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THE ASSESSMENT OF BANKING SECTOR PERFORMANCE IN NIGERIA

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Abstract

Banking sector is pivotal in monetary ecosystem of Nigeria economy. The role to stabilize monetary economics of the nation is hinged on the health and varsity of banking sector. In this study, we set off to do an assessment of banking sector performance in Nigeria using mercantilist perspective. We shall use descriptive analytical technique to screw the performance of banking sector during the era of pre-consolidation and post-consolidation in Nigeria. There were regulations and deregulations policies during pre-consolidation and post-consolidation with the intent of strengthening the sector which conversely will strengthen and stabilize the economy. Moreover, regulatory policies of consolidation yielded positive result to the economy of Nigeria even when banks considered it counter-productive policies. There were improvements in technologies and innovations in banking operation as it is witnessed today in Nigeria. It caved in some ideologies that made banking operation which was encumbered and marred with irregularities and gross customer related welfare services limitations and obvious frustrations of customers to ease and customers centered services throughout the Nigerian nation. It leads to different innovations and consumer friendly technological inputs in the sector. We also find out that consolidation policies made banks to be closer to the people. However, it has also created the consciousness that banking business can be regulated or control by the apex authorities.

Keywords: Regulation, Consolidation, Deregulation, Ecosystem, Post-consolidation

Introduction

The role of banking sector in every economy is very vital to monetary system of that economy. Without banking sector, financial economic stabilization of the nation would be unstable. We shall be assessing the performance of Nigeria's reformed banking sector. How the activities in this subsector of the economy exert great influence on monetary policy and consequently determine the level of attainment of macroeconomic goals. (Iyoha & Itsede, 2003). It should be noted that banks exist to keep money, give credit, and ensure the smooth working of the monetary exchange system (Iyoha, 2004). According Ekine (2013), banking sector is central to the management of

quantity of money (money supply) in the economy. Bank as financial intermediaries occupies sufficient and integral part in the economy. They help in the mobilization of resources from one economic unit to another (Gbosi, 2009). The activities of banking sector are one of the mechanics for rapid economic growth and development in the economy. Unfortunately, banking sector became the people's nightmare, as so many banks operations became epileptic in terms of their services and trust on their esteemed customers. In other to remedy this ugly situation in the economy, the government initiated policies to curb the menace in the banking sector.

It shall be noted that central bank is at the apex of the financial system. For about four centuries now, central bank had been in existence. Different nations around the world have an apex body that put a check on the operations of banks in their countries. Bank of England was founded in 1694, maintain monetary stability and monitor financial stability of the UK financial system. The Federal Reserve Bank, U.S.A. was established in 1913 to handle the nations monetary policies, promotes and ensures the stability of financial system, regulates and protect individual financial intermediaries, encourages payment and settlement system, and ensures consumer protection (federal reserve education.org). The bank of Mexico (Banco de Mexico) was established in 1925 for the achievement of stability in the purchasing strength of the nation's currency. Central Bank of Nigeria was established in 1958 to ensuring monetary and price stability, for the issuance of legal tender currency, maintenance of external reserves for safety of international value of the legal tender currency, promotion of a sound financial system, and act as bankers bank and give economic and financial advice to federal government (CBN Act, 2007). Botswana's Central Bank was established in 1975 (Iyoha, 2007), for the maintenance of monetary and financial stability. Due to uncertainties and unstable policies, Nigeria's banking sector experienced turbulent situations and these led Central Bank of Nigeria (CBN) to carry out reformation policies in the sector as to overhaul the entire system. The reformation policies worked dramatically in downsizing banking industry and restructuring the entire system.

We shall show whether the banking sector had assume any appreciable level of importance in the economy because of consolidation policy. Moreover, we shall analysis the impact of commercial banks in relation to bank sizes in pre-consolidation and post-consolidation periods. The relative impact of banking sizes in the economy have been impressive such that it can be safely concluded that the consolidation exercise has brought about meaningful contributions with respect to some growth indicators. Moreover, we shall base this study on analyzing the performance of consolidated banks in relation to pre-consolidated bank using non-

financial criteria and this would form the bases of this work.

Literature Review

Origin of Banking in Nigeria

Let us consider the origin of banking in Nigeria and the necessary evolutions and transitions to the present. Bank is a segment of the financial sector of the economy that provides the environment for savers and investors to interact and trade in financial assets. Bank is a market environment where savers' strength is used to strengthen the weakness of the borrowers, thereby improving the economic performance (Iyoha & Itsede, 2003). Banking started in Nigeria in 1892 when a British overseas bank called African Banking Corporation (ABC) took over banking operation in Lagos; Nigeria. In 1893 ABC sold its branch to a new bank called Bank of British West Africa (BBWA) now first bank Nigeria plc. This BBWA operated as both commercial and central Bank in Nigeria, hence it was a banker to the colonial government and it also mints currency not until 1912 when the West African Currency Board (WACB) was established to mint and print money for West Africa. And by 1917 Barclays Bank D.C.O (now Union Bank of Nigeria Plc) was established. In 1948 came a British and French Bank, an Anglo-French Bank (now, United Bank for Africa Plc), (Ajie, Akekere, & Ewabare, 2008). These foreign banks exerted monopoly in the banking sector so much that huge profits were repatriated abroad instead of investing them in the economy of their host country; Nigeria. They were discriminatory in rendering services in the nation as the indigenes of the country were denied loan which propelled the local business tycoons to sort for indigenous bank. The first attempt to establish an indigenous bank was made in 1929. The established bank (Industrial and Commercial Bank) could not stand the test of time due to the great depression that rocked the world. Also in 1931 came Nigerian merchant Bank which also collapsed. Then, the National Bank of Nigeria, an indigenous bank was established in 1933 and African Continental Bank in 1948. Another indigenous bank that survived was Agbonmagbe Bank in 1945 (Now, Wema Bank). In

1961 the Anglo-French bank of 1948 became United Bank for Africa, UBA (Gbosi, 2005). Thus, the unwillingness of the foreign banks to lend to their host country led to the advancement of the establishment of indigenous bank and thereafter, the establishment of a Central Bank of Nigeria. From the outset of banking operation in Nigeria until the 1950s there was not banking legislation except in 1952 when the bank ordinance was made to regulate the operations of the banks. Commercial Banking in Nigeria was until lately, largely dominated by two British banks: Bank of British West Africa, BBWA. (now, First Bank of Nigeria Plc) and Barclay Bank D.C.O. (now Union Bank), (Afolabi, 1991), hence the need for a central financial body. The Nigeria financial system and banking sector operation are under the regulatory authority of the apex banking authority; Central Bank of Nigeria (CBN). The CBN was established in Nigeria by the Central Bank Act of 1958 and started operations in 1st July, 1959. Gbosi (2005) opined that the 1958 Act was designed to ensure that control over monetary policy was firmly in the hands of the CBN. Moreover, the establishment of CBN in 1958 was as a result of the deficiencies witnessed with the West-African Currency Board, WACB- which was the monetary authority established by the colonial government to regulate the financial system in Nigeria and other British West African Countries. Moreover, the establishment of a nation's central bank authority became necessary if the nation would stand to regulate its monetary policy and to help achieve the macroeconomic aim of economic stability. Daniels and Vanhooze (2005) opined that central bank operates as fiscal agents for national government. That means, the central banks can issue, service, and redeem national debt. But the WACB failed in many ways according to Iyoha and Itsede, (2003), such as:

- i. The board lacked the discretionary powers to control money supply
- ii. It failed to develop domestic money market in Nigeria.
- iii. It could not provide Liquidity to encourage the growth of indigenous banks.

It also had no control over the activities of foreign banks in the country hence they operated according to

their own policies and repatriated huge profits overseas instead of investing in the Nigeria economy.

All these limitations led to the establishment of CBN which was saddled with the responsibility of providing local currencies, performing banking and other development functions.

The Impact of Banking Sector Reformation on the Economy

“Monetary policy took a new dimension in Nigeria with the deregulation of the financial sector in 1987” (Gbosi, 2005). Deregulation is the removal of restrictions which are obstacles to...., (Gbosi, 2012). But other scholars saw it as the removal of rules and regulations governing business competition. The period of deregulation witnessed high influx of banks into the banking sector. The sector was deregulated to allow for significant participation of the private sector. Regulation of Nigeria financial system dates back first in early 1950s, following failures in the banking industry (Gbosi, 2009). Moreover, due to complex restriction and high interest rate on the entrance into the banking sector after two decade of military rule where authority was given to the federal executive council (FEC) over CBN hence, the deregulation of the sector to allow for private sector participation of the sector. The deregulation of the sector gave rise to some abnormalities which made the apex bank to introduce rules to control the activities of the sector. Regulation is the imposition of restrictive control (Gbosi, 2012). Thus, regulation of bank is the ability to set and enforce rules on banks and other financial organizations (Labonte, 2017). There were reported cases of looting, embezzlements, and high profile corrupt practices in the sector which cumulated, causing people to lose confidence in the Nigerian banking system. This regulation of banks aimed at achieving the following: to prevent collapse of the payment system in the economy, ensure monetary stability, encouraging an efficient financial system, protecting consumer interest, ensure a safe and sound financial system, and prevent financial crime (Ehodighe, 1993; Labonte, 2017). The 2004 banking reforms were to consolidate the sector for greater performance. This reformation of the banking sector

reduced the number of banks from 89 to 24 banks. Moreover, this consolidation of the banking sector was in phases. The first phase was to diversify and make the banking sector stable for investors and the general public and to return the confidence reposed on the sector by ensuring the safety of depositor's money. Then, the second phase made to encourage the emergency of regional and specialized banks. (Gbosi, 2009). Some of the policies made to properly consolidate banking sector include: Minimum capitalization for bank from N2.billion to N25 billion, Mergers and acquisition of banks, minimize public sector participation, zero tolerance in the regulation, reporting process, promotion and enforcement of relevant laws and close collaboration with economic and financial crimes commission (EFCC) with financial intelligence units and the enforcement of the anti-money laundry and other economic crimes. This was in view to addressing the operational and structural weakness experienced in the system. This reform was to foster competition, safety and positioning the banks for adequate intermediation and to be a vehicle for aggressive economic development. Reformation was to create a diversified, strong and stable banking sector in Nigeria... thereby making the banks more competent and competitive players in Africa and global financial systems (Gbosi, 2009). The global financial crises of 2010 were profound as such, there was to reform and harmonize the effects of global financial crises and some noticeable national challenges. The bank's high tendency on oil and gas sector and the margin loan (loan secured against tradable securities purchased by the borrowers) were not functional. Even, there was corporate malfeasance in the sector, that is, corruption among the operators of the system. This reform gave rise to Assets Management Corporation of Nigeria (AMCON) which was designed to address the issue of non-functional risk assets of some banks, which are the

banking sector ratio of non-functioning loans to the aggregate credit. Before the emergence of this AMCON, there was a stress test on some banks which were at the verge of failure, the Central Bank of Nigeria and the Nigerian deposit Insurance Corporation (NDIC) monitored them to save the situation. These banks were rescued by the CBN direct intervention and they are: Spring Bank (now, Enterprises Bank Ltd), Bank PHB (now Keystone Bank Ltd), and AfriBank (now, Main Street Bank Ltd). They were given liquidity support to begin operation again.

Methodology

The following procedures were adopted in the study of the analysis of the performance of Nigeria's banking sector: Research Design; source of data, method of Data Collection and Method of data analysis. A research design is the enabling operational paradigm of the scientific enquiry (Eboh, 1998). This study adopted a descriptive study design. A descriptive design entails a systematic collection and presentation of data to give a clear picture of a particular situation. It is a research design which shows a vivid pictorial view of a particular situation. And it is used in social science research; hence it is used in this study. The study adopted secondary data sourcing. Thus, it made use of data derived from existing literatures, research reports, government documents, institutional publications and statistical reports (Eboh, 1998). We shall rely on secondary data via number of banks and branches of banks before and after reformation policies in our evaluation.

Results and Discussion

We shall present the data empirically to enable us assess the performance of banking sector in the pre-consolidation and post-consolidation eras in Nigeria.

Table 1: Number of Commercial and branches of Banks before consolidation					
		Branches			
Period	Number of Banks	Urban	Rural	Abroad¹	Total
1960	12	154	4	2	160
1965	15	217	6	2	225

1970	14	263	7	3	273
1971	16	306	9	3	318
1972	16	354	10	3	366
1973	16	371	10	4	385
1974	17	388	11	4	403
1975	17	420	12	4	436
1976	18	446	12	5	463
1977	19	474	13	5	492
1978	19	511	98	5	614
1979	20	533	133	6	672
1980	20	565	168	7	740
1981	20	622	240	7	869
1982	22	676	308	7	991
1983	25	694	407	7	1,108
1984	27	810	432	7	1,249
1985	28	839	451	7	1,297
1986	29	879	481	7	1,367
1987	34	947	529	7	1,483
1988	42	1,057	602	6	1,665
1989	47	1,093	756	6	1,855
1990	58	1,169	765	5	1,939
1991	65	1,253	765	5	2,023
1992	65	1,495	774	6	2,275
1993	66	1,577	775	6	2,358
1994	65	1,634	763	6	2,403
1995	64	1,661	701	6	2,368
1996	64	1,727	675	5	2,407
1997	64	1,727	675	5	2,407
1998	54	1,466	714	5	2,185
1999	54	1,466	714	5	2,185
2000	54	1,466	722	5	2,193
2001	90	1,466	722	5	2,193
2002	90	2,283	722	5	3,010
2003	90	2,520	722	5	3,247
2004	89	2,765	722	5	3,492
2005	25				

Source: Central Bank of Nigeria, 2005

Commercial banks are classified via international, national, and regional authorization in Nigeria.

Below are the list of Commercial Banks in Nigeria 2023

Commercial banks which have International Authorization in Nigeria are:

1. Access Bank Plc
2. Fidelity Bank Plc

3. First City Monument Bank Limited
4. First Bank of Nigeria Limited
5. Guaranty Trust Holding Company Plc
6. Union Bank of Nigeria Plc
7. United Bank for Africa Plc
8. Zenith Bank Plc

Commercial banks which have National Authorization in Nigeria are:

1. Citibank Nigeria Limited
2. Ecobank Nigeria
3. Heritage Bank Plc (license withdrawn 3rd June, 2024)
4. Keystone Bank Limited
5. Optimus Bank Limited
6. Polaris Bank Limited. (Successor to Skye Bank Plc).
7. Stanbic IBTC Bank Plc
8. Standard Chartered
9. Sterling Bank Plc
10. Titan Trust bank
11. Unity Bank Plc
12. Wema Bank Plc

Commercial banks which have Regional Authorization in Nigeria are:

1. Globus Bank Limited
2. Paralex Bank Limited
3. PremiumTrust Bank Limited
4. Providus Bank Limited
5. SunTrust Bank Nigeria Limited

Non-interest banks in Nigeria.

1. Jaiz Bank Plc
2. Lotus Bank
3. TAJBank Limited

Online-Only Microfinance Banks in Nigeria

1. FairMoney Microfinance Bank: Fair money is a digital loan app licensed in Nigeria as a microfinance bank known for disbursing bank loans and non-banking activities, like recharge card sales
2. Sparkle Bank: Sparkle is a digital bank licensed by CBN in 2019, under microfinance bank category. It's a finance app which provides finance for individuals and businesses in Nigeria.
3. Kuda Bank: Kuda is a Fintech licensed by the CBN as a microfinance bank and it's based in London

4. Moniepoint Microfinance Bank: founded in 2015 by Tosin Oniolurinda and Felix, focuses to providing financial solution for businesses digitally
5. Opay: Opay is a financial technology (Fintech) company that operates in Nigeria. It's a finance android app whose services include mobile payment and financial services
6. Palmpay: Palmpay is a finance app which offers a user-friendly interface known for money transfer and mobile banking.
7. Rubies Bank: This is a digital banking platform known for zero charge banking. It's targeted at millennial young professional, SMEs, Quasi-financial institutions.
8. VFD Microfinance Bank: They are known for creating wealth for their clients through digital and mobile banking.
9. Mint Finex MFB: Mint is a virtual bank licensed by CBN as microfinance bank to provide current and savings account services and mobile banking
10. Carbon Microfinance Bank: This is a digital microfinance bank co-founded by Chijioke Dozie and Ngozi Dozie, licensed by CBN to provide financial services, loans, and investment opportunities using digital banking features.

There are other online microfinance banks known to be customer's friendly however, what we listed above are some online micro-financial houses even though, we have over 916 microfinance institutions and two non-interest window in Nigeria. Non-interest window banks in Nigeria are as follow:

1. SunTrust Bank Nigeria limited NIB
2. Stanbic Ibtc NIB (CBN, 2021)

These developments were recorded in the sector as a result of positive policies of regulation and consolidation. Moreover, looking at table I, in the year 1960, the numbers of commercial bank were 12, and it added up in 1965 to 15 banks but reduced in 1970 to 14

banks. From 1971 to 1993, numbers of commercial bank rose from 16 banks to 66 banks but started falling from 1994 to 2000, from 65 banks to 54 banks. Further, 2001 saw a geometric increase in numbers of commercial bank to 90 banks. Later, in 2004 it was 89 banks. Due to a situation of almost collapse in banking sector occasioned by embezzlement, corruption, mismanagement of customers' funds etc., there was a crucial need for banking system overhaul. In this wise, the government through CBN introduced minimum requirement for entrance into banking business, which barred further escalation and establishment of banks. In the other hand led to consolidation of banks who could not achieve the minimum standard. In 2005, the numbers of commercial bank reduced to 25 and as many banks could not achieve the minimum standard of ₦25 billion deposits with CBN were either acquired by a stronger bank or accepted merger. The action of CBN made bank to merge together while some were bought over completely by stronger and viable banks. In 2002 and 2003 at least one banks collapsed. Two common factors with these collapsed banks are their; small size and unethical technique (Umar & Olatunde, 2011). As at July 2004, 89 banks were in existence until banking sector reforms was announced; no fewer than 11 of them were in a state of distress already. According to the central Bank of Nigeria, between 69 and 77 of the banks were marginal or fringe players (Soludo, 2004). The thrust of the reform agenda was the prescription of minimum shareholders' funds of ₦25 billion for Nigerian deposit money bank not later than December 31, 2005. Some of these banks had low financial base and were encouraged to merge. Then out of 89 banks that were in operation before the reform, more than 80 percent (75) of them merged into 25 banks while 14 of the banks that could not finalize their consolidation before the expiration of deadline were liquidated (Elumilade, 2010; Afolabi, 2004).

Conclusion and Recommendations

The Central Bank of Nigeria instrument of reserve requirements for deposit money banks has significant

impact on the stabilization and performance of banking sector in Nigeria. Mobile banking of commercial and microfinance banks is central to outstanding performance of banking sector in Nigeria. Though, the reserve requirement had negative shocks on banking sector in Nigeria, but, acts as a mechanism for the monetary authority to regulate the monetary aspect of the economy. The prompt intervention of consolidation of banks contributed to the high rate of modern banking equipment like: Point-of-Sales terminal (POS), Automated Teller Machines (ATM), Electronic Banking, (Fintech), Internet Payment System and Cable Transfers. More so, the introduction of these modern banking apparatus have made banking activities to be closer and restored hope to the people than the era of pre-consolidation of banks. The various reformation agenda in the banking sector made banks more viable, competitive and competent sector when compared to its past performance.

The deposit money and microfinance banks should continue to insist for closeness with the people, by taking banking practices close to the people. That is, emphasis should be drawn to nearness of the banks facilities to the people. Apex bank reserve requirement is a very effective stabilization tool even though; it has negative impact on commercial banks. The investors/borrowers should be wise to check out for the deposit money and microfinance banks which are investors/borrowers friendly to consummate business with in the country. The major contribution to knowledge is that the study reveals the relationship between deposit money bank performance and financial sector instruments. And that one of the financial sectors instruments that portend an outstanding performance in Nigeria's banking sector is lending rate of commercial banks. It is also of note that regulatory policy of banking sector of 2005 that resulted to a lot of banks' merging and some who could not meet the regulatory requirements outright acquisition, led to financial technology in the sector that welcomed internet banking in Nigeria.

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