changes in management or assisted merger with another viable institution.

The responsibility for distress resolution is also shared with CBN. In fact, the bank and other financial institution (BOFI) Act has elaborate provisions on distress resolution which include handover of distress banks to NDIC by CBN. Consequently, NDIC has over the years worked closely with CBN in resolving distress in the banking system.

The corporation uses the following option to resolve a bank failure:

a. PAY-off to ensured depositors.

b. Insured deposit transfe ' to another bank cr other bank.

c. Purchase and assumption transaction.

d. Establishment of a bridge bank.

In a pay-off resolution option, the deposit insurance corporation would pay deposit up to limit of the insurance coverage. An insured deposit transfer, up to limit of the insurance coverage. An insured deposit transfer, as the name implies involves the transfer of the insured to a specific bank or banks such that the customer continues normal banking business with the new bank. In purchase and assumption transaction, the insurer arranges for another bank to assume all the failure bank's deposit and acquire some of all the failing bank's deposit assets in return for cash payment by the insurer. A bridge bank arrangement whereby a new bank is established with a name different from manage what is left of the failed bank for a temporary paid before liquidation.

Bank Liquidation

Another core function of the corporation is bank liquidation. Bank liquidation is always adopted by the corporation and the CBN when found to be the most cost effective if compared with other distress resolution measures.

The role of the corporation as a liquidator is separate and distinct from its other functions as the duties of a liquidator are also regulated by the companies, an Allied Matters Act of 1990 as amended. To this end, separate liquidation accounts are kept for every bank in liquidation, distinct external auditors are appointed to audit the account and regular return are sent-to the Corporate Affair Commission (CAC) and the CBN.

Liquidation process involve orderly ad efficient closure of the failed institution with minimum disruption to the banking system, const effective realization of assets and settlement of claim of depositors, creditor and where possible shareholders. Depositors are entitled to be paid in priority to all creditors as provided in section 50 of BOFI Act. This is an essential part of deposit insurance scheme which many explicit deposit schemes have adopted.

Bank liquidation being a trusteeship responsibility and also strictly governed by laws; the liquidator does not have discretion in settlement of claim to the uninsured deposit claims are paid on a pro-rata basis with other claims to the extent of the funds available after liquidation expenses are paid.

2.8 Challenges Faced by NDIC

The corporation has faced a number of challenges ranging from the start-up difficulties of servicing requisite staff, being accepted in the industry and to the present challenges associated with resolving the increasing distress in the banking sector. As the number of banks in the system increased remarkably, the number of experienced hands per bank decreased drastically. Consequently some banks staff were promoted to responsibility beyond their levels of competence and, coupled with a generally weak intend control, frauds and forgeries become rampant. The decline of national economy in the 80's had not improved when the corporation came on stream. The economy almost stagnated in the 90's as a result of failure by business me to repay the loans obtained from banks.

The challenges posed by these developments to insured banks have transitively become the corporation's challenges. This has been so because when a child is sick and cannot sleep, the mother does not sleep either. Thus the challenges facing Nigeria banks are the challenges facing the NDIC as the insurer and guarantor of deposits in the banks.

Insolvent or Distressed Insured Banks

The greatest problem facing the corporation today is the increasing number of distressed banks. The banking system was already in distress by the time NDIC was established. By then, about seven banks were known to be technically insolvent but the number rose to fifty seven. Recently, the operating licenses of fourteen (14) banks were revolved by the central bank of Nigeria leaving only twenty five (25) insured banks in Nigeria.

The Nigeria economy is yet to recover from the economic downturn of the early 1980's. The economy is still characterized by high inflation, slow growth and in some years no growth, high unemployment and low productivity. These unfavorable economic indicators depicts the poor state of the national economy which has not been help by the political instability, and this had been another of great concern to the government, the general public, the insured banks and the corporation. To the extent that the economy remains distressed insure banks are likely to have only modest patronage from the real sector. That means declining profitability, not to mention the inability of the banks to recover loans made to that sector. This, the poor economy has impacted on banks vary adversely and the challenges posed would require the joint effort of government, insured banks. the industrial sector and the public to resolve.

Malpractices in the Industry

Among the problems facing the banking industry include fraud, forgeries and other malpractices. It has been gathered from bank examination and supervision that these problems permeate all levels of staff including board of directors, top management and the generality of staff. Apart from colluding with customer to defraud their banks, key official of some banks grant loans and advances to themselves, their relatives, own companies and other staff without collaterals and in questionable circumstances. Such loans and advances have gone bad and problematic in recover. Equally, some bank directors have obtained loans from their banks without disclosing such interest and without any collateral. It has been that such directors had intention to repay the loans even when they have the ability to pay. The cumulative effect of these malpractices had force many banks into distress or insolvency.

Dearth of Technical Manpower

In is widely recognized that the quality of staff, particularly management staff, can make the difference between good and bad. As the number of bank increases, the available experienced staff, more especially at the management level thinned considerably.

Given the high level of demand for experience staff the inelastic supply particularly in the short run, remuneration hit the skies. Also given the staff cost were relatively fixed, a drop in business earnings meant that salaries had to be paid out of capital, then out of depositors' fund, particularly in the new institutions. Not surprisingly, many of the institution failed.

The dearth of experience technical staff really affects insured banks so also the corporation. There is no gainsaying that a deposit insurance scheme is relatively new in Africa; consequently, there is an acute shortage of experienced staff in the core functions such as bank restructuring, receivership and liquidation. What is more, training programmers on these areas are scarce and largely outside the continent.

Inadequate Enforcement Powers

One major reason timely action has often not been taken by the corporation to address distressed banking institution in the country has to do with the inadequate enforcement powers of the corporation in this regard section 34 (1) of the banks and other financial institutions Decree No. 25 of 1991 provides that where an insured bank fails, the CBN governor must first obtain the approval of the president of the Federal Republic to assume control of the failing bank and where the CBN deems it

necessary, it may appoint person to do so on it behalf. Also, section 36 of the same decree provides that the CBN must again obtain the approval of the president to either apply to the court for an order for the bank or its nominee to acquire the failed bank for a nominal fee, or to make an order revoking the license of the failed bank. Furthermore, section 38 of the decree provide that if eth CBN revokes the bank's license, the bank shall within 14 days apply to the Federal high court for an order to wind up its affairs, failing which the CBN shall go to the court for winding up order. In that event, the CBN may appoint NDIC as provisional liquidator of the bank.

It is obvious from the foregoing that the role assigned to the corporation in respect of bank failure resolution is not primordial and even the appointment of the corporation as the "official receive" or "provisional liquidator" is at the discretion of the CBN governor. Section 38 (3) of the Decree says that the governor may "appoint the Nigeria Deposit Insurance Corporation or any other person as the official receive or provisional liquidator".

It is evident that under the existing provisions, timely resolution of distress would be difficult to achieve even with the best intentions and efforts. Having to obtain approval from the president to assume control and thereafter apply to court to revoke the license of a failed bank can be a time consuming affair, particularly where the head of state is not adequately briefed on the issue or has been pressured by politician bank owners to delay or abstain from giving the needed approvals.

Inadequate Funding of Failure Resolution

The decree establishing the NDIC recognizes four source of funding insurance premium contributions by participating banks, capital contribution and periodic recapitalization provided by government, borrowing facility from CBN, and special contributions or levies imposed on robust banking institutions.

The ability of the corporation to increase its level of funding is limited by several factors. The corporation currently changes insurance premium at the rate of fifteen - sixteenth (15/16) of one percent par-annum of the total deposits liabilities of all participating banks. This rate has been widely therefore called for a down ward review. Moreover, most distressed banks find it difficult, if not impossible, to meet their premium obligation to the corporation as and when due. Also, as a result of the current economic reason and its effects on banks, it would be difficult to impose special contribution or levy on non-distressed banking institutions. At the some time, borrowed funds form the CBN may be limited by possible inflationary implication for the system. However, founds must be found to find the distress resolution as costs escalate with every passing day.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter deals with the basic methods and sources of data and procedures used in the gathering and analysis of data. According to Asika (1991) research design means the structuring of investigation aimed at identifying variables and their relationship to one another. This is used for the purpose of obtaining data to enable the researcher test hypothesis or answer research questions. It is an outline of a scheme that serves as a useful guide to the research in his effort to generate data for this study.

In this chapter, the research designs issues such as population and the sample, variables and the measures used, data collection method and data analysis techniques are discussed with specific regard to the role of the Nigerian Deposit Insurance Corporation on the Nigerian Financial System.

3.2 Research Design

According to Akuezuilo (1990), research design is essentially the plan, structure and strategy of investigation conceived so as to obtain answers to research questions. It constitutes guidelines which direct the researcher towards solving the research problem. Hence research design constitutes the blue print for collection, measurement and analysis of data. For this study, data was obtained mainly from Primary Sources (Questionnaire) and Secondary Sources namely; journals, Bulletins, Reports and other publication from the National Deposit Insurance Corporation (NDIC).

Purposive or judgmental sampling was used for this study to select the Sample Size out of the entire Population. In adopting a method of data collection, two basic methods were applied, i.e. content analysis and library research, while the method of data analysis involved the use of simple percentage analysis of the questionnaires administered in the period under study. A statistical mechanism called Chi-square Analysis was employed to test the hypothesis.

3.3 Population and Sample of the Study

According to Ndagi (1999), population is sometimes referred to as the universe, and it is defined as the entire group whose characteristics are to be estimated. While, he defined sample as a limited number of elements selected from the population which is representative of that population.

For the purpose of this study, the population constitutes the totality of management staff and non management staff of the Nigerian Deposit Insurance Corporation (NDIC). We have two groups which represent our sample size which include the 11 management staff and 32 non management staff. This represents the set of staff we have in the organisation. This selection was arrived at by using Purposive/Judgmental Sampling because of the nature of the study and also because it satisfies some predetermined criteria.

3.4 Sources of Data Collection

In the collection of data for the purpose of this research work, both primary and secondary sources of data collection were used. Prominent among the primary sources used is the use of questionnaires to obtain relevant information. For the secondary sources of data collection journal reviews, textbooks, Bulletins, Reports and other publication on relevant topic were used.

Using the questionnaire, some structured questions; closed ended questions were made, in order to aid the researcher to obtain relevant information and to reach the selected sample size who could provide the relevant information for the research. To achieve this objective, a questionnaire is drawn and given to some staff in the National Deposit Insurance Corporation in Abuja numbering 11 management staff and 32 non management staff making a total of 43 staff and the questionnaire contains set of questions relevant to them.

3.5 Method of Data Analysis

For the purpose of this research, data collected was analyzed based on the answers and opinions of the respondent derived from the questionnaire issued to the management staff. The answers are tabulated and interpreted using the percentage method. Data collected from the questionnaire was also used to prove the hypothesis raised, and to establish a result of findings. So the chi-square method of data analysis was used to test the hypothesis for this research work.

3.6 Justification of Method Used

In determining the sample for this study, judgmental sampling method was employed as it seemed to be the most appropriate method as regards the nature of the study. In purposive or judgmental sampling, specific elements which satisfy some predetermined criteria are selected, although the criteria to be used are usually a matter of the researcher's judgment. The method of data analysis employed for this study included Chi-square method of data Analysis, i.e. determining the relationship.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

The chapter entails the presentation and analysis of the data gathered which are essential for the research. The analysis is based on the questionnaire administered; and the desk research conducted on the two category of respondents selected in the Nigerian Deposit Insurance Corporation (NDIC). The analysis will help as to examine and verify the findings, in its totality. In testing the hypotheses a statistical method of Chi-square technique (X^2) is used to verify these hypotheses. The outcome will be used to either accept or reject the hypothesis depending on the result. Also statistical charts and graphs will be used in presenting the analysis.

A total of 43 questionnaires were administered to the management and non management staff with 11 questionnaires administered to management staff and 32 administered to their non management staff.

In the presentation and analysis of research data, using the analytical tables are of significant importance as they would assist in making the findings.

4.2 Data Presentation and Analysis

Questionnaires Administered

Table 4.1: Questionnaire Administration

	Management Staff	Non Management Staff	Total
Questionnaire	11	32	**43**
Total	**11**	**32**	**43**

Source: Own Research, 2012

Questionnaires Retrieved

Table 4.2: Questionnaire Received

	Management Staff	Non Management Staff	Total
Questionnaire	10	31	**41**
Total	**10**	**31**	**41**

Source: Own Research, 2012

From the above table 4.1, it would be observed that a total of 43 questionnaires were administered to respondents with 11 questionnaires to management staff and 32 questionnaires to non management staff of Nigerian Deposit Insurance Corporation Abuja.

In table 4.2 it shows that out of the total of 43 questionnaires administered to the respondents, 41 questionnaires were retrieved by the researcher i.e. 95% of the questionnaire administered with 10 from management and 31 from non management staff were retrieved.

Table 4.3: Impact of the Nigerian Deposit Insurance Corporation on Nigerian Financial System.

Respondent	Management Staff	Non-Management Staff	Total	Percentage
Strongly agreed	5	15	**20**	**48**
Agreed	0	3	**3**	**7**
Undecided	3	5	**8**	**20**
Disagree	2	4	**6**	**15**
Strongly Disagree	0	4	**4**	**10**
Total	**10**	**31**	**41**	**100**

Source: Questionnaires Administered, 2011

The above table shows 20 respondents representing 48% strongly agree that the Nigerian Deposit Insurance Corporation have a high impact on the Nigerian Financial System while 3 respondents representing 7% agree to the statement. It also shows that 8 respondents, representing 20% do not have a stand on whether to agree with the statement or to disagree. But 6 respondents representing 15% strongly disagree while 4 respondent representing 10% disagree. This signifies that the Nigerian Deposit Insurance Corporation have a high impact on the Nigerian Financial System.

Table 4.4: Cordial relationship between Nigerian Deposit Insurance Corporation and Nigerian Financial System Operators.

Respondent	Management Staff	Non-Management Staff	Total	Percentage
Strongly agreed	8	20	**28**	**68**
Agreed	1	2	**3**	**7**
Undecided	1	4	**5**	**12**
Disagree	0	3	**3**	**7**
Strongly Disagree	0	2	**2**	**6**
Total	**10**	**31**	**41**	**100**

Source: Questionnaires Administered, 2011

The above table shows 28 respondents representing 68% strongly agree that there is relationship between the Nigerian Deposit Insurance Corporation with Nigerian Financial System Operators is cordial while 3 respondents representing 7% agree to the statement. It also shows that 5 respondents, representing 7% do not have a stand on whether to agree with the statement or to disagree. But 2 respondents representing 6% strongly disagree while 2 respondent representing 6% disagree. This signifies that the Nigerian Deposit Insurance Corporation have an effective cordial relationship with the Nigerian Financial System operators.

Table 4.5: Effectiveness of the tools Nigerian Deposit Insurance Corporation use for it regulatory activities.

Respondent	**Management Staff**	**Non-management Staff**	**Total**	**Percentage**
Strongly agreed	4	8	**12**	**30**
Agreed	5	10	**15**	**36**
Undecided	0	7	**7**	**17**
Disagree	1	3	**4**	**10**
Strongly Disagree	0	3	**3**	**7**
Total	**10**	**31**	**41**	**100**

Source: Questionnaires Administered, 2011

The above table shows 12 respondents representing 30% strongly agree that Nigerian Deposit Insurance Corporation regulatory tools are Effective while 15 respondents representing 36% agree to the statement. It also shows that 7 respondents, representing 17% do not have a stand on whether to agree with the statement or to disagree. But 4 respondents representing 10% disagree while 3 respondent representing 7% strongly disagree. This signifies that the Nigerian Deposit Insurance Corporation have an effective tool to execute its role within the Nigerian Financial System.

Table 4.6: Nigerian Deposit Insurance Corporation poor management is one of the factors that lead to insanity in the Nigerian Financial System.

Respondent	Management	Non-management	Total	Percentage
Strongly agreed	2	2	**4**	**10**
Agreed	2	15	**17**	**41**
Undecided	1	4	**5**	**12**
Disagree	1	5	**6**	**15**
Strongly agree	4	5	**9**	**22**
Total	**10**	**31**	**41**	**100**

Source: Questionnaires Administered, 2011

The above table shows 4 respondents representing 10% strongly agree that Poor Management in Nigerian Deposit Insurance Corporation lead to Insanity in the Nigerian Financial System, while 17 respondents representing 41% agree to the statement. It also shows that 5 respondents, representing 12% do not have a stand on whether to agree with the statement or to disagree. But 6 respondents representing 15% strongly disagree while 9 respondent representing 22% disagree. This signifies that the Nigerian Deposit Insurance Corporation have poor management which affect the activities to the Nigerian Financial System.

Table 4.7: Number of Malpractices cases within the Nigerian Financial System in the last three years.

Respondent	Management Staff	Non-management Staff	Total	Percentage
1 – 10	1	2	**3**	**7**
11 – 20	7	23	**30**	**73**
21 – 30	2	6	**8**	**20**
31 – above	0	0	**0**	**0**
None	0	0	**0**	**0**
Total	**10**	**31**	**41**	**100**

Source: Questionnaires Administered, 2011

The above table shows 3 respondents representing 7% chose 1 – 10 Malpractices took place within the Nigerian Financial System in the last three years while 30 respondents representing 73% chose 11 - 20. It also shows that 8 respondents, representing 20% chose 21 – 30. But no respondents representing 0% where for 31 – above and none. This signifies that probably due to the poor management of the Nigerian Deposit Insurance Corporation which affected some of its role, it leads to a high number of malpractices within the capital market in the last three years.

Table 4.8: Corruption and lobbying as a factor militating against activities of Nigerian Deposit Insurance Corporation in effectively achieving its roles and objectives.

Respondent	Management	Non-management	Total	Percentage
Strongly agreed	8	27	**35**	**85**
Agreed	2	3	**5**	**12**
Undecided	0	1	**1**	**3**
Disagree	0	0	**0**	**0**
Strongly agree	0	0	**0**	**0**
Total	**10**	**31**	**41**	**100**

Source: Questionnaires Administered, 2011

The above table shows 35 respondents representing 85% strongly agree that corruption and lobbying contribute as one of the factors militating against the effective achievement of roles and objectives of the Nigerian Deposit Insurance Corporation in carrying out its activities, while 5 respondents representing 12% agree to the statement. It also shows that 1 respondents, representing 3% do not have a stand on whether to agree with the statement or to disagree. But 0 respondents representing 0% strongly disagree while 0 respondent representing 0% disagrees. This signifies that corruption and lobbying is one of the factor that stands as an obstacle to the effective

achievement of the roles and objectives of the Nigerian Deposit Insurance Corporation in carrying it activities.

Table 4.9: Frequent changes in Government policy affects the activities of the Nigerian Deposit Insurance Corporation.

Respondent	Management Staff	Non-management Staff	Total	Percentage
Strongly agreed	1	3	**4**	10
Agreed	4	11	**15**	37
Undecided	3	14	**17**	41
Disagree	1	1	**2**	5
Strongly agree	1	2	**3**	7
Total	**10**	**31**	**41**	**100**

Source: Questionnaires Administered, 2011

The above table shows 4 respondents representing 10% strongly agree that Frequent changes in Government policy affects the activities of the Nigerian Deposit Insurance Corporation while 15 respondents representing 37% agree to the statement. It also shows that 17 respondents, representing 41% do not have a stand on whether to agree with the statement or to disagree. But 2 respondents representing 5% strongly disagree while 3 respondent representing 7% disagree. This signifies that the frequent changes in Government policy affect the activities of the Nigerian Deposit Insurance Corporation.

The Securities and Exchange Commission has played an effectively role to the Development of the Nigerian Capital Market.

Table 4.10: effective role played by Nigerian Deposit Insurance Corporation to the Development of the Nigerian Financial System.

Respondent	Management Staff	Non-management Staff	Total	Percentage
Strongly agreed	3	15	**18**	**38**
Agreed	2	13	**15**	**32**
Undecided	1	4	**5**	**11**
Disagree	3	2	**5**	**11**
Strongly agree	3	1	**4**	**9**
Total	**10**	**31**	**41**	**100**

Source: Questionnaires Administered, 2011

The above table shows 18 respondents representing 38% strongly agree that The Nigeria Deposit Insurance Corporation has played an effectively role to the Development of the Nigerian Financial System while 15 respondents representing 32% agree to the statement. It also shows that 5 respondents, representing 11% do not have a stand on whether to agree with the statement or to disagree. But 5 respondents representing 11% strongly disagree while 4 respondent representing 9% disagree. This signifies that the Nigeria Deposit Insurance Corporation has played an effectively role to the Development of the Nigerian Financial System.

Table 4.11: Significant contribution of Nigerian Deposit Insurance Corporation to the Development of the Nigerian Financial System.

Respondent	Management Staff	Non-management Staff	Total	Percentage
Strongly agreed	2	11	**13**	**27**
Agreed	1	11	**12**	**25**
Undecided	2	8	**10**	**21**
Disagree	1	3	**4**	**9**
Strongly agree	6	2	**8**	**18**

Total	**10**	**31**	**41**	**100**

Source: Questionnaires Administered, 2011

The above table shows 13 respondents representing 27% strongly agree that the Nigerian Deposit has contributed significantly to the development of the Nigerian Financial System while 12 respondents representing 25% agree to the statement. It also shows that 10 respondents, representing 21% do not have a stand on whether to agree with the statement or to disagree. But 4 respondents representing 9% strongly disagree while 8 respondent representing 18% disagree. This signifies that the Nigerian Deposit has contributed significantly to the development of the Nigerian Financial System.

4.3 Test of Hypothesis

The chi-square, denoted by the Greek letter X^2 is often utilised in hypothesis testing when the difference between a set of expected or theoretical frequencies are concerned.

X^2 is denoted by the formula

$$X^2 = \sum \frac{(fo-fe)^2}{fe}$$

For the purpose of accuracy, the contingency tables which are crossed classified tables that depicts observed frequencies of a sample when there are r numbers of rows and c columns in the table will be used. Computations of Respondent's frequencies are made using probability rules and the sum of expected frequencies. In this analysis, 0.5% or 0.005 is used as level of significance while the degree of freedom (df) given as (r – 1)(c – 1) will be utilised to determine the critical value under the significant level.

DECISION RULE

For the fact that we are testing the null hypothesis, if the computed X^2 value is greater than the critical value under the level of significance., we reject the hypothesis otherwise we accept it.

Hypothesis One

H_0: The Nigerian Deposit Insurance Corporation is ineffective in carrying its role on the Nigerian Financial System.

H_1: The Nigerian Deposit Insurance Corporation is effective in carrying its role on the Nigerian Financial System.

Table 4.12:

Variables	Management Staff	Non Management Staff	Total
Strongly Agree	3	15	**18**
Agree	2	13	**15**
Undecided	1	4	**5**
Disagree	3	2	**5**
Strongly Disagree	3	1	**4**
Total	**10**	**31**	**41**

Source: Questionnaire Administered 2011

Using the formulae $X^2 = \sum \frac{(fo-fe)^2}{fe}$ we then calculate as follows

Table 4.13

Variables	Respondent	f_o	f_e	$f_o - f_e$	$(f_o - f_e)^2$	$\frac{(f_o - f_e)^2}{f_e}$
Strongly Agree	**Mgt Staff**	3	**4.59574**	-1.59574	2.54640	0.55408
	Non Mgt Staff	15	**13.40426**	1.59574	2.54640	0.18997
Agree	**Mgt Staff**	2	**3.82979**	-1.82979	3.34812	0.87423
	Non Mgt Staff	13	**11.17021**	1.82979	3.34812	0.29974
Undecided	**Mgt Staff**	1	**1.27660**	-0.27660	0.07651	0.05993
	Non Mgt Staff	4	**3.72340**	0.27660	0.07651	0.02055
Disagree	**Mgt Staff**	3	**1.27660**	1.72340	2.97012	2.32660
	Non Mgt Staff	2	**3.72340**	-1.72340	2.97012	0.79769
Strongly Disagree	**Mgt Staff**	3	**1.02128**	1.97872	3.91535	3.83378
	Non Mgt Staff	1	**2.97872**	-1.97872	3.91535	1.31444
Total						**10.27099**

If c = column and r = row, the degree of freedom df = (r-1) (c-1)

If r = 5

c = 2

df = (5-1)(2-1)
= 4*1
df = 4 => 9.488

Table 4.14: Chi-Square Table.

Df	0.995	0.99	0.975	0.95	0.90	0.10	0.05	0.025	0.01	0.005
1	---	---	0.001	0.004	0.016	2.706	3.841	5.024	6.635	7.879
2	0.010	0.020	0.051	0.103	0.211	4.605	5.991	7.378	9.210	10.597
3	0.072	0.115	0.216	0.352	0.584	6.251	7.815	9.348	11.345	12.838
4	0.207	0.297	0.484	0.711	1.064	7.779	9.488	11.143	13.277	14.860
5	0.412	0.554	0.831	1.145	1.610	9.236	11.070	12.833	15.086	16.750
6	0.676	0.872	1.237	1.635	2.204	10.645	12.592	14.449	16.812	18.548
7	0.989	1.239	1.690	2.167	2.833	12.017	14.067	16.013	18.475	20.278
8	1.344	1.646	2.180	2.733	3.490	13.362	15.507	17.535	20.090	21.955
9	1.735	2.088	2.700	3.325	4.168	14.684	16.919	19.023	21.666	23.589
10	2.156	2.558	3.247	3.940	4.865	15.987	18.307	20.483	23.209	25.188

Checking the chi-square of df = 4 under the level of significance of 0.05, we will get the critical part to be 9.488.

Decision

The calculated value is **10.27099**. Therefore our critical value of 9.488 is less than our calculated value of **10.27099** we therefore accept the alternative hypothesis which says that Nigerian Deposit Insurance Corporation is effective in carrying its role on the

Nigerian Financial System and reject the null hypothesis which states that Nigerian Deposit Insurance Corporation is ineffective in carrying its role on the Nigerian Financial System.

Hypothesis Two

H_0: The Nigerian Deposit Insurance Corporation has not contributed significantly to the development of the Nigerian Financial System.

H_1: The Nigerian Deposit Insurance Corporation has contributed significantly to the development of the Nigerian Financial System.

Table 4.15:

Variables	Management Staff	Non Management Staff	Total
Strongly Agree	2	11	**13**
Agree	1	11	**12**
Undecided	2	8	**10**
Disagree	1	3	**4**
Strongly Disagree	6	2	**8**
Total	**12**	**35**	**47**

Source: Questionnaire Administered 2011

Using the formulae $X^2 = \sum \frac{(fo-fe)^2}{fe}$ we then calculate as follows

Table 4.16

Variables	Respondent	f_o	f_e	$f_o - f_e$	$(f_o - f_e)^2$	$\frac{(f_o - f_e)^2}{f_e}$
Strongly Agree	**Mgt Staff**	2	**3.31915**	-1.31915	1.74015	0.52428
	Non Mgt Staff	11	**9.68085**	1.31915	1.74015	0.17975
Agree	**Mgt Staff**	1	**3.06383**	-2.06383	4.25939	1.39022
	Non Mgt Staff	11	**8.93617**	2.06383	4.25939	0.47665
Undecided	**Mgt Staff**	2	**2.55319**	-0.55319	0.30602	0.11986
	Non Mgt Staff	8	**7.44681**	0.55319	0.30602	0.04109
Disagree	**Mgt Staff**	1	**1.02128**	-0.02128	0.00045	0.00044
	Non Mgt Staff	3	**2.97872**	0.02128	0.00045	0.00015
Strongly Disagree	**Mgt Staff**	6	**2.04255**	3.95745	15.66139	7.66755
	Non Mgt Staff	2	**5.95745**	-3.95745	15.66139	2.62888
Total						**13.02887**

If c = column and r = row, the degree of freedom df = (r-1) (c-1)

If r = 5

c = 2

df = (5-1)(2-1)

= 4*1

df = 4 => 9.488

Table 4.17: Chi-Square Table.

df	0.995	0.99	0.975	0.95	0.90	0.10	0.05	0.025	0.01	0.005
1	---	---	0.001	0.004	0.016	2.706	3.841	5.024	6.635	7.879
2	0.010	0.020	0.051	0.103	0.211	4.605	5.991	7.378	9.210	10.597
3	0.072	0.115	0.216	0.352	0.584	6.251	7.815	9.348	11.345	12.838
4	0.207	0.297	0.484	0.711	1.064	7.779	9.488	11.143	13.277	14.860
5	0.412	0.554	0.831	1.145	1.610	9.236	11.070	12.833	15.086	16.750
6	0.676	0.872	1.237	1.635	2.204	10.645	12.592	14.449	16.812	18.548
7	0.989	1.239	1.690	2.167	2.833	12.017	14.067	16.013	18.475	20.278
8	1.344	1.646	2.180	2.733	3.490	13.362	15.507	17.535	20.090	21.955
9	1.735	2.088	2.700	3.325	4.168	14.684	16.919	19.023	21.666	23.589
10	2.156	2.558	3.247	3.940	4.865	15.987	18.307	20.483	23.209	25.188

Checking the chi-square of df = 4 under the level of significance of 0.05, we will get the critical part to be 9.488.

Decision

The calculated value was **13.02887**. Therefore our critical value of 9.488 is less than our calculated value of **13.02887**. We therefore reject the null-hypothesis which says that the Nigerian Deposit Insurance Corporation has not contributed significantly to the development of the Nigerian Financial System and accept the alternative hypothesis which states that the Nigerian Deposit Insurance Corporation has contributed significantly to the development of the Nigerian Financial System.

4.4 Summary of Findings

Looking at the above test of hypothesis, it is observed that in hypothesis one and hypothesis two the alternative hypotheses was accepted which therefore dispute the fact that the Nigerian Deposit Insurance Corporation is ineffective in carrying its role on the Nigerian Financial System and the Nigerian Deposit has not contributed significantly to the development of the nigerian financial system respectively. This explains that the Nigerian Deposit Insurance Corporation is effectively carrying its role on the Nigerian Financial System and also the Nigerian Deposit Insurance Corporation contributed significantly to the development of the Nigerian Financial System.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The banking system has been widely recognized as an indispensable hack in the process of economic development, and it is for this very important reason that the safety and soundness of the system has been of concern to Nigeria government. It was in recognition of the importance of an efficient, safe and sound financial system that the Nigeria Deposit Insurance Corporation was established following banking deregulation and consequent upon the Structural Adjustment Programme (SAP). The scheme was to herald a change from past government policies while protected band shareholders to new policy framework that protects bank depositors, especially the small ones, in a competitive banking environment.

According and in view of its role and focus in the financial system, the corporation has so far succeeded in providing needed assistance to some banks and in the process ensuring confidence and stability in the system. It also assisted in reducing the risk of systemic crisis involving failed bank. The corporation has also been involved in settling disputes between management and directors of many insured banks in the cause of fulfilling their regulatory functions.

Some operation issues have arisen since the inception of the corporation and most of them arose from the provision of the decree setting up the corporation. However the issue of resolving insolvent banks poses challenges to the corporation.

5.2 Conclusion

It has been observed that since the establishment of the corporation, the concept and operational modalities of the scheme have always been confused with those of conventional insurance business particularly in the area of coverage, mandatory nature of the scheme and even the premium rate charged. This confusion along with experienced gathered since the inception of the corporation have brought into focus a number of contentious issues desiring attention and needs to be resolved.

In spite of all these problem, issues and challenges, it is clear that the establishment of the corporation holds out bright promises for the entire financial service industry in Nigeria. It is hoped that with the cooperation of bankers and the general public, the NDIC will ensure for Nigeria an efficient safe and sound banking system.

Based on the test of hypothesis we hard, it is concluded that the Nigerian Deposit Insurance Corporation is effectively carrying its role on the Nigerian Financial System and also the Nigerian Deposit Insurance Corporation contributed significantly to the development of the Nigerian Financial System

5.3 Recommendations

Having gone through the relevant books as expected of a research work, I hereby recommends the following:

1. There should be clearly defined responsibilities between CBN and NDIC so as to allow the latter to work out programme by taking timely decision on its own rather than operating through the powers conferred to CBN in terms of distress resolution.

2. Adequate provision of financial resources be made on the national budget to carter for default and distress in the nation's financial sector. Such commitment on the part of government will assist in restoring public confidence in the banking in system.

3. Full autonomy must be granted to supervisors and regulators to ensure faster failure resolution. For instance, if the CBN can grant and revoke license of banks without reference to political authorities, then there should be no reason for the CBN/NDIC to keep a dead bank open with consequent increase in failure resolution cost for the NDIC.

4. Enhance public awareness about the existence of deposit insurance scheme through close relationship with the press. This will not only boost public confidence but will also sensitize the public about the need to monitor the health of their banks. There is need to increase bank supervision capacity both in off-site and on- site examination. Ideally, the off-site surveillance of banks should provide the inputs and direction for on-site examination as well as the requisite early warning signals for distress. While the on-site surveillances are expected to be conducted on a "consolidated basis" that is, to include all the activities conducted by an institution either directly or indirectly through subsidiaries and affiliates.

5. Finally, there should be constant review of the enabling decree establishing the Nigerian Deposit Insurance scheme so as to keep abreast of the current happing within the financial system.

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Appendix

Department of Business Administration,
Faculty of Administration,
Ahmadu Bello University,
Zaria.

Dear Sir/Madam,

I am an MBA Student in the above Department of Ahmadu Bello University, Zaria. As one of the requirement of partial fulfilment for the award of master degree in business administration (MBA) I am required to submit a researchable project.

In this regard, I have chosen your organisation to be one of my case study.

To enable me collect the data necessary for writing the project, I am requesting you to please fill the attached questionnaire by simply ticking the provided boxes.

I assure you that any information collected will be used for academic purpose only, and be strictly confidential.

Thanks for your co-operation

Nasiru SULEIMAN

Questionnaire

1. The Impact of Nigerian Deposit Insurance Corporation on the Nigerian Financial System is high.
    a. Strongly Agree ☐
    b. Agree ☐
    c. Undecided ☐
    d. Disagree ☐
    e. Strongly Disagree ☐

2. The Relation of Nigerian Deposit Insurance Corporation with the Nigerian Financial System Operators is very cordial.
    a. Strongly Agree ☐
    b. Agree ☐
    c. Undecided ☐
    d. Disagree ☐
    e. Strongly Disagree ☐

3. Nigerian Deposit Insurance Corporation Regulatory tools are Effective.
    a. Strongly Agree ☐
    b. Agree ☐
    c. Undecided ☐
    d. Disagree ☐
    e. Strongly Disagree ☐

4. Poor Management in Nigerian Deposit Insurance Corporation is one of the factors that led to Insanity in the Nigerian Financial System.
    a. Strongly Agree ☐
    b. Agree ☐
    c. Undecided ☐
    d. Disagree ☐
    e. Strongly Disagree ☐

5. How many cases of Malpractices are you aware of within the Nigerian Financial System in the last three years?
    a. Strongly Agree ☐
    b. Agree ☐
    c. Undecided ☐
    d. Disagree ☐
    e. Strongly Disagree ☐

6. Corruption and lobbying contribute as one of the factors militating against the effective achievement of roles and objectives of the Nigerian Deposit Insurance Corporation in carrying out its activities.
    a. Strongly Agree ☐
    b. Agree ☐
    c. Undecided ☐
    d. Disagree ☐
    e. Strongly Disagree ☐

7. The frequent changes in Government Policy affect the activities of Nigerian Deposit Insurance Corporation.
    a. Strongly Agree ☐
    b. Agree ☐
    c. Undecided ☐
    d. Disagree ☐
    e. Strongly Disagree ☐

8. The Nigerian Deposit Insurance Corporation is effective in carrying its role on the Nigerian Financial System.
    a. Strongly Agree ☐
    b. Agree ☐
    c. Undecided ☐
    d. Disagree ☐
    e. Strongly Disagree ☐

9. The Nigerian Deposit has contributed significantly to the development of the nigerian financial system.
    a. Strongly Agree ☐
    b. Agree ☐
    c. Undecided ☐
    d. Disagree ☐
    e. Strongly Disagree ☐