**BANKING FAILURES IN NIGERIA: CAUSES, IMPLICATIONS AND REMEDIES**

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**Abstract**

This study is on banking failures in Nigeria: causes, implications and remedies. The total population for the study is 200 staff of standard trust bank, Enugu. The researcher used questionnaires as the instrument for the data collection. Descriptive Survey research design was adopted for this study. A total of 133 respondents made national production human resource managers, accountants, customer care officers and junior officers were used for the study. The data collected were presented in tables and analyzed using simple percentages and frequencies.

 **CHAPTER ONE**

**INTRODUCTION**

* 1. **Background of the study**

Banks are generally recognized and accepted to be a body that plays a catalytic role in the process of economic growth and development. In any society, they are they brain of economic stimulation and growth. When there is bank failure in any economy, such economy is terribly affected. Bank is the holders of the bulk of the nation’s monetary supply. This is becoming increasingly so as the public awareness of the services of banks increase and as the physical presence of banks rises throughout the country. Because of the supply of money and credit needs, banks no doubt occupy of any country. According to Alashi S.O (1991). Empirical evidence exists which suggest a positive correlation between real economic growth and bank assets, and between money supply, bank assets and economic development. Banks failure and associated run on banks limit the ability of banks to create. Money, jeopardize the payment mechanisms and disrupt bank-lending activities (Nyong 1995).

**1.2 STATEMENT OF THE PROBLEM**

Every country attempts how to maintain a healthy financial system because of its impotence in economic growth and development of the bank failure in the society. There is bound to be a serious problem in that society. From the beginning of banking in Nigeria there have been serious crisis of bank failure in the industry. This no doubt constitutes a set bank in our quest for economic growth and development. Such a situation should not be allowed to continue. To this effect there is need to investigate the causes of bank failure as the logical step towards formulating realistic policy to arrest the trend.

**1.3 OBJECTIVE OF THE STUDY**

The purpose of this study is to focus attention on the problem of bank failure in Nigeria which is threatening to hamper the resumption of sustain economic growth and development of the Nigeria economy. To this effect the major objective of this study is to:

1-      Identify the causes of bank failures in Nigeria

2-      Formulate a model to identify failed banks

3-      Provide policy suggestion to minimize the occurrence of bank failure in the country.

4- To ascertain the implications of banking failure in the country

**1.4 RESEARCH HYPOTHESES**

For the successful completion of the study, the following research hypotheses were formulated by the researcher;

**H0:** there are no causes of bank failures in Nigeria

**H1:** there are causes of bank failures in Nigeria

**H02:** there are no implications of banking failure in the country

**H2:** there are implications of banking failure in the country

**1.5 SIGNIFICANCE OF THE STUDY**

The significance of this study is to achieve a great success in contributing the little the research can, if not a great deal in solving the bank failure problem in Nigeria which will in turn being about an immense change in the Nigeria banking sector with particular reference to standard trust bank Enugu.  It is as well hope that this research work will definitely enlightening the staff and management of banks especially standard trust bank Enugu. In addition it will bring about more profitably contributions and improvement to every order banks nationwide to know their problem and locations, furthermore, this study will serve as means to tackle most of the inherent problems effective again it will help the society of large in the evens or to be as a favorably side of the failure syndrome on Nigeria banks is eradicated completely. Finally though the researchers restricted the study to Enugu state and standard trust bank the result of findings will be of means benefit to all banks in Nigeria as well as students conducting similar research on the same topic or related one.

**1.6 SCOPE AND LIMITATION OF THE STUDY**

The scope of the study covers banking failures in Nigeria: causes, implications and remedies. The researcher encounters some constrain which limited the scope of the study;

 **a) AVAILABILITY OF RESEARCH MATERIAL:** The research material available to the researcher is insufficient, thereby limiting the study

**b) TIME:** The time frame allocated to the study does not enhance wider coverage as the researcher has to combine other academic activities and examinations with the study.

**c) Organizational privacy**: Limited Access to the selected auditing firm makes it difficult to get all the necessary and required information concerning the activities

 **1.7 DEFINITION OF TERMS**

**BANK FAILURES:**

According to Eugene and Louse (1985) they are five different types of failures these are, economic failure, business failure, ;technical failure or insolvency, in bankruptcy and legal bankruptcy. The world failure according ozogn(1984)  means to be  unsuccessful  l in attempt ;at achieving any set objectives or aspiration it could be also mean the inability, refusal, forth or weakness which prevent achievement of any set objectives or aspiration. Within the conduct of this write up therefore, one could explain bank failure at the aim ability to the bank to meet up with its obligation to its customers. Owners and economy as a whole should be noted so as to not to be identified with failing banks.

**ECONOMIC GROWTH**:

Economic growth means the increase in quality of goods and services that equally increases and national income. Growth does not consider or involved overall change in the structure of the society. It is worthy  of note that economy may be growing yet but not maturing (developing)

**ECONOMY DEVELOPMENT**:

Economy development means sustained changes in an economic leading to cumulative increase in real income per capital, increase in supply of improve factors of production, improvement in allocation of factors such that every factors is used effectively, equitable distribution of incomes, development of efficient administrative and political systems , improvement of efficient in social of economy  infrastructures , provenance of political  and social stability and sectional balance in development.

**1.8 ORGANIZATION OF THE STUDY**

This research work is organized in five chapters, for easy understanding, as follows

Chapter one is concern with the introduction, which consist of the (overview, of the study), historical background, statement of problem, objectives of the study, research hypotheses, significance of the study, scope and limitation of the study, definition of terms and historical background of the study. Chapter two highlights the theoretical framework on which the study is based, thus the review of related literature. Chapter three deals on the research design and methodology adopted in the study. Chapter four concentrate on the data collection and analysis and presentation of finding. Chapter five gives summary, conclusion, and recommendations made of the study

**CHAPTER TWO**

**REVIEW OF RELATED LITERATURE**

**2.1 RECENT BANKING CRISIS IN NIGERIA**

The 2009 banking crisis was triggered by exogenous shock from the global economic and financial crisis of 2007. Eight banks out of the Twenty-four operating failed the stressed test in 2009 and were declared insolvent by the Central bank of Nigeria (CBN). The stock market capitalisation also crashed by 70% and the non performing loan in the banking system reached an excess of N2.2trillion ($14.67billion). However, Central Bank of Nigeria injected N620billion into the banking sector to prevent systemic bank run. According to Sanusi (2010), the Nigeria banking sector has experienced several failures prior to this incident but he described this as a ‘’monumental fraud’’ because owners and managers of these financial institutions constantly devised means by which the banks were defrauded. The antecedent of the crisis purported financial institutions engaging in foreign exchange trading, direct importation of goods using hoax companies and purchasing government treasury bills, banking licenses were easily obtained in order to trade in these non-core banking activities (Soludo, 2004). Soludo emphasized that the weaknesses of the financial institutions are evident in ‘’overdrawn positions with CBN, high incidence of nonperforming loans, capital deficiencies, weak management and poor corporate governance’’. Hence, the consolidation of the sector in 2006 with no regulatory and supervisory framework prepared it for failure.

**2.2 CAUSES OF BANK FAILURE**

 It is useful for all stakeholders, that is, managers, depositors, borrowers and regulators in the financial sector to know what causes a bank failure in order to help prevent the failure. The issue especially concerns managers and external regulators. This is because most managers are dismissed and regulators are blamed when banks fail. It is also very important for other stakeholders to understand the causes of bank failure, in order for them to help to avoid it. We should also note that the social costs of the failure of a bank can be higher than the costs incurred by the failed institution, the consumer can lose when an institution fails, even if there is no systemic impact and this is the reason why all the interested party should be at alert regarding issues of bank failure. In this section, we will examine and review some of the various theories which deal on the factors behind banking crisis and failures. They are as follows:

**Deteriorating Economic Factors**

 Hooks (1994: 5) points out that deteriorating local economic conditions (e.g. inflation, interest rates, and exchange rates) cause bank failure. Eisenbeis (1986, cited by Hooks, 1994: 10) adds that macroeconomic factors (e.g. sudden adverse movements in a country’s terms of trade and sharp fluctuations in world interest rates, real exchange rates and inflation rates) worsened by regulations that are imposed on banks result in a bank failure. Like Hooks and Eisenbeis, Goodhart et al. (1998: 47) emphasize that interest rate fluctuations contribute to banking crisis.

 **Regulation of Banks**

O’Driscoll (1988, cited by Hooks 1994: 9), Eisenbeis (1986, cited by Hooks, 1994: 10), Dothan & Williams (1980, cited by Hooks, 1994: 36) share the opinion that government intervention causes bank distress. Hempel & Simonson (1999: 17) state that when governments intervene in saving banks from failing, creditors and customers tend to rely on the government to protect their interests. The intervention, however, is a disincentive for other institutions, creditors and customers to effectively monitor their interests in banks in an independent way. Llewellyn (1996, cited by Goodhart et al., 1998: 2-3) notes the following situations, which could cause a bank failure: (i) Too many stringent rules could cause banks to disregard the measures as they may be seen by the banking sector as superfluous. (ii) Some dangers that banks are exposed to may be too difficult to be addressed by general laws. (iii) A rigid system of rules could inhibit banks from selecting the most efficient means of achieving regulatory goals set for them and may serve as a disincentive for improvement. While Spollen (1997: 28) concludes that ineffective regulatory system causes bank failure, White (1984, cited by Hooks, 1994:3, 36) also notes that government regulation is neither needed nor advantageous.

**Government Deposit Insurance Scheme**

 Goodhart et al. (1998: 45) observe that in the absence of any measure to rescue distressed banks, they could be exposed to depositors’ runs. However, when complete deposit insurance schemes and other rescue measures are in place, stakeholders other than banks are discouraged from controlling the activities of intermediaries. This is why regulators protect the interest of the public by encouraging the reduction of risk-seeking behaviors. Kareken (1981, 1983, cited by Hooks, 1994: 3) and Kareken & Wallace (1978, cited by Hooks, 1994) state that a fixed-rate deposit insurance motivates banks to engage in risky investment activities. Hooks (1994: 39) agrees with the above by stating that a flat-rate fee deposit insurance is an incentive for banks to make risky investments. Palubinskas & Stough (1999) stress that the scheme results in unpaid loans, since banks and customers have nothing at stake when deposits are badly managed or lost through fraudulent actions. White (1993: 108-109) concludes that a government deposit insurance scheme encourages unskilled management and fraudsters, irrespective of the regulation.

 **Regulation as Regards Putting a Ceiling on Deposit Interest Rates**

 Selgin (1996: 211) states that the purpose of putting a ceiling on deposit interest rates is to prevent banks from mobilizing deposits by giving borrowers big amounts of funds with high interest income to the bank. Dothan & Williams (1980, cited by Hooks, 1994: 36) state that a limit on deposit interest rates motivates banks to make risky investments. Additionally, banks often try to overrule the ceiling by rendering more services to depositors, which results in higher transaction costs and lower income. Selgin (1996: 211) concludes that instead of decreasing the prospects of bank failures, the ceiling reduces a bank’s capability to mobilize funds when it becomes illiquid. A ceiling on deposit and loan interest rates, therefore, it is argued, can cause bank failure.

**Prohibition of Banks from Establishing Branches and Limiting Bank Investments**

 Selgin (1996: 200) states that geographical limitations pose significant threats to banks. Additionally, such limitations result in the following situations, which may cause bank failure: a bank’s vulnerability to different threats is raised; systemic risk is encouraged and private market forces are hindered from preventing failures. Hooks (1994: 8, 49-50) observes that branching restrictions could constrain banks from spreading their investment activities in different locations. These geographic restrictions, coupled with prohibition from investments, result in unsuccessful diversification by banks. Hooks also notes that limiting a bank’s investment chances could lower its diversification operations. Goodhart et al. (1998: 38) add that lack of appropriate diversification causes bank failure. Hempel & Simonson (1999: 18) argue that without branches, banks cannot mobilize substantial amounts of stable retail deposits. Such a position compels banks to rely extensively on unstable funding bases attracted from money market creditors. O’Driscoll (1988, cited by Hooks, 1994: 9) observes that banks may use flexible investment freedom to focus on limited higher-risk categories. Selgin (1996: 210) adds that even though the justification of geographical limitation is to stop banks from excessive clustering and avoid competition, this perception misinterprets the impact of bank branching and the importance of competition. White (1986, cited by Selgin, 1996: 209) states that branching limitation raises a bank’s vulnerability to risks for its liabilities as well as its assets. In the same way that branching restrictions rules have motivated banks to high risk-taking investments, some regulations have also constrained banks from engaging in many different banking operations. Selgin (1996: 208) concludes that regulation in respect of branching limitation contributes to the possibility of banks failing, by constraining their chances to prevent risk and by supporting bank risky operations. To him, the worst regulation is branching restriction.

**Capital Requirements**

The lower a bank’s capital, the higher the probability of its failure (Polizatto, year not given). Goodhart et al. (1998: xvii, 49, 57) agree with this statement and add that as a bank’s capital decreases, the higher its motivation for actions towards survival. This leads to more dangerous risk-taking operations. Therefore, the risk of failure rises with the decline of equity. Palubinskas & Stough (1999) also observe that one of the measures used to stop the increase of bank crisis is to increase the ceiling as regards capital held by banks. This requirement compels banks to hold much capital, or combine their businesses with other banks, or forfeit their licenses. According to Polizatto (year not given) capital is essential to cushion losses incurred by banks. When banks have inadequate capital, they usually conceal the situation for fear of exposing the illiquidity. If stakeholders such as bank management and regulators do not effectively address a capital erosion situation early, it could result in bankruptcy. A similar view as the above has been expressed by Goodhart et al. (1998: 57) who state that adequate funds reduce risk-taking while insufficient capital motivates banks to engage in actions towards survival at all costs.

 **Inadequate Reserve Requirements**

A reserve requirement is a portion of cash to total deposits which banks are obliged to maintain. This ensures prudential and fiscal control of the activities of banks (www.bog.gov.gh). White (1999) adds that a government obliges banks to reserve the funds in order to improve the actual need for base money. Friedman (1960, cited by Hooks, 1994: 37) states that bank failures arise because banks do not keep all their deposits in statutory reserve funds

**Forbearance**

 Hempel & Simonson (1999: 18) note that some regulatory bodies exercise forbearance. This contributes to bank crisis by permitting distressed banks to continue their operations instead of liquidating them. This action aims at assisting banks to make profits. Its effect is rather disadvantageous to banks because usually when banks lack adequate funds, and remain in operation, their capital situation deteriorates (Hempel & Simonson, 1999: 18).

**Lender of Last Resort**

 Selgin (1996: 214) and White (1999: 74-77) state that governments use the lender of last resort mechanism to help some stakeholders of banks which are failing. When bank failures rise, any money reserved to deal with the situation decreases. The only option then is to either replenish the reserves or combine the operations of distressed banks. However, if prospective beneficiaries of this approach perceive that the central bank may intervene when every bank fails, the measure could rather encourage banks to engage in more risky activities.

**Mismanagement**

Management is a key to a successful business. Mismanagement caused many banks to fail in the 1980s and early 1990s. Banking crisis mostly comes from the absence of good managerial ideas in management decision-making. Therefore, competence and focus play a major role in banking (Spiegel, et al. 1996: 51). According to Pantalone & Platt (1987, cited by Hooks, 1994: 41- 42), mismanagement, especially excessive risk-taking, is the main cause of bank failure. On the other hand, White (1993: 110) notes that even though bankers are accused of misconduct, it is difficult to prove that the negligence of management is the only cause of bank failure. Spollen (1997: 25-26, 32, 51) has however, listed the following as underlying the failure of businesses which, to us, are also relevant to the purpose of this study:

• Inability of management to appreciate and control a business.

 • Inability of management to ensure compliance with laid down procedures. In many situations where there is a loss of a business, the failure is attributed to either lack of policies, and if policies existed at all, they are inadequate or existing policies are not observed.

• Insufficient number of staff, particularly middle management, which can subject a small number of employees to over-time work, which could eventually result in the failure of a bank. The issue is whether an organization has adequate staff complement and whether it appreciates their interests and addresses them (Spollen 1997: 86, 94).

 • The situation when fundamental control procedures are ignored.

 • The situation when internal audit does not play its role in the formulation of a board of directors’ policy and its procedures.

• The situation when the board of directors does not effectively address audit queries.

 • Over-reliance on one member of staff. Most of the time organizations are defrauded by some of their own workers, mostly those who have been with organizations for long periods of time and whose work is not supervised. Excessive authority is given to an employee because he seems to be very effective on his schedule. Individuals in this category are trusted, devoted to duty and work extra hours under the guise of showing much commitment Spollen (1997: 20, 34-36, 90-91). Like Spollen, Heffernan (1996: 282-288) states a practical case of such a situation that contributed to the failure of Barings Bank.

Goodhart et al. (1998: 49) add that if worker compensation is tied to performance and output is below expectation, the managers could manipulate the output for fear of being dismissed. This risk behavior could eventually cause a bank to fail (e.g., Barings Bank failure). Palubinskas & Stough (1999) state that a shortage of competent bankers as regards loans’ risk appraisal, scrutiny of financial information of customers, appraisal of cash flow, or calculation of fundamental profitability, contributes to many of the loan defaults. They continue saying that lack of skills leads to a situation where there is no credit evaluation - where bankers only enforce and supervise the credit manual, which is not updated to reflect varying periods. Goodhart et al. (1998: 38) agree with this perception. White (1993: 110) notes that currently it is not easy for banks to attract skilled managers.

**Fraud and Corruption**

Smith & Walter (1997: 157) stated that fraud causes banks to fail as happened in the case of Banco Ambrosiano, BCCI, Crédit Lyonnais and Herstatt. Heffernan (1996: 293) adds that corruption and fraud have been the general causes of many failed banks. White (1993: 108-109) argues that bank failures are seen by many to be caused by mismanagement, fraud and deregulation. However, fraud is not the primary cause of banking crisis, since according to White, bank failures were rampant in the 1930s when there was no fraud.

**Poor Risk Management Procedures Such as Lending Practices of Banks**

Hempel & Simonson (1999: 388) state that the main activity of bank management is not deposit mobilization and giving credit. Effective credit administration reduces the risk of customer default. The competitive advantage of a bank is dependent on its capability to handle credit risk valuably. Bad loans cause bank failure. Palubinskas & Stough (1999) note that the failure of a bank is mainly seen as a result of mismanagement because of bad lending decisions made with respect to wrong appraisal of credit status, or the repayment of non-performing credits and excessive focus on giving loans to certain customers. Goodhart et al. (1998: xvii, 38) also state that poor credit control, which results in undue credit risk, causes bank failure. Goodhart et al. (1998: xvii, 38) connected lending to the causes of bank failure. Again, Palubinskas & Stough (1999) note that lack of dependable financial information on borrowers to help in assessing creditworthiness causes a bank failure. Yet mismanagement is not a result of immaturity all the time. Most of the time, principals and agents know that major faults in the banking regulation in respect of internal changes permit them to exploit a bank’s funds. Sometimes these two groups of stakeholders attempt to accomplish their short term earnings objectives by acquiring high risks in the bank. Polizatto (year not given) points out that financial information disclosed by banks is often false. He explains that the absence of existing and adequate financial data underlies the keeping of security based credit because bankers are unable to assess creditworthiness. Goodhart et al. (1998: 49) state that re-stating financial earnings from previous years to current years could lead to the falsity of financial information of banks. Polizatto again observes that in many cases asymmetric information exists between banks and investors. Goodhart et al. (1998: 13-14, 46) also add that the common problem of prudential rules is the asymmetric information issue between the customer and the bank. Heffernan (1996: 2, 22) adds that bank structures generate asymmetric information leading to moral hazard and adverse selection. These writers further state that organizations give extended agreements whose worth to the customer is based on the organization’s attitudes and performance subsequent to the date of the agreement. The problem and rigidity of rules are because every stakeholder (e.g. government, bank, depositor and borrower) has dissimilar information, incentives and positions. For instance, how can savers or the government discern the risk actions of banks? If the authorities could monitor the total risks of an intermediary inadequately, is it feasible to initiate laws that minimize runs on banks? Spollen (1997: 9, 30, 58-60) states that irregular meetings of loans committees, false loans, large treasury losses, high sums of unrecorded deposits and money laundering in large amounts, contribute to bank failure. He adds that some lending decisions involving high amounts of money are made by an individual worker because of the status of the recipients of the loans. Kindleberger (1989, cited by Hooks, 1994: 37-38) observes that over-investment is directly related to high risk-taking and this causes bank failure. Additionally, some employees disregard laid down procedures and rather work according to instructions from certain areas. In some cases a worker of a Credit Department of a bank obtains signatures from every member of the loan committee in irregular ways sanctioning a loan. Hempel & Simonson (1999: 16-17) mention loans to the “energy producers and commercial real estate developers” as examples of risky investments, especially when the economy is good and the lending decision is based on improper projection. White (1993: 12) adds that the failure of banks is mainly due to risky credits they give. Hempel & Simonson (1999: 390) conclude that all banks incur certain loan losses when some borrowers default in repaying their loans. Irrespective of the extent of the risk involved, good credit management can reduce the default.

**Deregulation of Banks**

 Hooks (1994: 3-4) states that deregulation results in higher risk-taking by banks and could lead to bank failure. Chu (1996) emphasizes that free banking encourages banks to engage in deceptive operations and over-expansion, which makes banks fail. With respect to deposit insurance schemes, Kareken (1981, 1983, cited by Hooks, 1994) notes that deregulation is unsafe for banks. He explains that when banks have freedom of investment and diversification, the situation leads to higher risk-taking. Like Kareken, Hooks (1994: 49) adds that if regulatory authorities eliminate the application of strict maximum deposit interest rates imposed on banks, resulting in the increase of deposit interest rates, banks will engage in high risk investments. He therefore concludes that deregulation results in more risky investments.

**Political Interference**

 Goodhart et al. (1998: 38) point out that politically directed lending leads to banking crisis. To buttress this assertion, Caprio & Honohan (1999) observe that governments can cause banks to fail in many ways. Some dishonest leaders exploit the funds of banks as happened in the Philippines in the 1980s. In most cases, governments influenced banks to give loans to certain borrowers that discouraged banks from properly assessing the creditworthiness of borrowers and eventually destabilized banks’ financial standing. The implication of this is that such loans are not paid off. Occasionally, the credits are given to government suppliers leading to the failure of the banks involved.

**2.3 IMPLICATION OF BANK FAILURE**

According to a number of empirical studies, examine not only what causes crises but also how crises affect the rest of the economy. For example, summarizing several case studies, Lindgren, Garcia, and Saal (1996) conclude that bank fragility has adversely affected economic growth. Measures of output loss relative to trend during financial crises have been used to compare the severity of these events. For instance, Bordo et al (2001) show that financial crises (currency crises, banking crises, or both) entailed similar-sized output losses in recent years as compared to previous historical periods. Crises, however, are more frequent now than during the gold standard and Bretton Woods periods, and are as frequent now as in the interwar years. Hoggarth et al (2002) make the point that output losses associated with banking crises are not more severe in developing countries than in developed countries. An obvious question raised by these studies is whether causality goes from output losses to banking crises or the other way around. The answer has obvious policy implications: if crises indeed have real costs, then the case for generous bank rescue operations is strengthened, even though these policies have large fiscal costs and adverse incentive effects ex ante. Conversely, if the output slowdown is mainly the result of exogenous shocks, then bailouts might not be beneficial. Sorting out causality, however, is a challenging task. As the literature surveyed in the preceding section shows, crises are accompanied by worsening macroeconomic performance triggered by adverse shocks, such as a tightening of monetary policy, the end of a credit boom, or a sudden stop in foreign capital inflows. A distressed banking sector, in turn, may be a serious obstacle to economic activity and aggravate the effect of adverse shocks. For instance, when banks are distressed, firms may be unable to obtain credit to deal with a period of low internal cash flow. In fact, lack of credit may force viable firms into bankruptcy. Similarly, lack of consumer credit may worsen declines in consumption and aggregate demand during a recession, aggravating unemployment. In extreme cases, bank runs and bank failures can threaten the soundness of the payment system, making transactions more difficult and expensive. These mechanisms suggest that fragile banks hinder economic activity (the credit crunch hypothesis). On the other hand, there are several channels through which exogenous adverse shocks to the economy might cause a decline in credit and economic activity even if the banking sector itself is relatively healthy. For instance, adverse shocks may trigger a fall in aggregate demand, leading firms to cut production and investment and consequently, credit demand. Increased uncertainty may also cause firms to delay investment and borrowing decisions. Finally, adverse shocks might worsen agency problems and complicate lending relationships, for instance by reducing the net worth of borrowers. This, in turn, might cause banks to abandon high risk borrowers (flight to quality) or raise lending spreads. So output and bank credit may decelerate around banking crises even if there is no feedback effect from bank distress to credit availability. Existing studies of individual country experiences have found conflicting evidence on the relationship between bank distress and real activity. In a study of the so-called capital crunch in the United States in 1990, Bernanke and others (1991) argue that a shortage of bank capital had little to do with the recession. Domaç and Ferri (1999) reached the opposite conclusion for Malaysia and Korea during 1997–8. They found small and medium-sized firms to have suffered more than large firms during the crisis. Since these firms are usually more dependent on bank credit than large firms, this is evidence of a credit crunch. Data from a survey of Thai firms, on the other hand, suggest that poor demand rather than lack of credit caused the decline in production, although many firms complained about high interest rates (Dollar and Hallward-Driemeier, 2000). For Indonesia and Korea, Ghosh and Ghosh (1999) test an aggregate model of credit demand and supply and find evidence of a credit crunch, but only in the first few months of the crisis. Finally, using firm-level data from Korea, Borensztein and Lee (2002) show that firms belonging to industrial groups (chaebols) lost their preferential access to credit during the banking crisis, although this was not necessarily evidence of a credit crunch. A few studies have used cross-country empirical analysis to study which intervention policies can minimize the costs of a banking crisis. This question is as important to policymakers as it is difficult to answer through empirical analysis. One problem is that compiling accurate information on intervention policies for a large enough sample of crises is a laborious task. Another difficulty is that the sequence, timing, and specific modalities of a bank support strategy are crucial to the outcome, and it is difficult to capture these complex dimensions through quantitative measures of policies. Honohan and Klingebiel (2003) construct a database with estimates of the fiscal cost of 40 banking crises and catalogue the policies adopted in each episode, classified according to five broad categories: blanket guarantees to depositors, liquidity support to banks, bank recapitalization, financial assistance to debtors, and forbearance. With this database, the authors explore how the different intervention policies affect the fiscal cost of the bailout, after controlling for country and crisis characteristics. They conclude that more generous bailouts resulted in higher fiscal costs. Further evidence on the determinants of the fiscal costs of crises is provided by Keefer (2001), who focuses on the political economy of crises resolution. He finds that when voters are better informed, elections are close, and the number of veto players is large, governments make smaller fiscal transfers to the financial sector and are less likely to exercise forbearance in dealing with insolvent financial institutions. Thus, transparency, information dissemination, and competition among interest groups play an important role is shaping crisis response policies. In Nigeria, unethical practices, regulatory failure, poor governance structure, small capital base, macro-economic instability caused by large and sudden capital inflows and weaknesses in the business environment were some of the factors that triggered the weak financial system. The current CBN Governor admitted that internal structure within the Apex bank was weak. While Professor Charles Soludo, the former CBN Boss, tried to resolve the capital inadequacy by recapitalizing Nigeria banks the Governance issues in banks and at the Apex banks were not adequately handled. Unchecked governance malpractices at consolidation within the banks became a way of life with Chairman/CEO possessing unfetter powers over the bank. The board committees were inactive maybe because ‘the cake’ in their mouths couldn’t make them talk. It was also discovered in the recent bank examination conducted that several abnormalities were done in the consolidation exercise. Mallam Sanusi put it this way: “One bank borrowed money and purchased private jets which we later discovered were registered in the name of the CEO’s son. In another bank the management set up 100 fake companies for the purpose of perpetrating fraud. A lot of the capital supposedly raised by these so called “mega banks” was fake capital financed from depositors’ funds. 30% of the share capital of Intercontinental bank was purchased with customer deposits. Afribank used depositors’ funds to purchase 80% of its IPO. It paid N25 per share when the shares were trading at N11 on the NSE and these shares later collapsed to under N3. The CEO of Oceanic bank controlled over 35% of the bank through SPVs borrowing customer deposits. The collapse of the capital market wiped out these customer deposits amounting to hundreds of billions of naira. The Central Bank had a process of capital verification at the beginning of consolidation to avoid bubble capital. For some unexplained reason, this process was stopped. As a result, there were a lot of malpractices which led to the discovery that many banks never raised the capital they claimed they did (Okubadejo, 2010).

**2.4 REDUCTION OF BANK FAILURE IN NIGERIA THROUGH THE INTRODUCTION OF STRATEGIC INTERNAL REFORM:**

**Enthronement of professionalism and ethical behavior**

Performance of banking industry will go a long way with professionalism and ethical behaviors. Ethics can be defined as “the guidelines or rules of conduct by which we aim to live, work and socialize (Adewumi, 1998). Ethics also refers to established rules or principles of appropriate behaviour. It has also been defined as the principle of morality and entails doing what is good and right, even when that will bring us pain. Ethics also encompasses virtues such as fairness, honesty, compassion, loyalty and integrity (Adewumi, 1998). Professionalism refers to competence, technical skills or specialist knowledge that arises from an extensive period of training and often entails subscription to a code of ethics which stresses qualities such as integrity, objectivity, competence, confidentiality and independence. (Odozi, 2010). He defined professional ethics as the standard of competence and practice or code of conduct required in a given calling, line of business, trade group or specialized occupation. He however stressed that with respect to financial services sector, the concept of professional ethics encompasses an array of written and unwritten norms and best practices, such as trust, honesty, integrity, fairness, competence, loyalty, transparency, accountability, self-discipline, confidentiality, compliance and social responsibility. Business success can be attributed to good strategy and prudent management. However, no business will survive for very long on a record of cheating, swindling and exploitation. Neither can a financial institution live on its wits by perpetually exploiting legal loopholes (Odozi, 2010). Many banks failures have been caused mainly by the operators‟ lack of ethical practice. Sanusi (2010) remarks that thousands of poor people who have kept their life savings in the bank or those who invested their savings to buy banks shares lose them due to unethical practice of the operators. Another ethical misdemeanour in Nigeria banks is governance malpractice within banks. Sanusi (2010) says although consolidation/reform created bigger banks, it failed to overcome the fundamental weaknesses in corporate governance in many of these banks. It is well known in the industry that since consolidation, some banks have been engaging in unethical and potentially fraudulent business practices. In addition, many banks‟ boards were known to have obtained unsecured loans at the expense of depositors.

**Adequate record keeping**

There has been a confirmed case of mass falsification of records to deceive the regulators and the public as reported by the CBN. Sanusi (2010) reports further that a lot of the capital supposedly raised by these so called “mega banks” was fake capital financed from depositors‟ fund. For example, 30 percent of the share capital of some banks was found to have been purchased with customers‟ deposits. A bank also reportedly used depositors‟ funds to purchase about 80 percent of its Initial Public Offer (IPO). It paid ₦25 per share when the shares were trading at ₦11 on the Nigerian Stock Exchange and these shares later collapsed to under ₦3.00 (Sanusi, 2010). Inadequate disclosure was another unethical practice exhibited by the operators. Unfortunately, the CBN equally displayed incompetence by not acting fast in protecting depositors and the nation. The CBN did not act to enforce the accuracy of their reports (Sanusi, 2010).

**Minimizing cases of frauds and forgeries**

The CBN 2007, 2008 and 2010 annual accounts and reports showed that there had been an increase in the number and amount involved in attempted fraud and forgery cases. There were a total of 1,974 reported cases of attempted frauds and forgeries, involving ₦24.5b, US$1.4m. Euro 451,075.0 and 2,635.0 pound sterling compared with 1,553 reported cases involving ₦8.8b, US$591,487.8, 35, Euro390.8 and 12,410.0 pound sterling in 2008. Out of which 746 cases were successfully executed by the perpetrators and resulted in losses to the banks amounting to ₦6.4b, US$175,594.3 and 2,585.0 pound sterling compared with 825 cases involving ₦2.7b ,US$238,621.5, Euro390 and 12,410.0 pound sterling in 2007; while in 2006, 612 cases involving ₦4.6b, US$1,753,024.06 and 14,399.74 in 2006. It was unfortunate that number of fraud and forgery in 2010 almost triple what is was in 2008. In 2010, there were a total of 5,960 cases of attempted fraud or forgery, involving ₦19.7b and US$19.2m, compared with 3,852 reported cases involving ₦33.3b, US$1.0095m, 11,000.0 Euro and 2,800.0 pound sterling in 2009. Out of this amount, the actual losses to the banks were ₦11.4b and US$10.98m. Most of the successful fraud was perpetuated via the electronic system, reflecting weaknesses in the internal control systems of banks in Nigeria. The ugly trend as noted above still continued in 2014 and 2015. According to NDIC report, the profile of frauds and forgeries in 2014 and 2015 were as follows: The reported incidents of frauds and forgeries in the banking industry rose to 10,612 fraud cases in 2014 compared to 3,786 cases reported in 2013, representing an increase of 180.29%. In the same vein, the amount involved increased from ₦21.80 billion in 2013 to ₦25.61 billion in 2014, an increase of 17.48%. Also the expected/actual loss increased from ₦5.76 billion in 2013 to ₦6.19 billion in 2014, an increase of 7.46%. Similarly, the rising incidence of frauds and forgeries in the banking system continued in 2015. During 2015, a total of 12,279 fraud cases were reported representing a 15.71% increase over the 10,612 fraud cases reported in 2014. The amount involved, however, decreased by ₦7.59 billion or 29.63% from ₦25.61 billion in 2014 to ₦18.02 billion in 2015. Similarly, the expected/actual loss decreased by ₦3.02 billion or 48.79% from ₦6.19 billion in 2014 to ₦3.17 billion in 2015.

**Compliance with corporate and regulatory requirement**

Banks and bankers must comply with corporate and regulatory requirements, if Nigeria must witness stability and growth in the financial industry (Sanusi, 2010). Banks should be in the hand of those who not only understand that banking is a journey full of dangerous corners, and tagged risks, which if improperly approached, may lead to fatality; but also they must have strategic mind-set and ability to recognize those corners, and be equipped to navigate over them successfully (Asikia, 2010). Ologun (1994) in Asikhia (2010) asserted that banks were manned by academically qualified people but most of them lack the practical strategy of the modern banking system. According to the 2011 Annual Report and Accounts of Chartered Institute of Bankers, Fellows members were 581 in 2010 and 674 in 2011 a growth rate of 16 per cent. While the Associate members were 4,560 in 2010 and 4,586 in 2011 with a growth rate of just 0.57 per cent. This is a clear indication that Chartered Institute of Bankers of Nigeria needs to take urgent and strategic steps toward increasing the rate of professional to keep the banks alive. Banks should encourage their staff to be professionally qualified, and higher institutions should encourage their students especially in the Banking and Finance Department to register and start the professional examination alongside with their degree examination. The government should support the industry with enduring policy and security of job and life (NDIC annual report, 2011) There are two critical factors that will make a financial organization to be successful: These are character and capacity. Osayameh (1986) opines that character refers to trustworthiness, credibility, integrity, and willingness to meet obligation. Capacity is the ability to utilize the money well and it is developed overtime. The things that give rise to capacity building are: education, training, skill, expertise, experience and technical managerial ability (Osayameh, 1986)

**CHAPTER THREE**

**RESEARCH METHODOLOGY**

* 1. **Research design**

The researcher used descriptive research survey design in building up this project work the choice of this research design was considered appropriate because of its advantages of identifying attributes of a large population from a group of individuals. The design was suitable for the study as the study sought banking failures in Nigeria: causes, implications and remedies

* 1. **Sources of data collection**

Data were collected from two main sources namely:

(i)Primary source and

(ii)Secondary source

**Primary source:**

These are materials of statistical investigation which were collected by the research for a particular purpose. They can be obtained through a survey, observation questionnaire or as experiment; the researcher has adopted the questionnaire method for this study.

**Secondary source:**

These are data from textbook Journal handset etc. they arise as byproducts of the same other purposes. Example administration, various other unpublished works and write ups were also used.

* 1. **Population of the study**

Population of a study is a group of persons or aggregate items, things the researcher is interested in getting information banking failures in Nigeria: causes, implications and remedies. 200 staff of standard trust bank, Enugu state was selected randomly by the researcher as the population of the study.

* 1. **Sample and sampling procedure**

Sample is the set people or items which constitute part of a given population sampling. Due to large size of the target population, the researcher used the Taro Yamani formula to arrive at the sample population of the study.

n= N

 1+N (e) 2

n= 200

1+200(0.05)2

= 200

1+200(0.0025)

= 200 200

1+0.5 = 1.5 = 133.

**3.5 Instrument for data collection**

The major research instrument used is the questionnaires. This was appropriately moderated. The secretaries were administered with the questionnaires to complete, with or without disclosing their identities. The questionnaire was designed to obtain sufficient and relevant information from the respondents. The primary data contained information extracted from the questionnaires in which the respondents were required to give specific answer to a question by ticking in front of an appropriate answer and administered the same on staff of the two organizations: The questionnaires contained structured questions which were divided into sections A and B.

* 1. **Validation of the research instrument**

The questionnaire used as the research instrument was subjected to face its validation. This research instrument (questionnaire) adopted was adequately checked and validated by the supervisor his contributions and corrections were included into the final draft of the research instrument used.

* 1. **Method of data analysis**

The data collected was not an end in itself but it served as a means to an end. The end being the use of the required data to understand the various situations it is with a view to making valuable recommendations and contributions. To this end, the data collected has to be analysis for any meaningful interpretation to come out with some results. It is for this reason that the following methods were adopted in the research project for the analysis of the data collected. For a comprehensive analysis of data collected, emphasis was laid on the use of absolute numbers frequencies of responses and percentages. Answers to the research questions were provided through the comparison of the percentage of workers response to each statement in the questionnaire related to any specified question being considered.

Frequency in this study refers to the arrangement of responses in order of magnitude or occurrence while percentage refers to the arrangements of the responses in order of their proportion. The simple percentage method is believed to be straight forward easy to interpret and understand method.

The researcher therefore chooses the simple percentage as the method to use.

The formula for percentage is shown as.

% = f/N x 100/1

Where f = frequency of respondents response

N = Total Number of response of the sample

100 = Consistency in the percentage of respondents for each item

Contained in questions

**CHAPTER FOUR**

**PRESENTATION ANALYSIS INTERPRETATION OF DATA**

**4.1 Introduction**

Efforts will be made at this stage to present, analyze and interpret the data collected during the field survey. This presentation will be based on the responses from the completed questionnaires. The result of this exercise will be summarized in tabular forms for easy references and analysis. It will also show answers to questions relating to the research questions for this research study. The researcher employed simple percentage in the analysis.

**DATA ANALYSIS**

The data collected from the respondents were analyzed in tabular form with simple percentage for easy understanding.

A total of 133(one hundred and thirty three) questionnaires were distributed and 133 questionnaires were returned.

Question 1

Gender distribution of the respondents.

TABLE I

|  |
| --- |
| **Gender distribution of the respondents** |
| Response | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Male | 77 | 57.9 | 57.9 | 57.9 |
| Female | 56 | 42.1 | 42.1 | 100.0 |
| Total | 133 | 100.0 | 100.0 |  |

From the above table it shows that 57.9% of the respondents were male while 42.1% of the respondents were female.

Question 2

The positions held by respondents

TABLE II

|  |
| --- |
| **The positions held by respondents** |
| Response | Frequency | Percent | Valid Percent | Cumulative Percent |
| **Valid** | HRMS  | 37 | 27.8 | 27.8 | 27.8 |
| Accountants  | 50 | 37.6 | 37.6 | 65.4 |
| Customer care officers | 23 | 17.3 | 17.3 | 82.7 |
| Junior staff  | 23 | 17.3 | 17.3 | 100.0 |
| Total | 133 | 100.0 | 100.0 |  |

 The above tables shown that 37 respondents which represents27.8% of the respondents are national production human resource manager respondents which represents 37.6 % are accountants 23 respondents which represents 17.3% of the respondents are customer care officers, while 23 respondents which represent 17.3% of the respondents are junior staff

**TEST OF HYPOTHESES**

There are no causes of bank failure in Nigeria

 **Table III**

|  |
| --- |
| **there are no causes of bank failure in Nigeria**  |
| Response  | Observed N | Expected N | Residual |
| Agreed | 40 | 33.3 | 6.8 |
| strongly agreed | 50 | 33.3 | 16.8 |
| Disagreed | 26 | 33.3 | -7.3 |
| strongly disagreed | 17 | 33.3 | -16.3 |
| Total | 133 |  |  |

|  |
| --- |
| **Test Statistics** |
|  | there are no causes of bank failure in Nigeria   |
| Chi-Square | 19.331a |
| Df | 3 |
| Asymp. Sig. | .000 |
| a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 33.3. |

Decision rule:

There researcher therefore reject the null hypothesis there are no causes of bank failure in Nigeria as the calculated value of 19.331 is greater than the critical value of 7.82

Therefore the alternate hypothesis is accepted that there are causes of bank failure in Nigeria

**TEST OF HYPOTHESIS TWO**

There are no implications of banking failure in the country

 Table V

|  |
| --- |
| **there are no implications of banking failure in the country**  |
| Response  | Observed N | Expected N | Residual |
| Yes | 73 | 44.3 | 28.7 |
| No | 33 | 44.3 | -11.3 |
| Undecided | 27 | 44.3 | -17.3 |
| Total | 133 |  |  |

|  |
| --- |
| **Test Statistics** |
|  | **there are no implications of banking failure in the country**  |
| Chi-Square | 28.211a |
| Df | 2 |
| Asymp. Sig. |  .000 |
| a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 44.3. |

Decision rule:

There researcher therefore rejects the null hypothesis there are no implications of banking failure in the country as the calculated value of 28.211 is greater than the critical value of 5.99

Therefore the alternate hypothesis is accepted that state there are implications of banking failure in the country

**CHAPTER FIVE**

**SUMMARY, CONCLUSION AND RECOMMENDATION**

**5.1 Introduction**

It is important to ascertain that the objective of this study was to ascertain banking failure in Nigeria: causes, implications and remedies. In the preceding chapter, the relevant data collected for this study were presented, critically analyzed and appropriate interpretation given. In this chapter, certain recommendations made which in the opinion of the researcher will be of benefits in addressing the challenges of banking failure in Nigeria: causes, implications and remedies

**5.2 Summary**

This study was on banking failure in Nigeria: causes, implications and remedies. Four objectives were raised which included: Identify the causes of bank failures in Nigeria, formulate a model to identify failed banks,  Provide policy suggestion to minimize the occurrence of bank failure in the country, to ascertain the implications of banking failure in the country. In line with these objectives, two research hypotheses were formulated and two null hypotheses were posited. The total population for the study is 200 staff of standard trust bank, Enugu. The researcher used questionnaires as the instrument for the data collection. Descriptive Survey research design was adopted for this study. A total of 133 respondents made national production human resource managers, accountants, customer care officers and junior officers were used for the study. The data collected were presented in tables and analyzed using simple percentages and frequencies

**5.3 Conclusion**

Bank failures and financial crises are economic hazards. While their direct economic costs are the dead-weight loss. The indirect costs in the form of derailed economic policies and damage to the growth of banking and finance are even greater. There are many other causes that are common with conventional banking industry. We have experienced cases of exchange rate shock coupled with liquidity crunch and eroded depositor confidence in the banking system which precipitated a run on banks in Nigeria. Stakeholders should be on alert to pre-empt some symptoms of distress as indicated by Ogunleye (1993), they include; late submission of returns to the regulatory authorities, falsification of returns, rapid staff turnover, frequent top management changes, inability to meet obligations as and when due, use of political influence, petitions /anonymous letters, persistent adverse clearing position, borrowing at desperate rates, persistent contravention of laid-down rules and persistent overdrawn current account position at the CBN

 **5.4 Recommendation**

There should be some criteria for membership in the Board of Directors of Banks so that those selected are people who have sense of responsibility towards improving corporate governance in the institution. They should not be rubber stamp members and should have knowledge of the financial and economic facts and experience of working in the financial sector. They should also be well informed of the country specific and international regulatory rules and laws which have implications for the bank, and above all, people of proven and impeccable integrity. Moreover, in order to minimize the effect distress on banks clientele and the economy as a hole and also avoid the encroachment of the factors responsible for distress into the banking system, the regulatory authorities may have to use better measures of evaluating the features of distress at an early stage. This will no doubt create sufficient lead-time to apply remediable solution before serious damage is done. The Apex banks should also put in place procedure to ensure that credits are only granted to credit worthy customers. Credit scoring systems of banks should be integrated with the Apex bank’s Credit Rating Management System (CRMS). Let’s ask if the CRMS of the Apex bank is even working effectively? Credit scoring agencies should be made CBN consultants and be paid by the Apex Bank. By so doing, they have regulatory backing. Data capturing should be robust and reflects high level of integrity. Governments must also move more quickly to balance their budgets, although, this is easier said than done but nevertheless, real economic growth cannot be sustained with borrowed money

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**QUESTIONNAIRE**

**INSTRUCTION**

Please tick or fill in where necessary as the case may be.

Section A

1. Gender of respondent

A male { }

B female { }

1. Age distribution of respondents
2. 15-20 { }
3. 21-30 { }
4. 31-40 { }
5. 41-50 { }
6. 51 and above { }
7. Marital status of respondents?
8. married [ ]
9. single [ ]
10. divorce [ ]
11. Educational qualification off respondents
12. SSCE/OND { }
13. HND/BSC { }
14. PGD/MSC { }
15. PHD { }

Others……………………………….

1. How long have you been in standard trust bank
2. 0-2 years { }
3. 3-5 years { }
4. 6-11 years { }
5. 11 years and above……….
6. Position held by the respondent in standard trust bank
7. Human resource manager { }
8. Accountant { }
9. Customer care officer { }
10. Junior officer { }
11. How long have you been working standard trust bank
12. 0-2 years { }
13. 3-5 years { }
14. 6-11 years { }
15. 11 years and above……….

SECTION B

1. There is no failure in banking sector
2. Agrees { }
3. Strongly agreed { }
4. Disagreed { }
5. Strongly disagreed { }
6. Banking sector boost the economy of the country

(a) Agrees { }

(b) Strongly agreed { }

(c) Disagreed { }

(d) Strongly disagreed { }

1. There is failure in the banking sector
2. Agreed { }
3. Strongly agreed { }
4. Disagreed { }
5. Strongly disagreed { }
6. Banking failure does not affect Nigeria economy
7. Agreed { }
8. Strongly agreed { }
9. Disagreed { }
10. Strongly disagreed { }
11. Banking failure affects Nigeria economy?
12. Agreed { }
13. Strongly agreed { }
14. Disagreed { }
15. Strongly disagreed { }
16. Nigeria economy is not developing
17. Agreed { }
18. Strongly agreed { }
19. Disagreed { }
20. Strongly disagreed { }
21. There are causing of bank failure
22. Agreed { }
23. Strongly agreed { }
24. Disagreed { }
25. Strongly disagreed { }
26. There are implications of bank failure
27. Agreed { }
28. Strongly agreed { }
29. Disagreed { }
30. Strongly disagreed { }
31. Banking failure depends on the management
32. Agreed { }
33. Strongly agreed { }
34. Disagreed { }
35. Strongly disagreed { }