

Environmental Perspectives of Bank Distress in Nigeria in the 1990s: Lessons for Contemporary Bank Management

John N. N. Ugoani*

College of Management and Social Sciences, Rhema University, Aba Abia State, Nigeria

Abstract

The bank distress syndrome which first became noticeable in 1989 was a matter of serious concern in Nigeria in the 1990s. In the period the banks affected were particularly the state government and privately owned banks. By 1994 when the gross domestic product growth rate declined to about 1.3 percent from about 2.3 percent in 1993 the number of distressed banks had risen to over 120. The situation was exacerbated by both political and economic uncertainties that also affected borrowers' ability to repay their loans. This situation compounded the poor risk asset quality of the distressed banks that were already carrying huge non performing loans. The banks were in a deep mess of distress because of aimless management, insider abuse, frauds and forgeries that had negative effects on the shareholder's funds. Thus, the liquidity position of the banks became very precarious between 1995 and 1996. The average liquidity ratio in 1996 was minus 100 percent compared to minus 44 percent in 1995. The average loan to deposit ratio was 113 percent as against the prudential maximum of 70 percent, indicating that the banks had generally overtraded and the shareholders funds completely wiped away. The survey research design was used for the study. Data analyses were done through descriptive statistics and Pearson's correlation technique using the statistical package for the social sciences. The findings were presented in tables capable of understanding. The study found a strong positive correlation between environmental perspectives and bank distresses in Nigeria in the 1990s.

Keywords

Prudential Guidelines, Liquidity Ratio, Economic Downturn, Non Performing Loans, Interim Management Boards, Weak Management, Huge Operational Losses, FRABM

Received: April 23, 2015 / Accepted: May 15, 2015 / Published online: June 14, 2015

@ 2015 The Authors. Published by American Institute of Science. This Open Access article is under the CC BY-NC license.

<http://creativecommons.org/licenses/by-nc/4.0/>

1. Introduction

In spite of the introduction and application of a number of strategies by the Central Bank of Nigeria (CBN) and the Nigerian Deposit Insurance Corporation (NDIC), the number of distressed banks continued to grow in the 1990s. Banking sector distress is a situation in which a sizable proportion of banks have liabilities exceeding the market value of their assets. This may lead to runs on banks and other portfolio shifts and ultimately eventual collapse of the banking system. A bank is said to be in distress where evaluation by the

supervisory authorities depicts the bank as deficient in critical areas such as: gross under-capitalization in relation to the level of operation, high level of classified loans, advances, and discounts (LAD), illiquidity reflected in the inability to meet customers cash withdrawals low earnings, resulting from huge operational losses and weak management, reflected in poor credit quality inadequate internal controls, and high rates of frauds and forgeries. Distress in the financial industry will therefore, occur when a reasonable

* Corresponding author

E-mail address: drjohnugoani@yahoo.com

number of financial institutions in the system are unable to meet their obligations to their customers as well as their owners and the economy as a result of weakness in their financial, operational and managerial conditions, which have rendered them either illiquid and or insolvent. Generally speaking, the extent and depth of distress can either be of generalized nature or systemic. Generalized distress exists when its occurrence is spreading fast and cuts across all the sub sectors of the industry; but its depth in terms of the ratios of total deposits of distressed institutions to total deposits of the industry, the ratio of total assets of distressed institutions to total assets of the industry and the ratio of total branches of distressed institutions to total institutional branches of the industry, among others, has not adversely affected the confidence of the public in the financial system. Distress may be systemic and of serious concern to the relevant regulatory and supervisory authorities when its prevalence and the contagious effect becomes endemic and pose some threats to the stability of the entire system with its attendant negative effects on the nation's payment system, savings mobilization, financial intermediation process and depositor confidence. Under this situation, the relevant variables or ratios should have risen to a level that public confidence in the system would have been completely eroded (Sanusi, 1995). It is a fact to state that Nigeria witnessed systemic banking sector distress in the 1990s (Nnamdi & Nwakanma, 2011). The history of financial distress and bank failure in Nigeria dates back to the late 1940s and early 1950s otherwise known as the free banking era. The ugly experience of the 1990s which was most severe in 1993 had a resemblance of the earlier distress in terms of causative factors specifically; there was neither a Central Bank nor a deposit insurance scheme, during the free-bank era (Nyong, 1995). Equally, virtually absent was a pool of trained and experienced personnel in economic and financial matters. In 1989, distress in the banking system first came to limelight, after the withdrawal of treasury funds from the licensed banks. By 1993, distress had become widespread in the Nigerian banking sector leading to the closure of four banks in early 1994, following the grave distressed financial conditions of those banks. The banks: Financial Merchant Bank limited, Alpha Merchant Bank limited and United Commercial Bank limited had their licenses revoked by the CBN. The number of banks officially classified as "Problem banks" continued to be of a serious concern to the government and the regulatory agencies. By the end of 1991, for example, eight banks in Nigeria were officially classified as distressed, or technically insolvent. By December, 1992, the number rose to fifteen, and up to twenty seven as at December, 1993 and forty seven as at December 1994. As at December, 1995, out of about 120 banks, 60 were considered distressed, 5 had been liquidated, 5 were under interim management boards (IMBs) and seventeen had been

taken over by the CBN. The distress in the banking sector diminished slightly following the sustained implementation of the failure resolution framework consequent up on the introduction of Decree No. 25 of 1991 and No 18 of 1994, thereby reducing the number of distressed banks to 52 as at the end of December, 1996. The capital adequacy position of banks seriously deteriorated in 1995, especially in state government owned and merchant banks. The incidence of distress was readily manifested in deteriorating risk asset quality. The liquidity position of the banks unable to meet the minimum liquidity requirement of 30 percent was on the increase and precarious in the 1990s (Ademu, 1997, Duru, 1998). The widespread distress in the banking industry in the 1990s is traceable to the sharp increase in the number of banks following the introduction of the Structural Adjustment Programme (SAP) in 1986 and the corresponding rise in the Non-Bank Financial Institutions (NBFIs) that catered for high nominal interest rate expectations. With the lapses in regulation and supervision of the financial system, the distress of some of the financial institutions became imminent. This did not come as a surprise because the environments in which insured banks performance. Where the environments are hard, performance suffers. The operating environments were significantly altered by the deregulation of the interest rate regime. To re-regulate the interest rate regime, in 1991, minimum savings deposit rates and maximum lending rates were re-introduced. Sanusi (1995) asserts that besides, the panicky measure and policy inconsistency by the government reached an alarming proportion at the time. At one end, it was re-regulation and at the other, it was liberalization. The consequences of such policy instability stance manifested in unclear signals from the regulatory environments. With liberalization of entry conditions the growth in the number of banks in Nigeria rose from 40 in 1986 to about 120 in 1993. Non-Banking Financial Institutions also recorded high growth rate. Other developments in the environments included the establishment of the Nigeria Deposit Insurance Corporation (NDIC) specialized banks, such as the People's Bank, Community Banks, and the Mortgage Banks. Consequently, these developments posed challenges that no doubt, shook the fabrics of the Nigerian Financial System and of course, heightened competition among banks. The Banking sector distress in 1994 accounted for about N16.7billion or 10.3 percent of the deposit liabilities of the system, and N15.6billion or 15 percent of the system's outstanding loans and advances. About two thirds of the aggregate loans of such banks were nonperforming and their total adjusted capital was about N4.7bn (Ugoani, 1998) In spite of the efforts of the regulatory authorities in curbing the distress syndrome in the banking system the ugly incidence continued to be on the rise. For example, in 1996, the number of banks

under Holding Actions increased from 5 to 42. Also the number of banks adjudged technically distressed rose steadily from 8 in 1990, to 42 in 1994, and 51 by the end of 1995. The general deterioration in the capital position of the distressed banks as observed in the past years continued in 1995 and 1996. The adjusted shareholders funds which stood at a negative position of N25billion in 1995 further deteriorated by about 30 percent to a negative position of N33billion in 1996. Similarly, the average capital-to-risk-weighted-assets ratio for the banks deteriorated from minus 63 percent in 1995 to minus 167 percent in 1996 as against the prudential minimum ratio of 8 percent. Consequently, the recapitalization requirement in the banks increased from N30billion in 1995 to about N44billion in 1996. The quality of risk assets of the distressed banks continued to deteriorate in 1996 as 75 percent of the total loans and advances were classified as non-performing as against 69 percent in the previous year. The main reason for the increase was further deterioration in the hitherto performing loans of the affected banks. Thus, the total loans, and advances increased from N49billion in 1995 to N54billion in 1996, representing an increase of about 10 percent while the total classified loans and advances also increased from N34 billion to N41billion representing an increase of about 20 percent. The impact of the failed banks decree was felt in this period with greater success recorded in debt recovery efforts of distressed banks. The debt recovered by distressed banks in 1996 was N5.3billion as against the N3.6billion recovered in 1995. Consequent upon the distress syndrome the average liquidity ratio in 1996 was minus 100 percent compared to minus 44 percent in 1995. The average loan to deposit ratio was 113 percent as against the prudential maximum of 70 percent, indicating that the banks had generally overtraded. However, the over drawn position of the banks current accounts with the Central Bank of Nigeria (CBN) as at December 31, 1996 fell to N13billion from N16billion recorded as at December, 1995. This was largely due to the directive to distressed banks to deposit part of their recovered debts with the CBN. Total deposits increased from N42.6billion in 1995 to N47.9 in 1996 which reflected accumulated interest on the deposits. In 1996, like other preceding years the NDIC in collaboration with the CBN continued with a policy of rehabilitating distressed banks in Nigeria through imposition of holding actions, appointment/dissolution of transitional supervisory boards, disposal of acquired banks and self-restructuring techniques. (NDIC, 1990-1996, Ozigbo, 1996, Soludo, 2015, Okorie & Uwaleke, 2010, Sanusi, 2010).

1.1. Statement of the Problem

The adverse economic environment since the mid 1980s characterized by high inflation, depreciating value of the naira, large fiscal deficits, heavy external debt over-hang, and

unemployment and slow economic growth contributed to the distress in the banking sector in the 1990s. For example, the poor economic downturn which hit Nigeria in 1992 when the Gross Domestic Product (GDP) increased by a modest 3.6 percent while inflation soared unabated would be seen as a major contributor to distress in the Nigerian banking system. In 1993 political uncertainty compounded the poor economic environment and led to a very harsh condition for the banking sector. As GDP growth rate declined further to 1.3 percent in 1994 from 2.3 percent in 1993, inflation at 57 percent, government deficit at 7.9 percent of GDP, a situation was created whereby banks had to grapple with worsening loan portfolios. Many borrowers were unable to meet their commitments to the banks as they fell due. Unfortunately, many of the banks were grossly under capitalized, and this problem was further aggravated by huge amount of non-performing loans which wiped out their capital base. Inept management is often reflected in credit risk management. Many of the distressed banks had poor credit risk policies and in few cases where good policies were on ground, such were never thoroughly implemented. To make matters worse, some of the banks were frequently characterized by boardroom quarrels, frauds and forgeries, weak internal control systems as well as contravention of statutory regulations intended to steer the banks away from the incidence of distress. In the 1990s, attitudinal problems made a child's play of the widely known factors responsible for banking sector distress; there were some social practices and attitudes which helped to exacerbate the distress situation. Bank promoters collaborated with bank managers to lend to unviable borrowers/projects which had connections with the promoters or directors. In a majority of cases such category of borrowers constituted mere drain pipes for siphoning the banks resources into private purposes. Another attitudinal problem of the 1990s was the inexperience syndrome, where untested and unexposed hands manned most of the so-called "new generation" banks boards and management committees. The new Chief Executive Officers (CEOs) paraded themselves as financial gurus. These gurus saw "deals" where none existed and the result was high operating risks. Coupled with this challenge was the dearth of experienced employees to cope with the expansion in the banking sector as a result of deregulation and liberalization of entry into the business of banking. The incidence of deregulation also had some less than salutary effects on the financial health of some banks. Deregulation brought about increased competition and innovation which some of the banks were unable to cope with. Bank distress is fundamentally the breakdown of contractual obligations between banks and their customers to the point that banks have to break their contracts with depositors. When contract fails, confidence is eroded. The inability to meet obligations by banks create

uncertainty and this lead to panic, self-protective measures by depositors, often referred to as “run” that triggers bank distress (CBN/NDIC, 1995, Agada, 1993, Alarape, 2012, Ologun, 1994).

1.2. Objective of the Study

The study was designed to explore the relationship of environmental perspectives and bank distress in the 1990s in Nigeria.

1.3. Scope of the Study

The study was delimited to Nigerian banks

1.4. Significance of the Study

The study will enable students, regulators, banks, managers and the general public to reflect on the nature of the distress syndrome in the Nigerian banking sector in the 1990s.

1.5. Limitations of the Study

The study was constrained by such factors as finance and dearth of current literature.

1.6. Hypotheses

Many factors can lead to banking sector distress. Distress in the Nigerian banking sectors was a big source of concern to the entire financial system in the 1990s. The scale was generally modest until 1989. Before this period grave incidents of distress were relatively few and far between and highly amenable to control by the regulatory and supervisory mechanisms. To guide the course of this study, and hopefully, achieve the objective in some empirical terms, these hypotheses were formulated and tested at 0.05 level of significance.

Ho: Environmental perspectives have no relationship with bank distress.

Hi: Environmental perspectives have relationship with bank distress.

2. Literature Review

A precondition to banking system soundness is the oversight framework consisting of internal governance, market discipline and official regulation. The official regulation may mean the on-site examination process which involves the physical examination of the banks books and statement of affairs with a view to ensuring the safety and soundness of their operations and compliance with the various laws and regulations. However, studies show that the core responsibility for bank soundness lies with owners and managers, owners with their own capital at risk have

incentive to operate their banks prudently. Market discipline provides further pressure and incentives for good internal governance and imposes sanctions for failures. Supervision is essential to compensate for failure or inadequacies in corporate governance and market discipline. To function properly, the supervisory agency should have sufficient authority established by law to carry out its duties, independent from political interference and adequate human and financial resources to carry out its duties. Banks are susceptible to many forms of risks which have triggered occasional systemic crises. Risks include liquidity risk (the risk that many depositors will request withdrawals beyond available funds), credit risk (the risk that those who owe money to the bank will not repay), and interest rate risk (the risk that the bank will become unprofitable if rising rates force it to pay relatively more on its deposits than it receives on its loans), among others. Banking crises have developed many times throughout history when one or more risks materialize for a banking sector as a whole. Prominent examples include the U.S savings and loan crises in 1980s and early 1990s, the Japanese banking crises during the 1990s, the run that occurred during the Great Depression, and the Nigerian banking crisis where about 25 banks were liquidated by the Central Bank of Nigeria as a result of distress (Matyszak, 2007). In a World Bank study on systemic banking crises in Sub-Saharan Africa, in 1990s Caprio and Kilingebiel (2002) state that in Nigeria in 1993, insolvent banks accounted for 20 percent of banking system assets and 22 percent of deposits. In 1995 almost half the banks were reported being in financial distress”. Because of the adverse impact of distress in 1993, the Federal Government of Nigeria promulgated Decree No. 18 of 1994 known as Failed Bank (Recovery of Debts) and other Financial Malpractices Decree in order to deal with the problems of bad loans and malpractices in banks. This measure saw the reduction in number of distressed banks to 42 in 1994 from 120 in 1993 and to 51 in 1995. Consequently, unlike in the previous years, no banks were taken over by the regulatory authorities; none of the banks was slated for outright liquidation in 1996. Accordingly the NDIC it continued with the outstanding liquidation activities in respect of the closed bank. The five banks in liquidation were: Financial Merchant Bank Ltd (FMB) and Kapital Merchant Bank Ltd (KMB) closed in January, 1994, Alpha, Merchant Bank Plc (AMB) and United Commercial Bank Ltd (UCB) closed in September, 1994, and Republic Bank Ltd (RBL) closed in June, 1995. The NDIC handled the liquidation activities pursuant to its statutory duties as liquidator and consistent with the requirements of the companies and Allied Matters Decree No. 1 of 1990. The NDIC also filed required returns in respect of the failed banks with the Corporate Affairs Commission (CAC), Abuja. The total loans and

advances of the five banks in liquidation stood at N5,705.09 million as at the end of December 1996, out of which N2,552.93 representing about 45 percent of the total amount were insider loans. A combination of environmental perspectives contributed to the weakening of the financial position of banks in the 1990s that ultimately led them into distress. Against this background a number of theoretical explanations have been offered by previous researchers like Sanusi (1995, 1997) and Ozigbo (1996). These perspectives and combinations include, but not limited to: policy perspective, Management perspective, Regulatory perspective, Institutional perspective, Ownership perspective, Ownership perspective, Economic perspective, Capital perspective. A re-examination of each of these environmental perspectives is foundational to understanding the genesis of the bank distress phenomenon in Nigeria in the 1990s.

2.1. Theoretical Perspectives for Bank Distress

i. Policy Perspective

Before the introduction of SAP, the Nigerian financial system was highly regulated. Banks were subjected to substantial restrictions on their products and activities. These to some reasonable extent restrained banks ability to adapt to changing market conditions. Among such interventions and controls were ceilings on credit expansion and interest rates as well as restrictions on entry into the banking industry. Most banks were forced to invest in government securities with low yield or forced to perform economic development roles such as provision of subsidized credit to priority sectors and public enterprises. Other policies included the compulsory participation of banks in the Rural Banking Programme thereby forcing banks to expand faster than their capabilities. These policies greatly undermined financial market development in Nigeria.

ii. Management Perspective

The quality of Management constitutes an important difference between sound and unsound banks. There is a consensus of opinion among regulatory agencies and bankers that management is the most singular factor that affects the performance of a bank. Poor management often results in excessive risk taking through high operating expenses, inadequate credit administration, an overly aggressive growth policy to attract deposits, interest rates speculation coupled with other instances of poor judgment that result to bank distress. As witnessed in the 1990s some banks management were characterized by instability of tenure of directors and key management staff, insider dealings/abuses, boardroom disagreements and frauds and forgeries, weak internal control mechanisms, lack of strategic initiative, as well as frequent contravention of regulatory guidelines meant to shield the

bank from distress.

iii. Regulatory Perspective

The inability of the Central Bank of Nigeria to curtail and deny banks with heavily overdrawn account balances access to its credits, contrary to the CBN Act, encouraged some weak banks to engage in reckless risk taking. Such banks became terminally distressed and the account were never funded until they were liquidated. Mopping of excess liquidity from the system through stabilization security was one of the methods CBN applied to control excess money supply in the system. While this tool was imperative, its indiscriminate application in debiting liquid and illiquid banks alike accelerated distress and consequently the failure of marginal and illiquid banks.

iv. Institutional Perspective

Oligopolistic structure of the banking system which allowed banks to make profits for many years, also led the banking industry to be inefficient and courage bank management and shareholders to pay little attention to safety and soundness. Lack of attention to safety and soundness led to the accumulation of large amounts of toxic assets. The problem of toxic assets often exacerbated by the negligence on the part of lending executives, loans and advances were granted without regard to the basic pillars of lending nor did they comply with any rational lending criteria. Such behaviours made it very difficult if not almost impossible to recover substantial part of loans, advances and discounts (LAD).

v. Ownership Perspective

Despite the regulation on bank ownership, banks were highly concentrated in a few hands, and this concentration interfered with the professional management of some of the banks. This problem was particularly severe in banks where the regulations on lending to shareholders, directors and management were circumvented. Ownership structure plays a major role in explaining financial distress in the Nigerian financial sector. Most of the government owned banks in the 1990s was treated as political banks, some of them were characterized by weak management whose tenure of office depended on political patronage and usually very unstable, and other appointments to key management positions often based on criteria other than merit. The result was shady and inconsistent policies while loans, advances and discounts to owner governments and their agencies were never recovered or repaid.

vi. Economic Perspective

Although distinct structural and regulatory inadequacies were evident, the inherent institutional weaknesses were exacerbated by the downturn in economic activities. The combination of weak institutions and economic downturn

caused a major crisis in 1993 when 120 banks became technically distressed and the GDP fell to 2.3 percent and declined further to 1.3 percent in 1994. The weak GDP growth rate and hence almost zero per capita income growth in the 1990s also saw poverty incidence at 42 percent in 1992. As it were, the economic downturn was reflected by high inflation, large fiscal deficits, a heavy debt burden and slow economic growth arising from the stress in the economy, many borrowers were unable to service their loan obligation thereby making financial institutions to develop virus. The inability of borrowers to repay their loans gave rise to non-performing loans (NPLs) that became a major source of bank distress in Nigeria in the 1990s.

vii. Capital Perspective

Capital is of critical importance in any business. It serves as a means by which losses may be absorbed. It provides a cushion to withstand abnormal losses not covered by current earnings and enables a bank to regain equilibrium and re-establish a normal earnings pattern. Unfortunately many banks in Nigeria in the 1990s were grossly undercapitalized. This could be explained by the fact that many of them were established with very little capital. The deterioration in the overall capital/assets ratio of banks partly reflected an easing of regulatory standards. Because of lax regulatory standards, capital/risk assets ratio of many banks fell largely because of a lack of capital rather than because of any reassessment of the riskiness of banks assets. This reduction in the overall capital/assets ratio was accompanied very rapid growth of bank loans in the private sector. In addition, rapid balance sheet growth by itself strain management resources and credit risk appraisal system, combined with weak procedures for assessing the quality of loans. These weaknesses contributed to huge amount of toxic assets which eroded the capital base of banks. Government attempts to sanitize the operation of banks in a deregulated environment prompted the introduction of some measures which adversely affected some of them. Among such policy measures were the prudential guidelines, statement of accounting standards of banks and the use of stabilization securities by the CBN to mop excess liquidity in the system. The adoption of these measures, though sometimes imperative, exposed weak banks and threatened them with insolvency. Some banks which had earlier on posted fat profits started to post losses resulting in distress. In extreme cases, there was near panic and some weak banks were unable to meet depositor's demands. Consequently, they embarked on distress borrowing in the interbank market at exorbitant interest rates. Obviously, the macro-economic reforms in Nigeria beginning with the SAP in 1986 had negative impact on the health of some banks, particularly those that had hitherto enjoyed some implicit subsidy. The deregulation and liberalization

brought about increased competition and innovations accompanied by noticeable traces of strain in the industry. Banks that did not have management expertise to serve in an increasingly complex, volatile and competitive operating arena suffered adversely in the deregulated environment (Sheng, 1996, Rodriguez, 1994, Ugoani, 2014, 2006, Ugoani et al, 2014).

2.2. Frauds and Forgeries

The incidence of fraudulent practices, did not abate largely because of the involvement of bank employees. For example, the sum of N1377.75 million was involved in commercial banks frauds and forgeries in 1993 compared with N351.9 million in 1992, an increase of about 272 percent. 1993 was a particularly difficult year for the nation and the economy because of the political logjam caused by the annulment of the presidential election held on June 12, 1993. The number of bank employees involved in fraud and forgeries increased to 737 in 1994. A total sum of N2, 655.7 million was involved in the cases while N883.55 million was the actual loss, or 33.26 percent of the total. Only 1999 exceeded this level with only 182 cases involving N6367.67 million out of which about 42.73 percent or N2713.4 million was the actual loss. Without doubts fraudulent practices negatively affected the profitability of banks in the 1990s, and by extension the shareholders funds and thus contributed to bank distress (Aig-Asein, 2004, Onuiwa, 1994).

In addition to all of the above issues, the problem of nonperforming loans was endemic and pervasive in the Nigerian banking system in the 1990s that resulted to distress and preceded the global financial crisis of 2000s. nonperforming loans are those loan assets not generating income. In the banking system, loans are often considered to be nonperforming when principal or interest on them is due and left unpaid for 90 days or more. According to Greuning and Bratanovic (2003) studies have shown that almost 60 percent of problems of nonperforming loans (NPLs) were as a result of weak corporate governance. The debt overhang resulting from the Nigerian financial crisis is now put at about N5.67trillion (Okonjo-Iweala, 2015, Anumihe, 2015).

3. Research Methodology

3.1. Research Design

The survey research design was used for this study. Surveys are very useful in describing the characteristics of a large population or a particular subset of the population, such as the banking community – surveys provide insight into societies ethical standards, tell whose views are similar to the official views or norms of behavior show how personal or universal standards evolve from an individual's point of view.

Multidisciplinary expertise and skills were strategically combined for a comprehensive banking sector review. Surveys are oriented towards ascertaining and establishing the status quo, facts or pieces of information at the time of the research and presenting such facts as they are or going further to analyze. Surveys therefore could either be descriptive or analytical (Obodoeze, 1996).

3.2. Population and Sample

The population comprised of all the 21 banks in Nigeria and the sample was selected through the Simple Random Sampling Method. The sample size was determined using the 1/10th technique. (Ezejelue, et al, 2008)

3.3. Instrument

Quantitative data were gathered through the use of a questionnaire titled “Bank Distress Perspectives Questionnaire (BDPQ) designed along a 5-point Likert-type scale, with 20 structured questions. The questions involved bank distress factors such as frauds, forgeries, theft, nonperforming loans poor management, insider abuse etc. Results were comparable to qualitative data which sought to validate data through each other. The instrument was validated by experts in the management and social sciences, and its reliability confirmed through the Test-Retest technique.

3.4. Data Collection Method

The study chose a mixed method approach of data collection. Qualitative data were generated through records and financial reports, while quantitative data were gathered through questionnaire administration. The two methods provided comprehensive insights into the matter under investigation. 120 copies of the questionnaire were personally administered and all were returned and found useful for the study. Data collected were filtered, organized and coded before they were classified.

3.5. Data Analysis

Qualitative data were analyzed using descriptive statistics. The data were presented in tables, and charts using absolute figures and comparative percentages capable of self-explanation and further analysis. The tables and charts were structured in line with the particular item(s) or group of items relevant to the matter under investigation. On the other hand quantitative data were analyzed by the Pearson’s statistical method using the statistical package for the social sciences and the test results were presented in tables capable of self-explanation and understanding.

4. Presentation of Data and Results

Table 1. Capital Requirements.

Category	1995	1996	% Change
Adjusted Shareholders Fund (₦. M)	(25,420)	(33,029)	30
Additional Capital Requirement (₦. M)	30,457	43,857	44
Average Capital to risk weighted Asset Ratios (%)	63	167	165

Source NDIC 1996 Annual Report of Statement of Account, pp 41

Table 2. Assets Quality.

Category	1995	1996	% charge
Loans and advances (₦. M)	48,854	53,891	10
Classified loans and advances (₦. M)	33,897	40,658	20
Debt Recovered (₦. M)	3,595	5,344	49
Ratio of classified loans to total loans & advances	69	75	9
Ratio of classified loans and advances to shareholders fund (%)	(133)	(123)	(8)
Ratio of classified loans and advances to total deposits (%)	109.9	95	(14)

Source: NDIC 1996 Annual Reports & Statement of Accounts, pp: 41

Table 3. Liquidity.

Category	1995	1996	% charge
Liquidity Ratio (30% Prescribed Minimum)	(44)	(100)	72
CBN Balance (₦. M)	(15,816)	(13,433)	(15)
Deposit (₦. M)	42,620	47,986	13

Source: NDIC 1996 Annual Report & Statement of Accounts, pp: 42

Table 4. List of distressed banks offered for sale by CBN in 1995/1996.

Name of Bank	Year	Category	Ownership	Total no of banks
National Bank of Nigeria Ltd	1995	Commercial	Government / other	1
African continental bank plc	1995	Commercial	Government / other	2
New Nigerian Bank Ltd	1995	Commercial	Government / other	3
Pan African Bank Ltd	1995	Commercial	Government / other	4
Merchantile Bank of Nig Plc	1995	Commercial	Government / other	5
Co-Operative and Commerce Bank Plc	1995	Commercial	Government / other	6
North South Bank Ltd	1996	Commercial	Nigerian/Other	7
First African Trust Bank Ltd	1996	Commercial	Nigerian/Other	8
Premier Commercial Bank Ltd	1996	Commercial	Government / Other	9
Century Merchant Bank Ltd	1996	Merchant	Nigerians/ Other	10
Progress Bank Ltd	1996	Commercial	Government / Other	11

Source: Ugoani, 2015

Table 5. Summary of loans and advances as at 31st December, 1996.

S/N	Banks	Total loans and advances			
		As at closing ₦. M	As at Dec. 95 ₦. M	As At Dec. 96 ₦. M	Total Loans Advances to insider as at Dec. 96 ₦. M
1	FMB	323.99	557.40	577.54	363.06
2	KMB	120.96	363.09	246.84	140.01
3	AMB	1,876.75	3,971.84	2,837.18	647.17
4	UCB	1,118.40	1,886.38	1,735.04	1,183.56
5	RBL	242.50	356.12	308.09	219.13
	Total	3,682.60	6,134.83	5,705.09	2,552.93

Source: NDIC Annual Report & Statement of Accounts. Pp.45

Table 6. Magnitude of Annual Cases of Fraud and Forgeries 1990 – 1995.

Year	Total No of Fraud Cases	Total Amount Involved (₦. M)	Actual/Expected Total Loss (₦. M)	Actual Loss/Total Investment
1900	148	788.88	22.5	2.9
1991	159	360.19	25.50	2.9
1992	204	351.93	64.8	18.4
1993	199	1377.15	241.00	17.50
1994	198	2655.71	883.55	33.26
1995	127	1006.28	226.38	22.49
1996	587	1542.91	371.08	24.07
1997	471	3590.31	224.54	6.25
1998	564	3129.26	673.5	21.52
1999	182	6367.67	2713.40	42.73

Source: Aig-Asein (2004) Improving the Image of Banks and Bankers in Nigeria pp: 21

Table 7. Impact of fraud on shareholders Funds (Unadjusted) of Commercial Banks (N. Million).

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Total shareholders funds of commercial bank	2499	4135	4151	4351	9945	8833	13.311	22.520	49.240	69880
Total amount lost to fraud	2.245	25.5	64.8	241.0	883.6	226.4	371.1	224.5	673.5	2713
% loss	0.09	0.62	1.56	5.54	8.88	2.56	27.88	0.997	1.37	3.996

Source: Aig-Asein (2004) Improving the image of Banks and Bankers in Nigeria pp: 21

Correlations
[DataSet0]

Table 8. Descriptive Statistics.

Measures	Mean	Std. Deviation	N
Environmental Perspectives (EP)	.04	1.251	5
Bank distress (BD)	6.48	2.253	5

Table 9. Correlations.

Measures	Enviro. Perspectives	Bank distress
Envir. Perspectives		
Pearson's Correlation	1	.901*
Sig. (1-tailed)		.018
N	5	5
Bank Distress		
Pearson's Correlation	.901*	1
Sig. (1-tailed)	.018	
N	5	5

* Correlation is significant at the 0.05 level (1-tailed).

4.1. Discussion

The explosion in the number of banks in the 1990s resulted in the dearth of experienced employees as well as managerial capacity. The situation was never helped by an equally huge pressure upon the CBN and the NDIC that seemingly sought to outweigh their combined regulatory ability. The poor regulatory ability, the weak and inadequacy of prudential framework and the undermining of banking laws, rules and regulations without any adequate sanctions, probably gave impetus to grossly undercapitalized and poorly managed banks to operate uncontrolled, which in no small measures contributed to the banking system fragility. The fragility of the banking system clearly worsened in the 1990s due to the imprudent lending practices, which constituted a major cause of distress. Distress persisted in the 1990s, partly because many new generation banks were not interested in intermediating funds from depositors to borrowers but rather made quick profits from “other deals”. Also, because of the downturn in the economic environment many borrowers were unable to repay their loans which consequently resulted in high volume of non-performing loans that became of major cause of systemic distress. The high volume of non-performing loans led to the enactment of the Failed Banks Decree No 18 of 1994 and the Banks and Other Financial Institutions Decree (BOFID) No. 25 of 1991. This Decree empowers the CBN with the approval of Mr. President to assume control of the whole of the property and affairs of a distressed bank or appoint persons to do so on its behalf. To this extent, the CBN had in

collaboration with the NDIC taken over the management of seventeen distressed banks in 1995. The endemic problems of bad debts, fraudulent practices, inefficient management and inefficient operational trends continued to exacerbate the incidence of bank distress in the 1990s despite government attempts at reducing the trend. Because most of the activities leading to bank distress were observed to be insider-related the Failed Bank (Recovery of Debts) and other Financial Malpractices Decree (1994) was to deal with the problems of bad loans and malpractices in banks, particularly insider abuse as a major contributor to bank distress. In general, the banking sector in the 1990s was highly characterized by weak finance, risk accounting, banking and management (FRABM), practices.

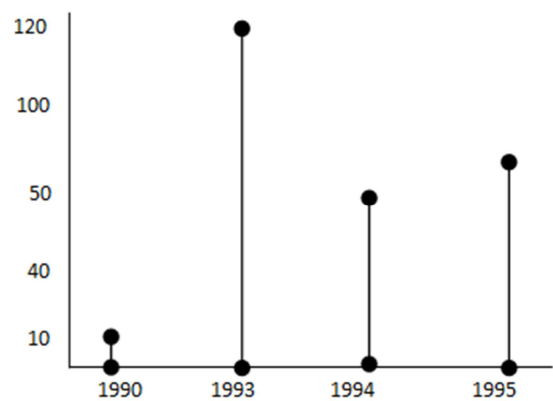


Figure 1. State of Distressed Banks in the 1990s.

Source: Ugoani, 2015

4.2. Recommendations

- i) Capital is important for the success of any business venture including banking business. The regulatory authorities should ensure that banks maintain appropriate levels of capital at all times to avoid insolvency.
- ii) Liquidity Ratios must be seen to be adequate to enable banks meet customers cash withdrawal requirements without recourse to the lender of last resort. This is imperative because banks experience runs whenever they are unable to satisfy cash requirements of the banking public.
- iii) Banks must cultivate the culture of sound asset – liability management (ALM). If this is done they would be able to appreciate when to apply the “breaks” in terms of loan disbursements.
- iv) Bank management is technical in nature and requires both knowledge and experience. There is a growing body of research evidence that lack of experience contributed to acute poor management that eventually led to distress in the banking system in the 1990s.
- v) Banks as commercial ventures and custodians of people’s

money should be run without any interference either from private promoters or owner-governments. This will save the public and government huge financial losses based on findings that most banks became distressed in the 1990s due to undue interferences.

4.3. Scope for Further Study

Another study should explore the reasons for banking sector fraud and forgeries involving insiders. This is imperative because this variable contributed highly to distress in the banking sector in the 1990s.

5. Conclusion

The survival of any business venture including the banking business is typically a function of the quality of its management and leadership at a given period in time. Management can make a distinction between a sound and a distressed bank and of course all business failures are management failures. The large scale distress in the Nigerian banking system in the 1990s persisted mostly due to management and leadership failures in the banks. This was despite frantic efforts by the regulatory authorities to address the issues of distress. While a principal role of government is to create an enabling environment for a business to operate, it is the principal responsibility of management to chart profitable paths for the business venture. Thus, the scale of distress in the banking system in the 1990s put to doubt, the integrity, efficiencies, and effectiveness, of both the regulators and the regulated. This is true because distress symptoms such as illiquidity, large portfolio of non-performing loans, loss of depositors' confidence resulting in massive withdrawals from the banks, the ever evident need for recapitalization became discernable without any meaningful action taken to halt the march to the gallows. For example in 1993 insolvent banks in Nigeria accounted for 20 percent of banking system assets and 22 percent of deposits. In 1995, almost half of the banks in Nigeria were in severe financial distress. The liquidity position of banks became very precarious between 1995/1996. The average liquidity ratio in 1996 was minus 100 percent compared to minus 44 percent in 1995. The average loan to deposit ratio was 113 percent as against the prudential maximum of 70 percent, indicating that the banks had generally over traded and shareholders equity completely wiped away. This was exacerbated by frauds and forgeries, policy inconsistency as well as managerial imbecility that led to poor asset quality, loss earning; huge operating expenses, huge losses that culminated into distress. Based on empirical evidence this study found that environmental perspectives both internal and external led to banking sector distress in the 1990s, in Nigeria.

Acknowledgements

No grant of any kind was received from any quarters for this research. The work is the intellectual property of the sole author.

References

- [1] Ademu, S. A (1997) Restructuring the Banking Industry Against widespread Distress First Bank Monthly & Economic Report November 1997 Edition, Lagos, pp: 22-19.
- [2] Agada, S (1993) Distressed Banks in a distressed Economy, Business Times, April 19, pp: 17.
- [3] Aig- Asein, A (2004) Improving the Image of Banks and Bankers in Nigeria. LMDS Journal of Accountancy, Vol. 2, No. 1, pp: 13-22.
- [4] Alarape A, (2012) Where is Cecilia Ibru's Loot? Shareholder drags CBN to Court, seeks disclosure of receipt, payments Daily Sun, Vol. 7, No. 2382, pp: 3.
- [5] Anumihe, I, (2015) You bungled Banking Consolidation, Left N5.67trn Liability – CME accuses Soludo. Daily Sun, Vol. 10, No. 3067, pp: 58.
- [6] Caprio, G. and Klingebiel, D (2002) Episodes of Systemic and Borderline Banking Crises. Managing the Real and Fiscal Effects of Banking Crises. The World Bank, Washington, D.C pp: 31-48.
- [7] CBN/NDIC (1995) Distress in the Nigerian Financial Services Industry. A CBN/NDIC Collaborative Study, CBN, Lagos.
- [8] Central Bank of Nigeria (1990) Prudential Guidelines for licensed Banks.
- [9] Duru, C (1998) Restructuring The Banking Industry Against Widespread Distress (2) First Bank Monthly Business & Economic Report February 1998, Edition pp: 2-17
- [10] Ezejelue, A. Ogwo, E. and Nkamnebe A, (2008) Basic Principles in Managing Research Projects. 2nd edition, Port Harcourt, Educational Book Publishers.
- [11] Federal Government of Nigeria (1990) Decree No. 1
- [12] _____ (1994) Decree No. 18
- [13] Greuning, H, and Bratanovic, S. B (2003) Analyzing and Managing Risk: A Framework for Assessing Corporate Governance and Finance Risk. 2nd edition, Washington, D. C. The World Bank
- [14] Matyszak, P. (2007) Ancient Rome on Five Denarii a Day New York, Thames & Hudson, pp: 144.
- [15] NDIC, Annual Report and Statement of Accounts: 1990, 1991, 1992, 1993, 1994, 1995 and 1996.
- [16] Nnamdi, I.S and Nwakanma, P.C (2011) Marketing of Financial Services in Nigeria: Theory and Development. Owerri, Starmark Communication Consult.
- [17] Nyong, M.O. (1995) An Alternative Approach to Crisis Management in the Nigerian Economy: The Case for the Banking Industry. First Bank of Nigeria Plc, Bi-Annual Review, Vol. 3, No. 8, pp: 1-21

- [18] Obodoeze, F.O. (1996) *Modern Textbook of Research Methodology*. Enugu Academic Publishing Company.
- [19] Okonjo-Iweala, N, (2015) Soludo's self serving article on economic management is deficit in facts, logic and honour *Daily Sun*, Vol. 10, No. 3067, pp: 59.
- [20] Okorie G, and Uwaleke, U. J (2010) An Overview of Financial Sector Reforms and Intermediation in Nigeria. *Bullion* Vol. 34 No. 2, pp: 19-29.
- [21] Ologun, S. O (1994) Bank Failure in Nigeria: Genesis, Effects and Remedies, *CBN Economic and Financial Review*, Vol. 32, No. 3, pp: 312 – 322.
- [22] Onuiwa, B.C (1994) The Causes of Distress in the Banking Industry. *The Nigerian Accountant*, Vol. xxvii, pp: 27-30.
- [23] Ozigbo, N. (1996) Remedial Approach to the Sanitization of the Financial & Economic. *First Bank Monthly Business & Economic Report*, Lagos pp: 1-9.
- [24] Rodriguez, C. A (1994) *Argentina. Fiscal Disequilibria leading to Hydrria inflation, Public Sector Deficits and Macroeconomic Performance*, New York, Oxford University Press.
- [25] Sanusi, J.O (1995) Efficient Management of Distressed Enterprises of Bank & Insurance Industry *First Bank Monthly Business & Economic Report* Lagos, pp: 2-3.
- [26] Sanusi, J.O (1997) Avoidance and Control of Distress in Financial Institutions. *First Bank Monthly Business & Economic Report* Lagos, pp: 2- 12.
- [27] Sanusi, L.S (2010) *The Nigerian Banking Industry: What went wrong and the way Forward*. Being the full text of a convocation lecture delivered at the Annual Convocation Ceremony of Bayero University, Kano.
- [28] Sheng, A, (1996) *Bank Restructuring Lessons from the 1980s*. Washington, D.C The World Bank.
- [29] Soludo, C.C (2015) Buhari Vs Jonathan: Beyond the Election *Daily Sun*, Vol. 10, No. 3067, pp: 60.
- [30] Ugoani, J.N.N, Amu C.U, and Emenike K.O (2014) Poor Management and Failed Banks: A Study of Banks with State Governments Participation in Nigeria *International Journal of Economics Commerce and Management*. Vol. 11, Issue II, pp: 1-19
- [31] Ugoani, J.N.N (1998) Minimizing Distress in the Nigerian Banking System. *The Journal of the Association of Polytechnic Accountancy Students (NAPAS)* Vol. 2, 2nd Edition pp 7-8.
- [32] Ugoani, J.N.N (2006) Manpower Challenges in the Banking Sector: A Nigerian Perspective *Managing Business in Nigeria Journal* Vol. 5, No. 3, pp: 38-44.
- [33] Ugoani, J.N.N (2014) Poor Bank Liquidity Risk Management and Bank Failures – Nigerian Perspective *Proceedings in Finance and Risk Series 14*, University of Oxford, Vol. 14, pp: 659-678.

Biography



John Nkeobuna Nnah Ugoani

Dr. Ugoani is a senior lecturer and Coordinator, College of Management and Social Sciences, Rhema University, Aba. He teaches courses on business, management, production management, human resource management, psychology, industrial psychology, and industrial relations. He supervised the development of his College's curriculum through NUC- National Universities Commission's accreditation in 2013. John is recognized for presenting the first best PhD Dissertation in Management at the Faculty of Business Administration, Imo State University, Owerri, Nigeria. He has some scholarly publications with full paper readership downloads and abstract views over 1000 and 5000 respectively and listed among Ten Top Authors by Social Science Research Network. Before entering academia, he worked in FirstBank and gained industrial experience and Senior Manager.