Bank Consolidation and Bank Performance in Nigeria: A Review of Current Literatures

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ABSTRACT

This study reviewed various, but few recent literatures on bank consolidation in Nigeria. The data set for this paper is made up of pre and post consolidation literatures. They were all secondary data from various recent journals and textbooks. The review indicated that bank consolidation affected bank performance positively in Nigeria. Nevertheless, it was concluded that bank consolidation could be the lasting solution to the problem of bank distress in Nigeria, and that banks should sustain a good credit policies, efficient internal control and fraud management system they are currently promoting and was also recommended among other things that the CBN should tighten its role as a watchdog for Nigerian financial as well as banking industries and make it clear that none of the twenty-five surviving banks is "too big to fail".

Keywords: **Banks. Consolidation, Performance, Commercial Bank, Credit Policies**

INTRODUCTION

It is a common knowledge that Nigerian banking sector has undergone important structural and institutional changes over the last few decades caused by restructuring and liberalization of the financial market. Thus, the Nigerian banking sector Access Bank Annual Report (2011) was highly oligopolistic with remarkable features of market concentration and leadership. The CBN recent reform to consolidate the banking sector through drastic increase to N25 billion as minimum capital base has led to a remarkable reduction in number of banks, changed their mode of operation and their contribution to the economy (Ahmad, Bashir and Malik, 2010). Therefore, banks play an important role in economic development of developing countries. Economic development involves investment in various sectors of the economy. Additionally, the banks collect savings from the people and mobilize savings for investment in industrial project. The investors borrow from banks to finance the projects. Special funds are provided to the investors for the completion of projects. The banks provide a guarantee for industrial loan from international agencies. The foreign capital, flows to developing countries for investment in projects. Banks are involved in the process of increasing

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the wealth of the economy, particularly the capital goods needed for raising productivity. The developed economies need the services of the banking system to enable the economy attain economic growth, while the developing economies with Nigeria inclusive need the services of banking system for sectorial development. In general view, the financial institutions of which banks are part of it, are therefore, capable of influencing the major saving propensities and opportunity. Bakare (2011) posits that the need to achieve sustained economic growth within any economy can be possible amidst strong financial institution and precisely within the existence of a virile banking system. Their activities must be such that are tailored to work in the congruence with government policies and programmes in a bid to attaining the desired macro-economic objectives as a nation. This paper, though a review of current literatures explores the impact of the bank consolidation on the performance banks in Nigerian economy and found that, the CBN decision has changed the market structure of the banking sector, increased the efficiency and reliability of the banks, created opportunities for financial institutions and market participants, and raised their intermediation potentials. These and many more constitute what was reviewed in the other parts of this paper.

OBJECTIVES

The objectives of this paper are stated below:

- To review the impact of bank consolidation on the performance of banks in Nigeria and,
- To draw conclusion and make recommendations from the review.

METHODOLOGY

In preparing this paper, the writers use secondary materials as the objective is to review different but few but literatures on bank consolidation in Nigeria.

REVIEW OF LITERATURE

Conceptual Exploration of Bank Consolidation in Nigeria

Al-faki (2005) asserts that prior to 1992; the minimum paid up capital for banks in Nigeria was ₦12 Million for merchant banks and ₦20 Million for commercial banks. He also states that a review of the amount moved the requirement to ₦40 Million and ₦50 Million respectively. However, this amount lasted till 1997 when a uniform N50 Million minimum capital was introduced. In 2000, Adeyemi (2005) reported that the minimum capital was moved to N1Billion for new banks while existing banks were given until December 2002 to comply by the Central Bank of Nigeria. He further stated that in July 2004, a day now referred to as “Black Tuesday” in banking sector of the economy, the Central Bank of Nigeria made an unexpected pronouncement of increment in the earlier N2 Billion to 25billion with deadline fixed for the December, 2002 with a view to consolidating the existing banks. Following the scenario created by this pronouncement, banks were convinced that they required more capital to be able to support the ever growing commercial activities in Nigeria in other to stand the taste of time in terms of absorbing losses, maintaining a buffer between operating losses and insolvency; protection of depositors and creditors in time of failure and strengthening of banks ability to attracts funds at lower cost and enhance banks liquidity position and hence the need for the much talk about banks consolidation in Nigeria. In view of this, Elumilade (2010) gave a general definition of consolidation as an act of merging many things into one. He contended that in finance, consolidation is similar to merger. While, Adegbaju and Olokoyo (2008) exemplified that in a merger, if firm A buys firm B, the surviving firm is the buyer, A and when A and B consolidated, anew firm C is created. On his own part, Somoye (2008) contended that consolidation is simply another way of saying survival of the fittest that is to say a bigger more efficient, better capitalized and more skilled industry have come to being. In his own view, Bakare (2011) submits that consolidation is a term use by the apex Bank, specifically, the Central Bank of Nigeria (CBN) to describe the coming together of some banks within the country to become one bank and be able to meet the minimum of N25billion for capitalization. It may not be out of place to state that consolidation is a fuse of the assets and liabilities in whole or in parts of two or more business establishment and the coming together of firms.

The Role of Consolidated Banks in the Development of Nigeria Economy

Although, banks in Nigeria have been playing important roles in the development of the economy prior to their consolidation. However, with time, such roles have witnessed improvements after consolidation. Thus, the following improved bank roles were reviewed:

Financial Intermediation

Elumilade (2010) observed that immediately after bank consolidation the financial intermediation role of banks in Nigeria have been exercised very well by showing professional expertise of matching the interest of depositors with those of borrowers and providing more or less a coordination function for the two groups (borrowers and depositors) by the consolidated banks. However, bank intermediation function today entails separation of the savings and investment function in an economy. Thus, it could be argued that in the absence of banking institution, Individual or cooperate bodies that want to invest for instance in real sector production would first accumulate enough fund over time to be able to meet their fixed and variable cost of investments. Nevertheless, the banking system of today has become the veritable agents that are well placed to perform this intermediation function efficiently (Adekoya and Oyatoye, 2007)

Deposit Mobilization
In their studies, Adegbaju and Olokoyo (2008) it was observed that banks like any other business enterprise uses money input in their normal operation. One of such input is the customer deposit. Nevertheless, bank has now intensified their search for deposit mobilization from both urban and rural areas and from the rich and the less endowed people for productive investment. In doing this, they create various financial instruments to meet the preferences of heterogeneous customers. Apart from paying interest income to the depositor, banks provide additional safety for those funds that would otherwise been exposed to such risks as fire, theft among other things if such funds were to be owner's physical custody. In so doing, the banks have now completely eliminated all tendencies of hoarding cash or having cash idleness or loss of fund through safe custody.

Advancing Credit to Borrowers
Ahmad, Bashir and Malik (2010) noted that the Nigeria banking industry has been playing more leading role in the development of the Nigeria economy through their renewed effort of advancing credits to borrowers. The learning point here is that Banks have gotten more strength to mobilized and disbursed tremendous volumes of fund to both government and private sectors. While Bakare (2011) asserts that the primary reason that banks wants deposit is to enable them grant credit from which they can interest income. But more importantly, extension of credit to the economy is the core link that banks have with real sector acting like a catalyst and contributing to the growth of the economy.

Sector Specific Lending
Al-faki (2005) enumerated that banks have always collaborated and cooperated with government in leading especially with respect to lending to macro, small and medium scale enterprises (SME) as well as real sector. Up till 1997 when compulsory sectorial allocation was phased out as a policy instrument used by CBN, mainstream banks were made to meet specific target in their lending to the productive sectors especially Agriculture and Manufacturing, particularly the export and solid minerals.

Payment System
Adekoya and Oyetaye (2007) noted that where ever there is trade, there must be exchange of goods and services. As a result, the banking institutions have invariable performed the role of payment vehicle in the

trade system all over the world. Therefore, rather than carrying money about looking for goods and services, traders only need to provide information regarding themselves and their customers and how transaction related bills should be settled. This is the very essence of the payment function of banks.

The Nigeria payment system consists of:

i. Nigeria automated clearing system
ii. Funds transfer and card – based payment

It is believed that 80% of the total currency in circulation in Nigeria is currency outside the banking system. The fundamental system is therefore starved of the necessary liquidity to lubricate a vibrant economy especially in supporting the real sector.

Bank Consolidation: General Challenges

When banks opt to achieve their objectives of meeting the minimum shareholders funds requirement imposed by the CBN through consolidation, several challenges were faced and handled with utmost care by both the consolidating entities and the regulatory bodies. However, from the point of view of the banks, as cited in Al-Faki (2005), Adeyemi (2005) and reviewed by Adekoya, & Oyatoye (2007) the major challenges they will have dealt with are five fold. Firstly, corporate consolidation which may be by way of mergers and/or acquisition was resisted by management which fears the consequent loss of control and erosion of their powers. Sometimes, this is not in the interest of the shareholders, but their decision to consolidate must be respected and effected by the board of directors. Secondly, there are rigidities in bank ownerships that attempt to block mergers. Such rigidities may include a complicated web of cross-shareholding that binds banks to insurance companies, industrial groups and other banks. These webs have to be untangled to successfully effectuate a consolidation with other banks.

Thirdly, similarly, the question of market structure has posed problems especially in cases where the charters and Memorandum and Articles of Association of a bank specifically prevent merger and take-over. Special extra-ordinary general meetings of shareholders have to be convened to pass the necessary resolution vitiating such clauses. Fourthly, some dominant banks tempted to force their smaller merger partners/acquisitions to assimilate/adopt their organizational culture. Unfortunately, there is always an inherent natural resistance to cultural imposition which can create post-merger trauma. What is required is a thorough pre-merger understanding of cultural differences and the development of appropriate integrative mechanisms before the merger is consummated. Finally, consolidations often mean larger sizes, larger shareholder bases and larger number of depositors. For a successful consolidation, banks must recognize the increased cost of maintaining several deposit accounts and the higher cost and complexity of servicing a larger number of shareholders. The projected revenue stream from the consolidation must justify these additional costs.

Benefits of Consolidation to the Nigeria Economic Growth

Although, one cannot denied the fact that consolidation has created mega-banks that can threaten the competitive market space with monopolistic tendencies. However, the empowered regulatory authorities especially SEC have been particularly active to prevent such tendencies. In addition, the NDIC and the CBN were constantly monitoring the activities and performance of the emerging mega-banks resulting from consolidation to prevent bank distress and failures. Nevertheless, the following features have been emerging day by day as daily benefits of banks consolidation in Nigeria Economic Growth:

First, consolidated banks have changed the nature of competition in the Nigeria banking system, through the new minimum capital requirement; the number of banks in the country has been successfully reduced from (89) eighty – nine to twenty five (25). The policy has also effectively entry barriers for those wishing to start banking business. Second, emergence of 25 banks through consolidation (compare to 89 banks before consolidation) successful banks accounted for about 93.5% of aggregate deposit liabilities (Ahmad, nBashir, and Malik, 2010). Third, more effective supervision focus on fever banks (25) rather than (89) banks mostly sick and unhealthy banks no more regionally ethnical based bank. Fourth, consolidation provide a way for taking out the weak banks in the system in an orderly manner. Fifth, consolidation has improves stability, profitability and operational efficiency of banks. Sixth, the expansion of the shareholder base of Nigeria banks, thus eliminating the phenomenon of family banks and the tendency for poor corporate governance. Seventh, the Nigeria economy will continue to be stronger and better capitalized to finance the long term project for the purpose of economy growth.

CONCLUSION AND RECOMMENDATIONS

Having affirmed that banks in Nigeria after consolidation have been the strongest wheel of economic growth in Nigeria and thus discussed certain salient facts about the banks, some conclusions must be arrived at. In the light of the foregoing, we come to the conclusion that bank consolidation could be the lasting solution to the problem of bank distress in Nigeria, and that banks should sustain a good credit policies, efficient internal control and fraud management system they are currently promoting.

However, as a way of contributing to knowledge, we wish to make the following recommendations:
First, Central Bank of Nigeria should tighten its role as a watchdog for Nigerian financial as well as banking industries and make it clear that none of the twenty-five surviving banks is "too big to fail".

Secondly, for consolidation to continue to remain effective, Central Bank of Nigeria should continue to make banks recapitalization a continuous exercise at interval of 6-12 years to catch up with inflation and happenings in other parts of the world.

Finally, the mega banks so created as a result of this consolidation should expand their branches to rural areas of the country so as to ensure adequate access to credit facilities and other services.

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