DEREGULATION POLICY AND ITS IMPACT ON THE NIGERIAN BANKING INDUSTRY

A RESEARCH PROJECT PRESENTED TO THE DEPARTMENT OF BUSINESS ADMINISTRATION, AHMADU BELLO UNIVERSITY, ZARIA IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTERS DEGREE IN BUSINESS ADMINISTRATION.

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DECLARATION

I hereby declare that this thesis is a product of my own work under the guidance of Mal N. Maiturare my Supervisor.

All works consulted have been acknowledged.

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The above declaration is confirmed by:-

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CERTIFICATION

This thesis entitled "Deregulation Policy and its impact on the Nigerian Banking System" by Yakubu Mohammed Mahmoud meets the regulations governing part of the requirements for the award of Masters Degree in Business Administration by Ahmadu Bello University, Zaria, and it is approved for its contribution to knowledge and literary presentation.

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May ALLAH (SWT) reward and guide us all, amen.

Yakubu M. Mahmoud

DEDICATION

This research is dedicated to the memory of my Late parents Hajiya Amina Maikaramba and Alhaji Mohammed Maikaramba for the proper upbringing and sponsoring my education.

ABSTRACT

The banking sector, by its nature of activities is the most heavily regulated sector in most economies. It is based on this criteria that the success of Nigeria's experiment with economic deregulation's must inevitably be assessed

The efficient functioning of an economy is to a great extent the responsibility of the banking industry. In this respect the rapid development of the Nigerian economy depends mainly on the depth of involvement of the Banking Industry. Following from the need for efficient functioning of the economy, the Central Bank decided to Deregulate the Financial Sector particularly the Banking System.

Deregulating the financial system particularly Banking is therefore an attempt to bring out the much desired development. This will broaden the monetary base and encourage competition in the Industry. This will bring about better quality service to customers and will also encourage Banking habit among the populace. This has greatly encouraged the researcher to write on the topic. **"Deregulation Policy and its Impact on the Nigeria Banking Industry.**

Deregulating the economy through the Banking sector will go a long way in developing an efficient money market thereby improving the payment system in the economy. In fact, the Deregulation Policy has improved the level of awareness of activities of Banks among Nigerians.

The researcher also this to give an insight into the regulatory policies of the Government and why they are necessary. What are their disadvantages.

The researcher used both Secondary and Primary sources of data in conducting his study.

Finally, suggestion and recommendations are made with regard to the ways of ensuring optimum results from the Deregulation Policy.

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Chapter One

1.1 General Introduction

The introduction of the Structural Adjustment Program (SAP) in 1986 was a unique opportunity to review all existing controls. As in other economies the Nigerian regulatory system developed over the years in response to financial crisis in the Banking ordinance of 1952 which set the standard and procedure for the conduct of Banking business by prescribing the mandatory minimum capital requirement for Banks and regulate banking business generally.

The campaign for deregulation of financial markets has been vigorously undertaken in both developed and developing nations. For instance, in the United States regulation, which imposed interest rate ceilings on the deposits of the Federal reserve member banks, was abolished in 1983. In recent times a number of third world countries with heavy debt burden and dwindling foreign exchange earnings have also developed policies designed to deregulate their earnings have also developed policies designed to deregulate their economy, particularly the banking sector. This has usually been carried out as part of comprehensive structural adjustment program. Nigeria commenced the deregulation of its financial system. The process started most earnestly with the liberation of interest rates and banking structure. At present, the monetary authorities seek to further deregulate the Banking Sector by moving away from direct to indirect control of money and credit. Historically, the overriding concern of the

deregulation process was the prevention of banks failure. Prior to the enactment of the first ever banking legislation in Nigeria (the 1952 Banking Ordinance), banks sprang up with abuses and malpractice's in the industry. These include counterfeiting, gross under capitalization and reckless spread of Branches, the Banking Act 1969 which was amended over time was promulgated. The Act provides for regulation and control of the monetary and financial system. It makes provisions for the granting of licenses to banks and imposes restrictions on certain activities of licensed banks. The Act makes provisions for the CBN to exercise its power in maintaining monetary and financial stability in the banking sector. In this regard the CBN as regulatory organ:-

a) Stipulates various prudential ratios to ensure liquidity and capital adequacy of banks

b) Prevents banks from investing in certain risky and illiquid assets, which could over expose the security of monies, and unfair competition in the economy.

c) Imposes limits on the size of loan that can be granted to one single borrower to avoid exposure and ensure equitable spread of available credit.

d) Controls interest rate on deposit and lending

e) Impose, direct and selective credit control on the size of overall lending to the private sector.

1.2 Statement of the Problem

In the recent past, Nigerian financial systems has witnessed considerable expansion in government

regulation of the Banking Industry. This has been aimed at enhancing sound banking operations and facilitating the pace of economic development. This brought about the need for effective management of the banks.

As these important measures were being introduced, there were considerable and noticeable variations in the priorities of Government as envisaged in the national development plans and those followed by the entire banks in Nigeria. In the context of the overall strategy of Nigerians economic development, the overriding objective as envisaged in the National Development Plan is to develop the economy as fast as possible and usher the country into a self sustaining economic growth.

In doing this, the banks recorded significant deviations from the guidelines issued by the monetary authorities. These deviations from guidelines imply that the regulatory process does not ensure the optimum allocation and use of resources. This study intends to assess the extent to which the banks have complied with the target set by the monetary authorities and also the impact of the regulatory process.

It is therefore the aim of this research to dwell in this problem area of finance from the point of view of the Nigerian Banking Industry and see why it has not responded to the opportunities within the Nigerian economy by financing real sector.

of the economy i.e. public and private sectors, the financial sector and have their responses to the policy and its impact on them.

1.4 Justification for the Study

With the daily increasing falling standard of living and rising unemployment, high inflationary rate due mainly to shortage and declining industrial and capacity utilization coupled with the burning desire to industrialize and break through technologically. There is an urgent need for all hands to be on deck to research into all sectors of the economy particularly the financial sector.

The need for this research project is to point out the benefits of maintaining the regulatory framework in the private sector. In a addition, to see whether the deregulation policy can serve as a means of reducing the distortions in the financial systems and the economy as a whole. Further more to assess whether or not deregulatory policy plays any useful role in both public and private sector.

1.5 Significance of the Study

The significance of this research work is to serves as a useful reference to researchers students in all disciplines, the financial sector, particularly the banking sector and the public at large.

To the researcher, the work provides him with an insight of the Federal Government dreams and decisions of deregulating the whole sectors of the economy.

To the students, this study will serve as a body of knowledge, source of secondary data and a base of conducting future research on related studies.

To the public at large, the research is significant that the policy concerns every citizen. It will give the populace detailed knowledge of the program, its implications, impact and government determination to resolve its problems.

To the Banking industry the study will serve as a base for self-auditing of their performances.

1.6 Scope and Limitations of the Study

One aspect of deregulation, which is of interest, was the removal of government accounts from the commercial banks. Although his is now being reversed, it will be of interest to note that the commercial banks have already adjusted to the situation.

This work studies how both the 1st generation banks and the newly established banks have been affected by the deregulatory policy. It will attempt to review in broad outline the banking sector and highlight deregulation policies in an attempt to evolve a more acceptable financial system. This project will also bring out the impact of the deregulation policies on the banks as regards their total deposit, dividends, interest rates on loans and advances, liquidity and cash ratios and performance generally under Structural Adjustment Program (SAP).

It will also look into the possibility of bank failure under the deregulatory policies.

Virtually in all works of life there are bound to be limitations or constraints to the attainment of optimal level of success. This study is also not free from such limitations.

One major limitation of this study is getting the public officers to talk on the topic. Both at the central bank and at the commercial banks, some officers refused to grant interviews or fill a questionnaire. This thwarts efforts at accessibility to classified documents to some extent thereby limiting the data for appraisal. Time also has a tremendous adverse effect on data collection. A substantial methods of collecting data are interviews and questionnaire and there is limited time to carry these out thus also resulting to a paucity of information that would have been used in the study.

Financial constraint is another limitation. The expenses of traveling far distances to gather data for the study limited the areas visited by the researcher.

1.7 **Plan of the Study**

This study takes a critical look at the impact of deregulatory policy on the banking industry.

The project is organized into five (5) chapters. The first chapter tried to make a general introduction of the subject of study, its scope and limitations are also stated.

The literature review is contained in the second chapter. It gives an overview of the functions and objectives of the Central Bank. It also attempt to review the activities of foreign banks vis-a-vis the indigenous banks. A brief historical development and growth of Nigerian Banking System is also discussed. Deregulation and its measures form the concluding part of the chapter. Research methodology is discussed in chapter three while presentation and analysis of data forms chapter four.

The project summary, conclusion and recommendations are in chapter five.

Research hypothesis

1. The Deregulation of the Banking System has impacted positively on the Nigerian Banking Industry.
2. Null Hypothesis. The Deregulation of the Banking system does not have a positive impact on the Nigerian Banking Industry.

Chapter Two

Review of Related Literature

2.1 Introduction

For the finance (particularly Banking) sector to be efficient, it has to be regulated to safeguard market failure, ensure social equity and stability and protect the market operators. Consequently, of all sectors the economy (worldwide) the banking sector is the most regulated because of its critical role, which is crucial to the survival of the economy. This role consists of collecting surplus funds from the general public, safe guiding them, and lending them to the public. In doing this, the bank must also make such funds available at anytime to the true owner on demand. The situation has further been compounded with the encroachment of non-bank financial institutions upon the functions of traditional banks. Be that as it may, the banks still control the major proportion of the nations money supply and thus to a large extent real development of the economy. For example, as intermediaries, banks are expected to vigorously seek out and attract reservoirs of idle funds which would then be allocated to entrepreneurs for investment in projects with a high rate of social return or they may on the other hand exploit their quasi-monopolistic portion to fritter away investment possibilities with productive loans (Cameron 1972). But generally, banks are dominant mobilizes of savings and promoters of investment. They play a central role in the conduct of monetary policies and

assist in preventing an overall balance in the economy.

The banking sector in Nigeria has undergone a long period of regulation and deregulation arising from bank failures of the 1950's. The period 1952 to 1959 (often describes as the free banking era) was virtually devoid of regulations. This situation led to mass bank failures. On account of that the period 1952 to 1959 witnessed several regulations aimed at sanitizing banking practice to enable the banks play their role in the development process. By 1985, the economy as a whole (including the banking sector) had shown such strains that made a shift in the regulation framework imperative.

2.2 **The concept of Regulation and Deregulation**.

Regulation is seen as a body of specific rules of agreed behavior either imposed by some government or implicit agreement within the industry that limits the activities and business operations of financial institutions. The primary objective of regulating the financial system of a country is to ensure the safety of that country's financial system by checking competitive iniquities and other inefficiencies.

Deregulation on the other hand is a response to regulatory failure which occurs when the outcome of attempting to fight market failures are inferior to what the situation would have been without regulation (Ojo 1994). The term has become a well-known cliché whose use has tended to be confusing and misleading. It is therefore in urgent need of definition and clarification.

Deregulation was also defined by the World Bank President, Mr. Bulber Canable in 1981 as the process of enthroning market forces as the sole determinants of resource allocation in an economy which involve reducing the role of government in the economy.

Dr. M. O. Ojo in a paper titled "Deregulation in the Nigerian Banking Industry - A review and appraisal" in 1991, defined deregulation as "the deliberate control structures and operational guidelines in the administration of pricing system in an economy.

Deregulation can also be termed as an "informed liberalisation of the structural and operational guidelines that have hitherto inhibited the efficiency of the market system in resource mobilisation and allocation". Mr. John Ebodaghe gave this definition, then Managing Director of NDIC, in a paper titled "Impact of Deregulation on the Nigerian Banking Industry" In NDIC quarterly review March 1992.

Another definition was given by Ballama Musa in a paper titled "The role of Banks in a Deregulated Developing economy". He views deregulation as the "process of proliferation of banks and other financial institutions as a result of relaxation of entry barriers and which ushered in a new wave of competition among banks and for intensification of deposit mobilisation and for effectiveness and efficiency of the said institution". The text of this paper was carried in the Concord of June 1st 1993.

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The researcher views deregulation as appropriate realignment in fiscal, monetary, trade, pricing and exchange rate policies and also as a tool for reducing undue government intervention in economic activities.

The literature on deregulation is highly controversial the world over. It is polarized along ideological lines and level of economic growth of nation states. Whilst the industrialized nations of the northern hemisphere are advancing the position that banking services are one of the most potential forces in resource allocation and efficiency, this could be relied upon for planning and development, the economies and government of the less developed nations are kicking against the principle.

Moreover, another case for deregulation can be seen from the official positions of the international multi-lateral agencies like the IMF, the international bank for reconstruction and development (IBRD), the commercial and merchant banking group of the developed countries are continually attaching their assistance with the process of deregulation.

Hence deregulation came to be universally acknowledged as the best policy to integrate into nexus of the international capitalist economic system.

In my view, Deregulation does not mean the absence of regulation. Rather, it is the deliberate, informed process of removal or mitigation of regulation which are worthless and tend to foster inefficiency.

Properly considered, deregulation is a rationalization of regulations. In this connection it involves the introduction of new measures intended to enhance efficiency and stability.

2.3 Why Regulations are Considered Essential

Initially, Nigeria followed the example of the United Kingdom and made the Central Bank of Nigeria, the body statutorily charged with the regulation and supervision of the Banking System. Today the regulatory activities of the finance sector are shared by:

i) the Central Bank of Nigeria which is the apex of the sector
ii) Federal Ministry of finance
iii) The Nigerian deposit insurance corporation (NDIC)
iv) The securities and exchange commission (SEC), and
v) The Federal Mortgage Bank of Nigeria (FMBN) which oversees the mortgage institutions Regulation in its intent seeks to ensure the safety of a country's financial system. Deregulation as a means of securing that safety has been justified on a number of grounds including:

- Facilitation of the execution of macro economic policies: Regulation is often justified when seen as attempt to facilitate the execution of monetary policy and ensure the most appropriate allocation of resources to important sectors of the economy and in the process assist in ensuring success of

governments macro-economic objectives. For example each year government in its monetary, credit, a foreign trade and exchange policy guideline prescribes high percentage of credit allocation to priority sectors of the economy.

- Protection of Banks Against Risks: In the exercise of their functions, banks take several risks for example, credit risk arising from default or delay in making or receiving payment; liquidity risks arising from maturity mismatches, faulty Balance Sheet structures and changes in interest rates; assets prices and foreign exchange rate fluctuations, operator errors and inefficiencies, risks arising from frauds and defalcations etc. (Nwankwo, 1990, Revell, 1975; Gardener 1986, Pecchioli 1983).
- Restoration of confidence: The substance of banking industry is built around confidence. If that confidence collapses, the sector and the entire financial system face imminent collapse. Regulation is therefore justified on political decision to ensure successful and sustained operation of the financial system and protect the consumers of banks products.
- Safeguard against market failures: The market failure resulting in the banking boom and the crash of the late 1940s and the early 1950s led to the first banking legislation Nigeria.

2.4 Some Reasons for Failure of Regulations and Deregulations

In Nigeria, regulation and deregulation have failed for a number of reasons:

- The lack of political will by government to make them succeed and to enlist public support

- Ineffective interventions approach - why attempt complete deregulation of an economy with imperfection and structural rigidities. After interest rate deregulation in 1987, temporary controls were re-imposed in 1991 and early 1994 in response to the distortions created in the market.

- Lack of adequate encouragement to the private sector. In the Indonesia case, strong export orientation was a strong reason for success. In the Nigerian case, the history of attempts to promote non-oil export has been that a gross failure.

- The lack of policy coordination between the regulators and the operators. We have too frequent cases in Nigeria where banks and the private sector have faulted the CBN, the Federal Ministry of Finance on monetary and fiscal policies immediately such policies become known. One wonders whether consultation before the formulation of such policies could not have minimised areas of conflict and consequent failures.

2.5 Banking Regulatory Framework

In this section, an attempt is made to examine the various approaches adopted in trying to regulate and deregulate the Banking Sector. The regulatory and deregulatory Policies are broken down into phases.

2.51 - Free Banking era 1982 - 1952

Some glaring features of this period were:

- The complete monopoly of the sector by foreign banks which included the African Banking Corporation (now First Bank of Nigeria); the colonial Bank (now Union Bank); and the British and French Bank (now United Bank for Africa).
- The establishment of several banks - a total of 185 backs where reportedly established between 1947 and 1952 of which 145 were registered in 1952.
- The collapse of the banks
- Many of the banks were undercapitalized
- Rapid and indiscriminate bank expansion
- Bad management, persistent stealing, imprudent lending.

This period is also described as the free banking era because of the ease with which banks were established (which was the cause of mass bank failure).

2.5.2 Pre-central Bank era 1952 - 1959.

This period began with the enactment of the Nigerian Banking ordinance which defined Banks and Banking business, prescribed minimum capital requirements for expatriate and indigenous

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banks, required the banks to maintain a reserve fund and adequate liquidity, prohibited banks from paying dividends before fully writing off capitalized expenditure and from making loans against the security of their shares. It also imposed ceiling on unsecured loans to directors and to companies in which the directors had in interest, and provide for bank examination and supervision.

By the time the ordinance became operational for all banks in 1955, only three indigenous banks survived: Agbonmagbe Bank (1945), African Continental Bank (1947) and Merchant Bank (1952) which later failed in 1960. Notably, the ordinance could neither establish a viable banking system nor prevent serious malpractice and abuses in banking.

2.5.3 The era of Banking Regulation 1959 - 1985:

The legislation that were enacted during this period were aimed primarily at remedying identified defects in the system and closing loopholes in the previous legislation and stem the tide of Bank failures that occurred in the previous period. This era began with enactment of the Central Bank of Nigerian Act of 1959 that gave legal backing to the establishment of the Central Bank of Nigeria. During the period 1959 - 1970, several important legislation were enacted aimed at promoting and integrating the Nigerian financial system. Five of these included: the 1958 ordinance that became

effective in 1959; the 1966, 1962, 1964 amendments and the 1969 banking decree.

The immediate outcomes of this legislation were the development of the money and capital market. Emergence of more commercial banks - between 1959 and 1962, 17 new commercial bank was established. The 1969 Banking Act for example, adjusted the capital requirements for both indigenous and expatriate banks; provided for the first time for capital deposit ratio; increased the capital - loan ratio and extended the CBNs power to include vetting banks advertisement and authorizing opening and closing of branches and bank amalgamations.

The 1968 Companies Act required banks operating in the country to be incorporated in the country. Banking regulations during the period were largely prudential which aimed at ensuring sound backing practices and to protect customers.

The second period of this phase (1970 - 1985) witnessed several regulatory measures taken by the government. Between 1970 and 1977, the government took two important measures: The Indigenisation enterprises Promotion Decree, 1972 which was amended in 1977, the acquisition of controlling interest (40%) by government in the then existing expatriate banks (First Bank, Union Bank and UBA). In line with indigenization programmes and the establishment in 1976 of a financial system review committee

to review the whole financial system in order to strengthen the efficiency of the financial system (the Okigbo Committee 1976).

During this period, as a means of strengthening the banking sector and accelerating its impact on economic development, government established and wholly owned the Nigerian Agricultural and cooperative bank, Nigeria Bank for Commerce and Industry and reconstituted the Nigerian building society as the Federal Mortgage Bank of Nigeria. States followed by establishing state commercial banks and development finance companies.

This period also witnessed a more intensive intervention by the public sector in the financial sector which took a form of direct credit, strict control of interest rates and sustain increase in the paid-up capital of new banks. From this period upwards, although the policy objectives were to ensure sound banking practices and to protect customers, the control instruments became rather restrictive For example, interest rates on bank deposits and loans were administratively controlled to give preferential treatment to certain priority sectors e.g. agriculture, industry, manufacturing, direct and selective credit controls were imposed on the size of lending to the private sectors, minimum proportion of available credit was allocated to certain sectors which needed a substantial amount of credit.

2.6 The Era of Deregulation (1986 - 1993/1995)

This period although described as the period of deregulation ended up with so many regulations aimed at collecting the distortions caused by regulatory controls. This is indescribable because in order to change old rules of the game" new ones have to be put in place and this requires new regulations. This period generally referred to as SAP period was designed to alter the structure and operational mechanism of the financial system among other objectives. The foreign exchange market and interest rate structure became important targets.

In 1982 the country returned to stricter exchange control practices as budgetary instrument to limit the country's foreign exchange in line with the declining foreign exchange earnings worsened by the Civil war. The foreign exchange control measures were complemented by various trade restrictions and by 1983 there were as many as 182 commodities added to the list of imports requiring import licenses.

The CBN Decree No 24 and the Banks and other financial institutions Decree (BOFID) No 25 both of 1991 which replaced the Banking Decree of 1969 as amended, were meant to improve the level of banking operation in the country. The Nigerian Deposit Insurance Corporation (NDIC) was set up by Decree 22 of 1988 to insure the deposit liabilities of licensed banks, provide financial and technical assistance to the banks and contribute to the quest for a safe and sound banking environment in Nigeria.

Issuance Decree No 58 of 1991 which replaced Decree No 59 of 1976 is seen as a landmark in the in the history of insurance Practice in Nigeria as Nigerians are a now given the opportunity for greater participation in the industry.

The establishment of the People's Bank (1989) and the community Banks (1990) have created a new credit channel for the grassroots who hitherto have been denied access to credit by the traditional financial institutions. The Nigerian Export and Import Bank (NEXIM 1991) has been set up to promote the export of non-oil products by avoiding credit and risk-bearing facilities.

The National Economic Reconstruction Fund (NERFUND Decree No. 2 1989) and the Bureau de change (1989) were established to provide less cumbersome access to credit for small and medium enterprises.

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2.7 Deregulation Policies

In July 1986, the Federal Government launched a program of adjustment with the following specific objects:

- to restructure and diversify the productive base of the economy. In order to reduce dependence on the oil sector and imports;
- to achieve fiscal and balance of payment viability over the period.
- to lay the basis for sustainable non-inflationary growth and
- To lessen the dominance on unproductive investment in the public sector, improve the

sector efficiency and identify the growth potential of the private sector.

Not quite unexpected, these broad objective had all the trappings and dexterity of policy exertions incorporated in previous long term development plans. A change was to be introduced in the vehicles for implementation, which were identified as key elements of the reform.

These elements were primarily a mixture of monetary and fiscal instruments intended to have a far-reaching transformation effect on the economy. The following were the major policies of the deregulation era.

- New exchange rate structures;
- Relaxation of controls on interest rate;
- Registration of more banks;
- Credit controls and reserves requirements.

2.7.1 New Exchange Rate Structure

Efforts to resolve the international debt crisis of the '80s revealed that economies of most developing countries had problems amounting from over-valued exchange rates. As a result, the output of these economies continued to decline, as imports were cheaper and more attractive. This was exactly the case with Nigeria when the reforms were introduced in 1986 and it was not surprising, therefore, that one of the moves under the reforms was to correct the rate distortion. The second - tier foreign exchange market (SFEM) was quickly introduced to operate concurrently with the then official first-tier market, which accommodated payments for only public sector debts and obligations to international organizations.

Under the second-tier foreign exchange market (SFEM), a floating exchange rate mechanism was adopted. In 1987, the market determined rate was unified with the first-tier and the foreign exchange market (FEM) was born.

Guidelines for operating the Foreign Exchange Market (FEM) signaled the first major step in deregulating the banking system. Banks were for the first time allowed to be involved in the disbursement and management of the country's foreign exchange, a function hitherto preserved exclusively for Central Bank of Nigeria. (CBN).

Market determined foreign exchange rates have had a far-reaching effect on banking sector in particular and the economy in general. The value of the Naira vis-à-vis the U. S. Dollar had edged downwards from US$1 =N=3.1828 at the end of 1986 to =N=18.7860 by April 1992. This has affected general price levels and purchasing power in the economy. In the long run, this effect would have the desired advantage of enhancing operational efficiency and productivity. In the short-run, it has visited hardships on business whose working capital requirement increased to about 20 times within a period of six years. As a consequence, there was on the other hand an increased demand for credit from the Banking Sector and on the other hand, an unprecedented rise in the number of non-performing loans in banks portfolio.

2.7.2 Relaxation of Controls on Interest Rates

Prior to the introduction of the new monetary and fiscal reforms, the Nigerian monetary authorities

controlled bank interest rates for borrowing and lending. There was always the stipulation that various rates should not fall below or exceed certain ranges. For certain sectors of the economy, interest rates were even subsidized i.e. cover than the rates obtainable in the general economy. However, in August 1987, the Minimum Rediscount Rates (MRR) were increased to 15%. This marked the beginning of the deregulation of interest rates because the new policy allowed banks to charge or offer rates dictated by free market forces.

"The objectives of this deregulation of interest were specifically identified and designed to encourage the mobilization of financial savings as well as a more efficient utilization of financial resources. Mobilization of financial savings is imperative particularly because of current developments in the International scene. As an aftermath of the debt crisis of the '80s, international funding was greatly depressed and increasingly the pointer is for developing countries to finance investments from domestic mobilization of savings. The problem of dwindling inflow of foreign funding would be further aggravated in the '90s by the opening up of Eastern Europe and the former Soviet Union which will put additional pressure on sources like the International Bank of Reconstruction and Development (IBRD) and International Monetary Fund (IMF).

Our emphasis on mobilizing domestic savings is therefore appropriate and has the potential of preparing us for self-reliance.

The high interest rate structure that emerged from the deregulation exercise was also viewed as having the positive-effect of encouraging more efficient utilization of financial resources. Experience has shown that low interest rates encourage excessive and conspicuous as well as unproductive consumption. Low interest rates also undermine savings. This is because inflation makes low interests negative in real terms. Subsequently however and informed by the experience gathered so far, the policy was reviewed and lending rates were pegged to a maximum of 21% p. a in fiscal 1991.This was made possible so as to ease the high inflationary pressure on the economy and thus the over heating of the economy. The new restriction proved both counter productive and in conflict with over all economy. It was therefore withdrawn in January 1992.

27.3. **Licensing of more Banks**

Since 1986, the profile of the Banking industry has transformed in various dimensions and development in terms of numbers has been quite phenomenal. The general deregulation policy. Invariably induced the lifting of restrictions on licensing of more banks. The objectives of this move were to create room for greater competition, promote banking habit and ensure better and efficient service delivery.

Available data indicate that the number of Banks grown by over 150% from 40 in 1986 to over 120 by end of 1991. The number of commercial banks grew by about 50% from 1986 to 1991 while merchant banks grew by over 200% in the same period. This growth pattern shows higher weighting on the proliferation of

merchant bank, a development not necessarily the best since merchant banks by their nature do operate with many branches. For instance while the total number of banks grew quite significantly, total number of branches grew by only 37% from 1394 in 1986 to 1910 by December 1989.

The need to license more commercial banks because of their propensity to open several branches and therefore serve a wider spectrum of the economy is buttressed by the country's bank branch network rating by international standards.

2.7.4 Credit Controls and Reserve Requirements

Prior to 1986, monetary policies sought to rigidly control credit growth and application. In 1981, the economy was divided into 14 sectors with some designated preferred and some less preferred. Credit allocation to these sub-sectors by commercial banks was 75% to the preferred and 25% to the less preferred sectors. Interest rate was subsidized for some sectors and the less preferred sector attracted the maximum lending rate of 11.5% while, the preferred sectors were to be charged a maximum of 9.50%. Agricultural and housing were charged 6%.

With the introduction of structural reforms, the sectoral allocation mechanism was reviewed and the number of sectors reduced from 14 to 3, namely, agriculture, manufacturing and others. The first two were designated priority sectors. Decision has also been taken to remove credit growth ceiling and instead employ indirect methods of monetary and credit control through reliance on market forces.

Reserve requirements and liquidity ratios were also reviewed in line with the deregulation process.

2.7.5 The Prudential Guidelines

The introduction of the prudential guidelines has affected the performance levels of most banks in the country. The old banks were for obvious reasons more affected by the guidelines. Basically, the guidelines require all banks to categorize their loan portfolio into performing and non-performing ones. Various provisions are to be made in the banks' profit and loans account as a deduction against revenues. The provisions are to be made against the principal amounts of loans, which fall within the category of the non-performing assets. This is in addition to the non-recognition of earned but not realized income. The hardest hit of the banks are commercial banks which are ten years old or more. Merchant banks are not as hard hit because of the nature of their loan portfolios. No wonder then that some of the old commercial banks were declaring losses in hundreds of millions of naira, and still carrying forward unamortised loan loss provisions in excess of billion naira mark. What all these means in the short run is that there are losses for these commercial banks which are old because they would be the ones to be caught with non-performing loans which require the 100% provision.

2.8 Impact of Deregulation on the Banking Sector

Competition was accentuated in the banking sector by the general deregulation pursued under the adjustment programme. The unprecedented proliferation of new

banks was decidedly a factor, but the real stimulant for completion was the transfer of all public sector funds to the Central Bank of Nigeria (CBN). The directive for this transfer was issued in May, 1989 and resulted in the withdrawal of over =N=5 billion from the banking system. An enormous liquidity squeeze was experienced to the extent that the survival of some banks was hightened. Competition for deposit was heightened and because of very high competition, Banks developed all kinds of products like weekend banking, free life assurance for savings account holders etc all in an effort to gain a competitive advantage.

The proliferation of banks however brought to the fore problem of manpower shortage in the Banking sector. The new banks source virtually all their manpower needs from the existing banks. Staff without good working experience found their way to the top in new banks by changing jobs frequently. In many cases, unsuitable personnel filled sensitive positions. The manifestations of weak internal control, poor credit decisions, and contravention of statutory regulation and internal ineptitude.

The adjustment of the Naira exchange rate and the explosion of interest rates on lending had the undesirable consequence of affecting the lending portfolios of many banks. Many borrowers became unable to service rising interest obligations and the number of non-performing accounts therefore increased. While this implied less funds for recycling to other borrowers, there was on the other hand an across the board increase in demand for

credit to finance working capital requirements. To compound the problems, there were credit growth constraints, higher liquidity ratios and stabilization debits from Central Bank of Nigeria to cope with.

The deposit insurance scheme introduced in 1988 also had a far reaching impact on the Banking sector. The vehicle for implementing this scheme in the Nigerian Deposit Insurance Corporation (NDIC) which principally seeks to protect bank depositors who are perceived as being exposed to more risk especially in the light of increasing deterioration in quality of bank lending portfolios. Two areas of concern in the operation of this scheme are the volume of insurable deposits and quantum of premium payable. Section 20 of the Nigerian Deposit Insurance Corporation (NDIC) Decree provides that all deposits of a licensed or any other financial institution shall be insured with the corporation, although exceptions have been made in respect of insider and counter claim deposit. The decree defines deposit as all monies lodged for safe keeping or for the purpose of earning interest. The intention is therefore, to insure the entire deposit of the financial system. Opinion is widely held within the banking circle that depositors are getting more than ample protection as not all their monies are exposed to risk.

So the impact of deregulation has both positive and negative consequences. There are areas where the exercise has achieved its objectives and there are areas where it has failed.

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CHAPTER THREE

RESEARCH METHODOLOGY

3.0 INTRODUCTION

Research can be referred to "as the process of arriving at a dependable solution to the problems through the planned and systemic collection of data, analysis and interpretation". In this chapter, the method adopted in solving the problems of this research work and the means of arriving at the purpose of the study will be determined.

In collecting the information and the data, the researcher used a number of methods, these include or range from interview to observation of records, questionnaire's. It is the aim of this chapter to highlight these methods and to discuss the limitations in each of the methods used.

3.1 Population Description

When we talk of the regulation of the economy, it embraces all factors of the economy. It will not be realistic to attempt to cover all the sectors in the economy considering the limited time within which the study should be carried out. Furthermore, experience has shown that officers in such organizations like the banking sector are not willing to answer question bordering on their activities. The researcher is therefore availed with data from some few sources with firm conviction that the information collected from them make reliable representation of what may be

happening in almost all the other sectors of the economy.

What the research considers most important is the careful and proper analysis of the data collected from the organisations so as to arrive at a valid finishing and conclusion.

3.2 Research Design

This research work is designed on the impact of deregulation policy on the Nigeria banking industry, and it is also designed to examine a particular services in the Nigerian context to analyse its activities and relate its impact on Nigeria economy as a whole, to find out problems facing effective provision of banking devices and profer solutions.

3.3 Method of Data Collection

A. Primary Sources

Primary data are those data the researcher goes to collect, as first hand information required for a research work of this nature. The data collected are through personal interviews, personal observations of records and the administering of questionnaires. The primary data are considered superior to secondary data.

For the purpose of this study, the research data was obtained through the following miles

(i) Interviews were conducted based on appointment between the researcher and some principal officers of the commercial banks. Some questionnaires were forwarded to officers who were answered. These answers

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Inorder to verify the hypothesis and response to the questionnaires to eliminate bias, a special interview questions were drawn and administered to investors and academics in and around Kano and Kaduna.

(B) Secondary Sources

Secondary data are statistics not originally gathered for an immediate study at hand, but for some other purpose. The secondary data are essentially obtained from library research such as textbooks, seminar papers, Journals Magazines and some records etc. This serves to better state the problems under investigation, this source has the advantage over cost and time economy which is afforded to the researcher.

3.4 Method of Organizing Data

The method of organizing data will be statistical as well as narrative in nature. The statistical method will consist the use of tables and computation of percentage. The two methods are supposed to compliment each other in order to display the analysis of the research study in an explicit manner that will be easily understood by other researchers and readers in that are.

3.5 Method of Data Analysis

Statistical methods will be employed in the analysis of data. This will make easy interpretation and understanding of the results of the study.

were important and relevant in writing the project.

The informal information and discussion with the members of academic community, renown individuals, investors and the officers of the central bank.

The CBN officials for security reasons granted no interviews, they however made handy copies of their bullion and economic and financial review.

(ii) Questionnaires

The questionnaires contain list of question pertaining to the deregulation policy on the banking industry to obtain the relevant information from a given population of about 100 respondents. These questions were sent to banks chosen randomly and only in Zaira, Kaduna, Jos and Kano. The questions centered on the measures of deregulation policy and the mechanism used in effecting the policy.

(iii) Observation of Records

Doing the exercise records were critically examined various central bank of Nigeria Publications, monthly/quarterly report, economic and financial review and the annual financial statements of the big three banks (i.e First Bank, Union Bank and United Bank for Africa.)

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1 PRESENTATION OF DATA

Banking sector is the most heavily regulated sector in any economy. The reasons for this include:-

i) To protect the depositors

ii) To promote financial and monetary policies of the economy.

iii) Promote an efficient and competitive Banking system

iv) Protect the consumer of Banking services

With these laudable objectives for regulating the activities of banks, the question is - why then does the Central Bank have to deregulate the Banking Industry?

Over the years these have been no defined Banking regulation Nigeria as all the measures adopted were circumvented, the objectives were far from being achieved even with the four decades of the existence of the Central Bank of Nigeria. The three big multinational banks had dominated the Nigerian Banking Industry, for nearly half a century viz: First Bank of Nigeria PLC, Union Bank of Nigeria Plc and United Bank for Africa PLC. These Banks have a greater share of the market hence the profit and most of these profits were repatriated overseas. Loans and Advances were also biased against the local entrepreneur. These and many other actions of these

foreign banks destroyed the very foundation of our financial and monetary structure. The objectives of the regulation policy became ridiculous aspirations, which were achieved.

In the light of the foregoing, the Federal Government of Nigeria through its monetary authority (CBN) decided in 1986 to deregulate the financial sector and indeed the whole Nigeria economy. It must be stated here that, this study is not in any way representing an expert view, but rather it is borrowed from the knowledge of some scholars to support the arguments.

4.2 ANALYSIS OF DATA

It will appear from all the available empirical evidences that the Nigerian Banking Industry has made a great deal and significant progress during the period of deregulation. Undoubtedly the impart of the deregulation process received by the Nigerian Banking Industry was more evident as table 1.1 shows the pattern of establishment of new banks between 1980 - 1985. The current deregulation is an economy-wide measure that has necessitated the harmonization of the fiscal, monitory, trade, pricing and exchange rate policies within this context, therefore, deregulation should be seen as an informed liberalisation of the structural and operational guidelines.

The accompanying financial policy reforms are centered on the strength of the systems resistance to shocks and increase its sensitivity to the market forces. The first set of the regulatory frame work in line with the new financial policy direction

include the review of the regulating institutions status, statutory functions or their enabling Acts to make them more effective in controlling their respective areas of financial system. Important developments in this respect include the granting of greater autonomy to the Central Bank.

BANKS ESTABLISHED IN NIGERIA BETWEEN 1980 – 1985

YEARS	NO. OF BANKS	NAME OF BANK	TYPE	DATE INCOR P.	DATE REG. LICENCE	DATE COMM. OPERATION
1980	-	-	-	-	-	-
1981	Hilary	INDO-NIGERIA MERCHANT BANK	MERCHANT	26/11/81	1981	1982
1982	3	OWENA BANK	COMM	3/12/81	13/1/82	1992
		PROGRESS BANK	COMM	3/12/81	27/1/82	1982
		MERCHANT BANKING CORPORATION	MERCHANT	3/12/81	1982	30/11/82
1983	8	HABIB NIGERIA BANK LTD		12/1/83	7/3/83	4/5/83
		COMMERCIAL CREDIT LOAN BANK	COMMERCIAL	1981	1983	1984
		LOBI BANK	COMMERCIAL	1983	1983	1983
		MERCHANT BANK OF AFRICA	MERCHANT	1983	20/6/85	30/6/83
		FIRST CITY MERCHANT BANK	MERCHANT	1985	11/8/83	1983
		GRINDLAYS MERCHANT BANK	MERCHANT	22/8/83	13/2/83	11/1/84
1984	2	NIGERIA INT. BANK	COMMERCIAL	2/5/84	1/9/84	15/9/84
		UNIVERAL TRUST BANK	COMMERCIAL	21/6/84	3/12/84	22/4/85

The above table shows the establishment of banks between 1980 and 1984.

On the whole, 1983 saw the highest figure of 8 banks, four Merchant Banks Four Commercial banks.

Available data indicates that the number of Banks has grown by over 50% by 1991. The number of commercial

Banks also grew up by about 50% from 1991 while Merchant banks grew by over 200% in the same Period. This is indicated in table 1.2.

Table 1.2

BANKS ESTABLISHED IN NIGERIA BETWEEN 1986 AND 1990

	1986	1990	%
Number of Commercial Banks	30	58	48.3
Number of Merchant Banks	12	49	75.5
Number of Finance Houses	5	212	97.6
Branches of Commercial Banks	1367	1921	28.8
Branches of Merchant Banks	27	80	66.3

Sources CBN economic and financial review

As can be seen from the above table by 1986 there were 30 commercial banks and 12 merchant banks. This figure to 58 commercial banks and 49 merchant banks by the end of 1990 reversing 48.3% and 75.5% increase respectively.

This is due largely to the deregulation of the financial sector. Also the number of finance houses has significantly increased from 5 in 1986 to 212 in 1990 representing 97.6%. So also the number of branches of both the commercial and merchant banks.

Interest rates rose to unprecedented level immediately deregulation was introduced from an average of 12.6%of the end of July 1987, which marked, and of era of administrative determination of interest rate. Lending rates moved to 17.6% in August 1987, the immediate month commencing the period of the deregulation of interest rates. Since then interest rates/lending rates have been increasing. The drive to mobilize deposit with the upsurge in the lending rates was accompanied by the

increase in the savings and time deposit rates which moved from the respective average of 11% and 12.2% in July 1987 to 13.3% and 14.7% in August 1987. At the end of December the lending rate had moved to 18.5% while savings and deposit rate rose to 14.50% and 15.00% respectively.

In 1988, the lending rate maintained and averages level of 17.5% while the increasing figures for savings and time deposits were 12.0% and 13.0%. During the four years period from 1987 (the years deregulation of rates was introduced) average deposit rate rose steadily from 13.3% in 1987 to 13.4%, 15.3% and 20.9% during each year of 1988, 1989 and 1990 respectively.

During the entire period of 1990 all the levels of interest rates exceeded their 1989 levels while the lending rates attained an average of 26.4%, savings and fixed deposit rates reached 18.8% and 20.8% compared with their corresponding levels of 25.3 for the lending rates, 16.4% and 19.5% for savings and fixed deposit rates in 1989 even the presence of excess liquidity in the banking system during the greater part of 1990 did not succeed at bring down the rates.

The increase in both the lending and the interest rates has significantly made an impact on Banking Industry because it encouraged borrowing and savings mobilization among the good customers of the Banks.

Source: Bullion January/March, 1998.

Table 2.1 Questionnaire Analysis

Code No.	How do you Judge the effect of Deregulation on the Banking Industry in Nigeria?	Number of Response	%
A	Positive	70	82.35%
B	Negative	10	11.77%
C	No effect	5	5.88
D	Don't know	-	-
		85	100

From the above table we can see the number of responses and their percentages. It can be seen that based on the question above there are 70 positive responses representing about 82.35% giving that deregulation has a positive effect on the Banking Industry in Nigeria. This shows that deregulation has made a tremendous impact on the Banking Industry.

Table 2.2 Questionnaire Response Analysis

	Do you think the increase in the number of Banks and other Financial Institutions is due to deregulation?	No. of Responses	%
A	Yes	80	94.12%
B	No	5	5.88%
C	Don't know	Nil	
		85	100%

From the above table we can see the increase in number of Banks and other Financial Institutions is due to deregulation. The responses show that 80 responses were yes which represented 94.12%. However, from the data collected both primary and secondary data showed that the deregulation has led to the significant increase in the number of Banks and other financial institutions particularly the Commercial Banks in Nigeria. It is very

clear that this has proved the hypothesis right which states that (the positive) deregulation has led to significant increase in the number of institutions in the financial system.

Also, it can be seen that tables 1.1 and 1.2 have. Proved the same hypothesis right. Table 1.1 showed the establishment of banks in Nigeria and table 1.2 showed an increasing number of Banks in the financial institutions indicating, a growing upward trend and a competitive environment.

Table 2.3 Questionnaire Response Analysis

	In which area do you think deregulation has made the most impact on the Banking Industry?	No. of Responses	%
A	Volume of Business	20	23.53%
B	Number of Institutions	35	41.18%
C	Competitive Environment	30	35.29%
D	None of the above	Nil	Nil
		85	100%

We can also observe from table 2.3 that there are 35 responses representing about 41.18% regarding the above question. This also has helped in proving the hypothesis, which states that the deregulation has led to significant increase in the number of institutions. Seeing that deregulation is a continuous process, it is well understood and observed from the primary and secondary data collected, that the policy encouraged the development of Banks and it is the best thing that ever happened to the Nigerian Banking Industry.

4.3 FINDINGS

IMPACT OF DEREGULATION ON THE COMMERCIAL BANKS

The full impact of deregulation on the Banking Industry can be sufficiently evaluated since most of the expected effect can only be apparent on the medium to long-term. Besides, the financial system is still subject to have fundamental direct controls. In more rigorous impact analysis, some important elements such as the level and structure of interest rates, growth of the Banking sector, competitiveness and the efficiency of the system, the Banks loan Portfolios would need to be evaluated. The following will be discussed below as the major observations that came to the researcher's notice during the course of his investigations.

4.3.1 COMPETITION

Competition was accelerated in the Banking sector by the general deregulation pursued under the Structural Adjustment Program, which is the biggest challenge, triggered largely by the deregulation, of the financial system.

The advent of more banking institutions (from 42 in 1986 to 107in 1990) simply means that a customer now has a wide choice and has become very discerning, he is going to the Bank he has confidence in, that has financial strength, institutional stability, a good crop of experienced staff. The increasing number of Banks also implied easier access to credit. New products like weekend Banking, free life assurance for savings accounts holders' etc also emerged all in an effort to gain competitive advantage.

4.3.2 WITHDRAWALS OF PARTICULARS DEPOSITS

With the directive by the Federal Government to all its parastatals in which government holds 100% interest to transfer all there deposits with commercial and merchants banks to the Central Bank of Nigeria.

The result of such a directive was the sudden withdrawals of about =N=12 billion from the system which shook commercial banks and became a serious threat to the existence of many banks which reflected in their deposits. The sudden withdrawal of government funds provided such a negative impact.

4.3.3 FLOATING INTEREST RATES

The most recent deregulation is that of interest rate. The leading rate in 1990 was 21%. In 1992 budget, Pronouncement, this has been left for free market.

The effect will be to restrain all but the most efficient borrowers and hopefully to attract foreign funds. The effect of this is that the Naira in circulation may drop to the level of goods and services, thus forcing prices down.

The floating interest rate also depends on the loanable funds available to banks. This cannot be devoid of increase in monetary base of the commercial banks. In this situation, the percentage of monetary base was left to float.

When Central Bank of Nigeria feels there is too much money in circulation, the percentage of monetary base

is raised up, this helps in moping up excess liquidity in the economy. This to some extent will raise the level of money in circulation and reduce demand for loans. The effect of this on Banks is that the interest rate will fall and thus inflation is indirectly chècked.

The immediate impact of the deregulation of interest rate structure is the increase in the cost of funds (as depositors will now bargain for higher deposit rated matched by another increase in prime lending and total lending rates. The long-term impact is a general stable interest rate structure that reflects the economic realities.

4.3.4 CREDIT POLICY AND LIQUIDITY SQUEEZE

Also, in the area of Credit policy and Portfolio selection, a new sense of rationality has emerged following the gradual deregulation of the policy of sectoral allocation.

With the rate of inflation rising, the Central Bank of Nigeria prohibits the use of foreign deposit as collateral for Naira loans in 1989. This policy marked the beginning of the 1989 liquidity squeeze, which was later reinforced around April 1989, following the debiting of about =N=1.5 billion to the account of about 19 banks by the central bank of Nigeria in order to meet the liquidity ratio requirement.

4.3.5 DEREGULATION OF THE FOREIGN EXCHANGE MARKET

This market at a positive impact of Deregulation. It has generally achieved for the Naira a market

determined exchange rate, which made the abolishing of the complex and much abused system of discretionary controls such as import licensing and exchange control possible. This has also fostered a large measure of rational economic and financial behavior in both the public and private sector of the economy.

4.3.6. PRUDENTIAL GUIDE LINES

The biggest immediate challenge to the Banking sector is how to survive under the current prudential guidelines for lending. The guide lines which stipulates varying percentage provisions that Banks have to make in respect of their non performing loans and Advances. Besides, a general provision of one percent on all performing loans, banks have to set aside 10% for substandard loans (over 90 days but less than 180 days), 50% for doubtful loans (over 180 days but less than 360 days) and 100% for lost Advances (over 360 days).

The measure has shaken the very root of the Banking sector. First Bank PLC for instance went from =N=105 Million profit in 1990 to a loss of =N=205 Million in 190. This measure also seriously affects the loans and advances portfolios of the commercial banks. It also brought about the greater as result on their income since the introduction and enforcement of the prudential guide lines. This is the general treat amongst the other big brothers in the Banking system. The young ones have little of this problem but the message is clear to all and sundry.

Before the introduction and enforcement of the presidential guide lines in Nigeria in 1990 the banks particularly the beg there namely First Bank, Union Bank and United Bank for Africa were managing their uncorrectable debt through creative accounting to present a profitable operational picture.

FOOT NOTES

1. Presidential guidelines for licensed Banks CBN November 1990

2. Prudential regulation of the Nigerian Banking system. Prof. G. O. Nwankwo

3. Central Bank of Nigeria Briefs 1998

4. The Nigerian Banker
   Journal of Central Bank of Nigeria January - June, 1995

5. Bullion
   Central Bank of Nigeria.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

The main objective of this search has been to examine critically the impact of deregulation policy on the Banking Industry. The project, which began with an overview of the Banking system, is divided into two parts. The era before the establishment of the Central Bank and the era after establishment of the Central Bank. Under the purpose of the study, this research work examines the activities of Banks.

The grave crisis in the economy particularly the financial sector led to the Government adoption of structural adjustment program (SAP). This is an attempt by the Government to salvage and ensure the nations economic survival. The deregulation policy is aimed at achieving a sound monetary policy. To this effect two methods were considered. The aggregate ceiling which involves a selective policy, to prevent banks from fueling inflation. The other which is general include open market operations, cash reserve liquidity ratio, special deposit. All these measures are aimed at checking bank excesses particularly the older ones.

The Operation of the Banking activities was considered under three major periods: -

(a) Free Banking era 1892-1952
(b) Pre-Central Bank era 1952-1959
(c) The Central Bank era 1959-1995
(d) Era of Deregulation 1986-1996

The deregulation era saw the proliferation of banks both in terms of number and sizes (bank network). On the whole, SAP and SFEM/FEM provided broad deregulation measure have some in-built measures, which affected the banking sector adversely or otherwise. The measures have given the banks challenges of finding sources of loanable funds and seeking alternative investments to maximize profit.

5.2 CONCLUSION

Deregulation as it affects the Banking sector is a healthy development. It is a policy derived from the structural adjustment program (SAP) which was put in place since September 1986 to redress the issue of structural imbalances in our economic system. It is aimed at stimulating competition, eliminate distorted pricing promote structure economic growth and development generally.

One of the important characteristics of the deregulation policy of the financial sector is that the Naira is allowed to assume a rate dictated by market forces.

There is the greatest expansion in the Banking Industry, which enhanced career opportunities for Banking professionals and managers. This has resulted in increased Banking services for the populace. The received profit potential has encouraged new banks into the Industry.

In conclusion, one may briefly outline the following points, which were raised as part of the study as follows: -

(i) There a of bank failure as NDIC wielded its liquidation of about thirteen commercial and Merchant Banks due to poor management.

(ii) Since market forces are allowed to determine the value of the Naira then the profit declared by the banks will fall real terms. The value may be high in Naira terms but when compared with profit value of the pre-regulation era, it will be observed that the value has fallen in real terms.

(iii) With the expansion of the Banking Industry (face exit, free entry) the attitudes of banks towards customers have changed in favour of the customers. This will directly influence the bank habit of Nigerians for the better.

(iv) As a result of the proliferation of Banks there will be more competition and the banks with better services will attract more customers. Furthermore with the return of parastatals accounts to commercial banks only the banks with superior customer service will be favoured.

5.3 RECOMMENDATIONS

There are some basic essential needed to develop the banking industry to its fullest potentials. These essentials are managerial expertise, information technology are, automation and attitudes of Banker to customers. The following recommendation are made to further strengthen the banking industry in Nigeria, they are:-

1 Most Banks that came into operation are one branch banks, mostly situated in Lagos. Most of the Banks only transact business in foreign exchange, which does not augur well for the economy. It is however recommended that any new bank that comes into operation should have at least three branches at inception.

2. The excessive profit, which the banks declare each year, represents the extent to which Nigerians are being squeezed to maintain the Banking Industry and its promoters. It is therefore recommended that Government should make it mandatory for the Banks to plough back some percentage of the profit into the economy (social service, health and education).

3. With the high level of liquidity squeeze currently experienced in the Nigerian financial system, the Central Bank of Nigeria should relax the credit squeeze. This will provide enough finance for investment and thus economic growth.

4. There should be more aggressive drive for deposit mobilization by making banks to pay high interest rate on deposits. The Central Bank should bar banks from setting a minimum amount on which demand deposit will attract interest.

5. To encourage small investors the lending rate should be reduced from the rather high rate of 21 - 30%. The Government should encourage mutual funds for the small investor to take advantage of, diversification stable income, liquidity and efficient management.

6. To change the banking habit of the rural population for the better, the Government needs to ensure the success of banks. It will help to mobilize funds from these areas to improve the economy

7. With the increased competition and changing customers needs and circumstances, the banks should concentrate on creating new products/services that will meet those needs.

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16. NDIC 1993 Annual Report

Questionnaire **Appendix 1a**

Dear Sir/Madam,

I am a postgraduate student of Ahmadu Bello University, Zaria. As part of the requirements for the award of Masters Degree in Business Administration, I am carrying out a research on the Impact of Deregulation Policy on the Nigerian Banking Industry.

Kindly complete the attached Questionnaire in the best way you can as soon as possible.

Every information will be strictly used for academic purposes only and treated with utmost confidence.

Thank you.

Yours faithfully,

Y. M. MAHMOUD
August, 1999.

Appendix 1b

a. Please tick against the option you choose or mark as deemed appropriate where such is heeded.

b. Please note your answers/comments briefly where applicable.

Name:.....

Organization:.....

Rank:.....

Sex:.....

1. The Central Bank of Nigeria's Deregulation Policy is only applicable to
   a Commercial Banks
   b Development Banks
   c Merchant Banks
   d Others
   e All of the above

2. Do you consider the Central Bank of Nigeria's Deregulation policies on commercial banks.
   a Favorable
   b Unfavorable

3. In what ways do the deregulation policies affect the operations of your bank?

   .....

   .....

4. How do you judge the effect of Deregulation on the Nigeria Banking Industry.
   a. Positive

b. Negative

c. No effect

5. Do you think the increase in the number of banks and other financial institutions is due to deregulation?

a. Yes

b. No

d. Don't know

6. In which era do you think deregulation has made the most impact on the Banking Industry.

a. Volume of Business

b. Number of Institutions

c. Liberal Information source

d. None of the above

7. From your knowledge of the Banking business do you agree to the statement that Nigerian banking industry would not have reached its present level of growth without deregulation?

a. Yes

b. No

c. Don't know

8. What effect would the interest rate payment on current account have one on your bank

a. Positive

b. Negative

9. The interest rates on loanable funds have been very high in recent times and the banks have been accused of masterminding this. Do you think that with the proportion of defaulters among the loan beneficiaries such a rate would be:

a. High

b. Low

10. Does the government liquidity squeeze affect your bank?

    a. Yes

    b. No

11. If the answer to the above (Questionnaire) is yes, in what way?

    .....

    .....

    .....

12. How have you been able to source funds in order to absorb the shocks of the deregulation policies?

    .....

    .....

    .....

13. Has your bank been encountering problems since the introduction of deregulation policies.

    a. Yes

    b. No.

14. Do you think in your opinion that the deregulation policy since its introduction by the Central Bank of Nigeria has made any tremendous success, especcially with regards to commercial banks?

    a. Yes

    b. No

15 With the current economic situation in your opinion do you think the deregulation policy will prevail.

    a. Yes

    b. No.

Out of the 100 questionnaire distributed, about 85 or 85% were returned and analyzed. The table below shows the sample of questionnaires received from respondents.

Table 3.1

Sample Composition of Responses Received

	No Received	**%**
Banks and members of Staff	15	17.6
Share Holders	10	11.8
CBN Staff and other Bankers	30	35.3
Individuals	13	15.3
Academics/and Professionals	17	20
Total	85	100%

Table 3.2

Distribution Pattern of the Questionnaire Received

Category of Respondents	**No Sent**	**No Received**	**%**
Bank members of Staff	17	15	17.6
Share Holders	13	10	11.8
CBN Staff and other Banks	35	30	35.3
Individuals	15	13	15.3
Academics and Professionals	20	17	20
	100	85	100%

Interview **Appendix III**

For the purpose of this research, I have had the privilege of having an interview with the following:-

1	Alh. B. Shehu	FBN (Merchant bankers), Lagos
2.	Aminu Hammayo	African International Bank, JOS
3.	Abubakar S. Haya	Inland Bank (Nigeria) Plc, Bauchi
4.	Mustapha Yerima	Bauchi Investment Company Ltd. Bauchi
5.	M. A. Mohammed	International Trust Bank Ltd Bauchi
6.	Ahmed I. Dandija	Inland Bank of Nigeria Plc Victoria Island, Lagos
7.	Bashiru Umoru	International Trust Bank Plc Okearin, Lagos.
8.	W. Ekundayo	Union Bank of Nigeria Plc Staff training Centre, Zaria.