
CAPITAL REGULATION AND THE PERFORMANCE OF THE NIGERIAN BANKS: NEED FOR REVIEW

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ABSTRACT

The banking sector reforms have been acclaimed to be necessary but the question is whether they yielded anticipated result. Economists differ on the level of government intervention in the economy, particularly on regulation imposed on the financial intermediaries. While some believe that many regulations are necessary in order to protect the depositor's funds, other believes that the banks are over regulated. Although the regulatory supervision of bank was expected to bring order to the chaotic situation that had developed in financial sectors since the late 1980s, the extent to which this has been archived is a subject of debate. The reform also has implication for the Nigeria deposit insurance corporation (NDIC). Therefore this paper seeks to explore various implications of capital regulation on the performance of the Nigeria banks with a view to proffer solutions to problems. The study adopts largely an exploratory methodology and submitted that though reforms of banks becomes necessary, there is a limit to which banks should be regulated on the issue of capital adequacy. The paper argued that consolidation arising from the recapitalization of banks brought about lots of problems that may mar the aim of the reform if not properly approached.

INTRODUCTION

In a developing country like Nigeria bank play an important and sensitive role hence their performance directly affects the growth, efficiency and stability of the economy. As the major holder of the nation financial asset, the banking sector presents the largest potential risk for financial and reputational losses in the event of corporate failure and distress. The experience of many countries shows that regulation and supervision are essential for stable and healthy financial system and that the need becomes greater as the number and variety of financial institution increase. The banking sector has always received upper attention on protection due to the vital role it plays in an economy. Banks supervision entails not only the enforcement of rule and regulation but also judgment concerning the soundness of bank asset its capital adequacy and management (Volcker 1992). It has also been argued that effective supervision leads to a healthy banking industry and that to maintain confidence in the monetary authorities have to ensure banks play by the rule. To complement this, deposit insurance scheme and prudential guidelines were evolved to improve the assets quality of banks, reduces bad and doubtful debt, ensures capital adequacy and stability of the system and protect depositors funds (Oladapo 1993).

As a result of the various financial sectors performs carried out since the late 1980s in Nigeria, banking sector has undergone remarkable change in terms of the number of institution, ownership structure as well as depth and breadth of the market. The reforms had been influenced largely by challenges posed by deregulation, globalization,

technological innovation and adoption of supervisory and prudential requirement that confirm to international standard. The financial sectors reform is the aspect of economic reform which focus mainly on restructuring financial sectors institutions (regulators and operators) via institutional and policy reforms and as part of the financial sectors, banking sector reforms is that aspect which focuses mainly on getting incentive right for the banking sector to take the lead role in empowering the private sector to contribute more to economic growth (Balogun 2007).

A critical look at the nation banking sector invariably portend the need for urgent attention, as situation that have made for series of reform of the sector over the year. The recent of all the reform came up in 2004 with a policy aimed at improving the regulatory and supervisory environment as well as restructuring and developing the banking sector entities. Soludo (2004) expressed that the reforms agenda is a pre-emptive and proactive measure to prevent an imminent system crisis and collapse of the banking industry and permanently stop the boom and burst cycle which have characterized the history of our banking industry. More fundamentally the reforms are aimed at ensuring a sound, responsive, competitive and transparent banking system appropriately suited to the demand of the Nigeria economy and the challenges of globalization. The main trust of the reform package which is anchored on a thirteen point agenda , is to consolidate and recapitalized banks by increasing their share holders fund to a minimum of N25 billion with effect from December 31st 2005.

The reforms according to Oluyemi (2006) had in turn prompted a regulatory induced restructuring in the form of consolidation that would engender the alignment and realignment of banks and banking group in determined moves expected to translate into the merge of some banks and the acquisition of others. The emergence of mega banks no doubt would expose banks to new challenges, which if not properly addressed could adversely affect the operation of the payment system and its credibility. The banking sector reforms have been acclaimed to be necessary but the question is whether they yield anticipated result. The argument on whether or not government should intervene in economic and financial affair has long been debated by classical economist like Adam Smith, John Stuart Mill, Thomas, and Maltus among others. The classical economists proposed free market economy. The Keynesians proposition made reference to market failure as a justification for intervention of government in economic and financial activities. However, according to Short and O Driscoll Jr (1983) economist differs on the level of government intervention in the economy, particularly on regulation imposed on the financial intermediaries. While some believe that many regulations are necessary in order to protect the depositor's funds, other believes that the banks are over regulated.

STATEMENT OF THE PROBLEMS

The resolve of the central bank of Nigeria to place the banking system in a regional and international context and promote soundness, stability and enhanced efficiency of the system was the major reason behind the increased minimum base for all universal banks to N25billion effective from December 31 2005. This invariably prompted a regulatory induced restructuring in the form of consolidation through merger and acquisitions. The policy initiative will definitely pose some problems and challenges to both the banking system and economy.

Regulation no doubt is needed to bring sanity into the banking sectors as well as putting it in an internationally competitive status. The recapitalization policy as a form of reform of the banking sector aims among others at development of more resilient, competitive and dynamic banking systems that support and contribute positively to the growth of the economy with a core of strong and forward looking banking institutions that are technology driven and ready to face the challenge of liberalization and globalization. The reforms essentially entail the build – up of capital, size and business scale of the banking institution, at the end at which smaller number of, but which stronger institutions will emerge (Ogunleye 2005, Oluyemi 2006, Balogun 2007, Emeni and Okafor 2008) .Caveats to these ensued with the problem of large and complex system created by the reforms such that the issue of whether they guided the anticipated results is debatable (Balogun 2007) although the regulation supervision of bank was expected to bring order to the chaotic situation that had developed in financial sectors since the late 1980s, the extent to which this has been archived is a subject of debate. The reform also has implication for the Nigeria deposit insurance corporation (NDIC). In the light of the above the paper captures the impact of capital regulation on the banking industry performance and poses the following questions:

- What is the impact of capital regulation on the banking performance?
- How has regulation influenced bank performance?
- To what extent should bank be subjected to regulation?
- What are the problems and challenges of banks regulation on the banking sector?
- What is the implication of capital regulation on CBN and NDIC

OBJECTIVES OF THE STUDY

- (1) To examine the basis for banks regulation
- (2) To investigate the effect of capital regulation on the performance of the Nigeria banks
- (3) To identify the problems and challenge posed by capital regulation to the regulatory authorities.

In order to archive the objective of the study the paper is divided into four sections apart from introductory sections, section 2 discusses the literate review and theoretical underpinning, section 3 describes the methodology adopted for the study while section four discussed the results and finding while section five concluded the paper with recommendation.

LITERATURE REVIEW AND THEORETICAL UNDERPINNING

The concern for bank regulation and supervision first surfaced with the Nigeria banking ordinance of 1952. The establishment of the central bank of Nigeria (CBN) in 1959 presented a ground for the adoption of monetary management stricter legal framework and regulation and improved institutional facilities for supervision. In order to archive its objective of promoting monetary stability and soundness in the banking sectors, CBN conduct regular supervision and examination of banks as a means of maintaining surveillance on banking activities and operation. This is to ensure that bank comply with the directives stipulated by the monetary authorities. The CBN Act no 25 of 1991 and Banks other financial institutions Act (BOFIA) no 25 of 1991 and subsequent amendment specify the regulatory and supervisory power of the CBN over banks and other financial

institutions. In addition the Nigeria deposit insurance commission (NDIC) was established under NDIC Act no 28 of 1988 as a fall out of economic deregulation (CBN and NDCI reports 1995). The NDIC complements the effort of the CBN in bank supervision and examination so as to ensure a safe and sound bank system. Other reasons for establishment of NDIC according to Alashi (2002) were the country's past bitter experience of banks failure, the lesson of other countries experience with deposit insurance scheme, banking competition and the need effective supervision/prudential regulation and change in government bank support for policy.

The primary objective of NDIC is to ensure stability and public confidence in the banking sector by guaranteeing payment to depositor in the event of failure of the insured institution as well as promoting safe and sound banking practice through effective supervision with the establishment of NDIC for instance bank depositors are assured of cash payment of up to a minimum of fifty thousand naira in case of any bank failure. Banks are under obligation to disclose certain information to ensure that depositor, investor, regulators and the public have adequate information as regard banks performance and financial condition. Information disclosure by bank is guided by different law and regulation such as CAMA 1990 BOFIA 1991 and NDIC act 1988 to the extent that information disclosed by banks follow a require standard, for instance section 27 (1) of the BOFIA provide guidelines for the publication of annual account of banks.

The prudential guideline issued by the CBN in November 1990 was aimed at proper loan asset classification and income recognition. Hitherto banks had their individual methods of classifying accounts, rating credits and categorizing account as perform in non-performing. They treat accrued interest on non-performing accounts as income. The implications of these were declaration of high level of profit that was not actually realized. The prudential guidelines stipulate that under credit portfolio classification system, banks are expected to review their credit portfolio continuously with a view to recognizing any deterioration in credit quality. There are many effects of the guidelines like the provisions for doubtful are to be made out of profits and interest earned on these assets to be suspended, non-performing assets are dying or dead assets and do not yield any income, rather costs such as administrative expenses incurred on bad debt are to be at the banks expense. As a result if this, many banks assts base kept dividing as well as their profits, some of these banks which had not diversified their asset portfolio according to Ojo (1993) had nothing to fall back except shareholders funds and reserves that were not enough to meet their depositors claim. The Recapitalization policy Frameworks require a bank to have minimum capital base of N25 Billions bellow which within the given deadline the bank should merge with other banks, get acquired by bigger bank or face outright liquidation.

THE NEED FOR BANKS REGULATION

Economists have come to disagree on the level of government intervention in economic and financial activities over the world (Adam 2005) while some believe that many regulations are necessary in order to protect the depositors funds other believe that the bank are overregulated (short and O'Driscroll Jr 1983). For instance the economic theory of regulation postulates that regulation result from the desire of government to eliminate or correct market failure. The public interest theory views that regulation come pressures

brought to bear on the government multifarious interest group. Pressure groups in economy such as business, consumers, workers, environmental groups among others lobby government to pass legislation to protect such group. It seems that economy theory of regulation has gained more acceptance among economist as Llewellyn (1986) put it.

Regulation is necessary in the case of bank specifically to maintain safe and sound banking system that can meet its obligation without difficulty, hence a high solvency and liquidity level is experience of individual banks than they would ordinarily maintain. Oloyode (1994) observed that the banking Industry is highly prone to volatility and fragility either arising from exogenous or endogenous shocks and are therefore amenable to regulation and supervision. Mishkin (1997) viewed that forging a strong bank supervision system will be one why out of financial crisis while ogunleye(1999) summarized the rationale for banks regulation as efficiency, diversity of choice, competition stability of financial system, macroeconomic stability and development and social objective . This view is in line with the World Bank (1989) that good regulation and supervision will minimize the negative impact of moral hazard and price shocks on the financial system there by leading to a reduction in bank distress and failure. Llewellyn (1986) describes presidential regulation as a body of specific rules or agreed behavior, either imposed by the government or external agency or self imposed by explicit or implied agreement with the industries that constrains the activities in the industry.

In terms of policy thrust therefore the banking sectors reforms are expected to build and foster a competitive and healthy financial system to support development and avoid systemic distress (Soludo2007). Thus Balogun (2007) averred that banking sector reforms is interpreted to mean embarking on comprehensive process aimed at substantially improving the financial infrastructure, strengthening the regulatory and supervisory framework to address the issue of low capitalization and a structured financing for cheap credit to the real sector and financial accommodation for small and rural credit schemes. Generally analysts believe in strong term that economic mal-adjustment is associated with policy pursuit which depart from free market pricing policies (Chiber and Wilton 1986, Ray 1986). Studies have shown that the objectives of financial sector reforms are broadly the same in most countries of sub-saharan Africa (Omoruyi 1991, CBN 2004, Balogun 2007, Roy 1986). These are summarized to include market liberalization for promotion of more efficient resource allocation, expansion of savings mobilization base, promotion of investment and growth through market base interest rates. It also means the improvement of the regulatory and surveillance framework, fostering healthy competition in the provision of service and above all laying the basis for inflation control and economic growth (Balogun 2007).

The Nigeria banking reforms is a product of global effort at revamping the world economy (Emeri and okafor 2008) various approaches to economic and financial reforms include the millennium development goals (MDGs), the new partnership for Africa development (NEPAD) strategy and the national economic empowerment and development strategies (NEEDS) that are geared towards the economic development of the country. According to Emeria and Okafor (2008) for a long term in the history of policy reforms in Nigeria the banking sectors was given priority attention such that directive by means of regulation

were issued to the banking sector with the aim of development other sector and thus propelling the entire economy.

PHASE OF BANKING SECTORS REFORMS

A review of development in the Nigeria banking sector indicate some remarkable changes over the years, in term of the number of institutions, ownership structure, as well as the scale of operation driven largely by deregulation of the financial sectors in line with the global trend (Ogunleye 2005). Four phase have of financial reforms have been identified in the literatures (see Balogun 2007, ogunleye 2005 for review). The first is the financial system reforms of 1986 to 1993 which lead to the deregulation of the banking industry that hitherto was dominated by indigenized bank that had over sixty percent federal and state government stakes in addition to credit interest rate and foreign exchange policy reforms. The second phase began in the late 1993-1998 with reintroduction of regulation. During this regime the banking sectors suffered deep. Financial distress which called for another round of reform designed to manage the distress. The third phase began with the advent of civilian democracy in 1999 which saw the return ton liberalization of the financial sector accompanied with the adoption of distress resolution programmers. This era also saw the introduction of universal banking which empowered the bank to operate in all aspect of retail banking and nonbanks financial market. The fourth phase usually regarded as consolidation phase began in 2004 to date and it is informed by the Nigeria monetary authorities who asserted that financial system was characterized by structural and operational weaknesses and that their catalytic role in promoting private sector driven growth could be further enhanced through a more pragmatic reforms. According to Ogunleye (2005) the consolidation of the banking forms as follow up to the recommendation policy involves either a combination of exiting banks or exit from the weak bank. The consolidation take the form of merger and acquisition which became necessary because of the fundamental problem in the industry which includes among other significant asset quality problem, under capitalization of a number of industry players ,significant corporate governance issues, delay in or non publication of annual account, inadequate risk management practice ,over dependence on public sectors deposit and neglect of small and medium scale enterprises by the system.

BANKS CAPITAL ADEQUACY REGULATION

The imposition by regulators of minimum capital standards on financial institution was one important development in the 20th century. Most banks regulators see capital adequacy regulation as a means of strengthening the safety and soundness of the banking industry. There are three arguments for capital adequacy regulation. The first is that capital adequacy regulation is needed for prudential reasons, but most advocates of this position take the argument no further to explain why prudential "need" is there in the first place (Patricial and Jackson,1999). The second argument is that capital adequacy regulation is needed to counter moral hazard problems created by the regulator themselves (Benston and Kaufman, 1996). The third and final argument is that capital adequacy regulation is needed to protect small depositors (David, 2004). Capital adequacy by definition is seen as a quantum of fund, which a financial institution should have and plan to maintain in order to conduct its business in a prudent manner (Nwankwo, 1989). Adequate capital is regarded as the amount of capital that can effectively discharge the primary function of preventing banking industries failure by absorbing losses. It is seen as a way of providing

the ultimate protection against insolvency arising from the risk in banking sector. It is the least amount necessary to inspire and sustain confidence in the banks, keep it open and operating so that time and earnings can absorb losses without being forced into costly liquidation and enable insurance industry to take full advantage of its profitable growth opportunities (Nwankwo, 1989). It is to be expected that firm value can be enhanced by judicious use of equity and borrowed capital. Thus, the enhanced capitalization of insurance industry been called for by regulatory authorities provides an opportunities for banks to attain desired optimal structure for the purpose of increasing market value and shareholders wealth. Their efforts are geared towards protecting depositors from banks and insurance industry fragility and failure (NDIC, 2006). It should be borne in mind that the type of recapitalisation envisaged should improve banks performance by ensuring solvency and profitability as well as enhancing financial intermediation capacity. Pazarbasioglu and Dziobeg (1998) suggested the following approaches to recapitalization:

- Raising additional capital from existing or new owners i.e. using laundered financial resources (capital market) or raising capital using insurance fund.
- Reduce liabilities (write down certain debt).
- Book value of an asset

Adeyemi (2006) identified the strategies for consolidation adopted by Nigerian banks to be right issues for existing shareholders and capitalisation of profits. Public offer through the capital market and /or private placement, merger & acquisition, and a combination of the identified strategies. The relevant issue to address in respect of the foregoing suggestion, particularly the first, is a type of instrument to be used in raising additional capital.

BANKS CAPITAL AND LIQUIDITY

The study of relationship between banks capital and liquidity level is becoming more relevant because many organizations in the recent past had fallen a victim of premature liquidation as a result of inadequate attention to the management of insurance capital from the management of the affected firm. Brigham (1980) explained liquidity as the ease with which a firm can turn its current asset into cash. James (1980) defined liquidity as the ability to realize value in money, the most liquid of asset. Every business firm requires capital though they differ in their degree of requirement. Hence, it can be said that capital is vital for business survival and Myers et al (1996) described it as the effective blood of any business. Home (1998) opined that linear relationship subsists between liquidity and profitability of a firm in timely disbursements to the various stakeholders before they can enjoy smooth operation needed to reach the desired goals. Prierley (1981) explained that there must be trade-off between how a firm maintains its liquidity position and its profitability position as well. He opined that to make more profit, an organization is likely to be short of liquid assets. Conversely, in order to retain more liquid fund in the company's capital structure, the profitability objective might be impaired. The financial statement coming out as output from the accounting process needs to be analyzed by the management of the firm or by outsiders in order to make certain deduction about the strengths, weakness and potential of the insurance industry. The key to management of capital, as explained by Bridge & Dodds (1975), is striking a balance between risk and profitability. They opined that when cash comes into a business and it actually leaves the

business is not a matter of interpretation but a matter of fact notwithstanding the records or accounting system in operation. All items of expenditure including those that are ultimately profitable reduce the company's liquidity in the short term. Batty (1982) explained that analysis of liquidity needs the preparation of cash budget and cash flow statement to facilitate establishment of relationship between cash and other current assets to current obligations thus providing a quick measure of liquidity. The most common ratio, which indicate the extent of liquidity or lack of it are current ratio and quick asset ratio. (Current ratio measures the relationship between current asset and current liabilities and is designated as current asset/ current liabilities. On the other hand, quick asset ratio indicates the relative amount of cash and assets that can be quickly converted into cash available to meet short term liabilities. For these purpose, only liquid asset are considered. Therefore, stocks are deducted from the current assets. It is formulated as: $\text{current asset} - \text{stock} / \text{current liabilities}$.

Insurance industry should ensure that it does not suffer from lack of liquidity and also that it is not too much highly liquid. Watt (1978) opined that the failure of a company to meet its obligation due to lack of sufficient liquidity will result in bad credit image, loss of creditors' confidence or even in lawsuits resulting in the closure of the company. A very high degree of liquidity is also bad because the assets earn nothing. It is therefore, necessary to strike a proper balance between liquidity and profitability ratio, which is sometimes described as efficient ratio, indicate the relative efficiency of the business taking into account all revenue expenses.

BANKS CAPITAL AND PROFITABILITY

Contrary to the propositions that in a frictionless world of full information and complete markets, a firm capital structure cannot affect its values (Modigliani & Miller, 1958), banks operates in a highly regulated and volatile world, hence lack any rational in the functionless world of M&M. Opeodu(2006), said he is pleased to report significant progress in the company performance despite the fact that a lot of management effort were devoted to the recapitalization issue during the year. The volume of business as reflected in gross premium income increased by 83 per cent while the profit before taxation increase by 210% .The profit after taxation recorded an increase of 236%. These give earnings per share of 37 kobo compared to 21 kobo per share in the previous year. Banks capital has a direct relationship with profitability, as more and more money is pump into the business, more profit will be recorded. Available statistics shows that arising from the consolidation, the capital market received a boost with a total of N406 Billion raised, out of which the apex bank has verified and cleared only N306 Billion as at December 2005. The consolidation drive has also brought a staggering \$3 Billion into the sector, \$500 Million of which represent Foreign Direct Investment (FDI). This is the highest inflow of FDI into the non-oil sector withing one year. (Adeyemi 2006)

MEASURING THE EFFECT OF REGULATION ON PERFORMANCE OF BANKING

The major purpose of the various financial sector reforms is to strengthen the banking industry and position it to meet the world standard. According to Volker (1992) bank supervision entail not only enforcement of rule and regulation, but also judgment concerning the soundness of bank asset, its capital adequate and management. Therefore effective supervision is expected to lead to a healthy banking industry that possesses the

power to propel the economic growth (Balogun 2008, Adam 2006, Soludo 2007, Ogunleye 2001). The reform programme is expected to engender a diversified, strong and reliable banking sector in the country.

In a view of the above, Balogun 2008 opined that in order to give objective assessment of the outcome of the banking sector reforms there is the need to specify the evaluating criteria. He used descriptive statistics and economic methods to test the hypothesis that each phase of reform as identified in the literature culminated into improve incentives for the provision of better services to the economy as a whole. The assumption was that the post reform values of measure of institution and policy response performance represent significant improvement over the pre-reform value among these measures according to Balogun (2008) are branch network, increase supply and improved access to credit improvement in selected financial sectors and distress ratio, and above all increased profit earnings as well as increased ability to complete within the global economy. The empirical result confirms that eras of pursuit of market reform were characterized by improved incentive. However these did not translate to increased credit purvey to the real sector. Also while growth was suffered in eras of control the reform era was associated with rise in inflationary pressures. Among the pitfalls of the reforms identified by the study are faulty premise and wrong sequencing of reforms, frequent reversal and /or non sustainability of reforms.

Oluyemi (2006) studied the effect of banking sector reforms on corporate governance and concluded that to check abuses in the emerging consolidated banking system institutionalization of good corporate governance practice is both necessary and desirable. Adams (2004) evaluated effect on bank regulation and supervision on the risk asset and income performance of banks in Nigeria and observed increase in banks distress as major reason for the various reforms. He argued that bank mismanagement and adverse ownership influence and other form of insiders' abuse couples with political consideration process especially as regard debt recovery created difficulties to reducing distress in the financial system as submitted by Sanusi (2002).

PROBLEMS AND CHALLENGES OF BANK REGULATION

The various reforms have been acquired to be necessary but it is debatable if they yielded the anticipated result (Balogun 2008). The new policy initiative will no doubt pose some challenges to both the economy as well as the banking system as observed by Ogunleye (2005) that given the fury of activities that have attended effort of bank to comply with the new consolidation policy and the antecedent of some operators in the system, there are concerns on the need to strengthen corporate governance in banks in order to boost public confidence and ensure efficient and effective functioning of the banking system on the effect of small business. Emeri and Okafor (2008) identified merger and acquisition as one of the instrument of recent banking reforms in Nigeria, using cross sectional survey research and ordinary least square regression analysis the result observed two effect of merger and acquisition as static effect and dynamic effect. The static effect resulted in positive relationship between small businesses lending and bank size because for each N1 deposit received about N0.33k was given out to small business. However, dynamic effect of merger and acquisition in the Nigerian banking sectors which was reported as restructuring, direct and external effect gave on opposite result. The restructuring and

direct effect shows that bank size is negatively related to small business lending and also there is a negatively relationship between external loan by institution like microfinance institution and small business lending.

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.

The policies also have implication for the supervisory authorities in the country like the central bank of Nigeria (CBN) and Nigeria deposit insurance corporation (NDIC) most essentially. Though the number of bank has reduced drastically the need to cope with the complex system of the new mega banks require greater surveillance and monitoring by the CBN. 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. According to Ogunleye (2005) 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 NDIC; both pre-consolidation and post consolidation challenges.

Ogunleye (2008) further identified the post consolidation challenges as possibility of bank failure where Merger and Acquisition (M&A) failed thus run the risk of liquidation. Other challenges are the inadequate executive capacity as to the need for NDIC to ensure the effective merging of information technology system, business lines, products, culture and people by the new mega banks, weak corporate governance that will put pressure NDIC and other regulators to ensure probity, transparency and accountability. There is also the supervisory approach that would need to be broadened, closing information gap between banks and investing public and the need to establish asset Management Company. Pressure would be on NDIC to put in place some specific insurance design feature that will ensure adequate deposit protection. Aminu (2006) argued that the policy of recapitalization was a subtle way of compelling banks to merge with a submission that Merger and Acquisition are business imperatives that should not be forced or hurriedly conclude as was the case in Nigeria. In the bankers position paper presented to the Senate Committee on banking, insurance and other financial institutions, bankers argued that the Nigerian socio-political and macro economic environment is fraught with a lot of imperfections and inadequacies that make the comparison with the countries a mere theoretical postulations (Aminu & Ologbondiyan 2005). The bankers committee noted that while Malasia with a population of 23 millions has a GDP of 104.6 billion and per capital GDP of \$4,528.14, the Nigerian economy with a population of 125.8 million has GDP of 3.04 billion and per capita GDP of \$24.2. It was also observed that inspite of the superior

strength of the South African economy over that of Nigeria the minimum capital requirement of banks in South Africa is \$39.06 million (N5 billion), while credit is 5.4% as against the Nigerian \$192.3 million (N25 billion) and 32.25% credit extension to the Federal Government. Ogunwale argued that the capital base of N25 billion will do more of harm than benefit to the banking industry and thus highlighted the major pitfalls to be crowding out other sectors, unethical practices like tactical money laundering, mass unemployment and neglect of micro lending to small businesses needed for growth of the economy.

Re-capitalisation has created board room wrangling among the top hierarchy of the merged banks. The need to forestall or manage customers' flight might also be a necessary caution in the post consolidation banking era. Jervey (2005) observed that the prospect of buying a business only to lose at least some of its customers can an acquirer awake at night.

RESULTS AND FINDINGS

The study adopted a literature review approach by collecting the opinions of erudite scholars and major players in the banking industry and noted upsurge increase in banks performance in terms of higher liquidity and profitability. Consolidation has increased the potential of banks to compete effectively at the national, regional and global levels. However there were problems associated with the consolidation. For instance consolidation has led to job losses at all levels of banks workers. There was variance level of compensation/remuneration packages of merging banks as was the case with IBTC-CHARTTERED Banks. This issue was more problematic in the case of Merger and Acquisition between a big bank with large workforce and smaller banks with small staff strength but high personnel cost. Some challenges brought about by the consolidation were noted in the areas of cultural integration, corporate governance problems and information technology related issues of incompatibility of software packages among the mega banks and training of staff on information technology. Also, the low capital base was not major to the banks distress prior the recapitalization policy.

CONCLUSION AND RECOMMENDATIONS

The paper attempted to review the capital regulation of the banking sector as to its desirability in the Nigeria set up. It is the view of the author that capital adequacy is vital to the growth and survival of banks in Nigeria. The paper argued that low capital base is not a significant factor for bank crises experienced prior to recapitalization policy. The present capital base of banks in Nigeria is too high when compare with counterparts in African region. While regulations are necessary in order to protect the depositor's funds, banks are over regulated in Nigeria especially in area of minimum capital requirement, which has made for the various problems in the sector.

In the light of the above the following suggestions may be found useful:

- Banks should be classified into tightly capitalized, moderately capitalized and small capitalized so as to be able to serve all economic groups without neglect of one.
- Banks should be allowed to decide the level of capital required for their stay in the industry Consolidation must be monitored and evaluated so as to make possible changes to avoid some problems that could cause irreparable damages.

- There should be a policy by the new mega banks capable of avoiding and managing conflicts in a way that openness, equality, fairness and leadership by example prevail.
- Need for carefully identification and the use of culture of each merging banks.
- Full involvement and participation of organization behavior experts at all levels of post consolidation integrations.
- Government should make banking environment more enabling by provision of infrastructural base to support banking services.
- Training and retraining of banks staff on post consolidation integration and corporate culture conflicts management, and sponsoring of such by the CBN.

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