# BANK CONSOLIDATION AND THE GROWTH OF NIGERIAN BANKING INDUSTRY

BY

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**BEING A RESEARCH THESIS SUBMITTED TO THE DEPARTMENT OF ACCOUNTING, BANKING AND FINANCE FACULTY OF MANAGEMENT SCIENCES, SCHOOL OF POST GRADUATE STUDIES, DELTA STATE UNIVERSITY ASABA CAMPUS**

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# DECLARATION

I hereby declare that this thesis is my original work and has not been previously presented wholly or in part for the award of other degrees.

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# CERTIFICATION

We the undersigned, certify that this research thesis titled "**Bank Consolidation and the Growth of Nigerian Banking Industry"** has been fully supervised, and found worthy of acceptance in partial fulfillment of the requirement for the award of Master of Science (M.Sc) Degree in Banking and Finance.

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# DEDICATION

This work is dedicated to God Almighty for bringing me this far in life.

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## ABSTRACT

This research work examines Bank Consolidation and the Growth of Nigerian Banking Industry. The objective of the study is to ascertain the effect of bank consolidation on banking industry. For this purpose, we made use of books from various authors and internet materials were consulted as well for the review of related literature. we gathered secondary data from the CBN Annual Reports for the period 2004 to 2013. We analyzed our data using regression analysis through the Statistical Package for Social Sciences (SPSS) statistical software. Having conducted the test, we discovered that bank consolidation does affect the growth of banks in Nigeria. Specifically, results show that there is no significant relationship between bank capitalization and bank total assets, that the level of banks aggregate credit has significant impact on banks growth in Nigeria, while the level of banks loans and advances has no significant impact on the growth of banks in Nigeria. We recommend the need for a radical overhauling and reorganization of the existing conditions for loans and advances of Nigerian banks in order to make them more effective catalyst of growth and development. We also recommend the need for the monetary authority to introduce proactive and tight supervisory policy to ensure sound, strong and safe financial institutions needed to re-enforce confidence on all stakeholders in the banking system and to boost profitability, banks should diversify their investment with more of it on long-term basis and as well integrate the informal financial services sector through effective intermediation process to increase the growth of Nigeria economy. Finally, Policy framework and initiatives should be strengthened in the areas of quality bank management, supervision and control by the Central Bank of Nigeria and the Federal Government to ensure consistency in policy objectives and instruments through good implementation strategy to boost growth in the banking industry.

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# CHAPTER ONE

# INTRODUCTION

## 1.1 Background to the Study

Nigeria banking sector has experienced a boom-and-burst cycle in the past 20-25 years. After the implementation of the Structural Adjustment Programme (SAP) in 1986 and de-regulation of the financial sector, new banks sprang up driven mainly by attractive arbitrage opportunities in the foreign exchange market (Enyimba, 2007). Prior to the de-regulation period, financial intermediation was weak and even declined in the1980's and 1990's (Chigbo and Konye).

The consolidation process in Nigeria has basically been driven by government restructuring efforts rather than by the market forces (Asogwa, 2003). Consolidation has

been used as an efficient way of resolving problems of distress among banks. According to Sinkey, (1992), banks can be viewed as regulated firms information processor, and portfolio of assets, liabilities and equity that is (balance sheet). But since the funds, which banks trade upon are owned by "third parties", prudence demands that such funds be effectively and efficiently managed to sustain the confidence of the depositor in the banking industry.

Nigerian banking sector reforms have aimed at improving the stability of Nigerian economy. Bank consolidation started 11 years ago (2004) when Central Bank of Nigeria (CBN) announced that banks operating in Nigeria had to increase their capital base to N25billion. Before the reform, there were 89 commercial banks operating in Nigeria which have a good size and a very high degree of soundness. Structurally, Nigerian commercial banks were highly concentrated and accounted for about 50% of the industry's total assets and liabilities (Johnson, 2007). Most banks in Nigeria operated with a capital base of less than $10million before 2004. The largest bank in Nigeria as at 2004, had a capital base of about US$240million compared to the US$526million for the smallest bank in develop countries like USA whose asset base is larger than all of the Nigerian commercial banks put together (Johnson, 2007 and Adekoya and Oyatoye, 2007).

Chukwuka (2004) opined that the problems facing most Nigerian banks include persistent illiquidity, poor asset quality and unprofitable operations. Nigerian banks seem wholly dependent on government and government-owned parastatals. The implication of Soludo (2004) view is that the resources of Nigerian banks cannot contribute to the growth of the economy. This makes their operations highly vulnerable to savings in government revenue which arises from the uncertainties of the international market.

Against this background, the Central Bank of Nigeria introduced a minimum capitalization base for banking institutions to meet up the demand of the customers. Full

compliance was required before the end of year 2005, with a view to enhancing bank efficiency, size and developmental rates. The banking reform required banks in Nigeria to have a minimum capital based of ₦25billion. This means that a number of existing banks had to consolidate through merger and acquisition. Affected banks were therefore required to make strategic decisions on how to consolidate.

Consolidation can be defined as an act of merging many things into one. In finance, consolidation is similar to merger. In a merger, a firm A buys firm B and the surviving firm is the buyer, A. When A and B consolidates, a new firm C is created. (Amanchi and Olokoyo, 2008). As at 2012, banking consolidation exercise produced 21 commercial banks out of the 89 banks which hitherto have been in existence in Nigeria before 2004. In the same year 2004, other banking sector reforms like the take-over of banks (Spring bank, Bank PHB and Afribank now Enterprise Bank, Keystone Bank and Mainstreet Bank respectively) by government and recent development of mergers among few banks, one of which is Access Bank. , which Access bank is one of them.

With regards to banking sector reforms, the assumption is that banking sector liberalization accompanied by increased capital base requirements is a necessary condition for improved performance of the banking sector. The underlying argument is that increased capital base may imply increase liquidity and availability of loanable funds which should lead to fall in interest rate, thereby stimulating demand as envisaged by Say's Law of market which states that supply creates its own demand in the market (Jhinghan, 2003). Unfortunately, the consolidation exercise in Nigeria which is believed to have drawn a significant proportion of currency outside banks and new monies from both the domestic and international money markets into Nigerian banks may not have had significant effect on the increased credit to the real sector of the economy. This is contrary to the opinion of the financial analyst that banking sector consolidation should enhance the ability of banks to create more credits to investors (Somdi, 2008).

The Central Bank of Nigeria uses rediscount rates as tool for controlling the commercial bank rates. Rediscount rate is the rate at which Central Bank of Nigeria discount first class bill held by the commercial bank. When customers go to commercial banks to borrow money, the interest charge by the commercial banks is based on the rediscount rate. If the rate increased general interest rate will increase.

The rediscount rate is thus used to regulate the liquidity position of the economy. The resultant of high inflation rate and high interest rate policy restrains investment and growth in output, through increase in production cost, contrary to the specified aim of monetary policy (CBN 2000, 2002).

## 1.2 Statement of the Problem

The competitive financial environment in the beginning of the decade of 2005 provided the platform for banking reform through the consolidation exercise of 2004. The Nigerian banking industry, prior to the year 2004 had 89 banks with branches across the country. None of these banks was rated very sound by the CBN.

The consolidation of the Nigerian banking sector successfully produced 21 commercial banks out of 89 banks through merger and acquisition. The programme saw the consolidation of a large number of small banks into larger ones. To survive under the programme, banks had to attain a certain capital threshold. Many banks borrowed money to reach the required capital threshold of N25 billion. Thus the consolidation of banks aimed at sanitizing the banking industry through effective management of the sector. It was adjudged a proper policy required to nip the danger in the growth of Nigeria banking sector.

However, it has been arguably noted that the consolidation exercise has led most banks into huge debt and high exposure to risky ventures. Some banks invested their monies in stocks, while others granted out their monies as loans recklessly. Those banks that invested their borrowed monies in stocks were severely affected when the financial

crisis occurred, hitting the Nigerian Stock Market hard. For those who loaned out funds, it was realized after an extensive forensic probe by committee set up by the then governor of CBN, Mr. Lamido Sanusi, that most had dealt irresponsibly with highly risky borrowers, which subsequently attracted $2.6bn bailout package by the CBN to remedy the situation in the banking sector.

Chukwuka (2004) opined that the problems facing most of the Nigerian banks include persistent illiquidity, poor asset quality and unprofitable operations. Nigerian banks seemed whole dependent on government and government owned parastatals. It is thus against the above backdrop of bank consolidation exercise, that this research intend to find out the probable effect of consolidation on the growth of the banking industry.

### 1.3 Research Questions

The study would examine the following questions;

i. How has consolidation of banks affected the growth in banking industry?

ii. What is the effect of bank capitalization on banks' total asset?

iii. What effect does the expansion on aggregate credit through consolidation have on the growth of banking industry?

iv. What effect does the increase in bank loans and advance through consolidation have on the growth of banking industry?

### 1.4 Objectives of the Study

The main objective of this study is to ascertain the effect of banking consolidation on the growth of Nigerian banking Industry.

Specific objectives are to;

i. ascertain whether consolidation of banks has affected the growth of banks in Nigeria;

ii. examine the effect of bank capitalization on the total asset of banks;

iii. find out whether the expansion in banks' aggregate credit through consolidation has contributed to the growth of banking sector in Nigeria; and

iv. investigate the extent to which increase in bank loans and advances through consolidation has impacted on the growth of the banking industry.

### 1.5 Statement of Research Hypotheses

The hypotheses that would be tested in this study are stated below as;

i. Ho: Bank consolidation does not affect the growth of banksin Nigeria.

   Hi: Bank consolidation affects the growth of banks in Nigeria.

ii. Ho: There is no significant relationship between bank capitalization and banks' total asset.

   Hi: There is significant relationship between bank capitalization and banks' total asset.

iii. Ho: the level of bank aggregate credit has no significant impact on banks' growth in Nigeria.

   Hi: the level of bank aggregate credit has significant impact on banks' growth in Nigeria.

iv. Ho: The level of bank loans and advances has no significant impact on the growth of banks in Nigeria.

   Hi: The level of bank loans and advances has significant impact on the growth of banks in Nigeria.

### 1.6 Significance of the Study

The relevance of this study relates to the assessment of the consolidation procedure in the banking system. It will serve as helpful avenue of getting material for researchers and students.

This study is relevant as follows;

i. It will help the investors in the financial industry to appropriate the chance given by the consolidation exercise in that particular system.

ii. It will go on to help businessmen to comprehend the importance of consolidation of banks to capital provision.

## 1.7 Scope of the Study

The researcher based this work on the commercial banks in Nigeria. The analysis covers the period ranging from 2004-2014.

## 1.8 Limitations of the Study

Certain factors limited the project. Basically, these are human and material factors which cannot be undermined. These constraints are as explained below:

i. **Harsh Economic condition:** The harsh economic condition in Nigeria has its negative toll on the researcher's financial potency. Increase in fuel price hindered the planned estimates of transportation needed for this research to scale through. For that simply reason, the scope (in terms of volume, data sourcing, sample size and literature materials) was limited to the level at which the available finance could cover the transportation.

ii. **Secrecy,** some of the information required for this study were regarded as confidential which was difficult to obtain.

iii. **High Inflation:** Due to high inflation in the country, which led to high price increment, the cost of carrying out this research work till the final stage of producing it was far more expensive than budgeted.

## 1.9 Definition of Major Terms

**Bank Consolidation**:- Is cutting down the quantity of banks and other deposit taking organization with the same increase in the size and proportion of the consolidation entities in the sector.

**Loans:-** refers to a debt provided by a financial institution at a particular time while **Advances** are the funds given by the banks, which has to be paid within one year.

**Capital Requirement** is the size of cash a bank or other financial institution has to own as needed by its financial regulator. This is often explained as a capital adequacy ratio of equity that must be in place as a percentage of risk-weighted assets.

**Bank Credit:** Rely on either the borrower's capacity to return or the overall size of credit available in the banking system.

**Economy**:-can be viewed as the formation of economic life of a nation, region or system.

**Post-consolidation:** Is a state where two or more establishment had combined into a new company by merger, amalgamation etc.

# CHAPTER TWO

# REVIEW OF RELATED LITERATURE

## 2.1 Introduction

This chapter examined the ideas of authors as they relate to the topic under review. Literatures under this chapter consist of the following:

## 2.2 Conceptual Framework

This section deals with such conceptual issues as the concept of bank consolidation, bank consolidation goals in the banking system of Nigeria, prospect and benefits of post consolidation, the benefits of consolidation, challenges of consolidation, the impact of bank consolidation on the Nigerian economy, the consolidation problems, some country experiences on consolidation, banking system consolidation in Nigeria, consolidation process and findings, bank consolidation models, merger and acquisition, etc.

### 2.2.1 The Concept of Bank Consolidation

Bank consolidation is viewed as the reduction in the numbers of banks and other deposit taking institutions with a simultaneous increase in the size and concentration of the consolidation entities. It is mostly motivated by technological innovations, deregulation of financing services, enhancing intermediation, increase emphasis on shareholders' value, privatization and international competition (Benson, 2003)

Consolidation is simply another way of saying survival of the fittest that is to say bigger, more efficient, better capitalized, more skilled industry, consideration in part of the natural evolution of industries, (Nwankwo, 2013). It is primary driven by: business motives and/or market forces and regulatory interventions.

Kehinde and Kareem (2012), asserted that consolidation is a term used by the Central Bank of Nigeria (CBN) to describe the coming together of some banks within the country to become one bank and thus meet CBN's requirement for capitalization to a minimum of N25 billion. When this happen, it is expected to improve services rendered by the bank. According to Kehinde and Kareem, the process of consolidation has been argued to enhance bank efficiency through cost reduction revenue in the long run. It also reduces industry's risk by elimination of weak banks and acquiring of the smaller ones by the bigger and stronger bankers, as well as creates opportunities for greater diversification and financial intermediation.

Akudu (2006), explains that the pattern of banking system consolidation could be viewed in two different perspectives namely: market-driven and government-led consolidation. The market driven consolidation which is more pronounced in the developed countries sees consolidation as a way of broadening competitiveness with added corporate advantage in the global context and eliminating excess capacity more efficiently than bankruptcy or other means of liquidation. On the other hand, government-led consolidation stems from the need to resolve problems of financial

distress in order to avoid systematic crisis as well as to restrict inefficient banks (Ajayi, 2006). One of the general effects of consolidation of banks is to reduce the number of banks, especially weak ones and moving the industry forward for sectorial and national development. Akudu posits that "Reforms are predicated upon the need for re-orientation and repositioning of an existing status quo in other to attain an effective and efficient state of the banking sector. As an important sector in the financial landscape the banking sector needs to be reformed in order to enhance its competitiveness and capacity to play the fundamental role of financing investments.

### 2.2.2 The Goals of Bank Consolidation

Ambrose (2008) opine that CBN intend to achieve a number of goals by consolidating the Nigeria banking sector. Firstly, consolidation will create a sound and more secured banking system that depositors can trust. Secondly, it will also produce domestic banks that investors can rely upon to finance investment in the Nigerian economy and thereby encouraging industrial development. Furthermore, consolidation will reduce systematic risk. Again, it will help the Fight against corruption and white-collar crimes through improved transparency and accountability and insisting on sound corporate governance practices in the financial services sector.

Consolidation will also drive down cost structure of banks by improving banks efficiency and encouraging competition with the goal of lowering interest rates and meeting international Dutch market minimum requirement for the integration of regional financial system. Finally, it creates a sound and more secure banking system that depositors can trust.

### 2.2.3 Prospect and Benefits of Consolidation

Bernard (2006) noted that the consolidation in the Nigeria banking industry would bring improvement in the delivery of value to the bank customers in the country.

George Konkis (2011), in his paper at a seminar tagged "Delivered Customer value in Post-consolidation" says that consolidation has numerous prospects and benefits. The first benefit is the financing of the huge products difficulties to the banks as the emerging bank would be able to undertake large transaction such as investment in technology, including oil and Gas, Tele-communication, Power and Construction Industry. Secondly, the achievement of an improved capital for bank, implies improved capacity to create loan assets. Thus, a stronger banking industry which the post-consolidation era entails would be able to proactively and adequately support the real sector of the economy with better capital adequately for the bank and the real sector would have easy access to long term funds at reduced interest rates.

Other benefits derivable from the consolidation of banks include; greater efficiency and cost effectiveness, enhanced ability to complete in the market place both domestically and international, leveraging on technology, diversification of operation, controlling risk and provision of broader army of products.

The trust of bank consolidation so far has been on strengthening the banking system resource and capital base and expanding operational network with potential increase in competition. The banks would now be expected to go beyond the traditional basis to ensure themselves in complementary measure of efficiency. These include the shift of the payment and settlement system to real time gross basis and the introduction of credit rating to allow for early identification of problems and improvement in credit risk management. Furthermore, consolidation of banks is a potent tool for realizing the expanding possibilities for new and better financial products and services. It is also expected that consolidation will help the merger/acquired banks harness with greater efficiency, experience expertise and technological know-how.

Konkis (2011) affirms that consolidation process is an attempt to create stronger banks which is a pre-requisite for rapid development in the country. However, Bernard

(2006) opine that the benefit of bank consolidation cannot be over-emphasized. The process has resulted to better capitalized and bigger banks with a new minimum capital of N25 billion which is a growth inducer and an indication of solvency. The mega banks that evolved through consolidation should have stronger appetites for risk thus should better be able to finance key growth sectors of the Nigeria economy.

The pattern in the past had been that, financing for mega and high risk projects in Nigeria came from external sources with Nigeria banks either at the peripheral or not featuring at all. The income of such projects have invariably gone to the foreign financers. Banking system consolidation will therefore bring Nigerian banks into the main stream of financing large ticket transactions and thus create opportunity for capacity building in their Nigeria staff. In another vein Adedipe (2005) sees that "Another benefit of the consolidation is the expansion of the shareholding base of the Nigeria banks, thus eliminating the phenomena of "family banks" and the tendency for poor corporate governance arising from such ownership pattern.CBN in collaboration with CBN supervise to ensure good co-operate governance and better health of the banking system in the future.

According to Somoye, (2008), bank consolidation has prospects. Firstly, it is expected that the initial public offering (IPO) by banks through the capital market will likely increase the level of financial deepening as evidenced in the upsurge in the volume and value of trading in the stock market. Secondly, the reform in the banking sector has the potentials to attract more foreign investment inflow, especially in the area of portfolio investment, which if sustained will boost the level of economic activities especially toward non oil sector. Thirdly, the consolidation of banks is likely to attract a significant level of foreign banks entrance into Nigeria which will become a feature in the industry over time. Furthermore, the consolidation exercise will bring about more confidence by the international community of the banking sector thereby attracting more foreign investment

into the country. Finally, as the level of financial intermediation increases, interest rate is likely to fall thereby increasing lending to the real sector which will translate to employment generation and robust economic growth and it is likely to enthrone efficiency in cost of operation, risk management and profitability.

### 2.2.4 Challenges of Bank Consolidation

Adedipe (2005) further observed that consolidation of banks is a very difficult task that requires extreme care, expertise, sound and strong leadership from the management. Successful merger eventually depend very much on management ability to conceive well thought through strategies to develop synergies, combine culture and motivate terms. Adedipe asserted that among the major challenges and motivated terms faced by the banks include: attitudinal change by banks owners and management who may resist corporate consolidation for fear of loosing control and erosion of their power, rigidity in bank ownership which include a complicated web of cross shareholding that bind banks to insurance companies' industrials groups and other banks, redundancies cost in the area of information technology. Human resources and fixed assets such as branch offices, the corporate structure can pose problems especially in cases where the memorandum and Article of Association of bank especially prevent mergers and takeovers, inherent natural resistance to cultural imposition which can create post merger trauma as some dominant banks may be tempted to force their smaller merger partners to assimilate/adopt their organization culture, Increase the cost of maintaining several deposit accounts and higher cost and complexity of serving a large number of shareholders as consolidation often results in large size, large shareholders and large number of depositors.

#### 2.2.4.1 Bank Consolidation Induced Challenges to NDIC

According to Steve, (2004), one of the functions of capital is to serve as a symbol of confidence in banking institution. Therefore, the strong capital base prescribed under

the consolidation programme is consistent with the corporation's mandate of promoting public confidence in the banking system.

The increase in the minimum capitalization requirement for banks will to a large extent, engender public confidence in the banking system as it will enhance banks capacities to absorb operating losses and minimize resource to depositor's funds for acquiring "brick and mortar" or marble facade. However, as a deposit protection agency, NDIC is concerned with the likelihood of a stakeout in the banking industry following the policy shift, at least in the short form as well as the need to put in place appropriate strategies to ensure adequate depositor protection under a consolidated banking environment. These challenges can be discussed under the following categories;

#### 2.2.4.2 Pre-Consolidation Challenges

**Liquidity Problems:** This new minimum capital requirement of N25 billion, which prompted the ongoing consolidation exercise had led to panic in the interbank market following the new policy direction of the CBN particularly as it relates to consolidation and increase in bank capital base, the big players in interbank market withdraw their fund in the market with the attendant liquidity problem for the marginal banks.

Nwankwo (2013), explained that currently, some banks have been thrown out of the clearly system as a result of their weak liquidity position. This situation becomes a concern for the NDIC as a few banks are currently unable to meet their obligations to the deposition.

If the developments are not properly managed, what begins as a mere liquidity problem may cause runs on those banks and may well lead to the failure of some banks. The situation may warrant the provision of financial existence, from the new NDIC include; solvency, good corporate governance, credible turnaround plan, credible repayment plan, and acceptable collateral.

With the minimum capitalization of N25 billion,banks are continually flooding the capital market to raise additional capital funds either to meet up with the minimum requirement or to position themselves for merger and acquisitions. Till date, all the banks that were in the capital market to source funds have been reporting over subscription. The regulatory challenges here relates to money laundering. How can the regulatory authorities prevent massive money laundering in banks during consolidation periods especially when the instrument for payment for such investment right have been "coloured" beyond recognition by the various issuing houses and receiving agents. This may lead to another concern which relates to compatibility of co-investors.

The ongoing process may create ownership structure that may make management of emerging banks very complex as it may be difficult to identify "fit and proper persons" and (or compatible partners during the process of consolidation. Therefore, all banks should adopt the "know your co-investors" (KYC) principle in pursuing the consolidation programmes (Johnson, 2004).

Increased level frisk during its integration process and consolidation process the overall risk profile of the new entity could increase because of the integration risk and the complexity of the rationalization process. Common reasons for possible escalation of the risk profile of the merged entity, especially initially, include failure of control system, lack of management focus and poor understanding of "adopted" risk. The degree of escalation will depend upon the circumstance surrounding the merger, in particular whether the merger is friendly or hostile. The situation poses a challenge to the corporation to the extent that the safety of depositors' funds could be adversely affected.

**Raising Capital using Depositors' Fund:** There are indications that depositors of fund can be utilized to grant loans for share acquisition in the pursuit of the consolidation programmes. Such a practice, apart from being a violation of CBN guideline may lead to assets/liabilities mismatch of depositors' funds are locked into equity investment. Such

risk could unrelate the safety of depositors fund and it is an issue of serious concern to the NDIC because of its role as depositor insurer.

#### 2.2.4.3 Post Consolidation Challenges

**Possibility of Bank Failure:** according to Kehinde & Kareem (2012), some banks that could neither be merged nor acquired run the risk of liquidation. The possibility of multiple banks failure would inevitably task the financial resources and executive capacity of the corporation. This is because the corporation as deposit is requirement to pay all insured depositor of failed insured institution as soon as their licenses are revoked by the CBN. The challenge of multiple bank failure becomes an issue of concern when account is taken of the impending upward review of the maximum deposit insurance coverage (NDIC) from N50,000 to N200,000 before the National Assembly and the clamor for downward review of the premium rate paid by insured institution. While the upward review of the NDIC was the effect of increasing the liability of the corporation when a bank failure. A downward review of the premium rate has the effect of reducing the premium collectible from insured institution (the major sources of the deposit insurance fund where the obligation of payment of insured is met).

**Inadequate Executive Capacity:** He asserted that the ability of executive management to build and mould powerful term that is able to lead the merged banking entity through the painful process of merging IT systems, business lines and products cultures and peoples is of critical entity importance and particular concern to NDIC in that regard, the management of merged entity needs to have the ability to identify the integration risk at an early stage and manage them effectively in the shortest possible time. Given that banking is all about risk management, whatever circumstances that adversely affects the ability of any bank management to effectively manage risk facing it would inadvertently constitute a challenge to the corporation given its primary function of deposit insurance.

Good corporate governance requires probity transparency and accountability. It often helps to assume that business strategies are consistent with safe and sound operations and thus can act as the first line of defense against executive risk taking.

**Supervising Approach:** The current supervisory approach in Nigeria which is transaction and compliance based is in scope and uniformly applied to all supervised institutions process, with consolidation there is the need to adopt a robust, proactive and sophisticated supervisory process which should essentially be based on risk profiling of emerging big banks.

In other words, the adoption of an appropriate risk based supervisory approach is imperative with consolidation. The approach entails the design of a customized supervisory programme for each bank and it should more attention on banks that are considered to have potentially high systematic impact.

### 2.2.5 The Impact of Bank Consolidation on the Nigerian Economy

**Capital Flow Effect:**

According to CBN (2005), bank consolidation exercise of the banking industry has attracted international investment inflow to the industry to the tune of US $86 million, about N12.4 billion and another 162,000 pound (about N340 million). A planned N359 billion was gathered by banking industry from personal placements and government offer. Foreign lines of credit of two of the Banks that were among the first set of Banks to consolidate has increased to about US$250 million as effect of the consolidation exercise. So the potentials are getting better, foreign investors now have confidence in Nigeria. Reasonable benefits have observed in increased growth improving perceptions and debt relief through the ongoing bank consolidation. The consolidation provides the

commencement of a more trusted and more resilient financial economy of large scale Bank, which is probable to withstand economic permutations and few banks, which are easier to supervise.

**Boost to Manufacturing:**

Bank consolidation is a boost to manufactures success so far achieved by the Central Bank of Nigeria in order to revamp the manufacturing sector. Some years ago, facilities were in the range of 25/30 percent interest rate. In fact, some facilities are coming at 15 percent now. It is going to be better for the real sector at the final analysis. Okeke (2006) opined that before the bank consolidation, no Bank would fund your project if you did not have a godfather. He said that banks will now virtually be on your front door to give you finances.

Business will increase due to the expansion of the access to finance revenue generation which will also maximize in order to pay back the loan and make good profit. Businesses can now advertise in the media and even employ more hands. The government wants Nigerians to partake in lower stream sector of the oil industry, but it is not possible for many Banks to partake in the oil and gas sector, where there is competition and huge financial requirement. Consolidation would strengthen the Banks and that would mean loans to the oil and gas sector. It would make Banks stronger and they would have enough means to do their business (Ayodele, 2005).

**Effect on Capital Market:**

Banking stocks undoubtedly occupy position as growth drives on the Nigerian Stock Exchange (NSE). A review of market performance in 2005 confirms this strategic importance of banking stocks. Seventeen Banks made the 20 most practical stocks by volume with nine Banks on the first 10 most practical lists. Also 10 Banks made the top 20 most capitalized stocks list with banking sector contributing 6 out of Nigeria’s 10most capitalized companies. The consolidation also, ushered in an unprecedented era of new

listings of new Banking stocks. Ten banks were listed between July 2004 and December 2005. These include, ACB International, Diamond Bank, Fidelity Bank, First City Monument Bank, Guardian Express Bank, Investment Banking and Trust Company (IBTC), Platinum Bank, Unity Bank, Spring Bank and Zenith Bank.

The recapitalization and bank consolidation programme shattered the private ownership domination of Nigeria banking sector and changed to public limited liability companies. These resulted to having only 25 banks listed on the Nigerian Stock Exchange with N 1.98trillion total market capitalization as at 2006 (NSE Fact Book, 2006).

### 2.2.6 The Problem of Bank Consolidation

According to Ebuka (2005) in a paper presentation on the topic "challenges of the bank consolidation in Nigeria" argued that the pre-consolidation problem of bank are rational for banks system reforms in Nigeria. According to him, the banking system suffers several operational problem. Firstly, weak corporate government evidenced by inaccurate reporting and non-compliance with regulatory requirement declining ethics and gross insider abuse, resulting in huge non-performing insider related credits. Insolvency as evidenced by negative capital adequately ratios of some banks completely eroded shareholder's funds caused by operating losses. Over-dependency on public sector deposit and foreign exchange trading and the neglect of small and medium scale private savers.

These are some of the reasons why the fundamental restricting and refocusing was carried out to address the structure and operational problems of the system in order to create a strong and reliable banking sector which will play active development roles in the Nigeria economy and be a competent and competitive player in the global financial system.

### 2.2.7 Countries' Experiences on Bank Consolidation

No modern structured economy has ever survived and triumphed without enough contribution from the banking sectors This is absolutely true because the entire life of the modern economy depends largely on the banking sector. What some economic analysts

said, without doubt, brings hope and confidence in Nigeria, that the Nigerians' banking industry has enough strength to play its expected key role in the economic growth and development of Nigeria is "the banking consolidation – well planned and accordingly executed by the Nigeria's apex bank, the Central Bank of Nigeria under the leadership of Charles Soludo

It is worth noting that, in the consolidation process some banks had to forcefully close shop for failure to meet up with the requirement. Some were merged; some were acquired by the stronger ones. In the final analysis, only 25 out of the then 89 existing bank were able to weather the storm, what some critics described as the wildest storm in the history of banking industry in Nigeria. Despite all the criticism for and against the consolidation exercise, the hope and confidence Nigeria and Nigerian have in the banking sector now is the crop born out of the consolidation exercise. Now in Nigeria customers share-holder and stockholders of banks can sleep with their two eyes closed having no fear that their banks may collapse as a result of unstable capital base or fundamentals. But, even with this seemingly positive development, some critics still argue and stand their group saying that the consolidation exercise was not what was actually required to turn around the banking sector and negative consequences are awaiting the sector no matter how long it take. Only time stands to judge who is wrong or right between the critics against the banking consolidation exercise and the Central Bank of Nigeria under leadership of Soludo.

Sanusi Lamido, the then managing Director/Chief Executive officer of the First Bank of Nigeria Plc, who assumed duties on the 1st January 2008, taking over from Mr. Jacobs Moyo Ajekigbe is indeed one among such members of the corporate Nigeria who have distinguished themselves in terms of longstanding and exceptionally contributions towards the growth and development of the banking industry.

#### 2.2.7.1 Review of some Regional Experiences

According to Bernard (2006), “that to remain a big player in the globalize market both industrial and emerging economics see financial sector consolidation as a broader competitive issue”. Some regional experiences in the banking system consolidation are highlighted below:

**Central Europe**

Bernard (2006) the banking system in Central Europe was much more concentrated with a high level of bankruptcy. This led to consolidation with stronger banks taking over weaker ones to ensure continued stability.

Their development was a spill-over of consolidation of the parent foreign bank in the European Union.

**Latin American**

Bello (2005) writes that Latin American countries have more divergent experience in bank consolidation. For example, in Argentina, bank consolidation was as a result of both domestic and external factors in for financial liberalization. In Brazil the privatization of state owned banks resulted in taking over by both private and foreign banks through merger and acquisition.

**Asia**

The Asia continent has witnessed one of the most severe financial difficulties in recent history which affected not only the banking system but, also the activities in the stock market and lost of confidence by the international community. This development induced government led consolidation process in some of these countries such example is Malaysia were the Central Bank in 1999 selected ten anchor banks to lead the consolidation of smaller institutions with the government offering tax concessions as part of a package of incentive with overlapping operations in order to curtail unsound and distress in the banking system. The government provided capital support to private banks

as an incentive to take over the assets and liabilities of five commercial and seventeen merchant banks that were closed.

**Hungary**

Gyargy (2001) as cited by Ajayi stated that the reform in the banking sector proceeded against the backup of banking crisis due to highly under capitalization of state owned banks weakness in the regulatory and supervisory framework weakness in management practices and the tolerance of deficiencies in the corporate governance behaviour of banks.

**Malaysian Experience**

Emordi (2003) studied the impact of forced bank mergers on the shareholders, wealth of Malaysian Banks.He stressed that forced bank merger which are the result of direct government intervention in the consolidation of the banking industry are generally rare.

The findings of the study shows that the forced merger scheme destroys economic value in aggregate and the acquiring banks tend to gain at the expense of the target banks.

Future analysis shows that the contrasting force merger finding is linked to cronyism (companionship). The regulatory authority in Malaysia to merge with each other but after the years moral persuasion with little success the Malaysian government took the unprecedented measure of forcing banks to merge with each other in 1999 in the face of strong objections, it was revised to a more market oriented merger scheme a few months later, under the revised scheme banks were allowed to choose their own merger partners, adopt-market base valuation method and have more time to complete the mergers.

Research on market-driven banks consolidation, finds that the target bank generally experience positive abnormal returns. The empirical evidence on the returns to

the bidding banks is rather mixed. It was discovered that the overall gains due to mergers in the United States is slightly positive, but statistically insignificant.

In other words, the gains of the targets are typically offset by the loss suffered by the bidder, very little, however is know about the effects of forced mergers and acquisitions on the shareholders wealth of both the target and acquiring banks. The findings show that, unlike the findings on voluntary mergers and acquisitions the forced merger scheme has a significant and negative effect on the stock returns of the target banks.

In other words, the acquiring bank gains at the expense of the target banks. The result of the analyses, furthermore, shows that the revised merger scheme increases the wealth of target bank but reduces the wealth of the acquiring banks. The Malaysian scheme provides valuable lesions on how bank consolidation should proceed. Its experience offers an opportunity to access the extent of the economic benefit of financial market and the importance of maintaining a competitive market for corporate control. The forced merger scheme was implemented right after the sacking of the then prime minister Anwar Ibrahim in September 1998. The hypothesis, hence is that the forced merger scheme is likely to affect the Anwar-connected banks more negatively than the other banks.

Consistent with this view, we find that all the Anwar-connected banks were targeted to loss their banking licenses in the forced bank merger, while only 50% of the umno-connected banks were designated to loss their banking license. We moreover, find that the Anwar-connected banks suffered significant losses in value during the forced merger period, while the umno-connected were not significantly affected (Emordi, 2003).

This is the reason why it was deduced from the finding that the forced bank merger scheme in Malaysia is linked to cronyism and not entirely driven by economics.

This probably explains why the forced banks merged scheme destroys economic value in aggregation.

### 2.2.7.2 Analysing the U.S. and Europe Experience on Bank Consolidation

According to Isurukotaro (2002), the following are some of the findings; the US removal of restrictions over banks interstate operation and the financial interpretation in Europe (a green light for cross-border universal banking), undoubtedly triggered re-alignment in their respective banking sectors. Improvement in revenue as a result of risk reduction through product and geographical diversification. It was also observed that the rise of oligopoly through bank merger and consolidation lead to lower deposits interest rates and higher lending rates. And it was observed that from 1990 to 2000, banking assets held by the largest 1% of all bank rose from 54% to 70%.

More so, banking system as a whole have been well capitalized, since the mid 1990's and bank failure have been in number. Not all the remaining mergers were success stories. Firstar's acquisition of first achieved the gain that is expected, but it suffered from losses in revenue growth due to the unexpected deflection of loss officers.The lesson of that merger is that the single minded pursuit of physical cost savings may be an inadequate strategy. Careful human resources management is a basic determinant for success.

### 2.2.8 Bank Consolidation Process and Findings

According to Akudu (2007), the consolidation and restructuring of the Hungarian Banking system proceeded in stages. These include:

**Portfolio Clearing:** This is a process where banks and savings co-operatives which had a capital adequacy ratio (CAR) of less than a specified percent (in the case of Hungary 7%) were given government at a discount to the Hungarian Development Bank.

**Enterprises-Oriented Portfolio:** Clearing portfolio targets debtors to avoid the closure of certain state owned enterprises which are considered essential.

One important lesson of experience is that, it could be gained from other countries is the use of portfolio-clearing to work out the non-performing loans of banks with (CAR) below

a specified minimum. The work out process could be achieved through various channels including of the debt for shares in the debtor company. However, outright write-off of the debts may not be encouraged as there was susceptible to moral hazard.

This paper uses unique bark-by-bark balance sheet and income statement information to investigate the intermediation efficiency in the Nigerian pre-consolidated banking sector during 2000-05. The author analyses whether the Central Bank of Nigeria's policy of recent banking consolidation can be justified and rationalized by looking at the determinants of spreads. Spread decomposition and panel estimations show that the reform of the banking sector could be first step to raise the intermediation efficiency of the Nigerian banking sector. The author finds that larger banks have enjoyed lower overhead costs, increased concentration in the banking sector has not been detrimental to the spreads, both increased holdings of liquidity and capital might have led to lower spreads in 2005, and a stable macroeconomic environment is conducive to a more efficient channeling of savings to productive investments.

**2.2.9 Bank Consolidation Models**

There are consolidations models named after the country, in which there are operated. Firstly, the Lebanon Model, the Goldman Sachs Model and the Malaysian/Singaporean Model

In this study, I shall discuss only the Malaysian/Singaporean Model, provides a great lessons for the Nigerian situation as these economics have, at some time faced similar challenges such as: import-dependence, foreign-financing of project composing agriculture as the largest contributor to GDP. In the banking sector of these economics, we also see similarities in challenges; high interest rates, liquidity issues and declining asset quality following reforms stimulating regulators in these economies, viable banking industries have emerged, capable of supporting the overall growth of this nations.

**2.2.10 Merger and Acquisition**

According to Adewole (2002), mergers and acquisition have had a major effect on Nigeria banking sector in Nigeria and around the world, over the last decades, as a consequence, a lot of staff of banks have suffered numerous psychological demerits of mergers and acquisition. Acquisition is often viewed as having an uncertain effect on employee's behaviour, resulting in counterproductive practice, not always present at work, low ethic and job unhappiness. In literature on merger, consolidation and acquisition are frequently used in a loose sense in referring to a situation in which firms are integrated in some form. A merger happens when one firm obtains the assets and liabilities of another firm for a particular price. The firm that sold itself to another stop existing as a separate entity the firm that bought continues to exist and survive.

#### 2.2.10.1 Types of Mergers and Acquisitions

A consolidation is similar to merger. There are three types of merger and acquisition as recognized by many researchers. They are as follows: Horizontal, Vertical, and Conglomerate mergers. However, Gaughan (2007) mention and discussed the fourth type of merger and acquisition, which is Concentric mergers.

**Vertical Merger:** Is when two firms achieve a successive functional relationship. That is when the output of one company is a production input for or is marketed by the other company.

**Conglomerate Mergers:** A Conglomerate Merger occurs between firms whose products are unrelated and they are situated at different production stages.

**Concentric Merger and Acquisition:** This merger involves firms that have various business operation patterns, but may be highly related in production and distribution technologies.

**Horizontal Merger and Acquisition:** This merger occurs between firms whose products are substitutes. Objective of this merger is to eliminate a competitor company, to increase

market share, buy up surplus capacity or obtain a more profitable firm in order to have an advantage over competing.

### 2.2.10.2 Scenarios of Mergers and Acquisition

Nicole (1999), noted that the scenarios on Nigeria banking system carefully considered the current drive for consolidation and the N25 billion minimum capitalization requirements. The following are the scenario;

**Peer Merger:** This is a scenario where the financial institutions that are unable to raise the required N25 billion alone come together to form stronger entities. These stronger entities jointly raise the N25 billion minimum capitalizations and also contend emulously in ensuring business landscape. This is already happening.

The following consortia are example; first consolidated, Astra Bank and sterling. The method is common in foreign countries and it was dominant during banking system reformation in India in the last nineties.

Merger of banks to form regional financial institution is another possible situation that could occur. For example, bank that have their first market in the northern part of the country may decide to merge to consolidation, their capabilities and reduce their debt. At the same time, they would have the strength to increase their capitalization to the required level more easily.

**Acquisition/Merger of the Strong:** In this scenario, banks that have the wherewithal to measure up to the required capitalization such as First Bank, UBA, Union Bank, Zenith Bank etc, makes use of the situation in the market as an avenue to acquire or combine with other banks. This will help them further increase in market share, expand branch new-works and deeper their skill base. For example, this route is being traded by UBA and Standard Trust Bank with the introduction of merger. Guaranty Trust is exploring the approach with its organized taking over of other banks.

This action will assist the presence of its geographical area. Also, First Bank may acquire another bank due to its competence in a particular sub-sector, for instant capital market.

**Reserve Acquisition:** In this scenario, a smaller bank with a very sound band and low leadership depth is acquired by a much bigger "fish". Now the significant change here is that the new institution carries the name of the smaller institution, due to the strong brand and the leadership of the smaller institution takes charge of the larger institution. An example of this sort of merger is the traveler Group, City Bank merged in 1988. Although City Bank was a smaller financial institution, the combined bank was called City Group while retail outlets remained the name City Bank. This was because City Bank was the stronger brand. In addition, Sandy Weil, the CEO of City Bank became Chair/CEO a short while after the merger was completed.

**Root Merger:** This scenario is a process where one or more banks agree to merge due to the fact that they have similar share-holders. For example, consider Dercom and Equatorial Trust Bank.

These banks function as standalone financial institution, through the shareholders. Thus, in order to measure up to the required minimum capitalization, a root merger could occur. This merger will of course make competing in the unfolding financial sector easier.

**Foreign Capital Infusion:** This current consolidation process available, the severe competitor with a unique chance. Foreign financial organization (think HSBC) may acquire a share in banks that have prospects, but cannot raise the required capitalization by themselves.

Depending on the percentage acquired, the bank may retain its current identity or may have to take that of the foreign organization. Another side of this approach can only be release to international banks already functioning within the system. For these banks the required funds can be gotten from the parent organization based on a predetermined agreement.

**Subsidiary Acquisition/Mergers:** Already certain banks within the banking sector possess other banks as the subsidiaries (for example, First Bank and FMN Merchant Banks). A bank may also be a majority shareholder in another bank (for example, Intercontinental and Equity Bank).

For bank in this category, an option that is can be used is the total takeover or combining of such subsidiaries.

The bank in control can therefore meld its subsidiaries into a singular entity that considers Intercontinental Bank, which has Equity Bank as a subsidiary. It also has share in Gataway Bank and an interest in Global Bank. Intercontinental is already traveling down this route. It also signed a memorandum of understanding recently with these banks with the hope of evolving singular institution.(Nicole, 1999).

### 2.2.11 Eras of Nigeria Banking Sector

Nwankwo (1980) noted that the Nigeria banking industry witnessed a lot of changes from its inception to date. These changes we shall look into under the following headings:

The Free Banking Era (1894-1952)

The regulated Banking Era (1959-1996)

The Pre-consolidation Era (1997-2005)

The Post-consolidation Era (2006)

#### 2.2.11.1 The Free Banking Era (1894-1952)

According to Oloyede the provided foundations on which subsequent legislations were laid, was characterized by the absence of many banking legislation regulations. In this era anybody could set up a banking company provided he is registered under the company's ordinance. However, of the many banks (indigenous and expatriate) established during the period, only First Bank, Union Bank, UBA, Wema Bank, Merchant Bank of Nigeria Survived the period.

The free banking era come to an end with the promulgation of the 1952 Banking Ordinance by the Colonial administrators of Nigeria. The failure of most indigenous banks in free banking era was due to a number of unfavorable conditions at that time including inadequate capital base and lack of managerial expertise etc. These failures continued until 1952 when the colonial administration passed in 1952 Banking Ordinance. The ordinance provides the following among others: introduced a system of Bank licensing, stipulates minimum paid-up capital for bank at twelve thousand, five hundred pounds for indigenous foreign banks, reserve and liquidity requirement of 20% of profit annually until the reserve fund equals the paid up capital, and the ordinance also provided for banks examination and supervision.

#### 2.2.11.2 Regulation Banking Era (1959-1996)

"The failure of a number of indigenous banks and repercussion for banking led to the settling up of commission to examine the prospect of the banking system in Nigeria. The recommendation of the commission resulted in the enactment of the Central Bank Act provided three main objective:

The bank is to act as the sole authority to issue legal tender money in Nigeria.

The bank is to promote monetary stability and ensure sound financial structure.

The bank is to maintain external value of the country's currency.

The enactment of the banking decree of 1959 ushered in a more conducive environment for growth of the banking industry. There was tremendous increase in the number of Banks from then. Between 1986 and 1992 (Deregulation Era) there were 120 licensed banks (66 commercial and 53 merchant banks), under the direct regulation and supervision of the CBN. By the year 2000, the total number of banks reduced to 89, 66 commercial and 23 merchant banks) and 34 (13 commercial and 21 merchant banks), have been declared distressed by the CBN are being liquidated by the NDIC previously

Savanna Bank and All State Trust Bank are among the banks declared distressed by the CBN.

### 2.2.11.3 Banks' Pre-Consolidation Period (1997-2005):

The Federal Government policy on liberalization under the structural adjustment programme (SAP) intensified in 1996. Consequently, all forms of restrictions and controls were dismantled to pave way for a free market economy. Therefore, all monetary policies that hitherto dished out directives to banks were abolished. The effect of this policy became manifest in banks' lending preferences from 1997. For example, while aggregate credit to the economy in 1977 almost doubled to N240.8 bill0n, credit to SME declined to N40.8 billion, representing a sharp decrease to 17.0 per cent of the total credit.

Total credit to the economy more than tripled to N796.2 billion and N954.6 billion in 2001 and 2002. The figures for 2003 and 2004 passed a trillion naira mark and stood at N1.2l trillion and N1.52trillion. At the threshold of consolidation in 2005, aggregate credit to the economy peaked for the period at NI .899 trillion. Cumulative credit to the economy during the nine-years period, 1997- 2005 amounted to N7,754.5 billion.

### 2.2.11.4 Banks' Post Consolidation Period (2006-2008):

According to the CBN recent published data compiled from returns received from the DMBs from 2006 - 2008, aggregate credit to the economy more than doubled during the post-consolidation period. Total credit to the economy increased from N2.5 trillion in 2006, N4.8trillion in 2007 and N7.7trillion in 2008. Consequently, the post-consolidated loans allegedly granted to the economy during the three-year period, 2006-2008, accumulated to N15, 063.6 billion. This confirms the findings by many experts that the more banks are capitalised, the fewer loans they grant.

This is the rationale behind the call for special programmes to be put in place to assist the small and medium enterprises, undisputedly recognized as the nucleus of industrial

revolution, in most economies of the world. It should be noted that the quantum of credit denied SME sector in the post consolidated period, 2006-2008 based on trends in credit granted to the sector in the past two periods between 1992-I996 and 1997-2005. The analysis is not necessarily based on the credit needed by SME sub-sector that was not granted by the post- consolidated banks during the period. No research has been conducted to come out with accurate figure on the amount of credit needed by the sector (Benjamin, 2009).

However, Table VI indicates that the capitalized banks under- disbursed to SME the sum of N25.7billion, instead of N164.1 billion, representing a shortfall of N138.4 billion in 2006. In 2007, only N41 .1 billion was disbursed instead of N312.9 billion, representing a shortfall of N271.8 billion. In 2008, N502.2 billion was due for disbursement to SMEs but only N 13.4 billion was actually disbursed, leaving a credit gap of N488.8 billion. Consequently, the aggregate credit denied to SME sub-sector during the post-consolidation period, 2006- 2008 accumulated to N898.9 billion as at end-December, 2008.

### 2.2.12 The Structure of the Nigeria Financial System

According to Nweike (2003) “a financial system is a conglomerate of various markets instruments, operators and institutions that interact within an economy to provide financial intermediation and facilitation of foreign exchange transaction. Ojo (1993) observed that the Nigeria financial system can be broadly categorized into two important concepts:

The structure of the Nigeria financial system

The size of the Nigeria financial system

He was of the opinion that the financial system tends to look at the types of institution in the system and also the ownership and control of the institutions.

The institution includes;

The banking institution

The non banking institution

The financial market

Special financial institution

**2.2.12.1 The Banking Institution**

These comprise of the commercial banks, merchant banks, peoples banks and microfinance banks as key operators while the Central Bank of Nigeria (CBN) serves as the apex financial institution and regulator of the sector (banking).The Nigeria Deposit Insurance Co-operative (NDIC) plays a supporting and complimentary role to that of the Central Bank of Nigeria as a regulating of the banking sector.

**2.2.12.2 The Non-Banking Financial Institution**

The non-banking institutions comprise of the insurance companies, provident insurance and mortgage institution.

**2.2.12.3 The Financial Market**

The Nigeria financial market comprises of the Nigeria Stock Exchange and the Nigerian Securities and Exchange Commission (NSEC), which is the regulator of the sector (Ojo, 1993).

**2.2.12.4 Special Financing Institution**

The special financing institution comprises of special banks. Examples development bank that is the Nigeria industrial development bank (NIDB). Federal Mortgage Banks of Nigeria, Nigeria Agricultural Cooperative and Rural Development, Nigerian Export Import Bank and Urban Development Banks of Nigeria Plc.

**2.2.13 The Role of Banking System in Nigeria Economy**

The finance sector in general and the banking sector in particular contributes to growth/ development in the following ways:

**Advancing Credit to Borrowers:**

Maya (2002) observed that in the development of the Nigerian Economy, financial institutions have been playing a major function. According to him, banks mobilize and disbursed great quantity of funds of both government and private sector investors for the growth of the economy. Emeka (2009), postulated that the number one reason banks want deposit is to enable them give out loan from which they can earn interest income. But more importantly, extension of credit to the economy is the core link that banks have with real sector, acting like a catalyst and contributing to the growth of the economy.

By financing production, consumption and commerce, banks makes the procedure of economic development smooth with multiplier effect across all sectors of the economy. Banks credit to the Nigeria economy was N21.043 billion to the government, N36.631 billion to the private sector in 1990. It was N54.6 billion to the government, N276.489 billion to the private sector in 1997; in 2003 it was N416.6 billion to the government, N1292.8 billion to the private sector. The growth rate of banks credit to the economy was 45.3% in 1991, 2.8% in 1997, 60.2% in 2002 and 28% in 2003.

**Sector Specific Lending:**

Emeka (2009), explained that in order to lend to macro, small and medium scale enterprises (SME) as well as real sector, banks coacted and worked together with government. When mandatory sectoral distribution was removed in 1997 as a policy tool used by CBN, mainstream banks were made to meet specific targets in their lending to the productive sectors especially agriculture, manufacturing, particularly the export and solid mineral. From 1980 to 1983, an annual average of about 58.3% of commercial banks assemblage lending went to agriculture and manufacturing sectors (Olu 2000). Commercial banks total loans to small scale enterprises rise from N20.4 Billion in 1992 to

about N42.63 Billion in 1998, exhibiting an average of about 21.5% of the aggregate loan given out by commercial banks during the period.

**Deposit Mobilization:**

According to Emeka (2009), banks like any other business enterprises use money contribution in their normal activities. One of such contribution is the customer deposit. Therefore, banks assemble deposits from both city and local regions, from wealthy and the less endowed for abundance investment. In doing this, they produce different financial instruments to measure up to the preference of the heterogeneous customers. Apart from paying interest income to the depositors, banks give protection for those funds that would otherwise been exposed to such risks as fire, theft, and so on if such funds were to be in the owner's physical custody. In other words, banks do not only create liquidity, they also remove the hoarding and idleness of cash and loss of funds through safe custody.

The volume of and the rate of increase of deposit assemblage by banks has been a shaking one. From N43.9 billion and 37.4% in 1990 to N295.1 billion and 23.3% in 1997 and N1415.8 billion and 15.4% in 2003. The average growth rate was 31.4% in the period 1990-2003.

**Financial Intermediation:**

Emeka (2009) finds out that monetary mediation is a sector where banks have the professional experience of pairing the interest of depositors with those of borrowers by providing more or less a coordination role for the two groups. In more technical terms, banks mediation roles imply matureness, change and differentiation of the saving and investment role in an economy. This implies that in the absence of banking institution, individuals or corporate bodies that want to invest for instance in real sector production would first gather enough funds over time that is capable of meeting their fixed and variable cost of investments. In a related scenario, those personal or institutions investors with surplus funds would have to search and show the deficit unit that are interested in

their funds. The two procedures would be too burdensome, costly and very ineffective. The true principal well placed to do this vital function efficiently is the banking system. The rate of increase in any economy is a function of the capital formation and the pace at which such economy is transformed into the abundance investment projects in the real sector (Dandi, 2003 and Zenga and Damme, 1999).

**Payment System:**

Emeka (2009), Palmer and Anthony (2000), observed that where ever there is trade, there must be exchange of goods and services. As a consequence of this, the financial institutions have invariably done the function of payment vehicle in the trade system all over the world. Therefore, rather than carry money about looking for goods and services, traders only need to provide information regarding themselves and their customers and how transaction related bills should be settled. This is the very essence of the payment function of banks.

There are two major perspectives to the function of banks in the payments system according to Emeka (2009), Ifeanyi and Mark, (2008), which are as follows.

**International trade:**

They noted that some of the foreign trade services brought by banks include the following; Provision of foreign exchange for business, traveler and payment for imports, Collection of export proceeds on behalf of exporters, advice on foreign trade regulation, advice on methods of hedging exchange risk etc.

**Payment Mechanism and Funds Transfer:**

Goods and services are produced and sold in an economy that partake in trade and exchange within and across country borders. Bank's check clearing and funds transfer facilities have effected positively in the volume of trade and other business transaction by deployment of IT in banks, the speed of service delivery has been enhanced while the price of doing business has reduced tremendously. As it is possible to move millions of

Naira through electronic media (Electronic transfers) and chip based cards such as credit cards, debt cards, ATMs, or even by the fast growing electronic purse (value cards). This growth impacts positively on the assemblage production and economic development of any economy (Ifeanyi and Mark 2008) and Nigeria in particularly.

**Business Advisory and Consultancy Service:**

Emeka (2009), finalized that in additions to the normal lending activities, banks now partake in business advisory and consultancy services, now that business fail simply because of management, faulty investment decision, unrealistic assumptions, efficient capital structure and planning, all of which banks can give today, to make sure that economic development is not slowed.

### 2.2.14 Evaluation of the Nigeria Banking Regulation

Regulation can be viewed as the instrument used to protect depositors, assist in the working of monetary policy and encourage competition and effect efficiency in financial economic activities.

Sinkey (1992) explained the banking regulations to seek to serve three masters:

**Safety:** The protection of depositors and deposit insurance fund.

**Stability:** The protection of the economy from recession

**Structure:** The protection of bank customer from the monopoly power of banks.

However, the 1952 Banking Ordinance laid the foundation on which other regulation were built upon. According to Oloyode (1994) the Banking Regulation in Nigeria may be broadly classified under three inter-related categories namely; statutory, central bank guideline, regulation incidental to CBN functions.

The statutory class comprises all government legislations that govern the banking industry. The CBN guidelines include the prudential guidelines and other directives issued by CBN. Based on the central bank guidelines and regulation incidental to CBN functions, the government of CBN Charles Soludo came up with banking reforms of N25 billion capital base for commercial banks.

This reform agenda gave birth to the post-consolidation era, the topic of this study.

**2.2.15 Rational for Banking System Reform in Nigeria**

Ebuka (2008) emphasized that the major objectives of the banking system are to ensure price stability and facilitate rapid economic development reputable, these objectives have result of some decencies. These includes low capital base. The average capital base of Nigeria banks was US $10 million, which was very low compared to that of banks in other developing countries like Malaysia where the capital base of the smallest bank was US $526 million.

Similarly, the aggregate capitalization of the Nigeria banking system at N311 billion (US $2.4 billion) was grossly low in relation to the capital base of US $541 billion for bank in Germany. A large number of small banks will relatively few branches, the 89 banking in Nigeria as at the end of may 2005, had a total of 3382 branches where as the eight in South Korea about 4500 branches.

The dominance of a few banks the top 10 banks control about 50.8% of the aggregate asset 51.7% of total deposit liabilities and 45% of aggregate credits. Poor rating of a number of banks through the balancing system in Nigeria is the average rated satisfactory a detailed analysis of the conduction of individual banks $9^{th}$ as at December 2004 showed that no bank was rated very sound. Only 10 were adjudged sound with 51 satisfactory 16 marginal and 10 unsound.

**2.2.15.1 The Objectives of the Reforms**

Ebuka (2008), stressed further that the objective of the banking sector reforms as contained in the reform agenda announced by the governor of the CBN on July 6 2004 are as follows:-

Requirement that the minimum capital base for banking industry should be N25billion with full compliance from 31 December 2005, phased withdrawal of public sector funds from banks effective July 2004 consolidation of banking institution through merger and acquisition.

Adoption of zero tolerance in the regulatory framework, especially in the area of data/information/reporting. All returns by banks must now be sign by the managing directors of banks. The automation process for rendition of returns by banks and other financial institution through the electronics financial analysis and surveillance system (E.FASS).

Establishment of a hotlines confidential internet address (Governor at Central Bank Organization) for all Nigerian wishing the share any confidential information with the governor of the CBN on the operations of any banks in the financial system, only the governor has access to his address and strict enforcement of the contingency planning framework for systemic banking distress.

The establishment of an asset management company as an important element of distress resolution, promotion of the enforcement of dormant laws especially those relating to the issuance of dude cheque and the law relating of the vicarious liability of the board of banks in case of failure by the bank, revision and up drafting of the relevant law and drafting of new ones relating to effective operation of the banking system, closer collaboration with the Economic and Financial Crime Commission (EFCC) in the establishment of the financial intelligence unit (FIU) and the enforcement of the anti-money laundering and other economic crime measures. Rehabilitation and effective management of the mint to meet the security printing need of Nigeria.

#### 2.2.16 Banking System Consolidation in Nigeria

Bernard (2006) in a paper presentation on the topic "banking system consolidation in Nigeria and some regional experiences challenges and benefits highlighted the fact that banking system consolidation is a notable contemporary system feature of the recent reforms programme.

He was of the view that bank consolidation is not a new phenomenon in Nigeria. For example in 1995, Union Bank of Nigeria Plc acquired 75% equity in City Trust, Merchant Bank, Guaranty Trust Bank acquired Magnum Trust Bank and Intercontinental Bank acquired 70%. In 2003, Standard Trust Bank acquired 51% share in Continental Trust Bank. However, these banks that were acquired continued to operate as independent entities with now owners having controlling shares.

According to him, the following are some of the incentive to be enjoyed by consolidation banks in Nigeria:

i. Banks that consolidate will be allowed to participate in foreign exchange market.
ii. Permission to collect public sector deposits and government revenue holding.
iii. Prospects to manage part of Nigerian reserve holdings.
iv. Provision of technical assistance by CBN
v. Leadership award by the Governor of CBN
vi. Writing off 80% debt owed to CBN by weaker and distressed banks, subject to the recovery of all non-performing loan belonging to owner insider related within two months
vii. Tax incentives.
viii. The conversion of the balance of 20% of the debt to CBN to long term loan of a maximum of 7 years at 3% per annum including two (2) years moratorium.

### 2.3 Theoretical Framework

Based on the important nature of this work, it is anchored on two theories which is Say's Law and Concentration Theory.

### 2.3.1 Say's Law Theory

This theory believes that recapitalization of banks leads to increased capital base which may imply increase availability of loanable funds to the economy. This should lead to a fall in interest rate and should be capable of stimulating or eliciting a demand following response as envisaged by Say's Law of markets. While Say's Law remained silent with regard to the role of money, it however argues that the only reason to have money is to buy goods; hence this theory did not envisage the Keynesian outcome that there could be the precautionary and speculative demand for money (Kates, 1998).

This argues that the premise of the financial sector recapitalization appears to be consistent with the classical view of monetary policy that the main function of money is to act as a medium of exchange while its importance is to determine aggregate price level.

### 2.3.2 Concentration Theory

This is the theory that explains the degree of control in which larger firms have on economic activities in the country (Solo, 2003). This theory argues that economies of scale bring about bank merger and acquisition so that concentration will be based on bank efficiency (Demirguc-kunt and Levine, 2000). Some theoretical arguments believed that less concentration on banking industry with small size bring about financial crisis in banking sector then the large banks (Allen and Gale, 2000; and Beck, Demirguc-Kunt and Levine, 2004).

Supporters of this theory argue that large banks can grow faster and as well enhance profitability the smaller banks then the small banks. Based on the above theory,

small banking industry is easy to monitor than those large banks because corporate control of banks will be more effective (Beck, Demirguc-Kunt and Levine, 2004).

## 2.4 Empirical Studies

Amanchi and Oludo (2010) used descriptive research design (Mean and Standard Deviation) and t-test and test of equality mean analytical techniques to study the effect of recapitalization on bank's performance on Nigerian banks. The study found out that the means of bank profitability ratios such as the Yield on Earning Asset (YEA),

Return on Equity (ROE) and Return on Assets (ROA) were significant. This means that there is statistical indifference between the mean of the pre and post 2004 bank recapitalization.

Somdi (2006) examined the performance of government induced banks consolidation and macro-economic performance in Nigeria in a post consolidation period. He found out that bank consolidation may not necessarily be a sufficient tool for financial system stability and sustainable development. The study posits that consolidation programme has not improved the overall performance of banking industry significantly and also has contributed little to the growth of the real sector for sustainable development.

Umah (2009) used exploratory research design and multiple regression analysis to study the impact of banking industry recapitalization on employment in Nigerian banks. The study revealed that shareholders funds, Total Assets and number of domestic branches caused 62% of employment in the banking industry. This, recapitalization led to increase in employment in the Nigeria banking industry from 2006 up to 2008.

Johnson (2009) studied the structural effects of banking industry consolidation in Nigeria-A review and notes that the ongoing banking industry consolidation in Nigeria represents the latest attempt by the CBN to solve the problem of bank distress and failure, and to reposition the industry for national and global economic challenges.

The study finds that some of the operational difficulties facing the banks even before consolidation are external to them and are still prevalent in the Nigerian economy. The study concludes that consolidation alone cannot be seen as the solution to the problem of the industry, unless the background economic difficulties such as the weak state of the national economy, deplorable state of the infrastructure and the decreasing level of public confidence in the overall economic and financial reforms going on in the country is addressed, the expected benefits of consolidation may be hard to realize.

Samuel (2010) in a study of recent banking sector reforms and economic growth in Nigeria using ordinary least square regression techniques. The result established that interest rate margins, parallel market premiums, total banking sector credit to the private sector, inflation rate, size of banking sector capital and cash reserve ratios account for a very high proportion of the variation in economic growth in Nigeria. This shows that there is a strong and positive relationship between economic growth and banking sector reforms in Nigeria.

Olufayo (2011) used questionnaire to investigate Nigeria bank consolidation exercise and plight of female employees. The study revealed that the removal of conditionality's for bankers would not affect productivity much because it kicks against boosting the moral staff.

Bakare (2011) used Sample Test techniques and E-view statistical packages to analyze the trend and growth implication of bank consolidation in Nigeria. The study revealed that banks are more adequately capitalized and are less risky after the programme. It also revealed that recapitalization has low but significant influence on the growth of Nigerian economy. The study used quasi –experimental research design approach in data analysis.

Kehinde and Kareem (2012) studied effect of pre and post bank consolidation on the accessibility of finance to small and medium enterprises in Nigeria using ordinary least

square. It was found that banks' consolidation has failed to foster a vibrant and competitive SMEs sector that would enhance job creation and economic growth in Nigeria. This means that for SMEs to play its role in the development of the economy during pre and post consolidation, government intervention is needed.

The studies by Berger et al (1999) suggest that bank consolidations do not significantly improve the performance and efficiency of the participant banks. In contrast, Berger and Mester (1997), Berger and Humphrey (1992), Allen and Rai (1996) and Molyneux et al. (1996) indicate that there is a substantial potential for efficiency improvements from mergers of banks. However, the prospects for scale efficiency gains appear to be greater in the 1990s than in the 1980s. This finding is ascribed to technological progress, regulatory changes and the beneficial effect of lower interest rates (Berger et al., 1999).

According to Shih (2003), the knowledge underlying the consolidation lifting policy is that bank consolidations should reduce the liquidation risk through asset diversification (Shih, 2003). There are a number of empirical studies which confirm a risk diversifying effect of bank consolidation whether directly or indirectly (Hughes et al., 1996, 1999; Benson et al., 1995; Craig and Santos, 1997; Demsetz and Strahan, 1997; Saunders and Wilson, 1999). On the other hand, Shih (2003) points out the possibility that credit risk could increase in the event a sound bank merges with an unsound one.

Case studies evidences suggest that the cost efficiency effects of mergers and acquisition may depend on the motivation behind the mergers and the consolidation process (Rhoades, 1998). Haynes and Thompson (1999) explore the productivity effects of acquisitions for a panel of 93 UK building societies over the period 1981-1993. In contrast to much of the existing bank merger literature, the results indicate significant and substantial productivity gains following acquisition. These gains were observed not to be

the result of economies of scale but are found to be consistent with a merger process in which assets are transferred to the control of more productive managements. Similarly, Resti (1998) reports increased levels of efficiency for Italian bank mergers and acquisition, especially when the deals involved relatively small banks with considerable market overlap. Sawada and Okazaki (2004) investigate the effects of policy-promoted consolidation on the stability of the financial system using the data on prewar Japan. It was confirmed that policy-promoted consolidations mitigated the financial crisis by enhancing the ability of the bank to collect deposits, under the condition that the financial system was exposed to serious negative shocks. However, policy-promoted consolidations also had negative aspects as they were accompanied by large organizational costs and decreased bank profitability.

Akhavein et al. (1997) examine the efficiency and price effects of mergers by applying a frontier profit function to data on bank mega mergers in the US banking industry. It was reported that merged banks experience a statistically significant 16% point average increase in profit-efficiency rank relative to other large banks. Most of the improvement is from increasing revenues including a shift in outputs from securities to loans, a higher-valued product. Improvements were greatest for the banks with the lowest efficiencies prior to merging who therefore had the greatest capacity for improvement. By comparison, the effects on profits from merger-related changes in prices were found to be very small.

Huizinga et al. (2001) analyze the efficiency effects of 52 horizontal bank mergers in Europe over the period 1994-1998, i.e., the period immediately preceding the start of European Monetary Union. They find evidence of substantial unexploited scale economies and large X-inefficiencies in European banking. The dynamic merger analysis indicates that the cost efficiency of merging banks is positively affected by the merger while the relative degree of profit efficiency improves only marginally. However, there was no

evidence that merging banks are able to exercise greater market power in the deposit market. On the basis of these results, it was concluded that the bank merger and acquisitions examined in the study appear to be socially beneficial.

Vallascas and Hagendorff (2011) analyze with a sample of 134 bidding banks, the implications of European bank consolidation on the default risk of acquiring banks. The Merton distance to default model was employed to show that on average, bank mergers are risk neutral. However for the least risky banks, mergers generate a significant increase in default risk. This result is particularly pronounced for cross-border and activity-diversifying deals as well as for deals completed under weak bank regulatory regimes. In addition, large deals which pose organizational and procedural hurdles, experience a merger-related increase in default risk. The researchers are of the opinion that these results cast doubt on the ability of bank merger activity to exert a risk-reducing and stabilizing effect on the European banking industry.

Aregbeyen and Olufemi (2011) investigated the impact of the bank capitalization and consolidation programme on the cost of equity capital of banks in Nigeria using a sample of ten banks that were in existence prior to the consolidation exercise and still in existence after the consolidation exercise. The study concludes that the consolidation and recapitalization programme has brought about considerable reduction in the cost of equity capital of the sampled banks.

According to a study organized by the Central Banks of the GLO in 2001, most M & B activities during the 1990's in the financial sector involved banking firms. Acquisitions of banking firms accounted for 60 percent of all financial mergers and 70 percent of the value of those mergers.

At the same time, the number of banking firms was found to have increased in almost every country during the decade and the concentration of the banking industry, as

measured by the percentage of a country's deposits controlled by largest banks, tended to increase.

At different times or simultaneously, banking industry consolidation has taken place in America and Europe, and of recent in Asia and Africa. While banking industry consolidation among Americans, European and Asian banks have been the central focus for studies in this popular area of banking, African banks attract very little attention.

This is because of the undeveloped structures in the continent. This however, does not undermine the importance of such studies, especially considering the global concern for economic growth and development in Africa.

The five major factors that affected the study in the past are;

i. Technological progress
ii. Deregulation
iii. Excess capacity
iv. International consolidation of markets
v. Improved financial conditions

Thus the most championed reasons for corporate mergers and acquisitions have been the expected benefits arising from economics of scale that is the advantages of large bank over a small one.

According to a study empirically analyzed by Nwankwo (2013), on the impact of pre and post bank consolidation on the growth of Nigerian economy using T-test, it was discovered that post bank consolidation have significant positive effect on the growth of Nigeria economy; pre bank consolidation has positive and insignificant effect on economic growth.

# CHAPTER THREE
# RESEARCH METHODOLOGY

## 3.1 Introduction

The objective of this research work is to investigate the effect of bank consolidation on the growth of Nigerian banking industry. This chapter is structured primarily to providing the method in which collected data were analyzed in order to obtain a conclusive empirical result on the subject matter.

This is followed by research design, which may be either experimental or quasi-experimental.

## 3.2 Research Design

According to Baridam (2001), every research work conducted scientifically has a particular framework for being charge of the data collection, the framework on the

research design form the nucleus of the entire research work. It determines extensively the success or otherwise of the whole project and it is the basic plan which guides the data collection and analysis phase of the research study and specifies the types of information to be collected, the sources of collection procedures.

A design is a plan or drawing that shows how something is to be made (Oxford Advance Learners Dictionary, 2006). Research design can be seen as the approaches, framework or plans of carrying out research studies. It is used as a guide in collecting and analyzing data (Olannye, 2006). Asika, (1991), views research design as the organization of research with the purpose of identifying the variables and their connectivity to one another. This is used for data collection purpose, in order to allow the researcher answer research questions and test hypotheses.

It is of paramount importance for the researcher to specify the type of design or method suitable for the problem to be investigated. The summary of the challenge under examination will influence and determine the choice of the research design to be used. The objective of the study also plays a dominant part in ascertaining the choice of research. Baridam, (2001) asserts that research design does not mean the specific method of collecting data. Examples include; questionnaire, interview or direct observation, but the more fundamental question of how the study subjects will be brought into scope of the study and how they will be adopted within the study setting to obtain the required data.

In respect to the explanations above, we intend to adopt the ex-post facto research method in bringing our study subject into the scope of our research so as to generalize our findings.

### 3.3 Population and Sample Size

The population defines the limit within which the study results are applicable. To this end, the target population of this study involves all commercial banks in Nigeria. The banksare as follows;

1. Access Bank
2. EcoBank
3. Zenith Bank
4. First City Monument Bank
5. Fidelity Bank
6. Guaranty Trust Bank
7. Skye Bank
8. United Bank of Africa
9. Union Bank Nigeria Plc
10. Unity Bank
11. First Inland Bank
12. Fist Bank Nigeria Plc
13. IBTC Chartered Bank
14. Diamond Bank
15. Wema Bank
16. Sterling Bank Plc
17. Stanbic Bank
18. Spring Bank
19. Keystone Bank Plc, etc.

The population was chosen with the knowledge that it is easier to be research upon with limited available research. The study population has been duly chosen with the belief that it will help in ascertaining the importance of behavioural differentials arguments, the management staff are involved in choosing of the population.

**3.4 Sample Techniques**

Asika (1991), asserted that the procedure for drawing samples from a population is referred to as sampling. The procedure of sample selection is so important in research study that different techniques of selection have been recognized. The two, sampling techniques are probability and non probability sampling techniques. It is necessary to note here that the person carrying out the research used probability sampling method. Probability sample method is the procedure whereby the population and sample is known

and each member of the population has the same chance of being included in the sample, for example simple random sampling.

The research isto look at the opinion of the staff and perceived consumers. This is to get the ideas of this project group in relation to the purpose of the research.

The sample techniques for this study were taken from the population expressed by the scope of the study.

### 3.5 Method of Data Collection

The method used in data collectionof any investigation rests on the type of data needed and the objective of the investigation. In this research investigation, secondary data were used. The study made use of the CBN Annual Report for the year 2004-2013.

Olannye, (2006) opined that data collection is the gathering of relevant information or addressing the questions raised in the research and the problem statement. There are two ways of collecting data. They are;

a. Primary data

b. Secondary data

#### 3.5.1 Primary Data

These are information that are collected for the first time subjects to using any of the methods of data collection. It is called primary data because it is the individual who needs the information that receives the information directly. Primary data are obtained through questionnaire, interviews, direct observation etc. However, in this study, the use of primary data was not applicable.

#### 3.5.2 Secondary Data

These are information that has been previously gathered for purpose other than for solving the current investigation. Secondary source of information are those which contain account of events or phenomenon by other people who do not anticipate or witness the event.

### 3.6 Methods of Data Analysis

In an attempt to test the significance of bank consolidation on the growth of Nigerian banking industry, the study will use a T-test which is the best tool for comprising of, capitalization, aggregate credit, loans and advances to evaluate the effect of bank consolidation on the growth of Nigerianbanks spanning from 2004 to 2013.

Amanchi and Oludo (2008), Somdi (2008), Bakare (2011) and Kehinde and Kareem (2012) used the same model and it was modified to agree with our work by using only capitalization, aggregate credit and loans and advances to enable the study examine the functional relationship between bank consolidation and the growth of Nigerian banking industry.

The model can be expressed in multiple linear regression equation form:

$$Y = a + b_1x_1 + b_2x_2 \quad (1)$$

Where:

Y=Dependent variables

a =Intercept parameter (where the regression line surface crosses the Y-axis).

$b_1$, $b_2$=Slopes of the regression line.

$x_1$, $x_2$=Independent variables

### 3.7 Model Specification

In line with the above linear equation, our model is specified as follows;

GNBI = f(BCON) …………… (1)

Where GNBI = Growth of Nigerian banking industry

BCON = Bank consolidation

The growth of Nigerian banking industry (GNBI) is the dependent variable which is measured by the total assets of the banks. Assets expansion in banking activities is a key index of growth in banking operation.

Bank consolidation (BCON) is the independent variable and it is measured by capitalization, aggregate credit and loans and advances. These intent variables reflect the dynamics of consolidation in banking operations.

Accordingly, in functional form, our model is then specified as follows;

$TA = a_0 + a_1CAP + a_2BC + a_3LA + U$ ……………….. (2)

Where TA = Total Assets

CAP = capitalization

BC = Level of bank credits

LA = Loans and Advances

U = Error term

$a_0$ = Intercepts

$a_1$, $a_2$ and $a_3$ = Parameters to be estimated

**Aprori Expectation**

It is expected that the dependent variables should have either a positive relationship with the independent/explanatory variables, hence my approri expectation include $a_1$, $a_2$ and $a_3 > 0$

# CHAPTER FOUR

# DATA PRESENTATION AND ANALYSIS

## 4.1 Introduction

In this chapter, effort has been made to present a lucid analysis of the data collected specifically for this research work and present them in a suitable and comprehensive form. This is intended to facilitate the understanding of the data and the results gotten. In this research work, the data would be analyzed using regression analysis with the aid of SPSS statistical software.

## 4.2 Data Presentation

Howitt (2004), opined that data presentation is defined as the process of identifying, locating, manipulating and presenting data of a research work into a pre-defined form like graphs, charts, tables etc. Nwadinigwe (2002), referred to it as the breaking down and ordering of quantitative information obtained from research instrument into patterns, trends etc,.

Data obtained through the data collection instrument, at this point are codified, arranged, organized and separated into segments which correspond to particular and specified sections of the research question being investigated.

It is imperative that data be exhibited as evidence for the results, interpretations, summarizes and conclusions that the researcher draws from them.

**Table 4.1 Financial Profile of Deposit Money Banks in Nigeria**

| Year | Total Assets (₦M) | Aggregate Credit (₦M) | Capitalization (₦M) | Loans and Advances (₦M) |
|---|---|---|---|---|
| 2004 | 3,753,277.80 | 2,077,779.30 | 662,712,599.60 | 1,294,449.50 |
| 2005 | 4,515,117.60 | 2,588,916.70 | 1,212,128,545.20 | 1,859,555.50 |
| 2006 | 7,172,032.10 | 4,066,689.30 | 2,142,745,733.10 | 2,338,718.70 |
| 2007 | 10,981,693.6 | 7,076,493.00 | 6,432,245,733.30 | 4,493,303.90 |
| 2008 | 15,917,559.8 | 9,897,796.20 | 3,715,544.229.60 | 7,602,165.80 |
| 2009 | 17,522,853.25 | 11,340,061.50 | 2,455,225,199.60 | 8,451,378.22 |

| | | | | |
|---|---|---|---|---|
| 2010 | 17,331,559.02 | 11,217,244.84 | 2,885,224,164.10 | 6,629,580.72 |
| 2011 | 19,396,633.76 | 12,898,259.06 | 2,013,252,151.80 | 6,489,761.77 |
| 2012 | 21,303,951.77 | 11,793,742.42 | 3,048,916,817.50 | 6,833,636.59 |
| 2013 | 24,468,266.24 | 12,207,717.51 | 3,992,616,108.90 | 9,609,579.85 |

***Source: CBN Annual Report (2004-2013)***

Table 4.2.1 gives a breakdown of the financial profile of deposit banks in Nigeria. The table shows that total asset of the banks rose appreciably through the years under consideration. For instance, it increased from ₦3,753,277.80 in 2004 to a sum of ₦17,722,853.25 in 2009 and increases further through the remaining part of the years. And by 2011, it stood at ₦19,396,633.76. Similarly, records for the variables aggregate credit, capitalization and loan and advances also shows appreciable increase through the years. The aggregate credit improved remarkably from ₦2,077,779.30 in 2004 to₦9,897,796.2 in 2008. By 2011, it stood at a ₦12,878,259.06. In the same 2004, capitalization stood at ₦662,712,599.60 to ₦2,013,252,151.8in 2011 while that of loans and advances stood at ₦1,294,449.50 in 2004 and ₦6,489,761.77 in 2011. Although capitalization showed drastic decrease through the period of 2008 to 2011 while loans and advances also showed consistent decrease from 2009 to 2012 probably due to effect of financial meltdown.

## 4.3 Analysis of Data

Statistical analysis of data marks the last point in the long process of hypotheses formulation, instrument construction, data collection and data presentation. The analysis deals with data that are essentially quantitative in nature and analyzed them by means of appropriate statistical tools. These include simple percentage and chi-square ($X^2$) techniques. Data were analyzed to effectively test hypothesis and present the results of the study in an understandable and convincing form to readers.

The research work focused on the effect of bank consolidation on the growth of Nigerian banking industry. Bank consolidation which is the independent variable is measured by three indexes which are bank capitalization, bank aggregate credit and loans and advances. On the other hand growth of the Nigerian banking industry is the dependent variable which is measured by the profit of banks' total assets.

The data relating to the above specified variables were gathered from the Central Bank Annual Reports of various years for the period of 2004 to 2013. These data were then subjected to regression analysis using SPSS (Statistical Package for Social Sciences) software.

The outcomes of the regression analysis are exhibited in table 4.3.1 and table 4.3.2 below.

**Table 4.2: Model Summary**

| Model | R. | R.Square | Adjusted R. Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1. | .976" | .952 | .928 | 1.93606E6 |

***Source: Researcher's Computation, 2016***

a. Predictors: (Constant), Aggregate credit, capitalization, loans and advances

The result on table 4.3.1 reveals that our model has good fit as evidenced by the value of adjusted $R^2$ of 0.928. This implies that if the research model has 92% predictive power, that is, the independent variables of bank consolidation jointly explain 92% variation in bank growth measured by total asset. The inter-variable relationships between the dependent variable (total assets) and the independent variables of bank consolidation are reflected in the values of the parameter estimates of the coefficient contained in table 4.3.2.

**Table 4.3: Coefficients[a] of Total Asset**

| Model | Unstandardized coefficients | | Standardized Coefficients | t | Sig |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| 1. (Constant) | 28748.905 | 1.607E6 | | .018 | .986 |
| Capitalization | -1.482E.5 | .000 | -.003 | -.033 | .974 |

| Loans and advances | .813 | .630 | .327 | 1.291 | .244 |
|---|---|---|---|---|---|
| aggregate credit | 1.142 | .422 | .665 | 2.705 | .035 |

***Source: Researcher's Computation, 2016***
Dependent Variable: total assets

Table 4.3.2 above reveals that all the independent variables are positively related to the dependent variables (total assets) except capitalization. This is evidenced by the beta values of the standardized coefficients which are -0.-0.003 for capitalization, 0.327 for loans and advances and 0.665 for aggregate credit.

The result also reveals that of all the variables only aggregate credit is statistically significant as shown by the value of the t-statistics in conjunction with its probability value (P<0.05). However, from table 4.3.3 below, results shows that the overall inter-variable relationship is statistically significant as evidenced by the global statistics (F) with a value of 39.715 and significant value of 0.000 (P<0.05).

**Table 4.4: Anova**

| Model | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| 1. Regression | 4.466E14 | 3 | 1.489E14 | 39.715 | .000" |
| Residual | 2.249E13 | 6 | 3.748E12 | | |
| Total | 4.691E14 | 9 | | | |

***Source: Researcher's Computation, 2016***

a. Predictors: (Constant|), Aggregate credit, capitalization, loans and advances
b. Dependent variable: total assets.

**4.4 Testing of Hypotheses**

Hypotheses are generally referred to as ideas, belief or assumptions put forward by the researcher for the purpose of helping and guiding the researcher in order to arrive at a reasonable conclusion. These assumptions are believed to initially hold but the result of the researcher may prove otherwise.

So, in order to arrive at a reasonable conclusion from the evaluation of the observed sample, the researcher employed the use of regression analysis to test the four hypotheses.

### 4.4.1 Testing of Hypothesis One

**$Ho_1$:** Bank consolidation does not affect the growth of banks in Nigeria.

The above hypothesis desires to test if bank consolidation does affect the growth of banks in Nigeria. The results of the analysis have shown that the variables of bank consolidation as measured by capitalization, loan and advances and aggregate credit impact significantly on the dependent variable (total assets).

This was evidenced by the value of the global statistics (F) and its significant with the value of 39.715 and 0.000 ($P < 0.05$) as contained in table 4.3.

In the light of the above, given that the global statistics (F) is statistically significant at confident interval of 95% ($P < 0.05$), we will accordingly reject the null hypothesis and concluded that bank consolidation does affect the growth of banks in Nigeria.

### 4.4.2 Testing of Hypothesis Two

**$Ho_2$:**There is no significant relationship between bank capitalization and bank total assets.

The regression results contained in the table of coefficient has revealed the inter-variable relationship between the dependent variable and the independent variables. From the analysis, it was established that total assets is negatively related to capitalization as evidenced by value of the parameter estimate reflected by the beta value of the standardized coefficient of -0.003 (see table 4.3.2).

The results also revealed that the variable capitalization is not statistically significant at 0.05 confident limits. The T-statistics value of -0.033 and the significant of 0.974 ($P > 0.05$) confirmed it.

Accordingly, given the premises above, we will therefore accept the null hypothesis and conclude that there is no significant relationship between bank capitalization and bank total assets.

### 4.4.3 Testing of Hypothesis Three

**$Ho_3$:**The level of bank aggregate credit has significant impact on bank growth in Nigeria.

The inter-variable relationship as shown in table 4.3.2 has established a positive relationship between the variables aggregate and the dependent variable total assets, which is the measure for bank growth in the study. This was confirmed by the beta value of the standardized coefficient of 0.665. The result also shows that the variable aggregate credit is statistically significant at 0.05 confident intervals as evidenced by the value of the t-statistics and significant value of 2.705 and 0.035 respectively ($P > 0.05$).

In the light of the above established result which contained that the inter-variable relationship between aggregate credit and total assets is statistically significant, we will therefore reject the null hypothesis and conclude that the level of banks aggregate credit has significant impact on banks growth in Nigeria.

### 4.4.4 Testing of Hypothesis Four

**$Ho_4$:** The level of banks' loans and advances has no significant impact on the growth of banks in Nigeria.

The above hypothesis seeks to test whether the level of banks loans and advance has significant impact on the growth of bank in Nigeria. The results of analysis contained in table 4.3 revealed that total asset, which is the measure for bank growth is positively related to the level of loans and advances as evidenced by the beta of value of the standardized coefficient of 0. 630. However, result equally reveals that the t-statistic is 1.291 with a significant or probability value of 0.244 ($P > 0.05$). This implies that the variable loans and advances though positively related to total assets is not statistically significant.

Accordingly, in the light of the above established finding, we accept the null hypothesis and conclude that the level of banks loans and advances has no significant impact on the growth of banks in Nigeria.

### 4.5 Discussions of Finding

Results of the test using regression analysis and the result derived from the computed statistics using SPSS and the hypotheses tested result will then be discussed, thus: Table 4.3.2 reveals that all the independent variables are positively related to the dependent variables (total assets) except capitalization. This is evidenced by the beta values of the standardized coefficients which are -0.-0.003 for capitalization, 0.327 for loans and advances and 0.665 for aggregate credit.

The result also reveals that out of all the variables only aggregate credit is statistically significant as shown by the value of the t-statistics in conjunction with its probability value ($P<0.05$). However, from table 4.3.3, results shows that the overall inter-variable relationship is statistically significant as evidenced by the global statistics (F) with a value of 39.715 and significant value of 0.000 ($P<0.05$).

Hypothesis one tested "Bank consolidation does not affect the growth of banks in Nigeria.". The statement was tested at 5% level of significance. Statistical computation using the SPSS showed that the independent variables had significant relationship at 5% level of significance using the global statistic (F). We can therefore affirm from our tested hypothesis that the bank consolidation does affect the growth of banks in Nigeria. Hypothesis II "There is no significant relationship between bank capitalization and bank total assets". The hypothesis was tested using the same level of significance in hypothesis I above. The finding reveals that the null hypothesis was accepted,that is the dependent variable was not significant at 5% level of significance using t-test. The third hypothesis "The level of bank aggregate credit has no significant impact on bank growth in Nigeria". The result of the hypothesis showed that the null hypothesis was rejected, signifying that

the level of bank credit has significant on the growth of banking industry. The fourth hypothesis seeks to test whether the level of banks loans and advance has significant impact on the growth of bank in Nigeria. The result showed that the null hypothesis was accepted that the level of banks loans and advances has no significant impact on the growth of banks in Nigeria.

# CHAPTER FIVE

## SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

### 5.1 Introduction

In this chapter, the researcher will summarize the findings from the resultof the test, draw conclusion, give the necessary recommendations from the findings obtained and contribute to knowledge. This chapter include bibliography and appendix.

## 5.2 Summary of Findings

This study is titled "the effect of bank consolidation and the growth of Nigerian banking industry" with the hope of ascertaining whether consolidation of banks has affected the growth of banks in Nigeria. The results obtained using the regression analysis indicated that:

i. bank consolidation does affect the growth of banks in Nigeria.
ii. It was discovered that there is no significant relationship between bank capitalization and bank total assets.
iii. that the level of banks aggregate credit has significant impact on banks growth in Nigeria.
iv. The study finally affirmed that the level of bank loans and advances has no significant impact on the growth of banks in Nigeria.

This project summarized that the consolidation of the financial system has transformed Nigeria's financial system and created opportunities for financial institutions and market participants. Strong and large banks can increase competition. This development could facilitate the transmitting of financialprinciple and support private sector growth.

## 5.3 Conclusion

The purpose of this study was to examine the effect of bank consolidation on the growth of Nigerian banks. Available evidence provided by the study depicts that both the theoretical analysis and the empirical evidences reasonably reveals that bank consolidation have made some impact in the banking industry in particular and the economy of the nation as a whole. The study then concluded after testing of the four hypotheses that bank

consolidation does affect the growth of banks in Nigeria, that there is no significant relationship between bank capitalization and bank total assets and that the level of banks aggregate credit has significant impact on banks growth in Nigeria. Finally, it was concluded that the level of bank loans and advances has no significant impact on the growth of banks in Nigeria.

### 5.4 Recommendations

Having examined bank consolidation on the growth of Nigerian banks, it is needful to give some useful suggestion on how to actualize the objective of bank consolidation. Hence, it is necessary to make the following recommendations;

i. Based on the conclusion drawn from the findings of this study, it is pertinent to emphasis that bank consolidation is a concept that is very vital to the growth of Nigerian banking industry. Therefore, banks should endeavour to place much importance on bank consolidation policy of government in order to position the banks for growth.

ii. There should be a radical overhauling and reorganization of the existing conditions for loans and advances of Nigerian banks in order to make them more effective catalyst of growth and development.

iii. There is need for the monetary authorities to introduce pro-active and tight supervisory policy to ensure sound, strong and safe financial institution needed to re-enforce confidence on all stakeholders in our banking system.

iv. Policy framework and initiatives should be strengthened in the areas of quality bank management, supervision and control by the Central Bank of Nigeria and the Federal Government to ensure consistency in policy objectives and instruments through good implementation strategy to boost growth in the banking industry.

v. Bank consolidation should be reviewed upward from time to time to sustain the stability and performance of the banking industry and economy.

vi. To boost profitability, banks should diversify their investment with more of it on long-term basis and as well integrate the informal financial services sector through effective intermediation process to increase the growth of banks in Nigeria economy.

vii. We recommended that subsequent bank consolidation should be done by way of Merger and Acquisition knowing fully well the implication of raising fund through the capital market.

**5.5 Contribution to Knowledge**

This work, bank consolidation and the growth of Nigeria banking sector has contributed to knowledge in the following ways:

i. The study made use of Malaysian/Singaporean model, which provides a great lessons for the Nigerian banking system as these economics have similar challenges, hence in using this model, they acquire the right knowledge capable of supporting the overall growth of the nations.

ii. Other countries' consolidation experiences were made known in this work, which revealed the need for comparism between these countries bank consolidation and that of Nigerian bank consolidation experience to ensure good co-operate government and better health of the banking sector in the future.

iii. The study also revealed how relevance it is for the monetary authority to expand the shareholding base of the Nigeria banks, thus eliminating the phenomena of "family bank" and the tendency for poor corporate governance arising from such ownership pattern.

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## Appendix A

**Table 4.2.1 Financial Profile of Deposit Banks in Nigeria**

| Year | Total Assets | Aggregate Credit | Capitalization | Loans and Advances |
|---|---|---|---|---|
| 2004 | 3,753,277.80 | 2,077,779.30 | 662,712,599.60 | 1,294,449.50 |

| | | | | |
|---|---|---|---|---|
| 2005 | 4,515,117.60 | 2,588,916.70 | 1,212,128,545.20 | 1,859,555.50 |
| 2006 | 7,172,032.10 | 4,066,689.30 | 2,142,745,733.1 | 2,338,718.70 |
| 2007 | 10,981,693.60 | 7,076,493.00 | 6,432,245,733.30 | 4,493,303.90 |
| 2008 | 15,917,559.80 | 9,897,796.2 | 3,715,544.229.60 | 7,602,165.80 |
| 2009 | 17,522,853.25 | 11,340,061.50 | 2,455,225,199.60 | 8,451,378.22 |
| 2010 | 17,331,559.02 | 11,217,244.84 | 2,885,224,164.10 | 6,629,580.72 |
| 2011 | 19,396,633.76 | 12,898,259.06 | 2,013,252,151.80 | 6,489,761.77 |
| 2012 | 21,303,951.77 | 11,793,742.42 | 3,048,916,817.50 | 6,833,636.59 |
| 2013 | 24,468,266.24 | 12,207,717.51 | 3,992,616,108.90 | 9,609,579.85 |

***Source: CBN Annual Report (2004-2013)***

## Appendix B

**Variable Entered/Removed**

| Model | Variables Entered | Variables Removed | Method |
|---|---|---|---|

| | | | |
|---|---|---|---|
| 1 | Aggregate credit,<br>Capitalization,<br>Loans and advances[a] | | Entered |

a. All requested variables entered
b. Dependent variables: total assets

**Model Summary**

| Model | R. | R.Square | Adjusted R. Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1. | .976” | .952 | .928 | 1.93606E6 |

a. Predictors: (Constant), Aggregate credit, capitalization, loans and advances

**Coefficients[a]**

| | Unstandardized coefficients | | Standardized Coefficients | | |
|---|---|---|---|---|---|
| Model | B | Std. Error | Beta | t | Sig |
| 2. (Constant) | 28748.905 | 1.607E6 | | .018 | .986 |
| Capitalization | -1.482E.5 | .000 | -.003 | -.033 | .974 |
| Loans and advances | .813 | .630 | .327 | 1.291 | .244 |
| aggregate credit | 1.142 | .422 | .665 | 2.705 | .035 |

a. Dependent Variable: total assets

**Anova**

| model | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| 1. Regression | 4.466E14 | 3 | 1.489E14 | 39.715 | .000” |
| Residual | 2.249E13 | 6 | 3.748E12 | | |
| Total | 4.691E14 | 9 | | | |

a. Predictors: (Constant), Aggregate credit, capitalization, loans and advances
b. Dependent variable: total assets