EFFECT OF DEREGULATION ON MERCHANT BANKS IN NIGERIA

BY

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JUNE, 2000

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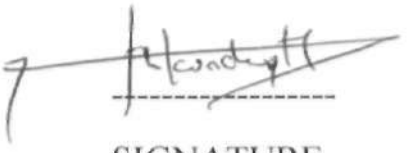
DECLARATION

I hereby declare that this research project was written by me based on the research findings conducted personally by me.

To the best of my knowledge, this project has not been presented to any post graduate school for the award of any higher degree.

All references made to texts, journals and articles have been duly acknowledged in the References.

Finally, I wish to state that I am responsible for any error of commission or omission found in this project.

Adenipekun Sunday Isaac		16/06/2000
NAME OF STUDENT	SIGNATURE	DATE

The Declaration above is hereby confirmed by

Hajiya Maryam Larai Shafi'i	----------	----------
NAME OF SUPERVISOR	SIGNATURE	DATE

DEDICATION

This research work is dedicated to God Almighty who divinely provided all that was needed to start and complete the course. May He alone be praised.

CERTIFICATION

This research project entitled "**Effect of Deregulation on Merchant Banks in Nigeria**" by Adenipekun Sunday Isaac meets the regulation governing the award of the degree of Masters in Business Administration (MBA) of Ahmadu Bello University, Zaria and is approved for its contribution to knowledge and literary presentation.

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ABSTRACT

Against the backdrop of sagging economic fortune which defied some "fire brigade solutions" in the early 80s, Nigeria took a bold step in 1986 to introduce the policy of economic deregulation under the programme called Structural Adjustment Programme (SAP). 13 years after its introduction, deregulation as an economic pill has proved its multiplier effect on all the sectors of Nigeria's economy.

Expectedly, the banking industry being the fulcrum of the economy has been more impacted by this policy. For one thing, deregulation has boosted the number of banks in the system and for the other, it has transformed both its market and operations considerably. Even though many banks have risen and fallen since the commencement of deregulation, the banking industry is today known for its discipline, increasing competition and unprecedented hi-tech (qualitative) service delivery.

For the merchant banking sub-sector, the 13 years of deregulation has meant more than all these. For instance, it has meant a long period of stern and unfavourable regulatory framework which "have impacted negatively upon

our operations" [Sani Bello, Chairman of the distressed Continental Merchant Bank, 1990]. It has meant unequal playing field with the commercial banking sub-sector; it has meant reduced profit margin, comparative dismal performance, increasing loss of investors' interest, amongst others.

Success in the merchant banking sub-sector - as opposed to the commercial banking sub-sector - can only be qualified as **pyrrhic financial success** for when it comes, it is marginal and it comes with much pain and struggle. This explains the current spate of conversion of merchant banking institutions to commercial banking coupled with the strident agitation for **universal or multi purpose banking** [which allows a bank to perform both merchant and commercial banking functions simultaneously] which the monetary authorities are still resisting.

As the battles rages on, the rational question to ask is "what prospect has merchant banking in Nigeria given this development"? This research study answers this question and more as it explores the impact of deregulation on merchant banking in Nigeria.

EFFECT OF DEREGULATION ON MERCHANT BANKS IN NIGERIA

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

The dizzying pace of change in the banking industry worldwide in the last fifteen years has been propelled by two major factors which are mutually exclusive. The first is the unprecedented revolution in modern information technology which has reduced the entire world into a global village. The second is the vagaries in the world economy which has left no country in the world indifferent in terms of institutional changes and novel fiscal and monetary policies to create the enabling environment for national growth and development.

In Nigeria, the latter factor has probably had more impact on all the sectors of the economy than any other known factor. In its own response to the declining economic fortune, sagging standard of living and increasing inflationary rate, the Nigerian government introduced the Structural Adjustment Programme in 1986 to actually deregulate the economy and open it up to interplay of market forces.

Now thirteen years after, deregulation policy has changed the social and economic history of Nigeria not just in theory or sloganeering, but in actual practice and in all indices of change and development. The banking industry being the fulcrum of the economy has undoubtedly been the most affected by this policy.

This study is an exercise in thorough examination of the effect of deregulation as an economic policy on an aspect of the banking industry known as "merchant banking". Other aspects of the industry are commercial banking and development banking with the Central Bank of Nigeria playing the monitoring role for all the banks and other institutional players in the nation's money and capital markets.

1.2 Background of the Study

Policy changes in a developing economy like ours has been known to be a rule rather than an exception. This is moreso because of the marked political instability which has seen many governments come and go in the last few years. However, the deregulation of the Nigerian economy has been a fairly stable economic policy in the last 13 years. Though its implementation has been gradual and sometimes

erratic, it has nonetheless had a remarkable effect on the nation's economy, the banking sector being probably the most affected. It is against this immediate background that I have considered a research excursion into this sector a worthwhile venture.

Secondly, the effect of the deregulation policy on the finance industry has been both positive and negative. Positive in that it led to the proliferation of many banking institutions - both commercial and merchant - and negative because it was later contributive to the demise of not less than 26 of them as at the end of 1998.

Now it is obvious that some new domestic banks are emerging while some foreign ones are being licenced to operate in the economy. While this may be a welcome development, it agitates an intellectual mind to discover that all the new banks are commercial ones. As a matter of fact, the erstwhile merchant banks are converting to commercial while the pressure on the Central Bank of Nigeria to allow full universal banking is mounting. This obvious developmental imbalance within the sector gives a cause for more

than cursory observations. This again accounts for my interest in this study.

Some of the questions that interest me are these: Why have investors suddenly lost interest in merchant banking? Is deregulation a negation of merchant banking to the advantage of commercial banking? Can the merchant banking institutions still perform their catalytic role more effectively and efficiently given the current stage of the nation's deregulation policy? What is the fate of merchant banking in Nigeria considering the fact that deregulation has come to stay?

It is my belief that the reader will find my submissions on these questions profitable at the end.

1.3 Statement of problems

The following are the emerging problems in the nation's banking industry based on observable happenings, comments, government pronouncements, news analysis and documentaries.

(i) Specialisation in investment banking by merchant banks as opposed to retail banking by commercial banks is fast thinning out

because most merchant banks are converting to commercial banking which is now more attractive and more profitable.

(ii)The number of new commercial banks springing up daily is on the increase while no new merchant banks are coming up. In fact, the existing ones are reducing in number. This is raising new fears as to what will become of the nation's capital market activities normally anchored by merchant banks.

(iii)There is therefore, a strong advocacy for universal banking (i.e. multi-purpose banking) as opposed to the current specialised banking as a step towards further deregulation of the country's financial system.

(iv)Merchant banks in the system are complaining stridently about restrictions which have made their operation costlier and less profitable. The question then arises, why the restrictions or regulations in a deregulated economy?

1.4 Objectives of the study

Following are the objectives of the study:

(i) To determine the effect of deregulation on merchant banking in Nigeria.

(ii)To determine if the demise of merchant banking in Nigeria is actually caused by regulation, deregulation or regulations in deregulation.

(iii)To determine why a few merchant banks are not applying for conversion to commercial banking like others

(iv)To explore the possible future of merchant banking in Nigeria in the face of a deregulated banking system.

1.5 Scope of the study

The study seeks to examine the effect of deregulation only on merchant banks, although where there is need to refer to commercial banks to illustrate a point, it is done. Attempt is made to consider two main periods in the study. That is, period before and after 1986 up to 1999 which were regulation and deregulation periods respectively. Merchant banking in this study is treated as an organic whole since all the banks that constitute it are passing through similar experiences. Where need be, specific bank names are mentioned as examples to illustrate points. At the end, appendix is provided for merchant banks in the country - the distressed, the existing, the converted and the unconverted.

1.6 Significance of the study

The study is very significant in that

(i) It is topical. It addresses the issue of the moment and contributes to influencing the direction of the nation's banking industry.

(ii)It is a dependable reference document on the quiet and screeming changes in the country's merchant banking terrain till date.

(iii)It gives an insight into the whole concept of regulation, deregulation, guided deregulation etc. as it pertains to the banking industry, especially merchant banking.

(iv)It unearths some truth about Nigeria's merchant banking which otherwise couldn't have been known.

(v) It contributes to the body of knowledge on this subject and lays another foundation for other researchers to build on later.

1.7 Limitation of the study

The major constraints faced by the project are three in number as follows:

(i) **The constraint of location**: Most of the merchant banks in Nigeria operate from the South, especially Lagos and many of them do not branch out as such due to the nature of their services. So, that I reside in Kaduna is a limitation to the frequency to which information could be gotten from them.

(ii)**The constraint of time**: The timing of this project is both an advantage and a disadvantage. Advantage in the sense that merchant banking, deregulation, liberalization etc. are foremost issues being discussed in the economic/business circles today. So materials are relatively available. However, the timing is a constraint in that the emerging changes in the Nigeria's banking industry with respect to merchant banking are still largely amorphous and suggestive. It will still take a few years more to be able to draw unassailable conclusions. Meanwhile, my conclusions and projections here are based on the available facts and data on ground. It is subject to change.

(iii)**The constraint of resources**: Constraints in the area of finance has limited the extent to which one would have loved to go in this research. But all the same, being a topical area, I believe the data available to me was able to do justice to the study.

1.8 Research Methodology

There are various methods of collecting data for any research. But this study relies heavily on secondary data and some bits of primary data. Under the primary data, verbal (face-to-face) interviews were conducted with selected bank officials who were able to give meaningful insight to the happenings in the system. Under the Secondary data, many journals, textbooks, business newspapers and magazines were used to assist in the research. Within the limits of available resources, this is considered the most suitable data for this project.

1.9 Definitions of Terms

(i) **Bank:-** Funk and Wagnatt's new Encyclopaedia defines a bank comprehensively as "a term applied to describe a variety of institutions established for one or more purposes. The purpose include making loans and extending credit to facilitate the transmission of funds by cheque and by bill of exchange and hold money on deposit and to disburse it to another and to issue money. Banks also provide vaults for the safekeeping of valuables, buy

and sell bonds and shares and stocks for their customers and in general perform a variety of activities entailed in banking"

(ii)**Banking Sector**:- is that sector of the economy that in the simplest sense, operates by accepting deposits from organisations and individuals with excess cash and lend this money to others who have a demand for it. The depositors are paid interest, typically at rates lesser than those charged to borrowers, and the borrowers are charged higher rates.

(iii)**Money Market**:- An important areas of activity within the banking sector is the money markets. In these markets, banks and large companies trade short-term products and borrow and lend cash for short period of time. Usually, this is done to meet the working capital needs of institutions in the private and public sectors of the economy. Short term funds in this context refer to funds that must be repaid in a year or less. For example, if government has to borrow for three months, it may issue three month Treasury bill. If a corporation needs to borrow for 60 days, it may issue 60 - day Commercial paper.

(iv)**Capital Market**:- This market is a contrast to the money market in that it deals in long term investment. In other words, it is a

market where governments, banks, individuals and companies can borrow or invest large amounts of money from medium to long-term periods. It is a market for long term securities that facilitates trade and therefore production. Essentially, the purpose of a capital market is to facilitate the flow of capital by making money available to those that need it from those who have available funds.

(v) **Treasury Bills**:- These are short-term debt obligations issued by the Central Bank on behalf of the federal government to finance debts for government and for mopping up perceived excess liquidity in the banking system and the economy. The bills have the backing of the Central Bank and are said to have the full faith and credit of the government. They are usually issued in maturities of 3 months, 91 days, although shorter maturity bills are issued from time to time through Open Market Operations (OMO). Treasury bills do not pay periodic interest coupons. Instead they are sold at a discount from face value and investment therein are exempt from tax. Bidders are banks, discount houses and security brokerage firms.

(vi)**Monetary Policy Measures**:- are simply measures designed to influence income and spending through the manipulation of money stock and money flows, access to credit and cost of funds.

(vii)**Fiscal Policies**:- Are measures designed to influence income through changes in the demand for and supply of goods and services, price level and the manipulation of government revenue and expenditure.

(viii)**Open Market Operation (OMO)**:- are measures employed to influence the availability of loanable funds through intervention of the monetary authority in the money market either to promote liquidity by directly buying securities or to mop up liquidity by selling such securities.

(ix)**Bill of Exchange**: A bill of exchange is legally defined as "an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time, a sum certain in money to or to the order of a specified person, or the bearer" In other words, bills of exchange are negotiable instruments that can be transferred from one person to another in the course of international trade. When it

is drawn and guaranteed by an acceptance house (usually a merchant bank), the drawer [i.e. the exporter] can be paid immediate cash in a bank for his exported goods that have not reached the drawee [i.e. the importer]. It also allows the importer to pay within 90 days during which his goods are expected to have been received.

(x) **Deposit**:- These are funds that customers leave in their savings or current accounts.

(xi) **Advances**: Are the monies lent by a bank, generally in the form of an overdraft on a current account, by which the customer draws out more money than he has put into the account. Advances attract interest.

(xii) **Portfolio**: It's simply a list of securities and investments (stocks, shares etc.) owned by an individual, organisation etc.

(xiii) **Leasing**: This is a method by which a business can obtain items of plant, equipment and vehicles without the need for capital outlay; instead of buying them outright, it leases or rents them from bank's leasing company. Legally, it is defined as "a contract between lessor and lessee for the hire of a specific asset selected from a manufacturer or vendor of such assets by the lessee. The

lessor retains ownership of the asset. The lessee has possession and use of the asset on payment of specified rentals over a period"

(xiv)**Corporate Strategy**: is an explicit and shared set of goals and policies defining what the company is to achieve and become in the future and how it must operate in order to reach its goals. It thus consists of a set of long-range decisions aimed at exploiting opportunities or combating threats in response to environmental forces and developments.

2.0 Chapter Preview

This work is broken down into six major chapters. The first one is the general introduction of the project which is being rounded up with this sub-section. This is followed by chapter two where some studied literature review is done to explore the works already done by others on the subject. In chapter three under the theoretical framework, I examined the basic components of deregulation as well as its philosophy. In addition, a thorough look was given to the types of banks in Nigeria and the concept of merchant banking.

Chapter four is primarily dedicated to merchant banking in Nigeria looking at its main features especially before and during deregulation.

In chapter five, the effect of deregulation on merchant banks in Nigeria is appraised based on the data gathered in the course of the research.

Chapter six concludes with summary and recommendations based on my findings.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

Literature review is an intellectual excursion into previous studies already carried out on an area of study. It is a very important part of a research work because on one hand, it broadens one's knowledge about the subject in question and on the other, it familiarises one with the methodologies, findings, and conclusions in the area. By this, the quality and depth of one's study is enhanced.

In this chapter therefore, a selective, but historically comprehensive review of the existing literature will be carried out in the areas of deregulation, regulation and merchant banking to illumine minds on this project and to set a foundation of knowledge upon which insights and findings in subsequent chapters will be based.

2.1 Literature Review

Nigeria, like many Third World countries, had in the past relied heavily on the use of governmental interventions and control as a tool

for economic growth and development. This has been explained away on many occasions as an inevitable resort given the country's historical antecedents of years of colonization and phobia for neo-colonialism.[Oyebode, 1978; Aluko, 1981; Ogunbanjo, 1983]

Be that as it may, this interventionist approach of the government has been described by many as not only repressive but also a major factor in retarding the growth process of the nascent economy [Afolabi and Mamman, 1994]. Indeed, Adeosun (1987) said, "any economic system based on unwarranted official red tape - such as Nigeria's before deregulation - is inimical to its own development".

Events in Nigeria did not give full credence to this contention until the early 80s when suddenly the price of crude oil at the international market crashed and the foreign exchange earnings of Nigeria oil went down sharply. This spelt doom for the country having become a mono-product nation in the oil-boom era of the 70s deriving over 90% of its income from crude oil earnings. Things went so bad for the nation that it could not generate enough foreign currency from other sources to meet its external obligations. It was therefore,

classified as a cash and carry customer by the international creditors [Adeola, 1993]. In other words, Nigeria was no longer credit worthy.

According to Olashore (1993), all administrative control measures put in place by the government to arrest the attendant external and internal disaquilibria failed and by 1985, it became obvious that the economy must be restructured to redress the past policy errors of interventionism. It was against this backdrop that Nigeria's economy was deregulated in June 1986 under the auspices of the Structural Adjustment Programme (SAP).

Deregulation therefore, is the deliberate and systematic liberalisation of the structural and operational guidelines which have hitherto impinged upon the growth and profitability of economic actors. In its broader application, it is to refer to those fiscal and monetary policy measures which seek to remove regulatory controls on the activities of the economic actors in order to enhance their competitiveness in the markets [Olashore, 1988]

Apologists of deregulation contend that it is a tested and most beneficial economic agenda for the Third World economy because it

allows the market forces to determine their exchange rates, thus making their export more attractive and discourages excessive imports. It is argued that ultimately, their balance of payments deficits will be redressed [IMF, 1999].

Deregulation from all indications, has assumed a global acceptability as it grows in intensity amongst the industrialised nations of the world. Japan for instance, has sworn to stop at nothing till it totally deregulates its financial markets with not less than 2,823 measures by the year 2001. It has been on deregulation for over a decade. [Rowley, 1997]. Now it calls it "The Big Bang".

But beyond mere sloganeering, the seriousness with which Japan is carrying out reform measures in its financial sector is unprecedented. This is because it knows better that the finance sector can retard economic development, if it is repressed, and can stimulate same if it is promoted through liberalisation [Ebohodaghe, 1993]
As observed by Rangarajan (1994), if liberalised, a network of financial institutions helps and leads an economy to a more efficient utilisation of the available resources. Uduebo, (1994) said the

financial sector reform is a potential step towards fostering efficiency in economic performance by reducing or eliminating distortions in the system and positively influencing efficiency in resource allocation.

Popiel (1994) on his own part identified three key areas of financial sector reform which are policy reform, institutional reform and financial reform. Adhikary (1989) also noted that reform is required to boost financial intermediation services which banks are noted for in any economy.

In what looks like a banker's viewpoint of economic reform in Nigeria, Adeola (1993) defined deregulation as "a systematic streamlining of control and policies perceived as impediments to smooth running and efficiency of the entire banking sector". In other words, deregulation in Nigeria as it affects the banking industry does not equal an absence of regulation. Rather, what deregulation does is to streamline, modify and change as the need arises, the existing banking regulation and supervisory laws, rules and guidelines for optimal contribution of the industry to economic growth and development.

Odozi (1998) who buttressed the need for regulation in deregulation said banks are by nature not self-regulatory and thus can neither be left to their own whims and caprices nor entirely to market forces because "market forces do not always impose enough discipline and indeed, markets do fail from time to time"

Of the existing banks in the Nigeria's banking industry, the merchant banks constitute a force to be reckoned with. They have moved from the era of passivity when little was known about them (Adewunmi, 1985) to a dispensation of strong advocacy and weight - pulling financial activities. Despite this seeming achievement the commercial banks still dominate the banking system. This agrees with Abdullahi (1993) who said, "in some standard classifications of banking system, the commercial banks plus central bank constitute the basic banking system".

Thus it is believed by many economists that it is most unrealistic to expect merchant banks to operate strictly in their traditional "narrow field" in a developing economy like ours [Alpha, 1990]. Their field is so considered narrow because among other things, they are forbided

from carrying out retail banking which is universally acknowledged as the strongest source of the commercial banks' strength [Business Concord, 30/3/93 P. 12). Essentially, the annals of merchant banking in Nigeria has revealed them as operating more under the same regulatory framework as commercial banks, yet performing different functions. This according to Adewunmi (1985), is a policy error which has checkmated their catalytic role in the nation's economic growth and development.

It will therefore be interesting to see how far deregulation has right this wrong, if it has at all. How has this sub-sector of so-called "narrow field" faired under Nigeria's deregulation policy? These and more will be the subject of examination in the subsequent chapters.

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CHAPTER THREE

THEORETICAL FRAMEWORK

3.0 Introduction

This theoretical framework will essentially be a conceptualisation of key issues in this project such as deregulation, the Nigerian banking industry and merchant banking. This chapter is expected to give a broad based casing for encapsulating this study.

3.1 Underlying Philosophy of Deregulation

Deregulation is the main thrust of the Structural Adjustment Programme (SAP) introduced by Nigeria in 1986 to engineer the recovery of the nation's economy from obvious precipice. Its underlying philosophy as government's arrow-head policy is summed up as follows:

(i) Reduction of government intervention in economic activities in favour of greater role for the private sector.

(ii)Promotion of free market system where market forces are allowed to determine prices, economic trends and exchange rates.

(iii)Provision of relevant macroeconomic framework that will attract both foreign and local investors

(iv)Provision of an economic elixir in place of economic doldrum and depression.

[Falae and Adeosun, 1988]

3.2 Basic Elements of Deregulation

The basic elements of deregulation are as follows:

(i) Market-determined exchange rate regime which makes it possible to determine the naira value by forces of demand and supply. It came into force in September 1986. Immediately it was introduced, the overvaluation of naira was corrected, thus opening new vistas for the nation's economy. The hitherto restricted access to foreign exchange was eliminated.

(ii)Market-determined interest rates which made it possible for banks to charge market rates of interest and pay competitive interest rates to their depositors.

(iii)Market-determined pricing system which abolished the control on ex-factory prices thus leaving prices of goods and services for market forces to determine.

(iv)Liberalisation of trade which saw to the immediate abolition of import and export licencing, abolition of commodity boards and relaxation of entry barriers for new banks.

(v) Enhancement of Income policy package which was an incentive to the existing and prospective foreign investors in the economy. It became easy for them to remit home dividends as well as management and technical and consultancy fees.

(vi)Government divestment from public enterprises which took off under the privatisation and commercialisation programme. Though this programme still continues, government has disposed off its shares in some public enterprises.

3.3 Deregulation and the Nigeria banking Industry

At the commencement of the deregulation policy, government came out with myriad of reform measures which changed the landscape of banking in Nigeria. Some of the measures are outlined as follows:

(i) Liberalisation of the issuance of license to new banks.

(ii)Deregulation of interest rates in August, 1987.

(iii)Deregulation of the foreign exchange market in September, 1986.

(iv)Removal of restriction on commercial banks to engage in equipment leasing.

(v) Promulgation of the mortgage institutions Decree, 1989.

(vi)The introduction of Bureau-de-change.

(vii)Licencing of other non-bank financial institutions such as finance houses.

(viii)Relaxation of the restriction on equity participation in companies by banks.

(ix)Establishment of Nigeria Deposit Insurance Company (NDIC) in 1988.

(x) Granting of greater autonomy to the Central Bank of Nigeria (CBN) in 1989 which became total autonomy in January 1999.

(xi)Issuance of capita adequacy and prudential guidelines.

(xii)The use of indirect tools of monetary control [e.g. the Open Market Operations].

(xiii)Raising of minimum equity capital requirements for merchant and commercial banks etc.

Due to the need to operate within the scope of this project, I will not go into elaborate details of how each of these measures have impacted on the banking industry as a whole. Suffice it to say

however, that they have significantly changed the way banking business is conducted in Nigeria. This is better appreciated by examining briefly the following:

(i) **Redefinition of Mission**: The first immediate reaction was that the banks ceased seeing themselves as government agents in economic development. In fact, government transferred the accounts of its parastatals and agencies from banks to CBN. So the bank literally woke up from their complacency and operational inefficiency. They started emphasizing enhanced profitability through improved efficiency.

(ii) **Freedom of Entry**:- With deregulation came an unprecedented proliferation of banks and other financial institutions [such as finance houses and mortgage finance institutions]. For instance, at the time when deregulation took off in 1986, there were only 29 commercial banks and 12 merchant banks in Nigeria. By 1989 [i.e. three years later], the number of commercial banks had risen to 47 while that of merchant banks jumped to 34. This phenomenal increase went on unabated until the monetary authorities suspended the issuance of new licences to check over-proliferation. By 1994, before the full manifestation of the

pervading insolvency in the banking sector, Nigeria had 66 commercial banks and 54 merchant banks in its financial system [CBN Annual Report, 1994 pp. 159-160].

(iii)**Competition and New Products**: Consequent upon the rise in the number of banks in the system, there was a new wave of competition amongst the banks on one hand and between the banks and the finance houses on the other. Suddenly, the traditional armchair banking of old was thrown away - to be replaced by an aggressive hunt for customers for deposit mobilization. For the first time since independence, the banking business became buyers' market with a number of banks positioning and repositioning to adjust to the new dispensation. Banks therefore, came up with a variety of new products to attract customers and their services became more speedy.

(iv)**Distress and Liquidation**: A lot of banks became distressed in the last thirteen years of deregulation while 26 of them were formally liquidated in 1998 [CBN Annual Report, 1998; Business Times, 9/8/99, p.1], a few other ones were recapitalised and the sector seems relatively stable now as it has started commanding public confidence again.

(v) **Increase in Paid-up capital**: Before deregulation, Nigerian banks were grossly undercapitalized. With deregulation, the minimum paid-up capital for commercial banks was increased from N12 million to N30 million and later to N50 million. For merchant banks, the minimum paid-up capital was increased from N10 million to N20 million and later to N40 million. But during the mass distress of banks in 1996/97, the authorised capital was jerked up to N500 million for both the commercial and merchant banks [CBN Annual Report, 1997 p. 44]. This was necessary to guarantee their stability and ability to cope with the demands of the changing economy.

(vi) **Banking and privatisation**: Not less than twelve government owned banks have so far been privatised in the spirit of deregulation. This step has had a significant impact on the industry as these banks altogether account for more than a third of the assets of all operating banks, yet the management of their assets before privatisation was less than optimal.

(vii) **Automation of services**: The intense competition in the banking industry has made computerization imperative. All commercial and merchant banks have achieved varying degrees of

computerization, with equally varying results on the quality of customer service delivery.

(viii)**The challenge of manpower training and development**: The emerging competitive banking environment occasioned by deregulation had challenged the soundness and competence of banks' staff and management than ever before. Indeed, the training, experience, exposure, maturity and managerial capabilities of bankers have been put to test, thus necessitating the high premium placed on human resources training and development in the sector in the last few years.

(ix)**Export Business**: One of the major reasons for deregulation was to promote non-oil exports. Banks have through their financial support contributed immensely in this area. Many of them now maintain export units/desks which attend solely to export business. Government incentive in this area through the introduction of National Economic Reconstruction Fund (NERFUND), ADB/Export stimulation loan [ESL] etc. has been a fillip to the efforts of banks in export financing.

(x)**Banks and Economic Policy Formulation**: Unlike in the pre-deregulation era, banks have since deregulation started, been

very active in the nation's budgetary process as well as in general economic policy formulation. They have been very vocal on issues relating to exchange rate determination, deregulation of the capital market, industrial liquidity management, fiscal deficit management and inflation, amongst others.

It is evident from above that the banking industry had undergone tremendous changes over the years due to the deregulation policy. There is also no doubt that the sector had become more relevant to the needs of Nigerians. It is one sector that can never remain the same again.

3.4 Types of Banks in Nigeria

The many types of banks in Nigeria are identified and discussed as follows:

3.4.1 CENTRAL BANK

The Central Bank of any country is an organ of the government and undertakes the government's major financial operations. In doing this, it plays major supervisory, monitoring and regulatory roles in the economy of a state.

The Central Bank of Nigeria is not an exception to this rule. Founded in 1959, it has the following functions amongst others:

(i) It is the Federal Government's banker.

(ii)It issues and controls the Nigerian currency

(iii)It manages the foreign exchange market of the nation

(iv)It manages the national debt

(v) It helps the government to raise the finance it needs by issuing very short-term treasury bills and long-term government stocks for sale to the banks, finance houses, individuals or organisations

(vi)It advises the government on its monetary policy with the aim of creating employment, pegging inflationary rate, controlling the money supply and influencing the interest rates in the banking industry. It carries out these multifarious functions by working hand-in-hand with the Federal Ministry of Finance.

(vii)It holds the country's gold and foreign currency reserves, and acts as the treasury's agent in the government external business.

(viii)It is also the banker's bank. Other banks, especially the commercial and merchant banks run accounts at the Central Bank, which are used to replenish the banks' stocks of cash if their own holdings are running low.

(ix)It provides essential link between the government and the banking industry. Policy initiatives of all kinds are taken by

the CBN to control and regulate the industry as the need arises.

(x) It issues licenses to all the banks and finance houses in the economy and it has the power to withdraw such licences.

3.4.2 COMMERCIAL BANKS

Other names for this type of banks are joint stock banks or deposit banks. They are banks with which many people are most familiar because they provide a wide range of services to businessmen and the populace. Prominent amongst the ones in Nigeria today are First Bank of Nigeria Plc, United Bank for Africa Plc, Afribank Plc, Union Bank of Nigeria Plc etc. etc. These banks are heavily involved in the economic and commercial life of the country.

Their functions include the following:

i) They safeguide customers' money. This was the original function of the bank and it still subsists till date. This they do by opening channels of accounts to the customer. The most popular ones are current, savings and deposit accounts.

ii) They supply cash to customers through opportunities given to customers to withdraw from their accounts at will.

iii) They lend to customers through loans and overdrafts

iv) They safeguard valuable documents for customers. Such documents include deeds and wills and also items of jewellery.

v) Provide foreign exchange to account holders within the prevailing foreign exchange regulations in the country

vi) They provide advisory roles to customers either on borrowing, investment or marketing etc.

vii) They are reference points on customer's credit worthiness and financial stability

viii) Today, they have a wide range of facilities that cover import and export financing, money transfer across the globe or within the country through electronic methods, children school fees facilities etc.

3.4.3 MERCHANT BANKS

Merchant banks are those finance institutions engaged in wholesale banking, medium and long term financing. Their functions are often divided into two classes namely "banking services" and "corporate finance services".

Under the **banking services functions** are the following:

i) Acceptances

ii) Loans and Advances

iii) Deposits

iv) Equipment Leasing

v) Foreign Exchange Services

Under their **corporate finance services** are

(i) Project Financing

(ii) Issuing House Services

(iii) Investment and Financial Advisory Services

Added to these mainstream services are other functions normally performed by merchant banks which include stock-broking, nominee services, registrar services etc. I will expatiate more on these services in chapter four of this project.

3.4.4 DEVELOPMENT BANKS

This category of banks are specialised Development Finance Institutions (DFIs) established by the Federal Government to channel funds into the preferred sectors of the economy. Such sectors include agriculture, industry and real estate. Examples of development banks in Nigeria are Nigeria Agricultural and Co-operative Bank Limited (NACB), Nigeria Industrial and Development Bank Limited (NIDB), Nigeria Bank for Commerce and Industry (NBCI) and Federal Mortgage Bank (FMB).

The establishment of these banks became necessary because the commercial and merchant banks were always hesitant in financing projects or sectors with a high level of risk. These development banks not only finance such projects when they are viable, they also give room to some degree of subsidy

directly or indirectly in their credit packaging. Such subsidy comes in the form of any of the following:

i) Lower interest rate

ii) Lower down payment

iii) Favorable terms of loan repayment

iv) Low security demand

v) Low dividend payout

Amongst other things, these have the effect of making more funds available to eligible borrowers at lower costs than the market dictates.

3.5 The Concept of Merchant Banking

Merchant banking as a concept emerged more by accident than design. Its genesis is traceable to the growth in international trade which existed between the European merchants and the Third World traders over 200 years ago. Then it was customary for the Europeans to bring finished goods into the developing countries of Africa, Asia and Latin America which they sold and used the proceeds therefrom to purchase raw materials and commodities which were shipped to their metropolis for processing.

As this business relationship waxed strong, the local traders asked their overseas customers to hold and or invest part of the proceeds of their commodities for them in the UK. The merchants consented and thus became banker and financial advisers of their overseas [i.e. Third World] clients, looking after their investments. Before long, this practice became famous and popular due to the merchants'

proficiency, integrity, connections and mastery of the market in many parts of the world.

Later in the course of this merchandising and banking, the use of bill of exchange as a modal means of payment in international trade was developed. Also the use of letter of credit - which had been in practice by the Greek as early as the fourth century - was modified to suit the needs of the times.

Today, we have a more sophisticated trade. It is noteworthy therefore, to state categorically that the contemporary merchant banks were originally merchants. The progenitors include Arbuthnot and Latham which was established in 1833 and Baring Brothers and company Limited, the oldest existing merchant bank which was established in 1763.

Inspite of its straight history, there has been no universal definition of merchant bank because its operations, sizes, extent of specialisation vary from one country to the other. However, attempts have been made to give statutory definitions based on what they can do or cannot do.

For instance, in Nigeria, the banking decree of 1979 states that "merchant banks" means "any person in Nigeria who is engaged in wholesale banking, medium and long term financing, equipment leasing, debt factoring, investment management, issue and acceptance of bills and management of unit trusts"

Merchant banks are known as Acceptance Houses in the U.K and as Investment Banks in America. They act as company registrars and trustees, advisers on project financing. They are traditionally

reputable for their "high level specialised expertise, imagination, adaptability, integrity, innovativeness, manoverability, flexibility and individuality" (Adewunmi, 1985)

They differ from commercial banks in that they are wholesale bankers while commercial banks are retailers. Whereas the commercial banks need a network of branch offices for their service delivery, merchant banks need only few branches in highly commercial or industrial cities where their blue chip corporate clients are based.

By concept therefore, merchant banks do not have direct business contact with low networth individuals as the commercial banks do. This partly explains the relative ignorance of many about their operations. They depend upon their ingenuity, names and wits to mobilise funds of other institutions for the benefit of their customers. They are known to have contributed significantly to the evolution and growth of the contemporary capital market.

3.6 Summary

In this chapter, the researcher has clearly examined the underlying philosophy of deregulation and its basic elements. The multifarious impact of deregulation on the nation's banking industry was also discussed with a conclusion that within thirteen years, deregulation has changed the landscape of the industry in its totality and things cannot remain the same again.

Also, he has delved into the variants of banks in Nigeria stating their major functions before zeroing on the concept of merchant banking. The next chapter is absolutely devoted to merchant banking in Nigeria.

CHAPTER FOUR

MERCHANT BANKING IN NIGERIA

4.0 Introduction

This chapter shall be a concentration on the essentials of merchant banking in Nigeria starting with its historical evolution in Nigeria and followed by a detail insight into merchant banking services. After this, I will examine merchant banking in Nigeria before the commencement of deregulation. This period covers 1960-1985. Of course, with the commencement of deregulation in 1986, another page was opened in the economic history of Nigeria and merchant banks were also in the center of it all. So, this chapter will also give a vivid picture of how merchant banking faired under deregulation between 1986 and 1999.

The chapter promises to form our data base for further analysis in chapter five.

4.1 History of Merchant Banking In Nigeria

Merchant banks were not known in Nigeria until 1960, about 66 years after commercial banks had been operating in the country [see appendix I for a list of commercial banks already in the system then]. Two firms stood out prominently as the percursors of merchant banking in Nigeria. They were the Nigerian Acceptances Limited [which later became NAL Merchant Bank Ltd.] which was registered

on 25th November, 1960 and Phillip Hill (Nig). Limited which was registered on 14th September, 1960. They both took off with an authorised share capital of N500,000 each.

They later had to merge into one in 1969 owing to a number of factors which include the following.

(i) They were performing identical merchant banking functions

(ii) Were they to continue separately, the business available was inadequate for the two of them. So, it was more rational to merge instead of competing over little.

(iii) It was better for them to be one strong entity than remaining two weak rivals

(iv) The two firms were essentially British in origin and ownership.

Now known as NAL Merchant Bank Limited, it had the singular privilege of being the only player on the scene of Nigeria's merchant banking industry till 1973 when UDT Bank (Nig) Limited was established. It (UDT) later changed its name to Nigeria Merchant Bank Limited in 1977.

The coming of UDT opened a floodgate for other merchant banks who streamed into the industry in subsequent years. These banks include National Bank of Chicago Limited [later changed to International Merchant Bank (Nig) Limited]; ICON Limited (Merchant Bankers), Chase Merchant Bank (Nigeria) Limited [later known as Continental Merchant Bank (CMB) Limited etc. [See

appendix II for the names of merchant banks in the banking sector before 1986]

It is noteworthy to mention here that the sudden zeal for floating merchant banks at this time was not unconnected with the oil boom of the early seventies which geared the economy towards increased industrialisation, a development that demanded the type of wholesale services rendered by merchant banks.

Of course, when there was downturn in Nigeria's petrodollars between 1976 and 1978, no new merchant bank was established. In 1979, another one by the name, Nigerian American Merchant Bank Limited came into the scene. It happened to be the first Nigerian merchant bank organised by the private Nigerian investors in collaboration with foreign banking investors.

It was not until the indigenisation decree of 1977 that government bought up 60 per cent of the equity of some of the merchant banks on behalf of Nigerians. Then the foreign investors shareholding in Nigerian-based enterprises was restricted to 40 per cent.

By 1986 when deregulation policy was being inaugurated, Nigeria had 12 merchant banks. The number grew rapidly to 54 within the first seven years of deregulation. That is, between 1986 and 1993, not less than 42 new merchant banks were established! So, merchant banking in Nigeria grew speedily at the instance of deregulation.

4.2 Basic Merchant Banking Services

As highlighted earlier on in sub-section 3.4.3 and 3.5, merchant banks perform wholesale banking services as against the retail services carried out by the commercial banks. In this sub-section, we shall look at these mainstream services of the merchant banks closely highlighting the essentials of each of them.

The mainstream services are often divided into two classes which are **banking services** and **corporate finance services**. What comes under each of these categories however, vary from one merchant bank to the other because of the overlapping nature of their services.

4.2.1 **Banking Services**:Under this category of services are acceptances, loan and advances, deposits, equipment leasing and foreign exchange services. These constitute a more important group of services to the merchant banks because they are the major sources of income for the banks.

4.2.1.1 **Acceptances**:- This line of business was the trademark by which merchant banking was known in the beginning. Indeed, one of the early banking organisations in Nigeria, NAL Merchant Bank Plc. was originally known as Nigerian Acceptances Limited. Today, finance institutions in the merchant banking industry in the UK are collectively referred to as Acceptance Houses Committee. They are so called because their

integrity and versatility has given them such a dependable image that when they accept bills, such financial instruments attract the finest rate of discount and a degree of liquidity comparable only to those of government securities.

Today, acceptance business has developed into a credible and self-liquidating method of financing international trade both for importers and exporters. It operates by the use of bills of exchange which when accepted by first class acceptance house makes it possible for exporters to draw bills relating to a particular export transactions on their merchant bankers and turn such bills into instant cash [see Bill of Exchange in 1.9(ix)]. There are other variants of acceptance services such as bankers acceptances and commercial acceptances.

4.2.1.2 **Loans and Advances**: Merchant banks in Nigeria are also vast in the provision of loans and advances whether on short, medium or long-term nature. The short-term finance in the merchant banking circle is known as bridging loan "usually for companies needing temporary finance pending the conclusion of funding arrangements"

Generally, loans and advances are given for working capital, plant expansion, industrial re-equipment, trade finance, real estate development building construction, pre-shipment and post-shipment, factory inventory financing etc. In situations where large scale projects are involved and a particular merchant bank is not able to meet the credit need, it liaises with other banks, even commercial banks for joint financing as a syndicate. This is called **consortium lending**. Another reason why a merchant bank may opt for loan syndication is either to spread risk or if the size of the loan required exceeds the lending limits of a single bank as stipulated by credit regulations and guidelines.

4.2.1.3 **Deposits**:- Deposit services are provided by merchant banks in the form of

(i) Current Account: Deposits which is only to corporate clients and are not withdrawable with cheques

(ii) Call or Fixed - Term Deposit Accounts: Which can be operated by both corporate and non-corporate clients, but the sum being deposited must be N50,000 and above. This has been reduced to N10,000

(iii) Negotiable Certificate of Deposits (NCDs) These are basically inter-bank debt instruments designed to channel commercial bank surplus funds into the merchant banks. It's maturity range from 3-36 months and must be a wholesale unit issue of N50,000

4.2.1.4 **Equipment Leasing**: Equipment leasing business in the merchant banking sub-sector cover all manner of industrial machines, vehicles, cranes, water rigs, tractors, trawlers, computers and other office equipment, forklifts, ships and aircrafts etc. Leasing is one area of activity in which merchant banks co-operate openly. They formed on 29th June 1983 a leasing association called Equipment Leasing Association of Nigeria (ELAN) to protect the interest of members as equipment lessors.

4.2.1.5 **Foreign Exchange Services**: As authorised dealers merchant banks make foreign exchange available to their corporate clients. Other services along this line are in the areas of correspondent banking, and operations. Correspondent banking covers the arrangement of confirming lines for the letters of credit of clients while operation activities include the opening of letters of credit for

customers and direct remittance of export proceeds to client's beneficiaries abroad.

4.2.2 **Corporate Finance Services**:- Principally, these cover three major areas which are

(i) Project Financing which involves the mobilisation of funds through diverse methods to finance the construction of new projects or ventures.

(ii)Public Issues: which make them issuing houses providing all required services to corporate clients that may want to raise money from the public by way of offer for subscription or offer for sale. In the recent times, many of them have provided similar services to erstwhile government enterprises that have been privatised.

(iii)Advisory Services to clients over mergers, acquisition, privatisation, debt rescheduling, development of overall investment objectives and corporate strategy, management of both liquid resources (cash) and of a portfolio of financial assets etc.

(iv)Many merchant banks also provide their clients with export trade options, status report on foreign buyers and local importers, where and when to get what as well as analysing likely risks from transactions and pricing variability.

4.3 Merchant Banking in Nigeria Before Deregulation (1960-1985)

Deregulation in Nigeria came in 1986 as a result of the failure of regulation. So, the economic environment that prevailed from independence (1960) to 1985 was more of a rigidly controlled economy. But somehow, the banking industry did not begin to have a feel of a formal regulatory environment until 1969 when the first banking decree was promulgated. [Osayemeh, 1993].

This was a turning point in the history of banking in Nigeria. Prior to this time, the two existing merchants banks were operating without interference from regulatory authorities - just as their commercial banks counterparts had free hands to carry our their financial intermediation as it pleased them.

The government felt such loose freedom was not in the best interest of the nascent economy, hence the need to ensure that banks were made to perform the roles expected of them for the overall development of the nation.

Provisions in the legislation covered many aspects of bank's duties as it relates to the maintenance of reserve fund, minimum holding of cash reserves, specified liquid assets, special deposits and stabilisation securities, amongst others. Both the merchant banks and commercial banks were lumped together and essentially treated with same provisions. But in 1979, the decree was amended.

Subsection (6) as amended in the 1979 Banking decree states that "a merchant bank shall not

a) accept any deposit withdrawable by cheque except from its corporate clients.
b) accept from any deposit or total interest - bearing deposit of an amount lower than N50,000
c) except with prior approval of the Central Bank, hold for more than six months any equity interest acquired in a company while managing an equity issue"

Until this time, merchant banks in the country were operating like commercial banks. For instance, their deposit was anything below N50,000 and could come from any individual and it was withdrawable by cheque. But since 1979, it was no longer possible. Added to this was the stipulation in 1985 that the structure of merchant banks portfolio of financial assets shall be as follows:

(i) A minimum of 50 per cent of total loans and advances shall be of medium - and - long - term nature with maturity of not less than 3 years
(ii)A minimum of 20 per cent of loans and advances shall be of short-term nature i.e. maturity within 12 months.
(iii)A minimum of 15 per cent of total assets shall be in equipment leasing.

While the merchant banks felt that the authorities were being unnecessarily hard on them by the plethora of restrictions, the

regulatory authorities on the other hand, believed that such controls were necessary to make them carry out their mandates as merchant banks in our kind of developing economic environment [Adewunmi, 1985].

The point actually is that merchant banking in Nigeria before deregulation was rigidly regulated and the banks felt such was not desirable. Occasionally, they violated some of the guidelines even at the risk of paying the penalties levied against them.

Apart from the constraining legal and regulatory environment in which the merchant banks operated before 1986, there were a few other features that the industry demonstrated that merit our mention as follows:

(i) **Strong Government Investment**: Though the ownership structure of the then 12 merchant banks reflected both the public and private sectors participation, government's direct equity in the Big Three was overwhelming. It held 60 per cent equity in each of them which accounted for over 58 per cent of the total business in the industry. These Big three were International Merchant Bank Limited (IMB) ICON Limited (Merchant Bankers), and Chase Merchant Bank Limited which later changed its name to Continental Merchant Bank Limited (CMB) on February 26, 1986. [CMB Annual Report and Accounts, 1990. P. 3]

(ii)**Overlappings in merchant and commercial banks activities**: There were obvious incursions on merchant banking activities by commercial banks and vice-versa. For instance, dealings in commercial papers was an exclusive preserve of the merchant banks, but the commercial banks were seen to have dominated this activity. Likewise merchant banks were seen to have operated deposit accounts of an amount lower than ₦50,000 as part of steps towards enhanced deposit mobilisation, routine lending etc. which was not supposed to be so.

(iii)**Sluggish growth**: Growth in the industry was relatively sluggish. NAL alone dominated the industry till 1973 before other ones came up. Even then, the number was 12 by 1986 when that of commercial banks was 29.

(iv)**Clamour for a competitive environment**: Even though the operational activities of merchant banks then were showing positive signs of progress, there were outspoken clamour from them for a competitive environment. The players in the industry condemned some of the restrictions and demanded that "prices of demand and supply be allowed to determine the rate at which deals are closed on the money and capital markets" Some contended that government should only provide general rules and allow "sufficient room for competition and use of discretion and initiative."

On the whole, it was clear that the regulatory environment which obtained before 1986 was not suitable for the merchant banks. Challenges amongst them were almost nil and there were mutual disagreement between them and the monetary authorities over the framework under which they should operate. How far was deregulation able to solve some of these problems? This will be the next subject of our attention.

4.4 Merchant Banking In Nigeria During Deregulation [1986-1999]

The Merchant banking industry in Nigeria between 1986 and 1999 could be said to have developed more than in previous years. One of the tremendous effect of deregulation on the industry was that its growth became faster in the early years of deregulation. For instance, the number of banks in Nigeria grew from 80 in 1988 to 120 in 1991. Out of these 120 banks, 66 were commercial as against 54 that were merchants. But the growth rate of the merchant banks were higher when it is considered that it grew from 12 in 1985 to 54 in 1991 [a 350% growth] whereas commercial banks increased from 28 in 1985 to 66 in 1991 (a 135% growth) [See Appendix III for the directory of merchant banks in 1991]

This unprecedented rush into merchant banking by investors was not unconnected with two supposed advantages of merchant banks over the commercial ones. First, they are mostly one - office banks. Until very recently, many of them maintained only two or at most three offices nationwide for obvious commercial and administrative

reasons: one in Lagos (usually the head office), one in Port Harcourt or Kano, then another in Abuja being the Federal Capital Territory [See appendix IV for current merchant banks' branches]. So, having few shops was seen by investors as a relative advantage of being easy to manage.

Secondly, for many years the minimum paid-up capital for merchant banks was much lower than that of commercial banks'. At the time that the commercial banks' was N20 million, merchant banks' was N12 million. When it was increased to N50 million for commercials, it was pegged at N40 million for merchants. That was in 1991. So, investors saw this as carrot and took advantage of it.

But as it later turned out, these two seeming advantages turned out to be no advantages afterall because when most banks went distressed, merchant banks were not spared because they had fewer branches. At least, not less than 16 of them were outrightly liquidated after being certified terminally insolvent. [See the list of liquidated merchant banks in Appendix V]. Secondly, by 1997/98, the disparity between the minimum paid up capital of merchant and commercial banks was eliminated as they were all made to pay N500 million on or before December 31, 1998.

The first 10 years of deregulation actually stressed the capability and adaptability of the merchant banks in that they were made to operate under the same monetary and credit policy measures with commercial

banks, yet they were expected to perform more demanding functions with very limited source of income. Some of these measures in question - the details of which are contained in yearly issues of CBN Annual Report and Accounts - relate to the ones on:

(i) Cash Reserve Requirement

(ii)Liquidity Ratio

(iii)Interest Rates

(iv)Credit Funds Adequacy

(v) Sectoral Allocation of Credit

(vi)Credit ceiling

It is also noteworthy to state that the attendant liquidity squeeze brought about by deregulatory measures as discussed in 3.3 was more telling on the merchant banks because of their narrow field of operation and because they had few or no branches outside their headquarters. This was an advantage to the commercial banks during the squeeze because they were able to mobilise deposits from their many branches nationwide to cushion the effect of the stress.
Now caught panicking and under the threat of being sniffed out of business by the feverish competition in the system, the merchant banks had to put their innovativeness to work. They rolled out a variety of new products which were imaginatively packaged and backed up with dynamic marketing strategies.

Just to site a few examples, Fidelity Union Merchant Bank [FUMB] for instance, introduced some personalised services such as Fidelity

Union Bank's Funds Management Scheme [FMS] and Private Banking Scheme [PBS]. While FMS was targeted to pull funds from small investors, PBS aimed at the high networth customers be it individuals or corporate organisations. The minimum deposit for FMS was N5,000 with a minimum deposit period of 180 days after which the depositors is free to withdraw from the account. For a PBS customer however, the minimum deposit was N100,000 to be invested for a minimum of 90 days.

Industrial Bank (Merchant Bankers) on its own part, came up with Negotiable Certificate of Deposits. This instrument which was guaranteed by the Central Bank was discountable and still offers higher rate of interest than normal savings and time deposits. It is also claimed to be an acceptable collateral for bank loans. Ownership is transferable by endorsement and the yield is exempted from the 15 per cent withhold tax. A minimum of N50,000 is required to invest in the certificates which have a minimum maturity period of 90 days at floating rate of interest. First City Merchant introduced High Net Yield Investment Certificates [HNYIC] which guarantees 28 per cent interest per annum **payable up front**.

Virtually all the merchant banks came up with new products which were quite attractive. And to a large extent, there was a departure from the traditional strait-jacket merchant banking products of the pre-deregulation era. Lead Merchant Bank even went to the extent of offering to provide confidential deposit account similar to the Swiss Bank Accounts practice. Merchant Bank of Africa also joined the

trail by accepting a minimum deposits of N5,000 and the depositor could withdraw without notice.

One can go on and on, but the important point to underscore here is that while this proliferation of products was going on, the merchant banks targeted more of the short-term end of the market in lending which was a negation of their avowed mandate as medium and long-term finance providers. Also individuals became their prominent clients like any other commercial banks around. This was an obvious deviation from the wholesaling function they were supposed to be known for.

If anything therefore, the competition that ensued in the banking system in the wake of deregulation gradually, but steadfastly led to the blurring of the core merchant banking functions.

Deregulation has also facilitated the privatisation of government's equity investment in the merchant banking industry. This started in 1992 and it has enhanced the private ownership structure in the system.

Also, within the deregulation period being considered, the monetary authorities gave some concessions to the merchant banks by way of exempting them from some of the excruciating policy measures earlier mentioned. But this did not go far enough for a number of reasons that will be looked into in the next chapter. Suffice it to say for now that before and during deregulation, the lopsidedness

between the commercial and merchant banks did not abate. In other words, the playing field was not level for merchant banks.

CHAPTER FIVE

APPRAISING THE EFFECT OF DEREGULATION ON MERCHANT BANKS IN NIGERIA

5.1 Specific Effects Of Deregulation On Merchant Banks In Nigeria

Having discussed some general effects of deregulation on merchant banking in Nigeria in the last chapter, the researcher shall in this chapter concentrate on some specifics that will help our analysis of the state of merchant banking in Nigeria.

In doing this, it is considered pertinent to first outline these specific effects as gathered variously from books, journals, business newspapers and face-to-face interviews with selected merchant bank officials. They are as follows:-

i)Paucity of long term funds for merchant banks.
ii)Their exemptions from some stringent policy measures.
iii)Their lack of confidence in government policy directions.
iv)The unchanging weakness of the sub-sector.
v)Their comparative dismal performance.
vi)Investor's loss of interest in the sub-sector.
vii)The call for full deregulation of the banking sector.

viii)The mass conversion to commercial banking.

i) **Paucity of long term funds**:- In reality, deregulation in its bid to fix a realistic exchange rate for naira has led to the persistent depreciation of naira. For instance, whereas N9.9 exchanged for $1 in 1991, it dipped down to N=21.9 in 1993. Today, it's about N100 to $1. [Page 1 of Business Times 26/7/99; 16/8/99; 4/10/99]

For the merchant banks' traditional clients in the industrial sector, this trend has meant more cost, reduced capacity utilisation and reduced capability to engage in long term savings thus denying the banks a credible source of long term funds.

Kingsley Ikpe, Chairman of Fidelity Union Merchant Bank Limited - **which has now converted to commercial banking** - put it this way in the interview session: "Our inability to attract and maintain long-term deposits has weakened our role in the economy. The source of funds available to us now is essentially short-term deposits repayable in less than one year. This has made it difficult for us to concentrate on long-term lending which is our statutory function. Some years ago in this country, it was possible to make deposits for five to seven years but now, we have seen the tenure of deposit shortening from seven years to between 18 and 12 months and now, the general range of funds is about 90 days or 180 days, if you are lucky"

The result was that though the merchant banks increased in number till 1991, their growth did not have a proportional impact on the productive sectors of the economy which ought to be the center focus of their financial services.

The merchant banks have openly admitted to their frustration in the bid to impact the preferred sectors of the economy significantly due to the persistent inclement economic environment.

(ii) **Exemptions from some monetary and credit policy measures**:

To all intents and purposes, deregulation had the unintended consequence of deepening the disadvantaged position of merchant banks relative to commercial banks. Realising that this can only be allowed to continue at the peril of the finance sector, the monetary authorities at various times decided to either relax some tight regulatory stance on the merchant banks or exempt them totally from some measures to increase their competitiveness in an uneven operational environment.

For instance, the mandatory minimum deposit level of N50,000 for merchant banks which had been in force before deregulation was reviewed downward first to N25,000 in 1993 then to N10,000 in 1994. [See CBN Annual Report, 1993 - 1996. The immediate effect of this was that in 1993, the deposits of merchant banks increased over other liabilities. But this could not be sustained

for long. In their frantic effort to stay afloat, they literally milled out all manner of novel products to undercut the stipulated minimum deposit of N10,000.

Also in 1996, merchant banks were exempted from observing the cash reserve requirement. In the same token, the age long requirement that a minimum of 20.0 per cent of their loans and advances be of medium and long-term tenure was abolished thereby allowing merchant banks in the economy to structure their assets the way it pleased them. In addition to all this, they were also a beneficiary of the abolition of the mandatory sectoral credits which was abolished with effect from 1st October, 1996. [CBN Annual Report, 1996]

Though these measures gave merchant banks free hands and operational breathing space in the spirit of deregulation, the priority sectors of the economy was at the receiving end as reports have it that the same year these measures were abolished [i.e. 1996], the loans and advances of merchant banks to these sectors [e.g. agricultural and industrial] fell by 0.9 per cent.
In his reaction on the possible implication of this, John Abdul, the Chief Executive of Lion Bank of Nigeria Plc said "A situation whereby the operators of merchant bank industry neglect long term projects for high yielding, quick profit projects is the beginning of the end of developmental process in this nation"

(iii)**Induced lack of confidence in government policy directions**:-

Being a highly specialized sub-sector whose success in developmental functions anchors on government policy consistency and favourable regulatory framework, merchant banks have been left confused by the erratic nature of government's implementation of deregulation.

If anything, government approach in the last 13 years has been short of the expected drive, determination and predictability, all of which are fundamental instruments of attracting riskier commitment from a sub-sector that does not have much fund to play around with.

A few examples will buttress this point. In 1986, the interest rate was deregulated. In 1991, it was re-regulated [i.e. fixed]. Two years after [i.e. 1993], it was again deregulated. This policy reversal induced an unprecedented rise in the minimum lending rate of merchant banks. The rate shot up to 61.5 per cent! A year later (1994), the interest rate was again regulated with government pegging the rate by fiat at 21 per cent. Surprisingly, in 1996, it was again deregulated. [CBN Annual Report, 1996] Evidently, this policy is bereft of consistency and continuity.

What happened between 1994 and 1997 was particularly instructive. The policy of direct controls and regulations of the pre - 1986 era was re-introduced. Both the interest rates and the

exchange rates were fixed. All foreign exchange inflow became centralised in the Central Bank and the method of direct allocation to the end users by the CBN through authorised dealers was re-introduced. The market became guided with discretionary interventions. For deregulation, it was several steps backward, but the implementors called it the era of guided-deregulation. The CBN officially dubbed it a "stop-go approach to policy implementation". [CBN Annual Report, 1997 P.12]

According to Oboh (1999), "In spite of the regulatory framework put in place, banking liberalisation degenerated into the laissez-faire banking of the pre-regulatory era and bred serious abuses ... policy inconsistency and somersaults worsened the situation through the introduction and termination of financial reforms in quick succession".

Considering the high risk profile of the productive sectors of the economy, the merchant banks became very hesitant in going headlong in their commitment in the face of this unpredictable scenario. They were at a loss as to which policy government was pursuing or will pursue. Was it deregulation or regulation or re-regulation or guided regulation? Thus, neither the government nor its monetary authorities commanded the confidence of the merchant banking sub-sector in their policy directions, if at all there was any assured direction. [Ohiwerei, 1998]

(iv)**Unchanging weakness of the sub-sector**:- Before deregulation, the merchant banking sub-sector was known to be weak and wriggling under the octopus dominance of the commercial banking sub-sector. This status quo, rather than change or redressed was actually perpetuated during deregulation. Though trying hard to come up strong, the merchant banking sub-sector is still weak 13 years after deregulation.

For instance, the average share of merchant banks in total banking system assets, deposits, loans and advances in the last 13 years have been 17, 11 and 19 per cent respectively as against the commercial banks' 83, 89 and 81 per cent respectively. In fact, only ten of the commercial banks in the country have been accounting for 63 per cent of the entire total assets,over 59 per cent of total deposit liabilities and over 58 per cent of the aggregate credit in the system. The truth is that as at today, no merchant bank is strong enough to enter into the league of banks that call the shots in the nation's financial system and this may not change for a long time to come, unless the rule of the game changes.

(v)**Comparative Dismal Performance**:- To further illustrate the weak position of the merchant banks in the system during deregulation, I shall do a comparison of the performance of two merchant banks with one commercial bank. The two merchant banks are NAL Merchant Bank and Merchant Bank of Commerce

Limited. NAL is an old generation merchant bank which was established in 1960 while Merchant Bank of Commerce commenced operations in 1990. The commercial bank with which they are to be compared - Diamond Bank Limited - took off after the two of them in 1991. It is one of the new generation commercial banks.

The decision not to compare the two merchant banks with any of the existing old generation commercial banks [which are juggernauts in the industry] was delibrate. It was due to the need to present a clear picture of the relative sluggish performance of the merchant banking industry.

Consider this table:

TABLE I

COMPARISON OF PERFORMANCE RESULTS OF TWO MERCHANT BANKS WITH ONE COMMERCIAL BANK

I	II	III	IV	V
NAME OF BANK	**1999**	**MERCHANT AS A % OF COMMERCIAL**	**1998**	**MERCHANT AS A % OF COMMERCIAL**
	N'000		N'000	
DIAMOND BANK LTD (ESTAB. 1991) (Commercial Bank)				
Total Assets	26,655,116		17,357,914	
Deposits	19,048,779		11,676,369	
Shareholders' funds	2,238,265		1,679,804	
Profit after Taxation	918,986		569,058	
NAL MERCHANT BANK PLC (Estab. 1960)				
Total Assets	10,097,368	37.88	7,956,284	45.84
Deposits	5,098,688	26.77	3,699,101	31.68
Shareholders' Funds	2,357,290	N/A	2,217,761	N/A
Profit After Tax	385,195	41.92	363,180	63.82
MERCHANT BANK OF COMMERCE LTD. (MBCOM) **(Estab. 1990)**				
Total Assets	5,417,071	20.32	3,413,456	19.67
Deposits	3,941,087	20.69	2,301,836	19.71
Shareholders Fund	952,940	42.57	752,244	44.78
Profit After Tax	300,696	32.72	239,231	42.04

Source:-

i) "Diamond Bank Ltd: Five - Year Financial Summary" in Nigeria Banking, Finance and Commerce; Redasel Ltd, 2000 P. 62

ii) "NAL Merchant Bank Plc: Five Year Financial Summary" Op.cit. p. 216

iii) Merchant Bank of Commerce Ltd. (MBCOM)'s Annual Report and Accounts, 1999, MBCOM, Lagos, p. 33

A cursory look at the table clearly shows that the performance of Diamond Bank Limited - a commercial bank that came later - dwarfs the performance of the two merchant banks which had been in existence before.

For instance, NAL which had been in existence 30 years before Diamond has a total assets of N10 bn by 1999. This is just about 38 percent of Diamond's total assets of N26bn. MBCOM only had about 21 per cent of Diamond's total assets as at 1999. Likewise in deposits, NAL's deposits of N5bn is just 26.7 % of Diamond's N19bn. MBCOM's N3.9bn deposits is just about 21% of what Diamond posted, yet Diamond was incorporated as a commercial bank after all of them. Looking at the shareholders fund reveals that as at 1999, MBCOM's N952m is about 43% of Diamond's N2.2bn. It's only in the shareholders fund that NAL steps ahead of Diamond. And this is understandable in that NAL is a public company which had been in existence for long. But even at that, Diamond is fast catching up with it on that plane because as at now its N2.2bn in shareholders fund is 95% of NAL's N2.3bn.

Concerning profit after tax, no merchant bank has yet matched the result posted by Diamond Bank. Still using the table above, we see that as at 1999, NAL's profit after tax of N385m is 41% of Diamond's N918m while MBCOM's 300m is 32% of Diamond's.

Perhaps the percentage increases in the bank's results will reveal more of the relative poor performance of merchant banks. For instance, between 1998 and 1999, the percentage increase in NAL's deposits was 37% whereas that of Diamond was 63%. Whereas, the percentage increase in shareholders fund for MBCOM was 27% and that of NAL, 6%, Diamond's percentage increase was 86%!. Even if we consider the profit after tax, for NAL, it was just 6% increase, for MBCOM, it was 25% but for Diamond, it was about 62%. Yet Diamond Bank Limited, a commercial bank came after the two merchant banks. Even if we should excuse MBCOM on the note that it took off just a year before Diamond, what of NAL which is one of the first two merchant companies in Nigeria?

While answering this question, Hassan Usman, an Assistant General Manager with NAL Merchant Bank said, "The truth is that the country's degenerating economic situation has not made merchant banking attractive as it should be. This is moreso because key services such as mergers and acquisitions and capitalisations have been on the slow lane".

If anything, this statement and the illustration above show the depreciating fortune of the merchant banking industry in Nigeria. While the commercial banks - both old and new - are waxing strong, the merchant banks are tumbling downwards.

This is one of the specific effects of deregulation on merchant banking.

(vi)**Investor's loss of interest in the sub-sector**:- The cumulative negative effect of deregulation on the merchant banking industry has led to the loss of interest by investors in the sub-sector. Unlike in the commercial banking sub-sector where new banks are established each year [at least, three new ones still opened shops in 1999], the last time a new merchant bank was established in Nigeria was in 1991.

This dismal development is not unexpected given the downward trend of the sub-sector as illustrated above coupled with the persistent shrinking of their market share which is occasioned by the unceasing incursion of the commercial banks on their traditional areas of financial services such as equipment leasing, commercial papers, issuing house functions, amongst others.

(vii)**The strindent call for full deregulation**:- Against the backdrop of persistent discomfort in operating strictly as merchant bankers, there have been a strong advocacy by the merchant banks in the last seven years for a full deregulation of the banking sector. This has found expression in their persistent push for universal banking. Universal banking is the removal of demarcations between commercial and merchant

banks to enable any of the banks to render which of the services it feels most suited for. It enables a bank to combine or specialise in its areas of comparative advantage.

Early in 1993, the seven biggest merchant banks made a case in a formal memo to the CBN. They protested the competitive edge of commercial banks over the merchant banks - due to uneven playing field - and expressed their readiness to mobilise deposits at the retail level and also join the clearing system which they are exempted from as merchant banks [The Guardian 10th February, 1993 p.3]

In a similar "protest", the Chairman of First City Merchant Bank, (FCMB), Otunba Michael Balogun wondered why CBN could not impose sanctions on the commercial banks for encroaching on merchant banks' areas of activities. He said if the monetary authorities could not check the trend, it should abolish the dichotomy between the two sub-sectors in the true spirit of deregulation. CBN on its own part replied by saying that encroachments were off official records and thus could not be probed [Business Times 14th June, 1993 P.3]

This call for universal banking has been more strindent in the last two years. Now at its climax, it has generated heated debates in the financial sector. While a few are feeling that allowing universal banking might lead to a total neglect "of

those services which informed the setting up of merchant banks" many are of the opinion that it will rather stimulate such services as only the banks with comparative advantage in such areas will specialise in the sub-sector. [See The News, 20/9/99, p. 32 and National Concord, 6/9/99, p. 14]

For instance, it is a known fact in the merchant banking sub-sector that NAL Merchant Bank Plc, First City Merchant Bank Limited and Investment Banking and Trust Company are major players in the capital market having captured the lion share of the market. In an event of a take off of universal banking, these three are likely to expand their niche at the capital market as other merchant banks which are now finding it difficult to penetrate the market would have to busy themselves with commercial banking businesses.

While commenting on the same issue, David G. Mckean, Managing Director and Chief Executive of Marina International Bank Limited (Merchant Bankers) said "Merchant banks are expected to play a decisive role in the capital market, but if you look at the size of Nigeria's capital market, there is probably no justification for having more than two to five specialised merchant banks in the country".

Now all the merchant banks are unanimous in the call and no commercial bank has objected to it either. Even the CBN does

not have any strong objection to it other than the fear that the banking sector is probably not ripe for that level of deregulation.

It is believed by the merchant banks that universal banking will among other benefits, enhance their

a) Operational flexibility;
b) Wider reach and scope of business;
c) Reduced cost of funds;
d) Larger customer base;
e) Access to funds and transactions in the public sector which controls over 70% of total available fund at the moment;
f) Comprehensive Banking service - including downstream activities like chequing and other retail facilities.

(vii)**The conversion to commercial banking** :- Against the background of the delay of the authorities in approving universal banking, many merchant banks have applied for conversion to commercial banking as at the time of this project. Some of them have already been granted the licence to commence operations as commercial banks while many are on the waiting list. [See Appendix VI for a list of merchants that have commenced operations as commercial banks]

Included on the list of those awaiting their commercial banking licence soon are Marina International Bank

Limited, Fountain Trust Merchant Bank Limited, Liberty Merchant Bank Limited, Global Investment Bank Limited, Merchant Banking Corporation Limited etc.

Suffice it to add that International Merchant Bank (IMB) Plc is one of the merchant banks that are expecting approval to switch over to commercial banking. In an official release by the bank, it vows not to give up till it gets the approval because "the playfield has remained uneven for wholesale and retail banking with the later enjoying obvious advantages" [The Guardian April 10, 2000 P. 31]. And with effect from January 2000, Merchant Bank of Commerce (MBCOM) Limited commenced operations as a commercial bank under another name known as Continental Trust Bank Limited.

Justifying this unprecedented spate of conversion to commercial banking by the merchant banks, Erastus Akingbola, the Chief Executive Officer of Nigerian Intercontinental Merchant Bank Ltd. - **which has now converted to commercial banking** - said, "Conversion provides merchant banks which have reached their zenith in investment banking the opportunity to expand and extend their services across the country and even beyond. Besides, the change becomes necessary to have access to various sources of low interest deposits. It is also high time

merchant banks took advantage of access to cheap funds from the parastatals accounts.

If you look at the gross income in the accounts of banks, the merchant banks always have the highest because of their level of activities, but by the time you remove the cost of funds which merchant banks sourced to do business, everything will collapse. That is, the increase will drastically be reduced. If the name is the problem, let's get rid of it. Let us remove 'merchant' so that normal business can continue"

Having successfully removed the word 'merchant' the name of Akingbola's bank is now Nigerian Intercontinental Bank Limited, functioning as a pure commercial bank. Also John Ezikpe, the Chief Executive of Manufacturers Merchant Bank Plc **which has converted to commercial banking** and known as Manny Bank Plc, spoke to justify their conversion. He said, "The main attraction to us for conversion is the expectation of higher profits. Commercial banking is most profitable. This is mainly because commercial banks' cost of funds is lower than merchant banks'. They have easy access to cheap funds which enhances profitability and expectedly, the merchant banks want a piece of the action".

It is clearly discernible from the above statements and facts that the merchant banking sub-sector has literally been operating under excruciating pains and frustration since 1993 when they first protested formally the competitive edge of commercial banks over them. From all indications, their struggle for equitable placement in the nation's financial sector continues.

5.1.1 A case study of Merchant Bank of Commerce Limited (MBCOM)

It is important to examine further the case of MBCOM for us to establish the fact that deregulation is not an absolute negation of merchant banking in Nigeria.

A close look at the operations of MBCOM shows that its case is not that of outright non-performance; rather - like many other merchant banks in the industry - it is a case of slow or struggling performance or what is called **pyrrhic financial success.**

This bank commenced business as a merchant bank in 1990 Calling itself "a niche player", it concentrated more on the energy sector, World Bank assisted projects and multilateral institutions. It also provided financial assistance and advisory services to a select group to indigenous engineering and construction companies engaged in both upstream and down stream in oil and gas industry. [MBCOM Profile, 2000].

Its services for customers could be listed as follows:-

a) Project Financing
b) Oil and Gas
c) ADB/NERFUND
d) Trade Finance
e) Private Banking
f) Capital Markets
g) Funds Management
h) Monetary Markets products and Inter-Bank Products
i) International Operations
j) Demand Deposits
k) Call Deposits
l) Fixed Deposits
m) Bankers Acceptance
n) Commercial Papers

A close look at the books of this bank showed that it was more concerned with the less risky areas which could spin desired returns faster than other aspects of the financial services industry such as agricultural or industrial project financing. But even then, it walked on a tight rope as a merchant bank. It declared its first profit of N63m in 1996. It could not declare dividend until 1998 when a dividend of N100m was declared for the first time since inception.

In 1999, MBCOM posted a gross earnings of N1.3bn representing a growth of 74% over the N768m of 1998. The banks' total assets also grew from N3.4bn in 1998 to N5.4bn in 1999 [59% increase] while its shareholders funds increased from N752m in 1998 to N1.053bn in 1999 [proposed dividend included] representing a 40% increase.

Rising from its losses of early years, MBCOM has consistently recorded reasonable after tax profit since 1996. It has been N63m., N278m., N239m., and N300m in 1996, 1997, 1998 and 1999 respectively. It is noteworthy to state that its profit after tax of N3.6m in 1999 is 25% above the N239.2m of 1998. This is by any standard, a modest sign of revitalisation.

Ordinarily, one would have expected these obvious signs of progress to make the bank comfortable with merchant banking, but no. The reason is that its modest progress has not been without severe pains and penalties. It has had to be penalised by the monetary authorities for contravening some credit guidelines in its bid to succeed. [MBCOM Annual Report and Accounts, 1999, p. 31] Besides, its best of success when compared with some least successes in the commercial banking sector, is like a failure.

The reason for this is not far fetched. While for instance the commercial banks charge between 30 and 35 per cent interest on loans and advances to their clients from cost - free deposits, merchant banks charge about 40 per cent interest for funds

bought at about 22 per cent. The situation does leave the merchant banks with 18 per cent margin while commercial banks make about 35 per cent gain sweatlessly.

It therefore, stands to reason that only a non-profit making organisation would be indifferent to this picture especially when the opportunity is there to have "a piece of the action" just by changing your operating licence. And since MBCOM [like any other merchant bank in the system] aspires towards higher benefits at reduced costs in banking business, it cannot afford to remain comfortable operating as merchant bankers in the prevailing (disadvantaged) circumstance.

As a result of these considerations, amongst others, the bank applied for conversion to commercial banking in 1998 and got the licence on 1st December, 1999. [MBCOM Profile, 2000 p.1] So what hitherto has been known and called Merchant Bank of Commerce (MBCOM) will henceforth be known as a commercial bank called Continental Trust Bank (CTB) Limited.

5.2 Analysis Of Evaluative Criteria

From the facts available to us so far, we can state the following unambiguously:

i) The merchant banking sub-sector is not operating on a level playing field in the nation's banking industry, hence it is disadvantaged in many ways.

ii) The merchant banking sub-sector is very weak relative to the commercial banking sub-sector.

iii) The merchant banking sub-sector is under the dominance of the commercial banks both before and during deregulation.

iv) The merchant banking sub-sector has never been satisfied with the regulatory framework under which it is made to operate both before and during deregulation.

v) The banks in the sub-sector have never been comfortable operating strictly as merchant banks.

vi) The investors' interest in merchant banking which was remarkable in the early seventies and got to the peak in the first seven years after deregulation is now at its lowest ebb.

vii) There is an observable marked desertion of the merchant banking for commercial banking as many in the former are converting to the latter.

viii) Despite the multifarious problems faced by merchant banks in Nigeria, no merger case has been recorded as it took place between two merchant banks in 1969 [i.e. before deregulation see 4.1].

ix) Even though the functions of the merchant banks in the country are clear and unambiguous, they have been found to veer off into the commercial banking territory of activities when under pressure and vice versa for commercial banks.

x) The tradition of merchant banks and commercial banks encroaching on each other's areas of activities did not start during deregulation, but before deregulation, now carried into the deregulation period.

xi) The monetary authorities being cognisant of the disadvantaged position of the merchant banks have granted them concessions or exemptions from some credit policy measures during the period of deregulation covered.

xii)The merchant banking sub-sector has been known for their advocacy for a more competitive environment both before and during deregulation. The present call for universal banking - as a bold step towards a full deregulation - is only a complement to their behavioural antecedents.

xiii)Whatever the advantage was that used to attract investors to merchant banking has been wiped off by the effect of deregulation on the sub-sector.

xiv)Deregulation has had more sinister impact on the merchant banking sub-sector than the commercial one because while the commercial banks are still booming with ease in these times of deregulation, the merchant banks are counting their declining fortunes.

xv)The merchant banks are unanimous in their call for multipurpose banking [i.e. universal banking], in these times of deregulation

xvi)Deregulation in Nigeria is full of inconsistencies and incontinuity of policy measures. So, it is being followed with utmost care by the merchant banks.

xvii)For this reason amongst many others, the merchant banks have been skeptical committing their scarce funds into agricultural or long term industrial projects.

xviii)There is a symbiotic relationship between deregulation and merchant banking industry and the latter cannot be discussed or analysed in isolation of the former.

5.2.1 Analysis

At this juncture, let us recall the questions this project was supposed to answer, They are outlined thus:

(i) Is deregulation a negation of merchant banking?

(ii)Why have investors suddenly lost interest in merchant banking?

(iii)Can the merchant banks still perform effectively and efficiently their catalytic role in the economy giving the current stage of deregulation in the banking sector?

(iv)What actually is the cause of the demise of merchant banking in Nigeria? Is it deregulation or regulation or re-regulation or guided deregulation etc.?

(v) Are there merchant banks that are not interested in commercial banking and why, If any?

(vi)What are the effects of deregulation on merchant banking?

In the first place, deregulation is not a negation of merchant banking in Nigeria. Drawing from the data available to us, it is obvious that deregulation was not conceived to negate any

industry or sector but to facilitate their contribution to economic growth and revival.

Secondly, deregulation in its early years led to a big boost in merchant banking. Before deregulation [i.e. 1986], the number of merchant banks in the economy was 12, seven years into deregulation, the number increased to 54 before it later crashed to 31 starting from 1992. Even at 31 today, the number is still appreciable considering the fact that it was 12 before deregulation.

Also there are strong indications that the merchant banks have always been in support of deregulation before it came and during its implementation for they have always clamoured for a more competitive business environment. Their problem or dissatisfaction has always been the policy measures under deregulation or the manner of implementing it which does not favour them as much as it does to their sister commercial bankers. None of the merchant banks has spoken against deregulation as an economic policy and under it, they have made modest progress going by their operating results. 10 years after the commencement of deregulation, a survey was carried out to know the 30 most solid banks in Nigeria, seven merchant banks were found to be among them [see Appendix VIII].

Investors' interest in merchant banking dwindled not because of deregulation per se because it was deregulation that led to the liberalisation of licencing procedure that made it possible for some of them to establish the banks in the first place. Drawing from our data, their loss of interest was due to the persistent weakness of the industry, lack of long term funds and comparative dismal performances.

Though merchant banks are not development banks as it were, they have a gangantuan role to play in economic development going by their functions as wholesale bankers and medium and long term financiers. From available data, it is obvious that this role is being frustrated by a number of factors.

Firstly, the dearth of long term funds as discussed in 5.1.(i) Secondly, policy inconsistency and somersaults which make nonsence of banks' projections, planning and long-term lending. Thirdly, they have discovered that their several years of filing financing facilities gaps in Nigeria have not translated to a quantum jump in their fortune so much that young commercial banks that sprung up overnight are surpassing them in all areas of financial results [e.g. the example of NAL Merchant Bank Plc compared with Diamond Bank Limited].

Fourthly, merchant banks have been exempted from credit measures that had hitherto enforced either their percentage

allocation of credit to the productive sectors or the maturity structure of their medium and long-term loans. In fact, these measures have been cancelled altogether for the banking industry since 1996. So all banks now allocate their credits the way it pleases them both sectorally and maturity wise.

So, the question is now not whether or not the merchant banks can still perform their primary role efficiently or effectively at the current stage of deregulation, the truth is that many of them are no longer interested in such a role. They are now interested in retail banking, massive branching network, participation in the clearing system, chequeing and every other thing done by commercial banks.

From our analysis so far, it can be inferred that the demise of merchant banking in Nigeria is imminent moreso because the mighty among them are either falling or have fallen. For instance out of the "Big Three" merchant banks of the pre-deregulation era, two are already distressed and liquidated. They are ICON Limited (Merchant Bankers) and Continental Merchant Bank Limited (CMB). The only one remaining among them is International Merchant Bank Ltd., (IMB) whose performance has been tottering over the years. It is now one of the many banks awaiting the licence for commercial banking.

Even amongst the post-deregulation merchant banks, some of the few ones reckoned as "solid" are converting. Amongst them are Nigerian Intercontinental Merchant Bank (NIMB) Limited and Fidelity Union Merchant Bank Ltd.

On the surface, one might be quick to say that it is being caused by deregulation. But as it has been analysed above, it is not being caused by deregulation, but by the regulations in deregulation. The many doctorings of deregulation policy in the last 13 years [e.g the stop-go manoverings of the 90s] have done much harm to the merchant banking industry and things cannot be the same again.

The state of things now is that all merchant banks with no exception want the barriers between merchant banking and commercial banking operations broken down. The findings showed that many merchant banks have applied to convert to commercial banks and some have been given the approval. Some of the ones that have not applied say they are holding on not because they are not interested, but because they are optimistic - going by their source of information - that government will formally approve the commencement of universal banking for Nigeria in the year 2000.

However, there are three merchant banks who are not objecting to conversion or universal banking, but are resolute in their

determination to continue operation as merchant bankers for some reasons. The banks are NAL Merchant Bank Plc, Centre-Point Merchant Bank Limited and Lead Merchant Bank Limited.

Hassan Usman, an Assistant General Manager with NAL said "... We believe we are the doyen of merchant banking; we believe there is still a market for merchant banking; we have been here for 38 years. If we convert, there may be no more merchant banking"

On his own part, Dennis Odife, the Executive Chairman of Centre-Point Merchant Bank said, "... We shall remain a wholesale bank because we believe the good days of merchant banking are not over yet. We believe there are still brighter days ahead for merchant banking in Nigeria. We would like to look into areas of opportunities in merchant banking which have not yet been fully tapped"

The Managing Director of Lead Merchant Bank, Abimbola Olashore said they would also remain in wholesaling business because "We believe that with higher degree of economic deregulation and influx of foreign investors into the country only the investments banks can offer such high level of advisory services that would be required to help develop the country's economic potentials".

From the above statements, we can deduce that the few merchant banks that are not converting to commercial banking are not doing so not because they are really financially comfortable [and they do not give such impression], but because they are optimistic that further deregulation of the economy might bring better days which would pay off for the merchant banking business.

So, talking about the effect of deregulation on merchant banking in Nigeria may not be as straightforward as one may think because deregulation in Nigeria is still at its experimental stage. It has been very erratic. It has not yet stabilised. It is short of the standards obtainable elsewhere in the world. For instance in advanced economies like that of U.K and US where deregulation has had its full course, no bank is regimented to any particular services, yet merchant banking is prospering like any other type of banking. For Nigeria to obtain this type of scenario depends on many socio-economic and political variables that are beyond the scope of this study.

Suffice it to say for now that going by the standard and variant of deregulation policy that we have chosen to practice in Nigeria, its impact on merchant banking has been more of negative than positive as elaborately proved in 4.4 and 5.1.

5.3 The Future Of Merchant Banking In Nigeria In Relation To The Emerging Trend In The Banking Industry

From all indications, the emerging trend in the banking industry today can be conveniently situated within the context of the agitation for universal banking which in reality cannot be resisted by the government for long. A few officials spoken to at the CBN, Lagos - who preferred anonymity - said assuredly that universal banking will take off in Nigeria in the year 2000, but might come with some tall conditions to safeguard the banking system from possible collapse.

Until this unfolds, we have reasons to be optimistic that the merchant banking industry will not be allowed to collapse totally. It's future is indeed, full of prospect if deregulation is allowed its full expression not just in the banking sector but in the economy at large.

It is envisaged that as the nation opens its financial sector more to foreign investment, its present resistance to universal banking will be humbled by the forces of globalisation and integration which are synonymous to collapse of boundaries geographically and business - wise.

So, the merchant banking industry of the future will open up naturally to accomodate only high performing merchant banks

with a significant niche in the market. What this means in effect is that all the existing merchant banks that are operating at the margin will find something else to do in the financial sector. One thing is sure: merchant banking sub-sector in Nigeria will not collapse. What the sub-sector is passing through presently is an unavoidable stage in an experimental economic system to right the wrongs.

5.4 Summary

This chapter is no doubt, the heart of this project. In it, the researcher discussed exclusively the specific effect of deregulation on merchant banking in Nigeria. Using a comparative analysis of two merchant banks and one commercial bank, he established the fact that merchant banks are weak when compared with their commercial banks counterparts. This was further buttressed by the statements of some key interviewees whose banks are strong players in the merchant banking industry.

The case study of Merchant Bank of Commerce Limited (MBCOM) which was given a special close-up in the chapter brought to fore two salient facts: one, that deregulation per se is not a negation of merchant banking in Nigeria and two, that merchant banks covert to commercial banking because therein lies the opportunities of greater financial benefits at very little cost.

The chapter was rounded up with a comprehensive analysis of the data available answering one after the other all the questions raised at the beginning [introduction] of this project and concluding that with further deregulation of the financial sector, the merchant banking sub-sector has good prospects.

CHAPTER SIX

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

6.1 Summary

This research study has looked into the manifold effect of deregulation on merchant banking in Nigeria. Against the background of the examination of the underlying philosophy of deregulation as well as its basic elements, the study gave an expansive run down of the general impact of deregulation on the Nigerian banking industry. Among many other impact, it was discovered that deregulation revived the sleepy industry with a healthy competitive spirit, innovativeness, enhanced qualitative customer service delivery, industrial automation etc.

The researcher considered the various banks in Nigeria and their major functions. Banks in question include the central bank, commercial banks, development banks and of course, the merchant banks.

On merchant banking, there was a close examination of the concept of merchant banking, the history of merchant banking in Nigeria and the basic merchant banking services. It was discovered that by virtue of its historical evolution in the world of business and in Nigeria especially, merchant banking by nature is not an all-comers industry. It is a highly specialised sub-sector with services aimed at "wholesale banking, medium and long term financing" amongst others.

Since the main thrust of the project is to know the effect of deregulation on the industry, it started by examining first the state of merchant banking in the country before deregulation so as to be able to pin down possible changes in the industry since deregulation started 13 years ago.

My study shows that whereas the growth in the industry was slow before deregulation, it became rapid at the inception of deregulation. More merchant banks came up and the number grew astronomically from 12 in 1986 to 54 by 1991. Deregulation also divested the industry of government's overwhelming ownership and control in favour of massive private ownership. Deregulation's impact also galvanised the industry into more dynamism and improved service delivery under a more liberal regulatory framework. But beyond this, deregulation neither changed the weak position of the sub-sector in the banking industry nor expanded its sources of income. Its field is still traditionally narrow and its results comparatively poor. Attempts by the sub-sector to break itself loose from this "sack" has provoked some ripples in the industry. These ripples stem from their incursions into commercial banking services, running foul of credit guidelines, conversion to commercial banking and agitation for universal banking. Already, there is an obvious sagging interest of investors in the sub-sector.

Barring these shortcomings however, it is discernible that merchant banking industry during deregulation has become more developed and more sophisticated. It has faired better, the result being the existence of at least, 31 of them in the economy presently.

6.2 Conclusions

The following conclusions have emanated from the findings made so far:

(i) Though the intention behind deregulation is good, its implementation has inflicted some unintended consequences on the merchant banking sub-sector thus perpetuating its disadvantaged position in the banking industry.

(ii) The negative effect of deregulation on the banking industry has been more telling on the merchant banks than the commercial banks

(iii) The problem of the merchant banking industry as known today is not so much due to deregulation as it is due to the **regulations in deregulation.**

(iv) Deregulation in its present form cannot allow for effective and efficient performance of core merchant banking services in the country.

(v) The merchant banking industry in Nigeria still has some prospects provided deregulation is allowed to have its full course in the industry.

(vi) Deregulation is not a negation of merchant banking in Nigeria.

6.3 Recommendations

Government should view with seriousness the depreciating state of the merchant banking sub-sector and do the following:

i) Carry out a complete review of the credit and monetary measures in the banking industry with a view of redressing the lopsidedness between the merchant and commercial banking services. However, basic regulation and supervision of the banking industry should subsist in order to check the incidence of fraud, distress and failures so as to safeguard depositors' funds.

ii) All barriers between merchant banking and commercial banking should be eliminated through necessary legislations. This will not only forestall conflict of interest, but promote more competition and enhance the banks' efficiency.

iii) It is also important that the government gets its acts together and ensure that its policy measures under deregulation are more consistent, reliable and dependable. The art of pronouncing a measure today and annulling it tomorrow cannot make for the growth of any sector especially the merchant banking sub-sector.

iv) Merchant banks in the system should also come together in mergers and or acquisition to enjoy the immense benefit of synergy which was a recognisable practice amongst merchant banks in the 60s and even now worldwide.

v) Rather than abandoning the merchant banking services, merchant banks in the economy should fine-tune their operational strategies

and come out with demands that will facilitate their role in addition to the current move for universal banking.

vi) Government should allow for a full deregulation of the banking industry for diversification and enhanced benefits for customers and the economy.

Demarcation of various areas of banking services has long ceased in developed financial systems of the world. It is not just old fashioned but retards growth and contradicts the underlying philosophy of deregulation.

However, tested and appropriate legal frameworks for the safe operation of universal banking should be put in place by government before its commencement.

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3. Nigerian Banking, Finance and Commerce by Redasel (2000)
4. National Concord (Various issues)
5. The Guardian (Various issues)
6. Business Times (Various issues)

MERCHANT BANKS OFFICIALS INTERVIEWED

1. Chief Kingsley Ikpe, Chairman, Fidelity Union Merchant Bank Limited, Lagos [Now Fidelity Bank Plc].
2. Mr Hassan Usman, Assistant General Manager, NAL Merchant Bank Plc., Lagos.
3. Mr. David G. Mckean, Managing Director and Chief Executive Officer, Marina International Bank Limited, (Merchant Bankers), Lagos.
4. Mr. Erastus Akingbola, Chief Executive Officer, Nigerian Intercontinental Merchant Bank Limited [now Nigerian International Bank Limited, Lagos].
5. Dr. John Ezikpe, Chief Executive Officer, Manufacturers Merchant Bank Plc., Lagos [Now MannyBank Plc].
6. Mr. Dennis Odife, Executive Chairman, Centre-Point Merchant Bank Limited, Lagos.
7. Mr Abimbola Olashore, Managing Director, Lead Merchant Bank Limited, Lagos.

APPENDIX I

COMMERCIAL BANKS WHICH WERE REGISTERED IN NIGERIA UP TO THE END OF 1960

NO	COMMERCIAL BANK	YEAR ESTABLISHED	REMARKS
1	Africa Banking Corporation	1892	Became British Bank of WA (BBWA)
+2	Bank of British West Africa	1894	Now First Bank of Nigeria Plc
+3	Barclays Bank, DCO	1917	Now Union Bank of Nigeria Plc
4	The Industrial and Commercial Bank	1929	Failed in 1930
5	The Nigerian Mercantile Bank	1931	Failed in 1936
+6	National Bank of Nigeria	1933	
+7	Agbonmagbe Bank	1945	Now WEMA Bank Plc
8	The Nigerian Penny Bank	1945	Failed in 1946
+9	African Continental Bank	1947	
10	The Nigerian Farmers and Commercial Bank	1947	Failed in 1953
+11	British and French Bank	1948	Became United Bank for Africa in 1961
12	Merchants Bank	1952	Failed in 1960
13	Pan Nigerian Bank	1951	Failed by the end of 1954
14	Standard Bank of Nigeria	1951	Failed by the end of 1954
15	Premier Bank	1951	Failed by the end of 1954
16	Nigerian Trust Bank	1951	Failed by the end of 1954
17	Afroseas Credit Bank	1951	Failed by the end of 1954

18	Onward Bank of Nigeria	1951	Failed by the end of 1954
*19	Central Bank of Nigeria	1951	Failed by the end of 1954
20	Provincial Bank of Nigeria	1952	Failed by the end of 1954
21	Metropolitan Bank of Nigeria	1952	Failed by the end of 1954
22	Union Bank of British Africa	1952	Failed by the end of 1954
23	United Commercial (Credit) Bank	1952	Failed by the end of 1954
24	Cosmopolitan Credit Bank	1952	Failed by the end of 1954
25	Mainland Bank	1952	Failed by the end of 1954
26	Group Credit and Agricultural Bank	1952	Failed by the end of 1954
27	Industrial Bank	1952	Failed by the end of 1954
28	West African Bank	1952	Failed by the end of 1954
29	Muslim Bank	1958	Failed by the end of 1954
+30	Banque de L'Afrique Occidentale	1959	Now Afribank Plc
31	Bank of Lagos	1959	Surrendered its licence in 1965
+32	Berini (Beirut-Riyad) Bank	1959	Now part of Arab Bank Nigeria Ltd
+33	Bank of the North		
+34	Bank of America	1960	Now Savannah Bank of Nigeria Plc.

NOTES

1. \+ These are banks still existing in their old or new names
2. * This bank is in no way connected with the Central Bank of Nigeria established in 1959 which is, of course, not a commercial bank.

SOURCE: Central Bank of Nigeria, Economic and Financial Reviews - cited in **100 Years of Banking in Nigeria (1892-1992) Lessons for Today's Bankers,** Potomac Workshops Limited, Lagos, 1993; P.89.

APPENDIX II

DIRECTORY OF MERCHANT BANKS IN NIGERIA AS AT 31ST DEC. 1985

NO	NAME OF BANKS	YEAR OF LICENCING	YEAR OF COMMENCEMENT OF BUSINESS
1.	NAL Merchant Bank Ltd.	1969	1960
2.	Nigerian Merchant Bank Ltd.	1973	1973
3.	International Merchant Bank (Nigeria) Ltd	1974	1974
4.	ICON Limited (Merchant Bankers)	1974	1974
5.	Chase Merchant Bank (Nig) Ltd.	1974	1975
6.	Nigerian -American Merchant Bank Ltd.		1979
7.	Merchant Banking Corporation (Nig) Ltd.	1981	1982
8.	Indo-Nigerian Merchant Bank Ltd.	1981	1982
9.	First City Merchant Bank Ltd.	1982	1983
10	Merchant Bank of Africa (Nig) Ltd	1982	1982
11.	Grindlays Merchant Bank of Nigeria Ltd.		1984
12.	ABC Merchant Bank (Nig) Ltd.	1982	1984

SOURCE: Adewunmi, W (1985); **25 Years of Merchant Banking in Nigeria,** Lagos, University Press. P.22

APPENDIX III

DIRECTORY OF MERCHANT BANKS IN NIGERIA AS AT 31ST DEC. 1991

NO	MERCHANT BANKS	NO OF BRANCHES
1.	Abacus Merchant Bank Ltd	1
2.	ABC Merchant Bank Nigeria Ltd	4
3.	Afribank International Ltd	1
4.	Alpha Merchant Bank Ltd	3
5.	Centre Point Merchant Bank Ltd	6
6.	Century Merchant Bank Ltd	3
7.	Citi Trust Merchant Bank Ltd	1
8.	Comet Merchant Bank Ltd	1
9.	Continental Merchant Bank Nigeria Ltd	6
10.	Crown Merchant Bank Ltd	3
11.	Devcom Merchant Bank Ltd	3
12.	FBN (Merchant Bankers) Ltd	3
13.	Fidelity Union Merchant Bank Ltd	2
14.	Financial Merchant Bank Ltd	1
15.	First City Merchant Bank Ltd	2
16.	First Interstate Merchant Bank Ltd	1
17.	Fountain Trust Merchant Bank	1
18.	Great Merchant Bank Ltd	2
19.	Group Merchant Bank Ltd	1
20.	Hillcrest Merchant Bank	1
21.	ICON Ltd (Merchant Bankers)	4
22.	Indo-Nigeria Merchant Bank Ltd	1
23.	Industrial Bank (Merchant Bankers)	2
24.	International Merchant Bank Nigeria Ltd	5
25.	Investment Banking Trust Co. Ltd	1
26.	Ivory Merchant Bank Ltd	2
27.	Kapital Merchant Bank Ltd	1
28.	Lead Merchant Bank Ltd	1
29.	Liberty Merchant Bank Ltd	2
30.	Manufacturers Merchant Bank Ltd	2
31.	Marina Merchant Bank Ltd	1
32.	Merchant Bank of Africa Nigeria Ltd	5
33.	Merchant Bank of Commerce Ltd	2
34.	Merchant Banking Corporation Ltd	3
35.	Metropolitan Merchant Bank Ltd	2

36.	Midas Merchant Bank Ltd	1
37.	NAL Merchant Bank Ltd	5
38.	Nationwide Merchant Bank Ltd	2
39.	New Africa Merchant Bank Ltd	3
40.	New World Merchant Bank Ltd	1
41.	Nigbel Merchant Bank (Nig) Ltd	2
42.	Nigerian Intercontinental Merchant Bank Ltd	5
43.	Nigeria Merchant Bank Ltd	5
44.	Nigeria-America Merchant Bank Ltd	4
45.	Pacific Merchant Bank Ltd	2
46.	Peak Merchant Bank Ltd	2
47.	Prime Merchant Bank Ltd	2
48.	Prudent Merchant Bank Ltd	1
49.	Rims Merchant Bank Ltd	3
50.	Royal Merchant Bank	2
51.	Societe Bancaire	1
52.	Stanbic Merchant Bank Ltd	2
53.	Triumph Merchant Bank Ltd	1
54.	Victory Merchant Bank Ltd	2
	TOTAL	**126**

SOURCE:- Central Bank of Nigeria, **Annual Reports and Accounts, 1993**

APPENDIX IV

EXISTING MERCHANT BANKS AS AT DECEMBER 1999 AND THEIR BRANCHES

S/N	MERCHANT BANKS	YEAR COMMENCED OPERATIONS	NO OF BRANCHES	HEAD OFFICE
1.	Afribank Int Ltd (Merchant Bankers)	1990	2	Lagos
2.	Centre-Point Merchant Bank Ltd	1988	3	Lagos
3.	Comet Merchant Bank Ltd	1990	2	Lagos
4.	Devcom Merchant Bank Ltd	1989	4	Lagos
5.	FBN (Merchant Bankers) Ltd	1990	5	Lagos
6.	First City Merchant Bank Ltd	1983	5	Lagos
7.	First Interstate Merchant Bank (Nig) Ltd	1987	1	Lagos
8.	Fountain Trust Merchant Bank Ltd	1991	5	Lagos
9.	Global Investment Bank Limited	1990	4	Lagos
10.	Indo-Nigerian Merchant Bank Ltd	1982	2	Lagos
11.	International Merchant Bank Plc	1974	4	Lagos
12.	Investment Banking & Trust Co Ltd	1989	1	Lagos
13.	Lead Merchant Bank Ltd	1989	3	Lagos
14.	Liberty Merchant Bank Plc	1990	5	Lagos
15.	Marina Int'l Bank Ltd. (Merchant Bankers)	1990	3	Lagos
16.	Merchant Banking Corporation Nig Ltd	1982	7	Lagos
17.	Metropolitan Merchant Bank Ltd	1989	2	Lagos
18.	Midas Merchant Bank Ltd	1990	1	Lagos
19.	NAL Merchant Bank Plc	1969	7	Lagos
20.	New Africa Merchant Bank Ltd	1989	5	Kaduna
21.	New World Merchant Bank Ltd	1990	5	Lagos
22.	NBM Merchant Bank Ltd	1987	3	Lagos
23.	Nigerian-American Merchant Bank Ltd	1979	5	Lagos
24.	Pacific Merchant Bank Ltd	1990	3	Lagos
25.	Peak Merchant Bank Ltd	1991	3	Lagos
26.	Prudent Merchant Bank Ltd	1990	3	Lagos
27.	Rims Merchant Bank Ltd	1988	2	Lagos
28.	Societe Bancaire Nig. Ltd (Merchant Bankers)	1991	4	Lagos
29.	Stanbic Merchant Bank Ltd	1984	2	Lagos
30.	Triumph Merchant Bank Plc	1991	4	Lagos
31.	Union Merchant Bank Ltd	1989	1	Lagos
	Total		104	

N.B: While the total number of Merchant Banks' branches stood at 104 as at December 1999, that of Commercial Banks was 1,913

SOURCE: - Nigerian Banking, Finance and Commerce (2000), Published by Redasel

APPENDIX V

MERCHANT BANKS LIQUIDATED IN 1997/98

1. ABACUS MERCHANT BANK LTD.
2. ABC MERCHANT BANK LTD.
3. ALPHA MERCHANT BANK LTD.
4. CENTURY MERCHANT BANK LTD.
5. CONTINENTAL MERCHANT BANK LTD.
6. CROWN MERCHANT BANK LTD.
7. NIGERIA MERCHANT BANK LTD.
8. ROYAL MERCHANT BANK LTD.
9. VICTORY MERCHANT BANK LTD.
10. FINANCIAL MERCHANT BANK LTD.
11. GREAT MERCHANT BANK LTD.
12. GROUP MERCHANT BANK LTD.
13. KAPITAL MERCHANT BANK LTD.
14. MERCHANT BANK OF AFRICA LTD.
15. ICON LIMITED (MERCHANT BANKERS)
16. PRIME MERCHANT BANK

SOURCE:- **Business Times, August 4, 1997 P.19** and **February 16, 1998; P.4** -
Confirmed at CBN, Lagos

APPENDIX VI

CONVERTED MERCHANT BANKS

	NAME AS MERCHANT BANK	NAME AS COMMERCIAL BANK AFTER CONVERSION
1	MERCHANT BANK OF COMMERCE LTD	CONTINENTAL TRUST BANK LTD
2.	NIGERIA INTERCONTINENTAL MERCHANT BANK	INTERCONTINENTAL BANK LTD
3	FIDELITY UNION MERCHANT BANK LTD	FIDELITY BANK PLC
4	INDUSTRIAL MERCHANT BANK LTD	CITY EXPRESS BANK LTD
5	MANUFACTURERS MERCHANT BANK PLC	MANNY BANK NIG PLC

SOURCE:- CBN, LAGOS OFFICE

APPENDIX VII

30 MOST SOLID BANKS IN NIGERIA (1996/97)

S/N	BANK	YEAR	TOTAL ASSETS =N=M	TURNOVER =N=M	PROFIT BEFORE TAX =N=M	SHARE-HOLDERS FUNDS	RETURNS ON ASSETS %	RETURNS ON EQUITY %
1.	UNION BANK OF NIG PLC	30/12/96	77,675	10,817	1,1341,134	4,079	1.46	27.8
2.	FIRST BANK OF NIG PLC	31/12/96	63,872	8,90	1,238	6,059	1.93	20.43
3.	UNITED BANK FOR AFRICA PLC	31/3/97	54,887	7,832	10,050	5,458	1.85	18.68
4.	AFRIBANK NIG PLC	31/12/96	31,291	5,129	48	2,609	0.15	1.84
5.	ZENNITH INTERNATIONAL BANK	30/6/97	16,016.5	2,330	1032	1,544	6.44	66.84
6.	CITIBANK (NIB)	31/12/96	15,769.5	3,390	1,672.7	2,148	10.61	77.88
7.	DIAMOND BANK	31/4/97	13,273	1,876.8	485	1,134	3.65	42.77
8.	AFRICAN INTERNATIONAL BANK	31/12/96	11,169	2,012	529	731.6	4.74	72.36
9.	WEMA BANK NIG PLC	31/3/96	10,811.6	1,504.8	251	821	2.32	30.57
*10	NAL MERCHANT BANK PLC	31/3/97	8,833	1,420	432.8	2,159	5.01	20.05
*11	NIG INTER CONT. MERC BANK	31/12/96	8,373	1,870	562.7	1,248	6.72	45.11
12.	CHARTERED BANK NIG LTD	31/12/96	8,316	1,121.8	172	672	2.07	25.60
13.	UNIVERSAL TRUST BANK	31/12/96	8,027	1,187	105.6	381.5	1.31	27.56
14.	ECOBANK NIG PLC	30/9/96	7,390.5	1,503	547.6	765	7.40	71.50
15.	CITIZENS INT. BANK LTD	31/12/96	7,207.7	1,520	351	786	4.87	44.65
16.	GUARANTY TRUST BANK PLC	28/2/97	6,934	2,654	1,031	N.A	14.87	N.A
17.	FSB INTERNATIONAL BANK	31/3/97	6,213	1,467	508.6	875	8.17	58.05
18.	COMMERCIAL BANK C/L	31/12/96	5,456	1,198.8	333	569	6.10	58.52
19.	ALLSTATES TRUST BANK LTD	30/9/96	4,785.5	798.6	78	272	1.63	28.67

*20.	FBN (MERCHANT BANKERS)	31/12/96	4,474.5	965.6	230	584.6	5.14	39.38
*21.	MERCH BANKING CORPORATION	31/3/97	4,396	586.8	237	423.7	5.39	56.03
*22.	FIRST CITY MERCHANT BANK	31/12/96	4,272	1,078	271	670	6.34	40.44
*23.	FIDELITY UNION MERCHANT BANK	30/6/97	4,151	649	195	673.5	4.70	29.0
24.	SOCIETE GENERALE BANK NIG LTD	31/12/96	3,634.7	918.6	131	290.8	3.60	45.02
25.	EKO INTERNATIONAL BANK	31/12/96	3,444.5	717.6	261.6	306	7.61	85.62
26.	CO-OPERATIVE DEVPT BANK	31/12/96	3,211.6	405.5	100	262.5	3.11	38.17
27.	HALLMARK BANK NIG LTD	31/3/97	2,785	614.5	168.8	418	6.07	40.43
28.	TRADE BANK NIG PLC	31/12/96	2,696.5	588.8	38	215.6	1.41	17.67
*29.	NIG/AMERICAN MERCH. BANK LTD	31/12/96	2,069	467.8	230	441	11.12	52.15
30.	GULF BANK OF NIG LTD	31/3/97	2,042	306.8	66.8	134	3.23	49.25

SOURCE: This Day, Vol. 3, No. 906; Oct. 28, 1997. P. 12.

* 7 Merchant banks out of the 30 solid ones.