BANKING SECTOR REFORM IN NIGERIA: IMPLICATION AND CHALLENGES

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Abstract
Banking reform has been an on-going phenomenon in Nigerian financial sector. It has however, recently been intensified due to forces of globalization, which are guiding the integration of world’s financial markets and economy. Banking reforms have resulted from deliberate policy response to correct perceived or impending banking sector crisis and subsequent failure. This paper investigates the implications and challenges of banking sector reform in Nigeria. It examines the various roles played by banking reforms in the development of the Nigerian financial system, found out the prospects and the performance of banks after reforms are implemented, determine whether reforms have achieved its aim of strengthening the capital base of banks, and providing a healthy competitive environment among banks. Descriptive survey research was adopted for the study. A questionnaire of the Likert type was administered to one hundred and twenty-five randomly selected employees of the selected banks in Lagos metropolis, Lagos State. The collected data were analyzed using simple frequency tables and Z-scores. The results showed that banking reforms in Nigeria have significantly improved the performance of the services provided in the industry, and that the challenges of banking sector reforms in Nigeria will guarantee its successful future operations. The study also indicated that banking sector reform in Nigeria have significantly strengthen a healthy competition in the industry. However, the respondents reflect that they have encountered operational problems during the reforms and most of these problems include problems of the system integration, computer failure, power failure, crash programmes and policy differences. Thus, the paper recommends that Nigerian banks should improve on the efficiency of the operation and also the policy makers should give more time to banks that have failed to meet up with the implementation exercise due to time factor to readjust. Also, government should always interfere to solve the problem of unemployment believed to have been caused by the banking reform. Similarly, for smooth running of the operation of the banking sector in the reforms and consolidation era, bankers should be given adequate training to meet up with the expectation.

Keywords: Banking reform, bank consolidation, bank performance, challenges,
INTRODUCTION

The Nigerian banking sector has gone through rapid changes over the years. These changes are built upon the recent banking sector reforms. Banking reforms in Nigeria started in July, 2004 and climaxed in August 2009 and beyond. Prior to the reforms, developments in the banking sector indicated a mixed trend in the performance of banks. About 10 banks dominated the industry and accounted for about 50 percent of the industry’s total assets/liabilities. Also, most of the banks operating in the country had capitalisation of less than $10million (Okafor, 2013). In fact, the largest bank in Nigeria had a capital base of about $240m compared with $526m for the smallest bank in Malaysia during the period. As observed by (Akanbi and Oso, 2005; Okwe, 2006; Okafor, 2013) the smaller banks had expensive headquarters, separate investment in software and hardware, heavy fixed cost and operating expenses, and with bunching of branches in few commercial centres led to high average costs for the industry. This, in turn, had implications for the cost of intermediation and the spread between deposit and lending rates. It also put undue pressure on banks to engage in sharp practices as means of survival (Okafor, 2013). These challenges and others definitely calls for the reform of the Nigerian banking sector. Ajayi (2005) opined that Nigerian banking reforms are predicated upon the need for reorientation and repositioning of an existing status quo in order to attain an effective and efficient state. Banking reform is that aspect of socio-economic reforms which focuses essentially on getting conditionalities right for the banking sector to take the lead role in empowering the private sector and to contribute more to economic growth (Ugwu and Onyeabor, 2012).

Hitherto, the banking sector in Nigeria had undergone four phases of bank sector reforms since the commencement of Structural Adjustment Programme (SAP). These include: financial systems reforms of 1986 to 1993 which led to deregulation of the banking industry; the 1993-1998 financial systems reforms, with the re-introduction of regulations; the 1999 financial systems reforms that saw the return to liberalization of the financial sectors, accompanied with the adoption of certain regulation programmes; and the 2004 banking sector reforms crystalized by Prof. Soludo. Soludo (2007) asserted that the financial system was characterized by structural and operational weaknesses and that their catalytic role in promoting private sector led growth could be further enhanced through a more pragmatic reform, hence, the 2004 bank reform exercise.

The Nigeria’s 2004 bank reforms were guided by the provision in the Country’s National Economic Empowerment and Development Strategy (NEEDS) programme of 2004. The document stated that the Nigerian financial sector is in dire need of massive reform that borders on the implementation of monetary and fiscal policies. The document further argued that there is a strong case for ensuring the efficiency of the financial system and for dealing with the contradiction, inherent in the fact that despite high profit levels, the sector does not appear to be playing a catalytic role in the real sector. In a detailed exegesis of this adopted monetary policy, NEEDS programme recommended several policy trusts for the efficient functioning of the Nigerian financial sector.

Banking sector reforms emphasizes the notions of bank capitalization through consolidation. According to Idowu (n.a), capitalization is setting the capital base upon which a player can set up
and be licensed to operate banking functions. It is setting a capital base which was given as twenty five billion naira (N25b) as at 2005. Ajayi (2005), states that a bank with a strong capital base has the ability to absorb losses arising from non performing liabilities (NPL). The essence of banking consolidation is to reposition the nation's banking industry for global competitiveness and also to ensure a strong and reliable banking sector that will guarantee the safety of the depositors’ money. The current banking sector reform was triggered by the need to address the combined effects of the global financial and economic crises, as well banks’ huge exposures to oil/gas and margin loans, which were largely non-performing; corporate mis-governance and outright corruption, among operators in the system (Anyanwu, 2010). This round of reform, therefore, seeks to substantially improve the banking infrastructure, strengthen the regulatory and supervisory framework, and address the issue of impaired capital and provision of structured finance through various initiatives, so as to provide cheap credit to the real sector, and financial accommodation for small and medium-scale enterprises (SMEs). Since the adoption of the various banking reforms in Nigeria, the banking sector had undergone several changes for good and otherwise. The objectives of this study are, to assess the implications of banking sector reforms and identify the challenges in order to proffer solutions to the banks to achieve optimum performance.

LITERATURE REVIEW

Generally, the banking system is unarguably the engine of growth in any economy in the world, either developed or underdeveloped, through its function of financial intermediation (Oladejo and Oladipupo, 2011). It occupies a crucial position in the country’s financial system to supply customers’ medium of exchange such as cash, cheque, checking accounts, credit cards, and to accept funds from depositors and lend it out to borrowers. In addition, they serve as important agents in the development process. Also, they play roles of intermediaries between people with surplus and shortages of capital by assisting in increasing the amount/portion of investments and hence, national output (Afolabi, 2004). Therefore, the sustainability of transformation in banking sector, in any environment, is critically dependent on reforms success in promoting higher degree of depth and efficiency in financial intermediation process by effective resource (deposit) mobilization and channeling these resources to productive sectors at competitive pricing, thus playing a critical role in promoting economic growth; strengthening the financial performance and soundness of banks; and extending the outreach of financial services to under-served/un-banked segments of the society.

Ebong (2006) represented financial reforms, as “deliberate policy response to correct perceived or impending financial crises and subsequent failure. Reforms in the financial industry are aimed at addressing issues such as governance, risk management and operational inefficiencies. The vortex of most financial reforms is around firming up capitalization. Ajayi (2005) stated that reforms are predicated upon the need for reorientation and reposition of existing status quo in order to attain an effective and efficient state. Specifically, financial reforms are primarily driven by the need to achieve the objective of consolidation, competition and convergence in the financial architecture (Deccan 2004).

Several studies have been carried out to evaluate the claim that the implementation of the 2004 Bank reforms by the Central Bank of Nigeria has resulted to the positive changes of the banking sector. One of the controversial prospects of the banking reforms is the emergence of 25 banks out of the 89 pre-consolidation banks existing in Nigeria before the policy (Ugwu and Onyeabor,
2012). These banks possessed capital base exceeding the required N25 billion benchmark (Dike, 2006). Okafor (2013) report that that aggregate capital base of the banks which stood at N384 billion before consolidation has notched up to N768 billion as the end of 2004. Atojoko (2007) reported that with the implementation of the reform, Nigerian banks are now financing multi billion naira mega projects in the manufacturing and telecommunication sectors. One of such projects is the $150 million (N19 billion) provided by a consortium of 13 local banks to partly finance the Obajama cement company in Kogi State, a company owned by the Dangote Group of Companies. Idowu (2005) examined the extent to which the banking sector meets consolidation objective using post development approach and noted that the process of recapitalization and the consequent merger and or acquisition engendered many of the banks to get registered with the Nigerian Stock Exchange (NSE) and therefore get listed (publicly quoted). According to him ownership of the banks became widened and public are made. The reforms has made many Nigerian to own some stakes in the banking sector rather than private ownership that were the pictures of many banks in the pre consolidation era. Abdullahi (2007) notes that the Mega banks that evolve through consolidations would have stronger base for big risks and therefore better able to finance key growth sector of the Nigerian economy. Furthermore, Bello (2005) outline the prospect of banking reforms in Nigeria to include: (i) initial public offering by banks through the capital market, (ii) attraction of more foreign investment inflows like portfolio investment to boost the level of economic activity, (iii) reduction in interest rate for increasing lending to the real sector, and (iv) attraction of foreign banks entrance into Nigeria. Fadare (2010), reports that banks were able to shore up their shares, boosting both individual and corporate investments. Locally and internationally; about $652million of foreign direct investment (FDI) was attracted. Banking performance are also gaining the confidence of the regulatory agency as some of the banks are concluding arrangement to manage Nigeria external reserves (Idowu, 2006).

Furthermore, banking reforms leads to better corporate governance and professionalism. The corporate governance codes which are good for the banking industry that suffered several years of abuse and neglect to larger extent have been restored. Prior to reforms, operators in the banking sector seemed not to think that banking demands circumspection and adherence to rules (Oyewale and Tokede, 2006; Nelson, 2013).

**Challenges of Banking Reforms**

Despite the fact that banking sector reforms have shown positive contributions in some cases, but in some cases it’s resulting to a negative contribution. Okafor (2013) found that reforms in the Nigerian banking sector had human resource challenges. Matanmi (2005) cited in Idowu (2005) identified a yawning gap between the immediate or short term effects of economic reforms and the necessary ideals of job security. He concluded that the ability of reforms to create employment in the last one decade had been very few and far between. Adeyemi (2007) added that banking reforms in Nigeria resulted in job loss, variance level of compensation and remuneration package for different merging groups and board room squabbles among cliques of the merging banks. Anyanwau (2010) highlighted the challenges to the recent banking reform in his study to include the unfavorable macroeconomic environment, cumbersome documentation process, inadequate long-term finance, lack of data base on borrowers and poor infrastructure. Zubairu (2006)
identified human resources realignment, technology integration, stakeholders concern, monitoring and supervision problems as culminating from the consolidation of banks in Nigeria. Abati (2006) submitted that the biggest losers in the banking consolidation was the human element especially depositors in the liquidated banks and workers of the merged banks, observing conflicting conditions of service for workers within the same grade level in some emergent banks.

Oladejo and Oladipupo (2011) state that the reform also have had implication for the supervisory authorities in the country such as the central bank of Nigeria (CBN) and Nigeria deposit insurance corporation (NDCI) most essentially. For example, the announcement of the new recapitalization policy as well as its implementation have induced a shake-out in the banking industry which pose a new set of challenges to the Nigeria deposit insurance corporation. In reaction the observation of Oladejo and Oladipupo (2011), Ogunleye (2005) submitted that following the announcement, the interbank market was adversely affected as interbank placements by the big players in the market were withdrawn from the smaller banks as precautionary measure. There was also a wave of flight to safety by depositors who were apprehensive of the survival of their bank, thus creating capital flight problem. The development complied with the planned phased withdrawal of public sectors funds from the universal banks made by the liquidity position of some banks precarious, this among other emerging challenges would put pressure on NDCI; both pre-consolidation and post consolidation challenges.

METHODOLOGY
The research design is descriptive survey, which employed questionnaires to elicit information from respondents. Primary data were used for the purpose of this research due to the nature of the research topic. The primary data collected by researcher for the first time for a specific purpose. A probability sampling method was employed. The target population was the staff and management of some selected banks in Lagos.

One hundred and twenty five (125) questionnaires were administered among the management staff and employees of five selected commercial banks in Lagos State. Random sampling technique was used to select the banks because the banking reforms affect the entire banks in the industry. Therefore, the selected banks represent an appropriate sampling frame for the study.

Two hypotheses were formulated which were,
Hi - Banking reforms in Nigeria significantly improve the performance of the services provided in the banking industry.
Hi - Banking sector reform in Nigeria significantly strengthens a healthy competition in the industry.

For the purpose of gathering data, a close-ended questionnaire was used. The data collected were analyzed using simple percentages and Z-score.

DATA PRESENTATION AND ANALYSIS
The data collected through the questionnaires from the management and staff of five selected banks in Lagos on the topic “Banking sector reform in Nigeria: Implication and Challenges” was analyzed item by item.

One hundred questionnaires were returned out of one hundred and twenty five questionnaires administered. This represents 80%, which is enough for this research work.
Demographic Analysis

Table 1: Age Distribution of Respondents

<table>
<thead>
<tr>
<th>ATTRIBUTES</th>
<th>FREQUENCY</th>
<th>PERCENTAGE (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 30 yrs</td>
<td>36</td>
<td>26</td>
</tr>
<tr>
<td>30 – 40 yrs</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>41 and above</td>
<td>24</td>
<td>24</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: Field survey, 2014*

Table 1 above presents the age distribution of the respondents which is an important element in decision making. From this table, 36 respondents are below the age of thirty, forty percent (40%) are between the ages of 30 – 40 years; while twenty four percent (24%) represent those respondents between the age represent those of respondent between the age of forty one and above. The banks under study have more experienced staff, as such, may have more competent workers who can deliver services effectively.

Table 2: Sex Distribution of Respondents

<table>
<thead>
<tr>
<th>ATTRIBUTES</th>
<th>FREQUENCY</th>
<th>PERCENTAGE (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>47</td>
<td>47</td>
</tr>
<tr>
<td>Female</td>
<td>53</td>
<td>53</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: Questionnaire survey, 2014*

Among the respondent which the researcher contacted forty seven (47) are male and fifty three (53) are female representing seventy percent (47%) and thirty percent (53%) respectively. As it is typical with banks, female staff outnumbered the male staff.

Table 3: Educational Qualification of Respondents

<table>
<thead>
<tr>
<th>ATTRIBUTES</th>
<th>FREQUENCY</th>
<th>PERCENTAGE (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diploma</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td>HND</td>
<td>28</td>
<td>28</td>
</tr>
<tr>
<td>1st Degree</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Post graduate</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: Questionnaire survey, 2014*

In table 3, the researcher tried to know the level of educational qualification of the respondents. It can be seen that sixteen percent (16%) are diploma holders, 28% holds HND, forty percent (40%) are First Degree holders, while postgraduate degree holders constitute sixteen percent (16%). Since there are more First Degree and HND holders, the banks under study have enough qualified staff who can best achieve the organizations’ objectives. However, it may mean using more money to be expended as salary.

Table 4: Working Experience of Respondents

<table>
<thead>
<tr>
<th>ATTRIBUTES</th>
<th>FREQUENCY</th>
<th>PERCENTAGE (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 5 years</td>
<td>44</td>
<td>44</td>
</tr>
<tr>
<td>6-10 years</td>
<td>38</td>
<td>38</td>
</tr>
<tr>
<td>11-15 years</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>16 years and Above</td>
<td>7</td>
<td>7</td>
</tr>
</tbody>
</table>

Table 4 shows that 44 respondents have been working with the bank for 5 years or below which represent 44% of the sample, 38 respondent had a working experience ranging from 6-10 years which represents 38%, 5 respondent out of 100 respondents had a working experience ranging from 11-15 years which represent 11%, while 7 respondents had been working with the bank for over 16 years and above, this represent 7% out of 100%. Most of the staff of these banks under study have more than ten years of experience. This shows that they have studied the system and know the implication of each decision taken. They may therefore accept decisions that will benefit the bank.

This study proposed two hypotheses which were tested to elicit and analyze the responses of the respondents.

**Hypothesis One**

- Hi - Banking reforms in Nigeria significantly improve the performance of the services provided in the banking industry.

To test the above hypothesis, question two in the staff questionnaire is analyzed based on the respondent’s responses. This is shown in the table below, using 0.05 significance level.

**Table 5: Z-score Test for Hypothesis One**

<table>
<thead>
<tr>
<th>Attributes</th>
<th>Frequency (F)</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>63</td>
<td>63</td>
</tr>
<tr>
<td>No</td>
<td>37</td>
<td>37</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Questionnaire survey, 2014

Where  
\[ P_n = 0.63 \text{ (proportion of positive responses)} \]  
\[ p_0 = 0.05 \text{ (probability of either outcome)} \]  
\[ n = 100 \text{ (Number of sample population)} \]  
\[ q_n = (1-p_n) = (1-0.63) = 0.37 \text{ (proportion of negative responses)} \]

\[ Z = \frac{P_n - p_0}{\sqrt{\frac{p_0(1-p_0)}{n}}} \]

\[ Z = \frac{P_n - p_0}{\sqrt{P_n Q_n}} \]

\[ Z = \frac{0.63-0.05}{\sqrt{0.37}} \]

\[ Z = \frac{0.58}{\sqrt{0.002331}} \]

\[ Z = \frac{0.58}{0.04828043} = 12.01 \]

Decision Rule: Accept H0 if calculated \( Z \) is less than table \( Z \) otherwise, reject.

Calculated \( Z \) = 12.01

Table \( Z \) = 2.35 at 0.05 level of significance

Decision: From the above Z-score analysis, the Calculated \( Z \) is greater than the Table \( Z \). Since the Calculated \( Z \) (12.01) is greater than \( Z \) (2.35), \( H_0 \) is rejected. This means that banking reform
in Nigeria significantly improve the performance of the services provided in the banking industry.

**Hypothesis Two**

- **Ho:** Banking sector reform in Nigeria significantly strengthens a healthy competition in the industry.

Table 6: Z-score table for hypothesis two

<table>
<thead>
<tr>
<th>Attributes</th>
<th>Frequency (F)</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>78</td>
<td>78</td>
</tr>
<tr>
<td>No</td>
<td>22</td>
<td>22</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Questionnaire survey, 2014*

\[
Z = \frac{P_n - P_0}{P_0 (1-P_0) / n} \quad \text{OR} \quad Z = \frac{P_n - P_0}{P_n Q_n / n}
\]

Where
- \( P_n = 0.78 \) (proportion of positive responses)
- \( P_0 = 0.05 \) (probability of either outcome)
- \( n = 100 \) (Number of sample population)
- \( q_n = (1-P_n) = (1-0.78) = 0.22 \) (proportion of negative responses)

\[
Z = \frac{0.78 - 0.05}{\sqrt{(0.78)(0.22)/100}} = 17.62
\]

Decision Rule: Accept H0 if calculated \( Z \) is less than table \( Z \) otherwise, reject.

Calculated \( Z = 17.62 \)

Table \( Z = 2.35 \) at 0.05 level of significance

**Decision:** From the above Z-score analysis, the Calculated \( Z \) is greater than the Table \( Z \). Since the Calculated \( Z \) (12.01) is greater than \( Z \) (2.35), \( H_0 \) is rejected. Therefore, that banking sector in Nigeria significantly strengthens a healthy competition in the industry”. The analysis of findings as generated by the result shows that banking reforms in Nigeria have significantly improved the performance of the services provided in the industry, and that the challenges of banking sector reforms in Nigeria will guarantee its successful future operation. The study also indicated that banking sector reform in Nigeria has significantly strengthened a healthy competition in the industry and that reform in the Nigerian banking industry is meant to remove undue rivalry among the banks. The need to survive in a competitive environment before the reform has led many banks into very risky behaviours and businesses (i.e. involvement in
risky investments). The finding is consistent with works of Ajayi (2005), Abdullahi (2007), Iganiga (2010), Ugwu and Onyeabor (2012) and Okafor (2013). Iganiga (2010) found out that the performance of the financial sector has been greatly influenced over time by financial reforms. The adoption of market determined cash reserve requirement caused cash intensity and domestic savings to increase by 5.54 and 5.00 percent respectively. The gradual increase in the capital base of these firms has rekindled the public confidence in the sector by increasing savings by 3.6, percent.

CONCLUSION

The banking sector reforms in Nigeria were established on the understanding that globally, size matters in the banking business, particularly given trends in internationalization of finance and the pressures of globalization and the global financial crisis. The desire to create capable capable global players with local roots in the Nigerian banking sector was a strong motivation for the reforms. In a number of ways, the reforms have made several benefits as some Nigerian banks have became enlisted into the first 100 banks worldwide. Locally, the reforms have significantly improved the performance and services provided by banks and strengthen a healthy competition in the industry. Implementing the reforms faced strong challenges, at first from those whose entrenched interests left them fighting for long held priviledges. Other challenges include those involve with banks operation like problems of the system integration, computer failure, power failure, crash programmes and policy differences.

RECOMMENDATIONS

- There is the need for the recapitalized banks to maintain uniform exercise and polices, and integrated their system to help them resolve the operational problems.
- The bank should improve on the efficiency of the operation and also the policy makers should give more time to banks that have failed to meet up with the implementation exercise due to time factor to readjust.
- Regulatory bodies should put in place periodic monitoring to ensure compliance with code of corporate governance by banks. Stress test on banks by the CBN should be more frequent and periodic.
- The government should interfere to solve the problem of unemployment believed to have been caused by the consolidation exercise. This is because despite the advantage of these policies toward the smooth running of the economy, unemployment is also a threat to it.

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