**PROBLEMS OF NEW BANKS IN NIGERIA**

**Abstract**

The purpose of the study was to identify challenges facing New banks in Nigeria**.** A descriptive survey design was applied to a population of 48 banks operating in Nigeria. The target population composed of the management staff currently employed at the head offices of the various New banks in Nigeria. The population was composed of Senior, Middle and Junior or Entry level Management staff.The study concludes that the by various challenges like growth barrier, regulatory constraints, risk and finance management culture and additional capital challenges. In addition, the study concluded that New banks face challenges in deciding how best to implement a solution that will allow them to comply with Basel III, how to operate the systems and processes for improved operational effectiveness, and how to understand and ultimately reduce their capital requirements.The study recommends that Banks should manage their risks more closely and avoid a build-up of unintended risk, reducing the opportunities for regulatory capital arbitrage. This would go a long way in eliminating growth barriers, regulatory constraints, capital adequacy requirement, risk and finance management culture and additional capital challenges.

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**CHAPTER ONE**

**INTRODUCTION**

**Background to study**

Government established bank money for development purposes and the vole of banking industry in an economic development cannot be over emphasized. Government owns some banks, for example, first Bank of Nigerian and so on. Both banks. However, banks in Nigerian and other countries of the worlds are established to carry out the following functions;

1 Government of loans to customers

2 Safeguarding of customers   money and some valuable assets such as certificates and so on.

3 Management of customers’ investment and advising on insurance matters.

4 Providing facilities for the financing of international trade, example documentary credit.

5 Creating money by the central bank of that country.

6 Mobilization of saving and other deposit.

7 Providing advisory services.

8 Providing foreign exchange facilities for traders.

9 Night safe facilities to customers.

10 Agency services to customers who authorized their banks to pay and collect cheques on their behalf.

However, the above function and duties of banks is just to mention but a

few because banking industry is dynamic in nature. It varies on public confidence and due to the influence on the nations economic life, it needs high quality management and organizational structure with which it can attain maximum operating efficiency and profitability .

            Since the advert of structural adjustment programme [SAP] and its deregulation –policies , banking industry in Nigeria has been receiving a number of policy shocks and the new banks felt it most . Such policy or guideline include :- The central bank of Nigeria  guidelines on reserve requirement and limited capital base for establishment of new banks.

    Other direction are the withdrawal of government banks . The payment of interest on current account cancellation of foreign denominated loans . The liberalization of foreign exchange market and the introduction of the controversial national deposit insurance corporation .

**1.1 STATEMENT OF THHE PROBLEM**

The major problems facing new banks in Nigeria has its origin from central bank [CBN] guideline or directive. These directives  of two types; -

A] Directive on the establishment of new banks.

B] Measures introduced to reduce liquidity in the economy.

These measures which the government pursue in this regard lies with the withdrawal of deposits of Parastatals and other government agencies from financial intermediaries

  Other includes the cancellation of foreign exchange markets.

These measure are enforced at the same period and at a time when liquidity ratio have already one high. These affected the new rules rustically because of their climate capital base. Secondly, the economic restructure programme gave rise to the devaluation of the naira as it sought for the actual value of naira in the international market. Such devaluation consequently led to high cost of materials and fixed asset, which affect the development of new banks.

**1.2 OBJECTIVES OF THE STUDY**

This work aims of investigating into the problems of new banks in Nigeria with a view to as certainly how for  the new banks have been faring as regard these problems and to recommended appropriate remedies that will minimize the problems. This study is also an attempt to suggest ways in which these problems can be avoided in the future taking into consideration the adage that suggest a prevention better than cure’’

**1.3 SIGNIFICANCE OF THE STUDY**

This study will be of great importance to the government who usually comes out with policies that affect the banks and the entire economy. It will help us to understand the effect of such policies whether they are negative or positive to the Nigeria economy and also will act as guideline for policies market on how best to market on how best to make such policy and encounter policies.

This work will also be of immeasurable worth to the banks, as it will show then how far they have coping apart from suggesting possible solutions to these problems facing them. Movement it will been useful to individual may wish to go into banking business in knowing before land that the do not make profit from a platter of gold. They face problems like any other industry.

     Finally , this reseach work will serve as an additionally to the existing literature in the area of banking, finance and policy programme to enhance economic development of the country and the world at large beside serving as effluence for further researchers on the field.

**1.4 STATEMENT OF HYPOTHESIS**

In other to employ a scientific approach to the realization of the objectives of this reseach work the following hypothesis were analyzed.

Ho: the central bank policies are favorable to new banks

Hi: the central banks policies are unfavorable to new banks

**1.5 SCOPE OF THE STUDY**

This research work concentrate on problems of the new banks in Nigeria. It will also serve as an addition to the existing literature in the area of banking, finance and policies programme to enhance economic development of the country and the world at large.

**1.6 LIMITATION OF THE STUDY**

In the process of carrying Out this researcher were entered which limited the scope of the reseach work. The abstract include:

**a. LACK OF DATA COLLECTION:**

The problem of easily getting an appropriate data due to redaction and bureaucury, which lenders the information, flow in the country.

**b. LACK OF CO-OPERATION:**

The researcher was also limited by the unwilling of certain managers cum officers to disclose important information for the project.

**c. LACK OF FINANCE:**

Due to inability to get enough finance while writing the project has limited the area of coverage of the reseach work.

d. TIME CONSTRAINT:

Because of time, only libraries and organization enugu like IMT library, ESUT library National  Libraryandalso National Achieves Enugu

**1.6 DEFINITION OF TERMS:**

1 CBN: The central bank of Nigeria stands as the apex of the banking system in the economy. They are the representatives of the government in the banking sector and mainly acts as banker to the government. They also advice the government on monetary policy and implementation the policy on behalf of the government

2NDK: national deposits insurance corporation. This is a co-operate that was establishment by the federal government in Nigeria requiring all the banks to insure each deposit account up to fifty thousand naira. It was established to protect depositors fund against bank failures.

2 MONETARY POLICY: Is policies that deal with the discretion and control of monetary authorities in other to achieve stated on desired economic goals.

CORPORATE STRATEGY: The general nature of a firm’s relationship with its environment especially its customers and competitors.

   A firms corporate strategy may be described in terms of product it offer the market sharp market of growth and the way in which it’s since resources are allocated to its various activities

# CHAPTER TWO

# LITERATURE REVIEW

### DEVELOPMENT OF BANKING IN NIGERIA

Prior to the 17th century, rudimentary banking activities have become wide –spread in several parts of the world. Banking activities in Nigeria evolved to serve the interest of the colonial government, especially in the distribution of sterling coins. However, with the influence of European trading activities and the presence of colonial government, the Africa bartering gradually gave way to the use of currency to facilitate exchange (Odozi, 2000).

Commercial banking activities commenced in Nigeria in 1892 when African Banking Corporation (ABC) started business in Lagos. In 1894, the bank of British West Africa which later changed to Standard Bank and is now known as First Bank of Nigeria Plc replaced African Banking Corporation and monopolized the banking scene. The Barclay’s Bank (D.C.O.) opened a branch in 1917. Before then, Bank of Nigeria (formerly Anglo African bank), which was established in 1905 had been sold out to Bank of British West Africa (BBWA), while the British and French Bank, now United bank for Africa (UBA) became the third expatriate bank to commence the business of banking in Nigeria in 1949.

The indigenous banks, which included the CBN (not the same as the present CBN) failed due to the peculiar features that characterized banking scene in the free banking era that extended to the period of independence. These features comprise of the following:

1. Foreign bank’s domination of deposit base and credit availability;
2. Bank service tailored to the needs of the expatriates;
3. Indigenous bank boom and failures resulting from undercapitalization and poor quality management.
4. Lack of banking control and direction, as there was no regulatory framework.

This development notwithstanding real banking regulation and surveillance did not commence until the establishment of the Central Bank of Nigeria (CBN) in 1958), and its commencement of business in 1959.

Banks during the Pre-SAP era were subjected to substantial restrictions in their products and services and this severely limited the scope of competition in the industry. The restrictions were in various shades:

1. Ceiling on credit expansion and interest rate
2. Restrictions on entry into the banking industry
3. Restriction on banks’ portfolio selection, as many of the banks were forced to perform developmental roles such as provision of subsidized credit to some areas designated as priority sectors and public enterprise.

In 1986, the Structural Adjustment Programme (SAP) was introduced which had as its arrowhead the “deregulation of the financial and economic systems”. This brought about the liberation of banking hence the elimination of other discriminatory practices that inhibited both the free entry into the market or the scope and manner of its operation. It also brought about the privatization of a number of government-owned banks. During this period, banking became very competitive, as banks had to be innovative and aggressive in order to survive, especially with the establishment of non-bank financial institutions, mortgage institutions and the Urban Development Bank. (Okafor, 2000).

Some other fallouts of the SAP – banking era include the following:

* The deregulation of the interest rate structure
* Increase in equity requirement
* Automation in the banking industry
* High incidence of fraud
* The introduction of the prudential guidelines in 1990
* Increase in private ownership of banks.

Prior to the adoption of the concept of universal banking in the country, the merchant bank operators were complaining stridently that the playing field was skewed in favour of commercial banks. Not only were commercial banks allowed to participate in what was thought the exclusive preserve of merchant banks such as leasing and related fee-based services, commercial banks in addition enjoyed the advantages of stability, particularly when mobilized in large volumes and relatively inexpensive pool of funds.

However, following the CBN approval-in-principle of the adoption of universal banking (UB) in Nigeria, and the subsequent ratification of the report of the committee on the preparation of guidelines for same, the Governor of CBN in the exercise of the power conferred on him by the Provisions of section 61 of Banks and other Financial Institutions Decree (BOFID) 1991 as amended, has approved the issuance of guidelines for the implementation of universal banking in Nigeria.

With effect from January 1 2001, the CBN adopted universal banking in the country. Under the arrangement, banks were no longer categorized as commercial or merchant but were issued a uniform license, with each bank determining the market in which it intends to operate.

### THE OBJECTIVES FOR BANKING SUPERVISION

Banks worldwide are more regulated than other institutions because of their roles as financial intermediaries. As financial intermediaries, banks mobilise funds from the surplus spending units at a cost for on lending of such funds to the deficit spending units at a price both within and outside the shores of a country.

In discharging their financial intermediating role, it is the responsibility of banks to ensure that the funds mobilised could be accessed by the depositors as when needed.

While in their care, the mobilized funds are advanced as loans and advances at a price to be repaid along with the principal loan. The spread between the cost of funds and the price of the loans granted in this manner is the singular most important source of income for banks.

Banks also provide an efficient payment mechanism in the economy. They provide smooth and efficient system for making payment to settle both business and personal transactions, and international financial obligations on behalf of their customers.

Thus, savings are stimulated for investment in the economy by banks. The weight of evidence is that banks in the process of intermediation contribute significantly to real economic development. According to Schumpeter (1934), banks are necessary condition for economic development. This proposition has been supported by several later scholars including Goldsmith (1969) and Cameron et al (1972). Empirical evidence also suggests that there is a positive correlation between real growth of output, investment, bank assets and money supply. Growth in the banking sector when well transmitted would result in the growth of the real sector. The opposite is also possible if the banking sector is repressed and inefficient. It is in recognition of this that John B.Heimann, founding Chairman of Financial Stability Institute (FSI) in June 2001 asserted that “the prosperity and strength of any economy relies heavily upon the proper and prudent functioning of the country’s system of financial intermediation. If the financial system is strong, the economy has the ability to grow and the strength to absorb shocks.

But if the financial system is weak, it acts as a magnifier of problems, rather than a shock absorber.

In performing their various functions, banks are expected to ensure prudent management of assets and guarantee the safety of depositors’ funds. They are expected to adhere strictly to safe and sound banking practices, maintain adequate internal control measures to prevent incidences of fraud, forgery and other financial malpractices, to ensure stability and engender public confidence in the system. The proper management of banks is therefore a pre-requisite for economic prosperity in any country as the vehicle for the implementation of monetary policy. Indeed, the contributions of banks to the development of the economy depend on the quantity and quality of their services and the efficiency with which these services are provided.

Here lies the concern of the Regulatory Authorities and hence the “raison detre” for intensive banking regulation and supervision.

The objectives of banking regulation and supervision were advanced by Giddy (1984) as for monetary policy, i.e. the ability of banks to create money through the extension of credit; credit allocation function of banks; the need to ensure competition and innovation by the prevention of cartels; and because banks are depositories of public savings and managers of payments mechanism, they are very vulnerable to collapse.

The protection of depositors has come to be generally accepted as the most basic reason for banking regulation and supervision. This objective is hinged on the fact that bank depositors have difficulty protecting their interests when compared to other bank creditors and investors.

On his part, Sheng (1990) stated the objectives of supervision as: promotion and development of sound and wide range of financial services to meet the needs of the economy; ensuring efficiency, security and responsiveness of banks to the needs and complaints of customers; ensuring compliance with laid-down rules and regulations which are germane to ensuring high standards of banking; and to achieve important developmental and social goals through their compliance with monetary and credit allocation policies. Sinkey J. R. (1989) states the goals of regulation as:

* The protection of depositors;
* The protection of the economy from the vagaries of the banking system; and
* The protection of banks’ customers from the monopolistic power of banks.

### PROCEDURES AND AREAS OF BANKING EXAMINATION

* + - 1. PRE-EXAMINATION PLANNING

This is a very crucial stage of the examination process, which determines the overall quality of an examination. It involves perusing all correspondents, call reports, preliminary visit to the bank, in some cases, etc to ascertain the intervening event since the previous examination and hence the present condition of the bank. It also involves the determination of the resources (Human, Time and Material) that would be needed for the examination.

* + - 1. FIELD WORK

This is the examination proper and involves the review of the following issues: The level of implementation of the recommendation in the previous examination report by the bank. The non-implementation of some categories of the examiners’ recommendations is sanctionable, ownership/shareholding structure to ascertain effectiveness of the board oversight; corporate government issues/structures and management function; Internal Audit and Internal Control System; accounting System and records and Information Technology/Processing System, deposit, Liquidity and Funds Management; Application of know-your-customer (KYC) principles; credit administration and risk asset; asset quality; income and expenditure; capital adequacy; foreign exchange operation and anti money laundering control. The totality of those reviews enables examiners to determine the bank’s level of compliance with regulatory/prudential requirements and its own internal controls.

* + - 1. EXAMINER’S REPORT

At the conclusion of the fieldwork, which usually ends with a discussion of the examiners’ salient findings with the top management staff of the bank, an Examination Report is issued to the bank as the ultimate product of the exercise following which the bank’s board is expected to convey a special meeting within two weeks, to formally receive the report.

The bank’s external auditors are usually invited to the presentation of the report by the examiners just as in the exit conference, to familiarize them with the banks situation, in the spirit of mutual Examiners/Auditors cooperation. Copies of Examination Report are also forwarded to the Banking Supervision Department, the other Financial Institutions Department, the Nigerian Deposit Insurance Corporation, the bank’s external auditors etc.

The highlights of the report are summarized and presented to the financial sector surveillance committee of the CBN to keep its members abreast of the conditions of, opportunities and threats to the bank. It must be noted that the Examiner’s Report is a highly confidential document, with restricted circulation.

IV THE FOLLOW-UP EXAMINATION

The bank’s board is expected to respond to the Examiner’s findings within four weeks of the presentation of the report. On the receipt of the bank’s response, a follow-up examination is carried out by another team of Examiners to confirm the bank’s claims and ascertain the level of compliance with the recommendations in the report. Thereafter, penalties imposed by Examiners for infractions are given effect.

Conclusively, it should be emphasized that off-site surveillance system are always employed as supplement to on-site examinations but not as substitutes.

Certain information that is crucial for the supervisory process such as quality of bank’s loan portfolio or the quality of a bank’s internal policies and procedures can only be effectively evaluated through on-site examinations. Simply stated off-site surveillance and on-site examination should be viewed as compliments, each of which produces useful, but different information that contribute to an effective supervisory program.

omic depression.

### CAUSES OF BANKING CRISIS

There is need to establish the causes of banking crisis as that will enable us to appreciate resolution options being adopted to address the problem. In view of the importance of this need, a CBN/NDIC Collaborative Study (1995) undertook an empirical method to verify the causes of bank distress in Nigeria. The empirical study employed the analysis of primary data obtained from a survey and the analysis of secondary data on a wide range of performance indicators including Capital Adequacy, Assets’ Quarterly, Management, Earnings and Liquidity (CAMEL) parameters. The findings of the study have corroborated the earlier held view that distress among Nigerian banks is a visible expression of a complex set of interrelated problems emanating from a number of factors, including poor corporate governance/management, capital inadequacy, policy/regulatory environment, widespread incidence of non-performing loans arising mainly from economic downturn, poor lending and borrowing culture, asymmetric information, and aftermath of competition. Some of these factors examined here are endogenous while the others are exogenous to the banking system.

### Policy and Regulatory Environment

Prior to the adoption of a comprehensive economic reform programme under the Structural Adjustment Programme (SAP), the Nigerian banking system could simply be described as highly regulated. Some of these regulations had sometimes been counter-productive and had contributed to the strains in our banking system. Banks were subjected to substantial restriction on their products and activities. These restrictions had, to a reasonable extent, limited some banks’ ability to adapt to changing market conditions. The government had generally in the past made the control over banks an important tool of the country’s economic development strategies. These policies were put in place in the belief that without such intervention, the banking system might not cooperate in the development effort because of divergence between public and private goals. Some of the policies manifested in the form of direct control and the establishment of interest rate ceiling as well as restriction on entry into the banking industry.

### Capital Inadequacy

A function of capital in a bank is to serve as a means by which losses can be absolved. Capital provides a cushion to withstand abnormal losses not covered by current earnings, enabling banks to regain equilibrium and to re-establish a normal earnings pattern. The need for adequate capital largely informed the decision of the Regulatory Authorities to raise the minimum equity share capital of banks over the years. At present the minimum paid-up equity share capital is N2 billion for a new bank to be licensed and the existing universal banks have the deadline of 31st December, 2002 to beef up their paid-up equity share capital to N1 billion. This problem of inadequate capital has been further accentuated by the huge amount of non- performing loans which has eroded some banks’ capital base. It has even been discovered that many of the closed banks in Nigeria started with fictitious capital through the use of commercial papers (CP’s). Such CP’s were paid back soon after commencement of business with deposits. Many of such so-called bank owners contributed nothing to own a bank, yet they used the means to amass wealth and ruin the bank at the end of the day.

### Economic Downturn

The adverse economic condition in Nigeria since mid-1981 had been characterized by high inflation, depreciating value of the Naira, large fiscal deficits, heavy external and internal debt overhang and slow growth. Arising from this stress in the economy, many borrowers, corporate bodies and individuals as well as government at all levels were unable to service their loans, thereby making many banks to come under severe crisis. The macroeconomic reforms introduced in 1986 also had its toll on the external value of the Naira which was then believed to be overvalued. A massive depreciation that followed shot up foreign manufacturing input prices leading to greater domestic capacity under utilization and reduced ability of business borrowers to repay their loans and advances.

### Borrowing and Lending Culture

This problem of economic downturn has been exacerbated by the attitude of some borrowers who are unwilling to repay even when they are known to have the means to service their debts. Such borrowers seek refuge under the inadequate legal framework and cumbersome loan recovery processes which make it difficult for the lending bank to foreclose collaterals. Obtaining judgment when a loan defaulter is sued is often lengthy, thereby increasing the cost of doing banking business in Nigeria. Yet justice delayed is justice denied. In the case of some small borrowers, particularly in priority sectors of agriculture and small and medium scale enterprises, they willfully default on the wrong notion that the bank loans are part of their share of the “national cake”. There are also “professional” borrowers who through connivance with some banks’ staff take bank loans with no intention to repay such loans. These problems greatly impair the quality of banks’ assets as non-performing loans and advances become unbearable and turn out to be a high burden on many of them.

### Asymmetric Information

Closely related to negative borrowing culture is asymmetric information which has been known to cause banking crisis, particularly in emerging markets. Asymmetric information is described as a situation whereby a borrower taking out a loan has superior information about the potential returns and risk associated with the investment project than the bank lending the money

 (Mishkin, 1996). This problem of asymmetric information is often rampant in an unstable economy as loans are likely to be extended for risky projects and the borrower may have incentives to misallocate borrowed funds for personal use or invest them in unprofitable projects. With the benefit of hindsight, it is clear that many NERFUN, NEXIM and many agricultural loans were diverted for personal use and for projects different from which they were extended. Also, some borrowers have been known to contract loans with the intention of not repaying form the onset. Such loans had become bad form the moment of extension.

### Poor Corporate Governance/Management

It has become a worldwide dictum that the quality of corporate governance for management makes an important difference between sound and unsound banks. The US Comptroller of the Currency ascribed over 90% of bank failures since deregulation in the US as being due to poor management. Just as it is in other parts of the world, so is it established in Nigeria that mismanagement is the main culprit causing banking crisis. A very significant characteristic of mismanagement is in the negative attitude and behaviour of bank managers, which is difficult to reverse by the application of external policies and measures.

Fraud

**BANK FAILURE RESOLUTON OPTIONS**

A failure resolution measure could be described as the systematic programmes of action designed to resolve the distress state of an insured institution. Though distress resolution options could be aggregated under a broad spectrum, their application would usually be driven by the financial state and peculiarity of each institution and the banking system in the county experiencing a banking failure. The focus of a good failure resolution option would be to maintain public confidence and stability in the banking system; ensure fairness, equity, transparency and accountability; instill market discipline while discouraging moral hazards; achieve minimum disruption of banking services (both in the problem bank and the system at large); and be cost-effective.

The resolution threshold adopted should also be such that would minimize the likelihood of having to ‘bail out’ uninsured depositors and creditors. This is because such bail-outs tend to undermine market discipline and encourage undesirable risk-taking. It is therefore important to balance the conflicts inherent in those factors in order to adopt the most optimal strategy in the particular circumstance. For example, the desire to consider the least costly method might be outweighed by the need to maintain public confidence in the banking system. It is also important to add that a cardinal issue in restructuring an insolvent bank, by a government agency, is for the erstwhile shareholders to lose their investments, and managers to lose their jobs. This is to prevent a situation whereby you throw good money after bad money or allow monkey to watch over bananas especially where the resolution strategy is aimed at rehabilitating the distressed bank.

Emphasis must be made that those considerations, have hitherto influenced the strategies adopted in dealing with banking crisis experienced in the country in the recent past. Before considering the resolution options, there is need to high light some of the conditionalities for effectiveness, given the experiences of various countries. They should all be substantially met if resolution efforts are to achieve modest benefits.

These conditions include:

I A strong political will on the part of government;

Ii A stable macro-economic environment with few relative price distortions;

iii An enabling environment that favours growth and competition of enterprises; iv Effective bank supervision and enforcement of regulations;

v. An effective receiving agency with adequate powers and backed by the central bank; vi Appropriate legal framework that favours financial discipline in the country;

vii Transparent accounting standards that must be used by all financial institutions; and viii Availability of a cadre of truly professional bankers of integrity.

### Pay-Off

This involves the payment of insured deposit up to the insurable limit to the depositors of the liquidated bank. As earlier mentioned, the insurable limit is currently set at N50,000 in Nigeria. While it was acknowledged that the limit was due for review in light of the prevailing economic realities (in fact a review is already proposed for enactment by the National Assembly), it is imperative to add that the experience in liquidating 33 banks should persuade kin observers, of the system, that the sum insured was the minimum amount depositors could collect in the event of liquidation. The net income generated from the assets of banks in liquidation is subsequently shared to uninsured deposits on pro-rata basis. For the avoidance of doubt, depositors of five of the 33 banks currently in liquidation have been paid all the monies they had in those banks. As a matter of fact, in the case of Nigeria Merchant Bank in liquidation, the NDIC had made full payment to uninsured creditors and paid N240 million and N160 million to Ministry of Finance Incorporated and UBA PLC respectively in proportion of their shareholding in the bank.

### Insured Deposit Transfer

This involves the transfer of insured deposit of the failed bank to another bank or other banks, preferably within the same locality. The acquiring bank(s) will be given enough cash and/or riskless assets to cover the insured deposits transferred from the failed bank. Like in the pay-off, only insured deposits are fully covered and therefore it is generally viewed as a variation of the pay off option. The deposits insurance institution takes over the assets of the failed bank which it then markets or manages. The acquiring bank(s) may also purchase some or all the bad assets of the failed bank.

### Bridge Bank

Under this option the assets and liabilities of the failed bank are assumed by a new bank specifically set up for that purpose. The bridge bank would be operated for about 2 years after which it would be sold to fresh investors. The shareholders of the failed bank would be given little or no monetary consideration since they would have lost their investments in the failed bank. The major advantage of this option is that it would permit continuity of banking services to all customers and fully protect all the depositors and creditors of the failed bank.

### Purchase and Assumption (P&A)

This is akin to a merger by which a healthy institution offers to purchase the assets and assume the liabilities of a distressed bank. A failed bank could be split to make it attractive to banks that wish to enhance market penetration or establish new branches where the failed bank had branches.

The major advantage of P&A is that it would ensure that all depositors are protected thereby giving credibility to the deposit insurance scheme. It would also ensure continuity in rendering banking services, thereby engendering confidence in the banking system, and also help to promote market discipline as other creditors of the failed bank might not be paid.

### Open Bank Assistance

Allowing a failed bank to continue to operate in the same name as a going concern is called open bank assistance. It would involve change in ownership and management of the bank, injection of fresh funds in the form of equity and/or loan capital; and reorganization and overhauling of the bank including rationalization of staff and branches. The Regulatory Authorities in Nigeria have had to employ a combination of strategies available under this option to resolve many distressed banks in Nigeria Especially where pay-off option appeared to threaten the erosion of public confidence in the banking system.

### BANK CONSOLIDATION IN NIGERIA: PROCESSES AND PROSPECTS.

The Nigerian banking sector has undergone remarkable changes over the years, in terms of the number of institutions, ownership structure as well as the depth and breadth of operations. These changes have been influenced largely by the challenges posed by the deregulation of the sector, globalization of operations, technological innovations and the adoption of supervisory and prudential requirements that conform to international standards. The deregulation of the sector which began during the period 1986 to 1990 was followed by a flood of new banks. The existence of so many banks, coupled with the non-compliance with market regulations by majority of the players, poor management, poor credit policy insider dealings/abuses, economic recession, etc. led to high incidence of distress in the banking industry in the 1990s.

Furthermore, CBN’s surveillance on banks recently revealed deterioration in banks’ overall performance, based on CAMEL parameters. Banks’ performance rating in 2004 showed that 10 banks were rated as sound, while 51, 16 and 10 banks were rated as satisfactory, marginal and unsound, respectively. Against this background, the CBN in July 2004 rolled out a 13-point reform agenda aimed at consolidating the banking sector and preventing the occurrence of systemic distress.

Two major elements in the reform package were the requirement that the minimum capitalization for banks should be N25 million with effect from end – December 2005, and that the consolidation of banking institutions through mergers and acquisitions should be initiated.

Some of the goals the CBN intends to achieve by consolidating the Nigerian banking sector include:

* creating a sound and more secure banking system that depositors can trust;
* building domestic banks that investors can rely upon to finance investments in the Nigerian economy;
* encouraging industry consolidation and reducing system risks;
* reduction of interest rate on lending to single digit;
* fighting corruption and white-collar crimes through improved transparency and accountability, and insisting on sound corporate governance practices in the financial services sector;
* driving down cost structure of banks, improving banks’ efficiency, encouraging competition with the goals of lowering interest rates and providing cheap credit to the economy; and
* meeting international benchmarks and minimum requirements for the integration of regional financial systems.

This section examines the rationale, options and processes of bank consolidation, as well as the challenges and prospects for Nigeria.

**CHAPTER THREE**

**RESEARCH METHODOLOGY**

3.1 **INTRODUCTION**

This chapter describes method and procedures used in conducting this research work. The description of the procedure is done under the following headings:

Research design, Area of the study, population of the study, sample and sampling procedure, instrumentation, procedure for data collection and procedure for data analysis.

3.2 **RESEARCH DESIGN**

A survey research method was used for this study. This was considered appropriate because survey design generally can be used to effectively investigate problems in realistic settings. The survey technique will also allow the researcher to examine several variables and use multi-vari and statistic to analyze data.

3.3 **POPULATION OF THE STUDY**

The population consists of the entire staff of the selected bank a total population of 48 persons.

 **SAMPLE SIZE AND SAMPLING TECHNIQUE**

Due to the smallness of the population the entire population of 48 persons will be used as the sample size.

3.5 **INSTRUMENT OF DATA COLLECTION**

The major instrument used for this study is the questionnaire the questionnaire was designed in five likert scale in accordance with the research questions. It was also design for the staff of Selected to answer. However secondary data were obtained published and unpublished works, journals, magazine seminar collection and the use of internet.

3.6 **RELIABILITY** **OF THE INSTRUMENT**

A pilot study was carried out on 10 respondent from Selected bank to pre-tests the efficacy of the questionnaire. The feedback obtained from the pilot survey indicated that the questionnaire was properly designed and as such would be used in the final draft.

3.6 **VALIDITY** **OF THE INSTRUMENT**

In order to obtain the validity of the instrument. The supervisor of the project was requested to judge the appropriateness, comprehensiveness and charity of items in the questionnaire. His contribution inform of suggestion and constructive criticism were used in the final draft.

3.7 **METHOD OF DATA COLLECTION**

The researcher personally collected data from the respondent through the help of the personal manager. After the distribution of the questionnaire, respondents were given five days to fillout the questionnaire. This time frame was given in order to give ample time to the respondents to reflect on the items on the questionnaire to facilitate the validity of responses from respondents.

3.9 **METHOD OF DATA ANALYSIS**

The mean scores was used to analyse the likert’s five point questionnaire while the frequency count and simple percentage was used to analyze respondent characteristics.

 SA - strongly Agree - 5 points

 A - Agree - 4 points

 UD - Undecided - 3 points

 D - Disagree - 2 points

 SA - Strongly disagree - 1 Point

 The mean formula will be

 ­ \_

 X = ∑fx

 N

 Where

 X = Arithmetic mean

 ∑ = Summation

 x = total distribution

 i = elements in the stale

 n = sample size

∑fx = 5 + 4+ 3 + 2 + 1 = 3.0

 5

**Decision criteria**

4.50 - 5.00 = Strongly agree

3.50 - 4.49 = Agree

2.20 - 3.49 = Undecided

1.50 - 2.49 = Disagree

0.5 - 1.49 = Strongly disagree

## CHAPTER FOUR

## RESULTS AND DISCUSSIONS

**General Information**

**Response Rate**

Response rate involves the computation of the response rate from the questionnaire returned from the respondents. The study sampled 48 respondents from the target population to collect data with regard to the effects of Basel III framework on problem and challenges in New banks in Nigeria. Out of 48 questionnaires distributed 37 respondents completely filled in and returned the questionnaires which accounted for 77.1% response rate. The good response rate was reached due to the adoption of the data collection method of constant follow up with the respondents by the researcher. The response rate demonstrates a willingness of the respondents to participate in the study on the effects of Basel III framework on problem and challenges in New banks in Nigeria.

## Distribution of the Respondents by Gender Table 1: Gender of the Respondents

|  |  |  |
| --- | --- | --- |
| **Gender** | **Frequency** | **Percent** |
| Male | 23 | 62 |
| Female | 14 | 38 |
| **Total** | **37** | **100** |

The respondents sampled comprised male and female staff of the New banks in Nigeria. They were to indicate their gender by ticking on the spaces provided in the questionnaire. Table 1 shows the distribution of the respondents by gender.

Accordingly, 62% of the respondents were males while 38% of them were females. The findings show that the institution studied has both male and female members; however the majority of them are males. The findings imply that the views expressed in this findings are gender sensitive and can be taken as representative of the opinions of both genders as regards to the effects of Basel III framework on problem and challenges in New banks in Nigeria.

## Response Rate Based on the Respondents’ Departments Table 2: Respondents’ Departments

|  |  |  |
| --- | --- | --- |
| **Department** | **Frequency** | **Percentage** |
| Human resource | 7 | 19.0 |
| Finance | 16 | 42.9 |
| Procurement | 7 | 19.0 |
| Operations | 5 | 14.3 |
| Marketing | 2 | 4.8 |
| **Total** | **37** | **100.0** |

Capital requirements and implementation of Basel III decisions affect the various aspects of performance of the organizations across various departments. It was therefore important to ensure that questionnaires were distributed and returned from various departments within the selected New banks. This was to ensure that the all areas influenced by Basel III are captured in the study. The results are as depicted in Table 2.

 Finance

43%

Procurement

19%

Human resource

19%

Marketing

5%

Operations

14%

## Figure 1: Respondents’ Departments

From the results shown in table 2 and figure 1, 42.9% of the respondents were working in the finance departments, 19.0% of them were working in the human resource departments, 19.0% worked in procurement department, and 14.3% worked in the operations department, while 4.8% worked in marketing departments. This implies that all departments that were targeted by the study were involved and that the findings are not biased hence representative of the various departments’ views on effects of Basel III framework on problem and challenges in New banks in Nigeria.

## Respondents Managerial Positions

**Table 3: Respondents Designations**

|  |  |  |
| --- | --- | --- |
| **Designations** | **Frequency** | **Percentage** |
| Heads of department | 4 | 10.3 |
| Assistant heads of department | 13 | 34.5 |
| Supervisors | 13 | 34.5 |
| General staffs | 8 | 20.7 |
| **Total** | **37** | **100.0** |

The study targeted to collect data from the management staffs. As such the respondents were likely to include managers, assistant managers, supervisors and general staffs. This was relevant to assess the distribution of the respondents across the management levels since they are part and parcel in the process of determining the effects of Basel III framework on problem and challenges in New banks in Nigeria.

The study findings in table 3 show that all the respondents occupy positions concerned with implementation of decisions like Basel III therefore they are aware of the effects of Basel III framework on problem and challenges in New banks in Nigeria. As such, 34.5% of the respondents indicated that they were assistant heads of department (assistant managers), another 34.5% of them were supervisors, 20.7% of them indicated that they were general staffs, while 10.3% of the respondents comprised of heads of departments (managers). These findings show that the respondents that participated in the study were mainly those involved in the implementation of Basel III requirements that affect the problem and challenges in New banks in Nigeria.

## Distribution of Respondents by Working Experience in the Banking Industry Table 4: Respondents’ Duration of Work in the New Banks in Nigeria

|  |  |  |
| --- | --- | --- |
| **Duration** | **Frequency** | **Percentage** |
| 0-5 yrs | 7 | 19.0 |
| 5-10 yrs | 11 | 31.0 |
| 10-15 | 19 | 50.0 |
| Over 15 yrs | 0 | 0.0 |
| **Total** | **37** | **100.0** |

The respondents were required to indicate the length of time they had worked in New banks in Nigeria. The length of service/working in an organization determines the extent to which one is aware of the issues sought by the study. The results are as depicted in Table 4.

From the respondents’ duration of work in the New banks demonstrated in Table 4, 50.0% of them indicated that they had worked in the New banks for 10 to 15 years, 31.0% of them had been working in the New banks for 5 to 10 years, while 19.0% had worked in the New banks for 0 to 5 years. For that reason, majority of the respondents had enough experience on the effects of Basel III framework on problem and challenges in New banks in Nigeria.

0-5 yrs 5-10 yrs 10 to 15 yrs Over 15 yrs

0%

19%

31%

50

45

40

35

30

25

20

15

10

5

0

50%

## Figure 2: Working Experience in the Banking Industry

**Highest Formal Qualification Table 5: Level of Education**

|  |  |  |
| --- | --- | --- |
| **Level of Education** | **Frequency** | **Percent** |
| Undergraduate | 15 | 40.5 |
| Post graduate level | 19 | 50.0 |
| Certificate/Diploma | 4 | 9.5 |
| **Total** | **37** | **100.0** |

The respondents were asked to indicate their level of education. The target population comprised of people in different responsibilities and qualification requirements hence different academic qualifications. This difference might contribute to differences in the responses given by the respondents. The study therefore sought to investigate the education level achieved by the respondents.

The outcome depicted in table 5 show that majority of the respondents had at least an undergraduate degree and hence understood the information sought by this study, that is, 40.5% of the respondents had acquired a undergraduate degrees level of education, 50.0% of the respondents indicated that they had acquired a post graduate level of education, while 9.5% of the respondents indicated that they had acquired other levels of education such as ICPAN and Higher Diplomas. These outcomes mean that majority of the respondents had at least an undergraduate degree and hence understood the information sought by this study.

## Inferencial Statistics

The objective of the study was to seek to investigate the challenges and problems of New banks are facing in the implementation of problem and challenges. Accordingly, the respondents were required to indicate the extent their banks experience various challenges in the implementation of problem and challenges.

## Table 6: Challenges Faced

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Challenges** | **No extent** | **Little extent** | **Moderate extent** | **Large extent** | **Very large extent** | **Mean** | **Stddev** |
| central bank Regulatory constraints | 29.2 | 43.8 | 8.3 | 8.3 | 10.4 | 3.5428 | 1.5152 |
| Additional capital | 18.8 | 10.4 | 35.4 | 35.4 | 33.3 | 3.2972 | 1.6102 |
| Risk and finance management culture | 0 | 12.5 | 14.6 | 25 | 29.2 | 3.3322 | 1.4923 |
| Growth barrier | 0 | 4.2 | 45.8 | 37.5 | 12.5 | 3.5845 | 0.77251 |

Results in table 6 reveal that majority of the respondents reiterated that their banks experienced growth barrier and central bank Regulatory constraints to great extents as shown by mean scores of 3.5845 and 3.5428 respectively, while they indicated that, in the implementation of problem and challenges, New banks experience risk and finance management culture and additional capital challenges to moderate extents as shown by mean scores of 3.3322 and 3.2972respectively.

## CHAPTER FIVE

## DISCUSSION CONCLUSIONS AND RECOMMENDATIONS

* 1. **Discussion**

The study found out that New banks experienced growth barrier and regulatory constraints to great extents, while in the implementation of capital adequacy requirement, New banks experiencerisk and finance management culture and additional capital challenges to moderate extents. Further, the respondents said that other challenges for New banks and financial institutions is deciding how best to implement a solution that will allow them to comply with Basel III include; how to operate the systems and processes for improved operational effectiveness, and how to understand and ultimately reduce their capital requirements. The weaknesses in applying consistent, robust risk asset definitions globally have led to distortions of true capital adequacy positions.

These findings agree with those of (Agoraki et al, 2011) who argued that New banks are faced by several challenges in the implementation of capital adequacy requirement. The key challenge for Nigerian banks and financial institutions are regulatory constraints and limitations as CBN does not have enough staff and systems to adequately supervise the implementation of the new regulations.

## Conclusions

The study concludes that the implementation of Basel III requirement has been faced by various challenges like growth barrier, regulatory constraints, risk and finance management culture and additional capital challenges. In addition, the study concluded that New banks face challenges in deciding how best to implement a solution that will allow them to comply with Basel III, how to operate the systems and processes for improved operational effectiveness, and how to understand and ultimately reduce their capital requirements.

## Recommendations

The implementation of Basel II has been a key driver for the refinement and maturation of risk management frameworks in financial institutions worldwide. However, the arrival of Basel III signals an unprecedented rising of the bar for risk management practices to support the comprehensive nature of the new requirements. The critical risk management challenges posed by the need to implement Basel III require the support and engagement of multiple competencies across the organization to address impacts on people, process and technology. The study therefore recommends that Banks should manage their risks more closely and avoid a build-up of unintended risk, reducing the opportunities for regulatory capital arbitrage. This would go a long way in eliminating growth barriers, regulatory constraints, capital adequacy requirement, risk and finance management culture and additional capital challenges.

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