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REGULATORY AUTHORITIES AND THE PERFORMANCE OF NIGERIAN BANKS: AN APPRAISAL

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ABSTRACT

The recent development in the Nigerian financial institutions has become subject of concern for Accountants and other practitioners as far as performance measurement and predictions for investment decisions are concerned. The paper attempts to investigate the role of Regulatory Authorities on the development of the Nigerian banks especially those that bother on financial performance of this heart of the economy. A survey research was adopted using a structured questionnaire administered on selected operators in the Nigerian banking sector. Data collected was analyzed through percentage Analysis and hypotheses tested using chi- square statistics at 0.01level of significance. The result showed that Regulatory Authorities have been effective in curtailing distress in the Nigeria banking system, the Regulatory and Supervisory activities of the CBN and the NDIC have boosted depositors' confidence in the Banking System and that further recapitalisation of Nigerian banks would provide permanent solution to banking crisis. However the proposal for the reduction in the number of banks from the present consolidated 24 to only three may need further reappraisal.

Keywords: Regulatory authorities, Regulatory Approach, Banks performance, Nigerian Banks, Recapitalisation, Banking crisis.

INTRODUCTION

The goal of regulatory reforms is to help banks and other financial institutions become stronger players, and in a manner that will ensure longevity and hence higher returns to the shareholders over time as well as greater impacts on the Nigerian economy as observed Soludo (2004). Growing empirical evidences suggests that financial development is not just correlated with a healthy economy, but actually causes economic growth and has a positive impact on poverty alleviation and income distribution as well as opined Rajan and Zingales, 2001). Many literatures indicates that banking sector reforms are propelled by the need to deepen the financial sector and reposition for growth, to become integrated into the global financial architecture; and involve a banking sector that is consulting with regional integration requirements and international best practices (Somoye, 2008; Gale 2010).

The banking sector in any economy serves as a catalyst for growth and development. Banks are able to perform this role through their crucial functions of financial intermediation, provision of an efficient payments system and facilitating the implementation of monetary policies. It is not surprising therefore, that governments the world over attempt to evolve an efficient banking system, not only for the promotion of efficient intermediation, but also for the protection of depositors, encouragement of efficient, competition, maintenance of public confidence in the system, stability of the system and protection against systemic risk and collapse as put by (Iyade 2006, Toby 2007, Soludo 2007, Somoye 2008).

Evidences from the literature reveal that the banking business is highly regulated all over the world. This according to Iyade (2006) is because of the pivotal position the financial industry occupies in most economies. An efficient banking system is a sine qua non for efficient functioning of a nation's economy. Thus, for the industry to be efficient, it must be regulated and supervised in view of the failure of the market system to recognize social rationality and the tendency for market participants to take undue risks which could impair the stability and solvency of their institutions (Balogun, 2007; Alao, 2010).

Bank supervision entails not only enforcement of rule and regulation, but also judgment concerning the soundness of bank asset, its capital adequacy and management. Therefore effective supervision is expected to lead to a healthy banking industry that possesses the power to propel the economic growth (Ogunleye 2001; Soludo 2007). The reform programme is expected to engender a diversified, strong and reliable banking sector in the country. Studies have shown that the objectives of financial sector reforms are broadly the same in most countries of Sub-Saharan Africa (Balogun 2007). The Nigerian government ambitious bank consolidation program resulted in the emergence of 25 Mega-Banks, being the amalgams of the 75 of original 89 banks, and 93.5% of industry deposits. The licenses of the 14 banks that did not meet the capital requirement of N25b at the end of December 2005 were revoked. Despite some delays due to legal procedure, the National Deposit Insurance Corporation (NDIC) liquidated these failed banks (Iyade 2006). How the Nigeerian bankers perceived the Regulatory approach of CBN and NDIC on the performance of selected post consolidated banks and well as the proposition of Alao (2010) for further shrink of the 25 banks to three shall be the crux of this study.

STATEMENT OF THE PROBLEM

Studies have shown that Regulatory authorities in Nigeria especially the Central Bank of Nigeria (CBN) and Nigeria Deposit Insurance Corporation (NDIC) possess the agenda for macroeconomic coordination, vigorous pursuit of the developmental roles, improvement of the payments system, financial sector diversification and regulatory reforms, and strategies for integrating Nigeria's financial system into the African regional and global financial system (Soludo, 2004). However, some scholars like Coen & Heritier, (2005) and Thatcher, (2005) argued that the regulatory complexities with the business environmental regulations appear to create difficulties for potential entrants. Since the promulgation of decree No 22 of 1988, the effectiveness of the operations of NDIC and CBN has been a source of controversy and comments by key players in the banking industry. Many banks consolidation had taken place in Europe, America and Asia in the last two decades without any solutions in sight to bank failures and crisis as observed Somoye (2008). Also, the possibility of further shrinking of the present twenty five banks (Akintoye & Somoye 2008) and specifically to only three as proposed Alao (2010) is a subject for appraisal as to whether it would put an end to banks crisis.

OBJECTIVES OF THE STUDY

In the light of the above the paper captures the impact of the regulatory authorities on the banking industry performance and poses the following questions:

- What is the impact of regulatory authorities on the banking performance?
- How effective has the NDIC guaranteed depositors' funds through its deposit insurance scheme?
- Does the Nigerian banking industry need further recapitalisation?

Hypotheses

In order to answer the research questions the following null hypotheses shall be tested:
Ho1: Regulatory Authorities have not been effective in curtailing distress in the Nigeria banking system.

HO2: The Regulatory and Supervisory activities of the CBN and the NDIC have not boosted depositors' confidence in the Banking System.

Ho3: Further recapitalisation of Nigerian banks would not provide permanent solution to banking crisis?

In order to achieve the objectives of the study, the paper is divided into five sections. Apart from section one that introduced the paper, section two discusses the literature review and conceptual underpinnings, section three described the methodology of the study, section four presented the results and section five is for conclusion and policy recommendation.

LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK

It has become evident that one of the very completing requirements for the success of any business in any economy is the existence of favourable regulatory environment. Thatcher, (2002), Thatcher & Stone Sweet, (2002), McNamara (2002), Moran, (2002) Marcussen (2005) and Ekpenyong & Dada (2007) submitted that regulations can either promote or stifle business performance. Empirical evidence from Coen, and Thatcher, (2005), Coen, (2005), Kerwer, (2005), King (2005) and Quaglia, (2005) also suggests that environmental regulations deter entry into industries where the requirements for regulatory compliance activities are high. Furthermore, Iyade (2006) conducted an empirical analysis of the impact of regulation and supervision on the activities of Nigerian banks with emphasis on the role of the Central Bank of Nigeria and The Nigerian Deposit Insurance Corporation. The results of the analysis showed that the supervisory and regulatory framework of the Central Bank of Nigeria and the Nigerian Deposit Insurance Corporation are not sufficient to guarantee effective banking practices in Nigeria.

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. Akintoye and Somoye, (2008) argued in favour of few banks with adequate capital suggesting further soiling up of banks capital base. This view is further radically and specifically approached in the proposition of Alao (2010) that suggested minimum capital base of 300billion naira and reduction in the number of banks to just three. Noticeable movement in this direction was the merger talks among the various banks and more specifically of the First bank plc and Zenith bank plc believed to be the two giant banks in Nigeria (www.channelnews.com 2011). The extent to which the merger talks suspected to be as a result of Bail Out Strategy by the Nigerian government will make for further reduction in the number of banks in Nigeria has created concerns for players in the industry. According to Somoye (2008), between 1952-1978, the banking sector recorded fourty-five(45) banks with varying minimum paid-up capital for merchant and commercial banks. The number of banks increased to fifty-four (54) from 1979-1987. The number of banks rose to one hundred and twelve (112) from 1988 to 1996 with substantial varying increase in the minimum capital. The number of banks dropped to one hundred and ten (110) with another increase in minimum paid-up capital and finally dropped from 89 as at end of 2003 to twenty-five in 2006 with a big increase in minimum paid-up from two billion naira in January 2004 to twenty five billions in July 2004. As at the end of 2010, the number of banks licensed to practice in Nigeria stood at 24.

Alao (2010) conducted investigation on the Nigerian twenty five (25) Mega Banks recommending further shrink to only almighty three (3) mega-banks with recapitalization of N300 Billion capital base with two years ultimatum. According to the study, only one (1) best emerged from multifarious performance ratings and world class tests to be conducted by the Central Bank of Nigeria (CBN) after fulfilling the requirement of N300 Billion base will represent the existing Nigerian 25 banks. The rest two will be supplemented through Foreign Bank Penetration (FBP); one from the United States and the other from Europe. The world class three Mega Banks will guarantee a sound, safe and reliable banking sector for Nigerian banking industry in order to meet the development of challenges in the 21st century. The bank's shrink will let Nigeria enjoy maximum patronage of foreign investors and fully open Nigerian economy to the world according to the Nigerian Financial System Strategy – FSS 2020, with a vision of which to be the safest and fastest growing financial system amongst emerging markets and a mission to drive rapid and sustainable economic growth primarily in Nigeria and Africa. However, the side effect of FBP like capital flight as well as erosion of economic sovereignty was not taken into consideration in the three mega banks model.

BANKING SUPERVISION AND REGULATORY STRUCTURES

It has been said that there is no theoretically optimal system or standard blueprint of what constitutes the best structure of banking system regulation and supervision (Bank for International Settlement, 2000). Factors like differences in political structures, general complexity and state of development of the financial systems; the nature and extent of public disclosure of banks' financial positions; level of market discipline; the availability and robustness of information technology; and the capacities of the regulator(s) dictate(s) regulatory and supervisory approaches world-wide. The Basel Committee on Banking Supervision in 1997 came out with an implicit framework for the regulation and supervision of banks code-named, The Core Principles for Effective Banking Supervision. The framework can be interpreted as comprising four distinct yet complementary sets of arrangements:

- Legal and institutional arrangements for the formulation and implementation of public policy with respect to the financial sector, and the banking system in particular;

- Regulatory arrangements regarding the formulation of laws, policies, prescriptions, guidelines or directives applicable to banking institutions (e.g. entry requirements, capital requirements, accounting and disclosure provisions, risk management guidelines);
- Supervisory arrangements with respect to the implementation of the banking regulations and the monitoring and policing of their application; and
- Safety net arrangements providing a framework for the handling of liquidity and solvency difficulties that can affect individual banking institutions or the banking system as a whole and for the sharing of financial losses that can occur (e.g. deposit insurance scheme or winding-up procedures).

REGULATION OF NIGERIAN BANKING INDUSTRY

The Nigerian banking sector is controlled by the Nigerian Banking Sector regulatory agencies. The regulatory/supervisory authorities that are concerned with the regulation of the Nigerian banking sector, include: (1) the Federal Ministry of Finance; (2) Central Bank of Nigeria; (3) Nigeria Deposit Insurance Corporation; and (4) Securities and Exchange Commission (Onyido, 2004). However, CBN and NDIC seem more prominent as regulation and supervision of banks in Nigeria.

Banks submits data online through an electronic Financial Analysis and Surveillance System (e-FASS) to Central Bank of Nigeria and Nigeria Deposit Insurance Corporation on a regular basis – daily, weekly, mid-month, monthly, quarterly, semi-annually and annually (CBN circular 2007) to enable the regulatory agencies carry-out their oversight functions (Mordi, 2004; Jimmy, 2008). Section 43 and 44 of CBN Act 2007 provides for the establishment of a Financial Services Regulation Co- ordinating Committee, whose responsibilities is to:
a) co-ordinate the supervision of financial institutions especially conglomerates;
b) cause reduction of arbitrage opportunities usually created by differing regulation and supervision standards among supervisory authorities in the economy;
c) deliberate on problems experienced by any member in its relationship with any financial institution;
d) eliminate any information gap encountered by any regulatory agency in its relationship with any group of financial institutions;
e) articulate the strategies for the promotion of safe, sound and efficient practices for financial intermediaries, and
f) deliberate on such other issue as may be specified from time to time.

Balogun (2007) reviewed the perspective of banking sector reforms since 1970 to date and noted four eras of banking sector reforms in Nigeria, viz.: Pre-SAP (1970-85), the Post-SAP (1986-93), the Reforms Lethargy (1993- 1998), Pre-Soludo (1999-2004) and Post-Soludo (2005-2006). Using both descriptive statistics and econometric methods, three sets of hypothesis were tested and the empirical results confirm that eras of pursuits of market reforms were characterized by improved incentives. However, these did not translate to increased credit purvey to the real sector. Also while growth was stifled in eras of control, the reforms era was associated with rise in inflationary pressures. Among the pitfalls of reforms identified by the study are faulty premise and wrong sequencing of reforms and a host of conflicts emanating from adopted theoretical models for reforms and above all, frequent reversals and/or non-sustainability of reforms. Also, Coen & Heritier, (2005) and Thatcher, (2005) submitted that the regulatory complexities with the business environmental regulations appear to create difficulties for potential entrants.

RESEARCH ETHICS

This study to a large extent is not bias in any way in its contents and does not attack individuality or to pontificate a particular government / economy. Positive research ethics is the focus of this study. Information in this study was used solely for this purpose of this research. Strict adherence to the research principles and instructions on data gathering, collection, analysis and reporting were duly followed, while all references in this study were properly outlined for avoidance of plagiarism.

METHODOLOGY

This section focuses on the research techniques adopted and used for this study with the aim of achieving the research objectives. Survey research design is adopted in this study. Survey research design was chosen because the sampled elements and the variables that are being studied are simply being observed as they are without making any attempt to control or manipulate them. Data were collected from a sample of bankers staff of selected banks.

For effective coverage and lower cost, purposive sampling technique was used to select the participating banks staff. Primary method of data collection was used in this study. The primary data consists of a number of items in well-structured non-disguised questionnaire that was administered to and completed by the respondents. The decision to structure the questionnaire is predicated on the need to reduce variability in the meanings possessed by the questions as a way of ensuring comparability of responses. The return rate of completed questionnaire was 100 percent as we were able to get back all the 120 questionnaires personally administered to our respondents which were used for final analysis in this study. Although it seems strenuous to administer questionnaire personally, it ensures high response rate

Data collected from the questionnaire were analysed, summarised, and interpreted accordingly with the aid of descriptive statistical technique of simple percentage. Chi-square was used to measure the discrepancies existing between the observed and expected frequency and to proof the level of significance in testing stated hypotheses. The trends, and patterns and relationship among data were identified and interpreted.

RESULT AND DISCUSSIONS

The study aimed at examining the impact of the regulatory authorities on the banking industry performance, assess the effectiveness to which the NDIC guaranteed depositors' funds through its deposit insurance scheme and investigate whether the Nigerian banking industry need further recapitalisation. Findings revealed that Regulatory and supervising frame work of banks in Nigeria is effective. The stability in the banking system was due to sound supervision and regulation NDIC / CBN. The performance rating of regulatory authorities on banks supervision is satisfactory. BOFIA is adequate as regulatory and supervisory framework. The introduction prudential guidelines have promoted nations bank stability. Regulatory supervisions have facilitated prudent management of bank assets. Off-site supervision has helped in discovering of financial problems through ratios and periodic bank reforms. On-site supervision has helped in the reducing unprofessional and unethical conducts in banks.

Special statistical packages called SPSS was used to obtained the result given below. We made use of 120 respondents, all questionnaires were well-filled, returned and used for the analysis. The non-parametric statistical test Chi-square was used to test the formulated hypothesis. Symbolically representation of chi-square is given below
$X^2 = (Oi – ei)^2/ei$. Where Oi represents observed value ei represents expected value
The test adopted 95 confidence level where the degree of freedom (r – 1)(c – 1)
Where r = row total, c = column total, Level of significant = 0.05, Critical region = X^2t (0.05, (r – 1)(c – 1), The basis for rejection or acceptance of null and alternate hypothesis is as follows, If $X^2c < X^2t$ Accept Ho.X^2c represent chi-square calculated.If$X^2c > X^2t$ reject Ho. X^2t represents chi-square tabulated.
The analysis and hypotheses tested are hereby presented in the table below:

TEST OF HYPOTHESIS I

Ho1: Regulatory Authorities have not been effective in curtailing distress in the Nigeria banking system.
From the responses to questions 1-8 above, the following Chi square table was constructed to test hypothesis I at 99 % level of significance;

CHI-SQUARE TABLE I

O	E	O – E	(O – E) ^{2}	(O – E) ^{2}/E
252	192	60	3600	18.75
524	192	332	10404	54.18
90	192	-102	10941	56.99
88	192	-104	10816	56.33
06	192	-186	34596	180.19
960	**960**			**366.44**

Since X^2c = 366.44, Critical region = X^2t (0.01, 4) = 13.2767
Hence, $X^2c > X^2t$ i.e. 366.44 > 13.2767

Let O represent Observed values
Let E represent Expected values

→ Statistically, this study concurs with the fact that where expected value is greater than observed value then, such result should be accepted as a positive result. Therefore, the results of the expected value remain the significant figure of determinant at a critical level.

Therefore, we will reject Ho, accept H1 and conclude that Regulatory Authorities have been effective in curtailing distress in the Nigeria banking system.

TEST OF HYPOTHESIS II

HO2: The Regulatory and Supervisory activities of the CBN and the NDIC have boosted depositors' confidence in the Banking System.

From the responses to questions 9-15 above, the following Chi square table was constructed to test hypothesis II at 99 % level of significance;

CHI-SQUARE TABLE

O	E	O – E	(O – E) ^{2}	(O – E) ^{2}/E
246	120	126	15876	132.30
270	120	150	22500	188
82	120	-88	1444	12.03
103	120	-17	289	2. 41
139	120	19	361	3.01
840	**840**			**338**

Since X^2c = 338, Critical region = X^2t (0.01, 4) = 13.2767
Hence, $X^2c > X^2t$ i.e. 338 > 13.2767

Let O represent Observed values
Let E represent Expected values

→ Statistically, this study concurs with the fact that where expected value is greater than observed value then, such result should be accepted as a positive result. Therefore, the results of the expected value remain the significant figure of determinant at a critical level.

Therefore, we will reject Ho, accept H1 and conclude that The Regulatory and Supervisory activities of the CBN and the NDIC have boosted depositors' confidence in the Banking System.

TEST OF HYPOTHESIS III

Ho3: Further recapitalisation of Nigerian banks would not provide permanent solution to banking crisis.

From the responses to questions 16-22 above, the following Chi square table was constructed to test hypothesis III at 99 % level of significance;

CHI-SQUARE TABLE

O	E	O – E	(O – E) ^{2}	(O – E) ^{2}/E
226	120	106	11,286	94
240	120	120	14,400	120
142	120	22	484	4.03
136	120	16	256	2.13
96	120	-24	576	5.0
840	**840**			**225.6**

Since X^2c = 225.6, Critical region = X^2t (0.01, 4) = 13.2767
Hence, $X^2c > X^2t$ i.e. 225.6 > 13.2767

Let O represent Observed values
Let E represent Expected values

→ Statistically, this study concurs with the fact that where expected value is greater than observed value then, such result should be accepted as a positive result. Therefore, the results of the expected value remain the significant figure of determinant at a critical level.

Therefore, we will reject Ho, accept H1 and conclude that Further recapitalisation of Nigerian banks would provide permanent solution to banking crisis.

CONCLUSION AND RECOMMENDATIONS

Banking sector is so sensitive and sacrosanct to the economy in term of stability and growth that must not be let loose by the Government. Regulations and supervisions have therefore become imperative not only in the enforcement of rule and regulation, but also judgment concerning the soundness of bank asset, its capital adequacy and management. The hypotheses tested showed that Regulatory Authorities have been effective in curtailing distress in the Nigeria banking system, the Regulatory and Supervisory activities of the CBN and the NDIC have boosted depositors' confidence in the Banking System and that further recapitalisation of Nigerian banks would provide permanent solution to banking crisis. This concurs with earlier studies of Thatcher, (2002), Thatcher & Stone Sweet, (2002), McNamara (2002), Moran, (2002) Marcussen (2005), Iyade 2006, Ekpenyong & Dada (2007), Somoye (2008), Akintoye and Somoye (2008). While the study supports calls for further reduction in the number of banks the proposal for the reduction in the number of banks from the present consolidated 24 to only three may not be feasible in Nigeria at present time, opposing the conclusion of Alao (2010) that suggested pruning of banks to only mega three. Therefore, instead of uniform capital base of N300 billion for all banks, categorization could be made for local banks, National banks and Global banks with minimum capital base according to their scope of operation.

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