ISSUES IN BANKING AND FINANCE

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Dedication

To my parents, Sir IKPEFAN, ASIKOKO JAMES and lady CHRISTIANA IKPEFAN of Sabongida-Ora for providing me sound education, to the growth of the Nigerian Banking Industry and almighty God who provided the light and inspiration.

Preface

The urge to write this book has its root in ten years of teaching Banking and Finance to students and the practical exposure in the Nigerian banking industry. By styling this text Issues in Banking and Finance, we have set a challenge: to ensure that readers understand not just the language but major issues and concepts in Nigerian banking and finance. A cursory look at the recommended texts easily shows that there are hardly any existing books in this course with Nigerian background to help students preparing for their examination. As significant as this subject is, students have had to rely on imported textbooks that are not readily available, and when available are priced beyond the purchasing power of these students. Some of the few available local textbooks are sometimes out of date with current developments in domestic and international finance. This book intends to fill that gap in knowledge to enable students scale through their examinations at first attempt.

There is no doubt that banking and finance is both an art and a science. As an art like others in that area, it makes use of underlying organised knowledge called science which must be applied in the light of realities to gain a desired practical result. In practice, managers should design a solution aimed at getting at least some result in financial services delivery. The most productive art is often based on an understanding of the science underlying it. Thus, science and art are not mutually exclusive in banking and finance practice, but are complementary. A mere understanding and knowledge of principles or theory cannot assure successful financial services delivery. One must know how to use the principles or theory at the appropriate time and situation. Scientific method involves determining facts through observation of events or things and verifies the accuracy of these facts through continued observation. **Issues in Banking and Finance** is a blend of art and science and provides a simple and lucid attempt to ease the challenges posed to readers by facilitating access to relevant information on the financial services industry.

This book is a product of many years of our teaching, research and interaction with university undergraduates and professional students. It contains relevant materials on Elements of Banking and Economics, and deals extensively with the syllabuses of the Chartered Institute of Bankers of Nigeria (CIBN), the Accounting Technicians Scheme (ATS) and the Institute of Chartered Accountant of Nigeria (ICAN).

It is divided into three parts in the following sequence: **Part I**: The Evolution and Growth of Banking Institutions in Nigeria, Banking Regulation, Monetary and Fiscal Policies in Nigeria, Nigeria Deposit Insurance Corporation (NDIC), Distress in Nigerian Banking System, and Fraud in Banking; **Part II**: SMEs and Microfinance Activities, Money Laundering, Loan Syndication, Banking Reforms, Interest-Free Banking, Global Banking, and Global Financial Crises; **Part III**: Payment Systems in Nigeria, The Nigerian Financial System, Discount Houses, Pension Reforms, The Commodity Exchange and Infrastructure Financing.

The Nineteen chapters in this text are distributed under the relevant parts and attempt to analyse the various issues relevant to banking and finance. These are vital to financial services delivery. Each chapter begins with the listing of learning objectives to make it easy for readers to estimate the areas of knowledge covered. Also, at the end of each chapter are review questions to guide readers in self-testing and self-assessment in preparation for the various examinations. Finally, a list of textbooks for further reading is included at the end of each chapter to encourage ambitious readers who may be anxious to have additional materials to expand their knowledge.

Issues in Banking and Finance is a recommended text for university undergraduates, polytechnic students and professional students of banking and finance, accounting, business administration, economics, insurance, stockbroking and related fields. It is also a good source of reference material for postgraduate students, policymakers and financial experts. Other interested readers who may wish to understand the basics of banking and finance will find this book very useful. For the aspiring banker, the finance executive and practising banker, this book will prove intellectually useful. I hope you enjoy reading this book as much as I have enjoyed writing it, and that it serves as a practical resource during your education and career.

I am greatly indebted to Professor J.A.T Ojo, Head, Department of Banking and Finance, Covenant University, Ota, Professor Cyril Ige and Professor Bayo Oloyede as well as Dr (Mrs) Funmi Adegbite for their

stimulating lectures during my PhD coursework and my lovely wife Mrs. Grace Bamidele Ikpefan and children for their support.

In producing this book, we enjoyed the support and encouragement of a number of persons and the Chartered Institute of Bankers of Nigeria (CIBN). Any errors of facts and/or opinions are, however, ascribed to me. My driving philosophy is buried in the saying that "to be correct you need to be current".

Dr. Ikpefan Ochei Ailemen (Banking & Finance), ACA, ACIB, FNIM

Foreword

We have continued to witness some dramatic changes in the Nigerian banking system in the past few years, having most especially witnessed such chequered developments as the transformation to the universal banking system a decade ago, the bank recapitalisation and consolidation in 2005: the 2007- 2009 global financial crisis that also rocked the Nigerian banks which forayed into the stock market to gamble with depositor's money lost in the collapsed market; the 'Big bang' unleashed on the system by the Sanusi Lamido Sanusi Central Bank–led administration in 2009, leading to the sacking of about half dozen bank management to rescue the collapse of their badly managed virtually dead banks; the establishment of the Asset Management Corporation of Nigeria (AMCON) to manage the rescued banks'N3.14 trillion non-performing loans.

Also, the universal banking framework has been phased out to make banks focus on special areas of operation, having found them to have failed to operate really as the typical universal banks in Germany to foster industrial advancement in the country, but rather engaging in non-viable highly risky activities of unproductive nature.

This book is yet another attempt to provide relevant materials and information on developments in the Nigerian banking system and allied financing institutions. Apart from coverage of the main institutions in the system, its coverage spans such other related aspects as banking regulation, financing, global banking and the financial crisis.

Dr Ikpefan's book features Learning Objectives at the beginning of each chapter and Review Questions at the end to assist students test their level of comprehension. It will thus be found very useful by them. The language is lucid and examples are drawn from the Nigerian local environment.

I recommend the book to the reading public and especially students of banking and finance in our institutions of learning and those preparing for banking professional programme.

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Covenant University, Ota, Nigeria
November, 2011.

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CHAPTER 1

EVOLUTION AND GROWTH OF BANKING INSTITUTIONS IN NIGERIA

LEARNING OBJECIVES: After studying this chapter you should be able to understand the following:

1.1 Development of Banking in Nigeria

1.2 Growth and Structure of Various Types of Banking Institutions

1.3 The Impacts of Banks on the Economy

1.1 DEVELOPMENT OF BANKING IN NIGERIA.

An analogy of the nine phases in banking will be discussed below. They are:

Phase 1 (1891-1928)

Phase 11 (1929 -1951)

Phase 111 (1952-1958)

Phase IV (1959- 1968)

Phase V (1969-1976)

Phase VI (1977-1985)

Phase VII (1986 - 1998)

Phase VIII (1999 -2003)

Phase IX (2004 - 2008)

According to First Bank Plc report (1998) the development of banking and regulation in Nigeria can be discussed under the following phases (for convenience):1891-1928, 1929-1951,1952-1958, 1959-1968,1969-1976, 1977-1985 and 1986-1998,1999-2003 and 2004-2008. Ajekigbe (2009) divided the phases of the banking industry into five. These are Indigenization era (1977-1985), Market deregulation (1986-1993), Guided deregulation (1994-1998), Universal Banking era (1999-2003) and the Consolidation era (2004-2008).

The development of banking and banking regulation in Nigeria will be discussed under nine phases (for convenience).

Phase 1 (1891 – 1928)

This first phase saw the emergency of the first set of banks. Prominent among the foreign banks were African Banking Corporation in 1892 which was absorbed by British Bank of West African Banking Corporation (B.B.W.A) now First Bank of Nigeria Plc in 1894, and the Colonial Bank in 1916 which was absorbed by Barclays Bank CDO in 1917 (now Union Bank of Nigeria Plc). These foreign Banks were found to be discriminatory against Nigerian indigenes in their credit operations.

Phase 11 (1929 -1951)

This period witnessed the emergence of the first set of indigenous banks because of the discrimination of foreign banks against Nigerian entrepreneurs. Also the coming of Nationalistic movements resulted in the opening of more indigenous banks. Unfortunately, this era that could be regarded as the era of free banking, also witnessed the failure of these indigenous banks with the same rapidity with which they sprang up. By 1954, 21 out of the 25 indigenous banks operating in Nigeria had collapsed. The only three survivors out of all the indigenous banks are National Bank (dissolved) established in 1933 and Agbonmagbe Bank in 1945 (now Wema Bank) and African Continental Bank in 1947 now dissolved into Spring Bank in recent recapitalization on January 2006 . Another important foreign bank, British and French Bank (now United Bank for Africa) was also established in 1947.Several reasons were advanced as the cause of the failure of the indigenous banks. Poor assets quality, under capitalization, inexperience personnel, overtrading, illiquidity, and the complete absence of any form of regulation and supervision were responsible for their failure.

Phase 111 (1952 – 1958)

This era saw the beginning of banking regulation in Nigeria. The first banking ordinance in Nigeria was enacted in 1952, which provided for a system of licensing, minimum capitalization, liquidity ratio, maintenance of reserve and bank supervision and regulation. As a result of the bank failures in the early 1950's, the banking ordinance of 1952 vested the power of control of banking in the Financial Secretary. Subsequent acts were passed to strengthen the authorities' regulatory control. These include the CBN Act of 1958 and Bills of Exchange in 1958.

Phase IV (1959 – 1968)

This period witnessed the establishment of Central Bank of Nigeria and its commencement of operations on July 1, 1959. A number of foreign banks were also established during this period, prominent among which were Bank of America (later changed to Savannah Bank now defunct) in 1960 and Arab Bank (later changed to Nigeria-Arab Bank) now merged in the new recapitalization on January, 2006. It was also during this period that Bank Examination began with the setting up of a Bank Examiners Unit at the Federal Ministry

Phase V (1969 – 1976)

This period witnessed a significant milestone with the promulgation of the Banking Decree of 1969, as amended in 1979. Most of the collapsed State/ merged State Government banks were set up during this period. The New Nigeria Bank owned by the former Bendel State was founded in 1970 just like the Rivers state Pan African Bank, which was established in 1970. The Mercantile Bank of Cross River State was set up in 1971. Following the promulgation of the Nigerian Enterprises Promotion Decree (NEPD), the Federal Government indicated its intention to acquire forty percent (40%) equity participation in the erstwhile foreign banks. When the scheme became operational, all those banks complied except City bank of New York, which left the country because of its belief in free market enterprises. This period also witnessed the setting up of a Financial System Review Committee in 1976 by the Federal Government. The Committee under the chairmanship of Dr.Pius Okigbo made recommendations, most of which the Federal Government accepted, to streamline the structure and improve the operations of the banks in particular and the entire financial system in general. This era could be regarded as the finest hour of glory for the banking system in particular and the financial system in general.

Phase VI (1977– 1985)

The NEPD that is the Nigerian Enterprises Promotion Decree was amended in 1977 with banking business categorized under schedule 11. The Federal Government therefore increased its ownership in these expatriate Banks from 40 to 60 percent. This period therefore witnessed the indigenization of the top management of these former expatriate banks. Another major development during this period was the initiation and establishment of the rural bank schemes (phases 1, 11, and 111) by the C.B.N. There was also the establishment of the Agricultural Credit Guarantee Scheme in 1977. The Scheme was then managed by the Department for Agricultural Finance of the C.B.N. Many more State Government banks came into being during this period in 1982 and 1983, such as Owena Bank (Ondo) now defunct, Progress Bank (Imo) liquidated and Lobi bank (Benue) already liquidated. All these raised the number of commercial banks in the country from 14 in 1970 to 29 in 1980. Three years later the number increased to 25.

Phase VII (1986-1998)

This was the inception of the Structural Adjustment Program (SAP) era, which brought about the deregulation of the financial system to allow for market-determined pricing system. However, SAP came on the heels of economic and financial crises which characterized the nation’s life when the favourable trends in resource profile in the 1970s changed dramatically to dwindling fortunes in the 1980s. There was the deregulation of exchange control with the introduction of the second-tier foreign exchange market (FEM) in September, 1986 (Changed to FEM and now IFEM). There was also Liberalization in the granting of banking license from 1986 and by the end of December, 1990, 107 (58 commercial and 49 merchant) licensed banks were operating in Nigeria from 40 (28 commercial and 12 merchant) licensed banks as at the end of December, 1985 (CBN, 1988). This was to allow for competition, creativity and efficiency in banking services delivery. In August 1987 came the deregulation of interest rates to assist banks maximize their deposit mobilization. This was seen as an integral part of the deregulation process of freeing the financial system for market forces to prevail, and motivate the banks to mobilize the reservoir of idle funds in the economy. The promulgation of Decree No. 22 of June, 1988 led to the establishment of Nigeria Deposit Insurance Corporation (NDIC). The NDIC insures bank deposits in order to promote stability, confidence, safety and sound banking system in Nigeria.

Phase VII1 (1999-2003)

This was the era of Universal banking. With the return to civilian rule in May 1999, there was an apparent return to the path of economic reforms. Universal Banking was adopted in January 2000 in response to unprecedented pressure from merchant banks clamouring for a level playing field due to their disadvantage position especially with respect to cost of funds. In the five years to 2004, the CBN stepped up its supervisory role over banks while making concerted efforts to shut down arbitrage windows in the foreign exchange markets. In addition to the above, CBN undertook an internal reform programme tagged project EAGLE, which was designed to improve its regulatory efficiency and effectiveness.

Phase IX (2004 - 2008)

The consolidation era/Soludo era has been discussed in chapter 1. According to Soludo (2004), this is the era tagged "the 13 point reform Agenda for Repositioning the CBN and the Financial System for the Century". It is the era of "13-point Reform Agenda for Repositioning the CBN and the Financial System for the Century". To achieve this prospect, the following framework (13 issues) was put in place.

i. Requirement that the minimum capitalization for banks should be N25 billion with full compliance before the end of December 2005 (that is, 18 months rather than 12 months normally given in many countries).Only banks that met with the requirement above were licensed to undertake banking business. Others that failed to meet up either merged or were liquidated. For the first time, the Nigerian banking industry witnessed merger between the small and big banks as shown in **table 1-1 below**.
ii. Phased withdrawal of public sector funds from banks from July, 2004.
iii. Consolidation of banking institutions through mergers and acquisitions.

iv. Adoption of zero tolerance in the regulatory framework; especially in the area of data/information rendition/reporting, where all returns by banks must be signed by the Managing Directors of the banks. Hiding of information under other assets/liabilities, off-balance sheets will henceforth attract serious sanctions.

TABLE 1-1:The Emerging Banks The Nigerian Banking Industry As At December, 2005

N/S	GROUP	MEMBERS	SHARE-HOLDERS FUNDS N	TOTAL ASSETS N	TOTAL DEPOSITS N
1	First Bank	First Bank Plc and MBC International Bank Plc	58.9 bn	538.1bn	391.2b
2	Diamond Bank	Diamond Bank and Lion Bank	34.9bn	223bn	144bn.
3	Bank PHB Plc	Platinum Bank & Habib Bank	28bn	156bn	109bn
4	Zenith Bank Plc	Zenith Bank Plc	93bn	608.5bn	392.8bn
5	Oceanic Bank	Oceanic Bank, Stanbic & Int'Trust Bank	37.1bn	371.6bn	310.3bn
6	Intercontinental Bank	Intercontinental Bank, Equity Bank, Global Bank and Gate way Bank	53bn	360bn	252.2bn
7	Fidelity Bank	Fidelity Bank, FSB International Bank &Manny Bank	25.6bn	120bn	78bn
8	UBA	UBA & STB	47bn	851.2bn	757.4bn

9	FCMB	FCMB,Coop. Bank, Nigeria-America Merchant Bank	25.2bn	106bn	70.3bn
10	Access Bank	AB, Marina Int' Bank & Capital Bank	28.6bn	174bn	110bn
11	NIB	NIB alone	35.2bn	112.2bn	61bn
12	Sterling Bank	Trust Bank of Africa, Magnum Trust Bank, NBM Bank, NAL Bank & Indo-Nigeria Bank	35bn	111.2bn	75.0bn
13	Unity Bank	Intercity Bank, First Inter State Bank, Tropical Commercial Bank, Centre Point Bank, Bank of the North, Societte Bancaire, New Africa Bank & Pacific Bank,NNB Inter'	30bn	100bn	N/A
14	ETB	Equatorial Trust Bank & Devcom Bank	28.4bn	109.7bn	72.7bn
15	Ecobank	Ecobank alone	35.3bn	132.0bn	84.0bn
16	Union Bank	UBN, Universal Trust Bank, Hallmark Bank	95.6bn	517.5 bn	275.5bn
17	Spring Bank	Citizens Inter' bank, Guardian Express Bank, ACB Inter' bank, Omegabank,, Fountain Trust Bank &Trans Inter' bank.	Over 25b	131 bn	N/A
18	First Inland Bank	FTB, Inland Bank, IMB,& NUB Bank	29.4bn	130bn	80bn
19	Guaranty Trust	GTB alone	36.4bn	305.1b	212.8bn

				n	
20	Standard Chartered	Standard Chartered alone	26bn	34.72	23.5bn
21	Afribank	Afribank Inter (Merchant Bankers)	27.1bn	129 bn	94bn
22	IBTC – Stanbic bank		Over 60bn	100bn	Over 63bn
23	Skye Bank	Prudent Bank, EIB Inter, Bond Bank, Reliance & Coop. Ban k	37.7bn	176bn	70bn
24	Wema	Lead bank, National Bank, Wema Bank	34.8 bn	127.7b n	78bn

Source: Compiled from Annual Financial Statement of Banks and CBN Banking Supervision Annual Report 2006/2007

v. The automation process for rendition of returns by banks and other financial institutions through the electronic Financial Analysis and Surveillance System (e-FASS) will now be emphasized.

vi. Adoption of a risk-focused and rule-based regulatory framework.

vii. Establishment of a Hotline, Confidential internet Address (@cebank.) for all Nigerians wishing to share any confidential information with the Governor of the Central Bank on the operations of any bank or the financial system.

viii. Strict enforcement of the contingency planning framework for systemic banking distress.

ix. Establishment of an Asset Management Company as an important element of distress resolution.

x. Promotion of the enforcement of dormant laws, especially those relating to the issuance of dud cheques, and the law relating to vicarious liabilities of the Board members of banks in cases of failings by banks.

xi. Close collaboration with Economic and Financial Crimes Commission (EFCC) in the establishment of the Financial Intelligence Unit (FIU), and the enforcement of the anti-money laundering laws.

xii. Revision and updating of relevant laws, and drafting of new ones relating to the effective operations of the banking system.

xiii. Single obligor limit of 10% of shareholders' funds as opposed to the present 25%, with aggregate borrowing pegged at 800% of shareholders' funds. This was actually stated by the CBN director of banking supervision.

1.2 THE GROWTH AND STRUCTURE OF VARIOUS TYPES OF BANKING INSTITUTIONS

The idea of merchant banking was developed in the United Kingdom, between the late century and the early century. Later on, it was brought into the United States of America. Merchant banks are well known as acceptance houses in the United Kingdom, while in the United States of America, they are known as investment banks. They engage principally in the financing of commerce and international trade, particularly financing the purchase of goods mostly from Europe and shipping these goods to developing countries. They achieve this by developing bills of exchange which when stamped their acceptance, became rediscount able. These bills, when accepted by merchants are easily re-discountable by the exporter to raise funds for immediate use.

MERCHANT BANKS

Definition

Merchant banks are specialist financial institutions that provide among other services, wholesale banking, medium and long term finance, equipment leasing, debt factoring investments management and so on.

Merchant banking services comprise primarily corporate finance services and banking services, corporate finance services range from the management of the issue of private and public equity shares to corporate debt securities. Merchant banks provide expertise in the arrangement of syndicated loans for the financing of large scale industrial projects, general financial and investment advisory services, company floatation, mergers and acquisitions, financial planning as well as portfolio management. The banking services are essentially loans and advances, deposits, acceptances, foreign exchange transactions, international trades and so long.

Brief History, Development and Growth of Merchant Banking in Nigeria

The history of merchant banking in Nigeria dates back to 1960, when the first two financial institutions where registered for merchant banking business. In September 1960, Phillip hill Nigeria limited was registered, while Nigeria Acceptances limited (NAL) was registered in November 1960. The two companies performed the same functions, which included.

1 Financing of commodity exports by granting credits
2 Acceptance of large deposits from institutions and high net worth individuals, etc.

The two companies merged in July 1969 to avoid unnecessary competition and to strengthen their capital base. Phillip Hill absorbed NAL, but the name of the absorbed institution- Nigerian Acceptances limited was retained and given to the new institution, because it was more acceptable as a Nigerian company, NAL remained the only merchant bank operating in Nigeria until 1973, when a license to carry on merchant banking business was issued to UDT, United Dominion Trust Bank, Nigeria Limited. This was restructured and named as Nigeria merchant bank limited in 1977.

Two American banks- first National City bank of New York and first National bank of Chicago were licensed in 1974 but more opened in 1974. In 1975, ICON merchant bank limited and Chase merchant bank limited started operations. In 1985, Chase merchant bank limited changed its name to Continental merchant bank.

In September 1979, the Nigerian-American merchant bank limited, an affiliate of first National Merchant bank of Boston was licensed to operate as merchant bank in Nigeria.

In 1982, the merchant banking cooperation Nigeria limited and the Indo-Nigerian merchant bank started operation in the same year; three additional licenses were issued to merchant bank of Africa Nigeria limited, First city merchant bank limited and ABC merchant bank limited. The first two started business operations in 1983, while ABC merchant bank was officially opened for business operations in 1984. Grinlays merchant bank limited was given a license in October 1983 and opens its doors for business operations in 1984. As at the end of September 1986, Nigeria had twelve (12) merchants' banks.

FUNCTIONS OF MERCHANT BANKS

With the advent of universal bank in 2001, merchant banks ceased to exist but they still operate in other countries. However, the CBN new banking model schedule for introduction in 2011 made provision for merchant banks. See chapter 15 on current banking reforms.

The functions of merchant banks are:

1. **Provision of medium and long-term credits:** these are made available to the customers mainly to finance big projects capable of assisting the development of Nigerian economy.

2 **Arrangement of syndicated loans**. This is joint contribution of funds by two or more merchant banks to assist a corporate organization seeking financial assistance. The merchant bank that leads the syndicate is called the lead bank.

3. **Provision of acceptances credit facilities to their clients**, this is achieved by the merchant bank that accept bills of exchange on behalf of their customers for import and local trade finance.

4. **Equipment leasing**: this is achieved by renting out an asset purchased by the merchant bank to its corporate clients for the economic duration of the asset in return for an installment repayment comprising of the rental cost and profit margin. This is a source of credit to any

corporate entity, which cannot raise the capital required for procuring the equipment needed by the company.

5.**Issuing house function**: as a member of the issuing house, merchant banks assist their corporate clients to raise capital in the stock exchange by preparing their applications and collecting capital for shares subscribed for.

6. **Acceptance of deposits**: as financial intermediary, they accepts deposits from the members of the public, governments and government corporations on wholesale basis subject to a minimum of N50,000 before the introduction of universal banking in 2001. In exchange for some of these deposits, they issue negotiable certificates of deposits to their clients on request.

7. **Provision of foreign exchange services**: as an authorized dealer in foreign exchange, they procure foreign exchange currencies for their customers for use on travel trips and for repayments of imports.

8. **Management/ advice on portfolio of investment**: they manage and advice their clients on the best alternative source of investment in financial assets and also manage such portfolios to achieve the best yield.

9. **Unit trust management**: they perform this service by investing a pool of funds in securities and then divide it into units for sale to the members of the public. It is the responsibility of the merchant bank to manage the underlining securities divided into units, for the optimum benefits of the unit holders, (members of the public) and to distribute income among the unit holders on yearly basis.

The complaint from the end of merchant bank that they were not given a level playing ground with commercial bank led to the introduction of Universal banking Scheme in 2001.

UNIVERSAL BANKING

Universal banking is a new concept in banking practice in Nigeria was introduced in October 1998.However, the Central Bank of Nigeria approved guidelines for the implementation of universal banking from January 2001. Under the guidelines, banks insured by Nigeria Deposit

Insurance Corporation (NDIC) are free to choose which core banking activities to undertake. The activities of universal banking as provided in the guidelines include money or capital market activities, insurance marketing services, merchant or commercial banking activities or a combination of any group of these activities.

Before the introduction, the merchant banks were seeking for expanded activities instead of a restricted narrowed one. The guidelines allow only the commercial and merchant banks to legally practice universal banking in Nigeria.

Operationally, Universal banking can be defined as the banking practice in which commercial and merchant banks as well as insurance marketing needs are warehouses under one roof. In other words universal banking removes the barriers that demarcate commercial and merchant banking activities and the boundary between these and insurance. Before UB, the regulatory authorities defined specific functions for commercial banks, merchant banks, and insurance companies because the emphasis was to encourage specialization on specific sectors of the economy and for specific needs.

The guidelines for universal banking specify that banks undertaking central clearing house activities will be expected to meet the capital requirement, branch requirement and a minimum level of information technology as required by the Nigeria Inter-bank Settlement System (NIBSS) or the Nigeria Automated Clearing System (NACS) project; banks are also expected to comply with the current clearing rules. Again, banks embarking on underwriting or issuing house activities are expected to comply with the specified regulations, among which are the maintenance of adequate and separate records for all capital market activities, the disclosure of capital market activities in its published account, as well as meet the registration and regulatory requirements. Also, UB states that banks can provide insurance services in the form of agency services, brokerage services, underwriting services, loss adjustment services, especially through subsidiaries. Banks that undertake insurance business under the universal banking scheme are expected to comply with the capitalization requirement of the insurance Decree No.2 of 1997 as amended and as regulated by NAICOM and should not release any insurance information about a customer to any person other than an employee or agent.

Problems of Universal Banking in Nigeria

i. Inadequate capital: This is because universal banking involves a lot of operations and activities. For instance, the required manpower and the technology for the branch network programme of the banks attract a lot of expenses.

ii. Manpower: Inadequacy of capable manpower and professionalism of such manpower. The banking sector is currently filled up with people from non-bank professions.

iii. Inclement political, social and economic climate in Nigeria has been the bane of most economic activities including banking, and has adversely affected industrial and commercial activities.

iv. The lack of functional infrastructure is another clog in the wheel of progress of universal banking.

v. The prevalence of fraud in the sector is a serious problem that universal banking has to grapple with to achieve success.

vi. Until the recent capitalization, the issue of lack of confidence in the sector was rift. The ability of a bank to generate deposit depends on the confidence and convenience to the customer and the cost of offering services to people.

vii. Boardroom crisis has not helped matters. It happens sometimes that a business that started well end up in tension among the promoters.

viii. The networking and communication required in the performance of the various activity areas of universal banking call for a good infrastructure that functions efficiently. The operation of universal banking involves huge fund outlay to run branch networks and take care of insurance services and the provision of the necessary technology infrastructure.

DEVELOPMENT BANKS

Brief History

The idea of setting up development banks was muted soon after the establishment of the central bank of Nigeria in 1959. The need for development bank was devoted primarily to stimulating the private sector of the economy and concerned with the promotion and finance enterprises by the provision of long term and medium finances. With the support and encouragement of the international bank for reconstruction and development (World Bank), the first development bank (NIDB) was established in 1964. Other development-oriented banks, which followed later, included the Nigerian Agricultural and Cooperative Bank, the Nigerian Banks for Commerce and Industry, and the Federal Mortgage Bank. The NIDB, NBCI and National Economic Reconstruction Fund (NERFUND) were merged to form the Nigerian Agricultural Cooperative and Rural Development Bank (NACRD) now renamed Bank of Agriculture in 2010.

THE NIGERIAN INDUSTRIAL DEVELOPMENT BANK

This was established in 1964 through the reconstruction of the Investment Corporation of Nigeria, which had been in operation since 1959. The CBN and the federal government jointly own the NIDB.

Functions

1 Provision of medium and long-term finances for the public and private sectors (manufacturing sectors).
2 Promotion and development of project through research
3 Supervising the implementation of projects financed by it by requesting progress reports and visiting the project sites.
4 Nominating technical and managerial advisers partners to industrial organizations. (In areas like accounting, engineering, etc.)

NIGERIAN BANK FOR COMMERCE AND INDUSTRY

The bank was established in 1973 just after the commencement of the indigenization of the Nigerian economy. As aid to Nigerians, the bank is supposed to provide between other things medium and long-term finances for Nigerians to achieve the success of the indigenization decree. The bank also concentrates its efforts on assisting small-scale enterprise wholly owned by Nigerians. To achieve this, the bank maintained widespread operation by having branches in all the states capitals with its head office in Lagos then.

Functions

1 Assisting their clients to prepare feasibility reports.
2 It provides medium and long-term loans to their clients.
3 Provision of advice on alternative course of Investment avenue and the most viable choices.
4 Provision of advice and assistance in technical and administrative areas of business management.

NIGERIAN EXPORT-IMPORT BANK (NEXIM)

Both the federal government of Nigeria and the central bank of Nigeria formed NEXIM in 1991.

Functions

1 To ensure the provision of export credit guarantee and export credit insurance facilities to Nigerian exporters.
2 To maintain a foreign exchange revolving fund to be lent to exporters for the purpose of importing foreign inputs that will facilitate export production.
3 To provide domestic credits insurance that will assist exporters.
4 To provide investment of guarantee and investment insurance facilities to exporters.
5 To maintain an adequate information system that will support export business in Nigeria.

NIGERIAN AGRICULTURE AND COPERATIVE BANK LIMITED

The bank was established in 1973 as a pioneer bank specifically to aid the agricultural sector of the economy and with the ultimate objective of improving food production in Nigeria. The bank maintained a branch at each state capital with its head office in Kaduna.

Functions

The main function of the bank is to provide financial assistance to agriculturist in other to improve the quality and quantity of agricultural production, including horticulture, poultry, farming, pig breeding, fisheries, forestry and ranching including financing of storage, distribution and marketing connected with such production in the Nigerian economy.

With the above objective in view, the bank provides loans for agriculture and agro-allied purposes to various categories of farmers ranging from individual, corporate organizations societies, state government, agricultural credits agency and corporate farmers. In case of individuals and corporate farmers, loans are disbursed to them directly while cooperative societies and government parastatals receive loans from NACB on behalf of group of farmers or individual. Generally, NACB provided financial assistance for any project that is similar to agricultural developments in Nigeria.

FEDERAL MORTGAGE BANK OF NIGERIA LIMITED

The Federal Government and the housing development entity under the federal mortgage bank act No. 7 of 1977 established the bank in 1977.The Nigerian building society, which was formally performing its functions, was closed down and its assets taking over by the federal mortgage bank of Nigeria limited in 1977.

Functions

The functions they perform are classified into:

Primary Functions

1 It encourage and promote institutions, which specialize in the mortgage finance in the Nigerian economy whether at state or federal level.

2. They mostly supervised and control the activities of mortgage institutions in Nigeria as may be directed by the federal government.

3 They provide long-term credit facilities directly to Nigerian individuals and mortgage Institutions at rate and term directed by the federal government.

Other Functions

1 Acceptance of savings and term deposits from individual mortgage institutions, trust funds, post office and private individual.
2 They contribute capital by investing in companies involved in the production of building materials in Nigeria in other to minimize the fluctuations in the price of such materials.
3 They give financial advice to companies involved in the production of building materials.
4 They provide in case of need, technical, managerial and administrative services to companies engaged in the manufacturing of building materials.

COOPERATIVE BANKS

Cooperative banks are financial institutions that are specially established to offer great access to savings and borrowings for cooperative societies and their members at relatively cheap rates and terms than those provided by the commercial banks. The commercial banks are taken to be mainly serving the interest of large business enterprises and the rich in the society while cooperative banks mostly deal with small-scale businesses and poor ones in the society. In Germany and Canada, they are called peoples bank while in Britain they are called consumer banks.

Cooperative Banks in Nigeria

The first cooperative bank in Nigeria was the first cooperative bank of Western Nigeria, (later renamed Cooperative bank limited) established formally as a bank in 1961. This was followed in the same year by the Cooperative Bank of Eastern Nigeria (also later renamed Cooperative and Commercial Bank of Nigeria) and owned by Imo and Anambra states.

The North Central Cooperative Bank later renamed Kaduna Cooperative Bank, and by 1988 it was known as Nigeria Universal Bank limited). It came into operation in 1972 while the Kano Cooperative Bank (later called the Tropical Commercial Bank Limited) was established in 1975.

The Sokoto Cooperative Bank came into operation in 1993 but in 1988 changed its name to Gamji bank Nigeria limited, in 1987; the Cooperative Development Bank limited came into the scene. The defunct Cooperative Bank Nigeria limited had its head office in Ibadan with some branches in state capitals like Abeokuta, Ibadan, and so on. They performed some traditional roles of commercial banks.

Functions of Cooperative Bank

1 They accept deposits from individual, spiritual organizations, club, societies and so on.
2 They give out credit facilities to individuals, business organizations (small scale industrialist), farmers and so on at lower rates of interest and better terms than commercial banks.
3 Using their established principles and practices, cooperative banks cater mainly for economic well being of its members.
4 These cooperative banks provide for the neglected groups who have organized themselves into cooperative societies by making financial resources needed for their development available to them.
5 With proper managerial and professional trust, they are able to tap effectively into the rural resources by mobilizing funds from cocoa merchants, cassava farmers, yam and other tuber farmers associations and so on.
6 Some state ministries do pay in their pensioner pensions into all these banks in order to make funds available to them for the banking transactions.

1.3 THE IMPACTS OF BANKS ON THE ECONOMY

Banks of whatever type have the traditional role of providing credits to and accepting deposits from their customers. In all the economies of the world, there is none devoid of banking services; therefore the roles of the banks in any economy are quite indispensable.

The role of intermediary between depositors and borrowers by banks has assisted the economic development of Nigeria in the following sectors.

1. Agricultural sector.

2. Manufacturing / industrial.

3. Small-scale enterprises

4. Mortgages

5. Import and export

6. Mining and quarrying

7. Public finance, and so on

The development of all these economic sectors is a joint effort of all banks as none can claim outright or singular contribution.

In the area of transfer of fund, members of the public have got a safe heaven for keeping their idle cash, not only for the fear of theft or loss in transit but to earn a return inform of interest which otherwise will reduce the loss of its real value in case of inflation. This service over the years had actually minimized direct attack by thieves and men of the underworld for looting homes.

Banks facilitate easy settlements of bills involving Nigerian and foreigners by providing a foreign exchange market where currencies could be bought and sold which is being controlled by CBN having commercial banks and merchant banks as authorized dealers. Without this service, it would have been practically impossible to pay for or receive money in respect of import and export of goods and services; therefore, machineries, which actually aided the industrial development, would have been absent in our economy.

Banks offer advice in all relevant areas of business such as managerial, accounting, technical and capital structure. The advantage of these is to ensure good result and continuity in the private sector since a good and thriving private sector would enhance the gross national output.

In brief, banks assist the Nigerian economy as follows.

i. financing and promoting developments;

ii. mobilization of savings;

iii. channeling savings to productive sectors of the economy;

iv. provision of related banking services to different sectors of the economy with the ultimate intension of developing them;

v. development of the rural resources in the area of best advantage to the rural dwellers or residents of the area and Nigeria in general;

vi. financing the public sector debt by investing in treasury bills, treasury certificates and other government stocks;

vii. provision of suggestions for inclusions in the annual budget through the bankers committee.

Banks' assists in the acceleration of the economic development through participation in the government sponsored programmes like national economic recovery fund, (NERFUND) and so on.

REVIEW QUESTIONS

1 Write brief history about the development of merchant banks in Nigeria.
2 What are merchant banks and their functions?
3 Define development banks and state their functions.
4 What are the impacts of banks on the Nigerian economy?
5 Define cooperative banks and their functions.
6 Give the operational definition of Universal Banking (UB).
7. Briefly discuss the phases in the development of banking.
8. Discuss the role and limitations of UB.

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CHAPTER 2

BANK REGULATION

LEARNING OBJECTIVES: After studying this chapter you should be able to understand the following**:**

2.1 Justification for government intervention in economic Activities

2.2 Concept of bank regulation

2.3 Categories of bank regulation

2.4 Historical Perspective of Banking Laws and Statutes.

2.5 Laws Regulating/Governing the Nigerian Banking and Financial Environment.

2.6 Regulatory Agencies and Why Banks are Heavily Regulated

2.7 Why Banks are different from Other Commercial Enterprises

2.8 Bank and Other Financial Institutions Act (BOFIA) No.25 of 1991

2.9 The Role of Central Bank in Monitoring the Banking Environment through Bank Supervision and Examination/Inspection

2.10 Supervisory Report and the Return System of Financial Institutions.

2.11 Reasons for Failures in Regulation

2.1 JUSTIFICATION FOR GOVERNMENT INTERVENTION IN ECONOMIC ACTIVITY

Globally the question of government intervention and in particular regulation of economic activity has attracted considerable attention over the years, especially from those who think that government should keep out of business as much as possible. According to them, governments should concentrate on the management of the bureaucracy, which is the essence of their existence. Governments usually take regulatory action when they believe that:

i. Competition within an industry is either impossible or contrary to public interest.
ii. Competition will lead to serious inefficiency in the use of resources or in the delivery of the goods and services of the particular industry. The aim being to ensure stability in the system and development.

Some of the policy implications of government intervention in the Banking industry by way of regulation include among others:

a. Facilitation of the execution of macroeconomic policies- Regulation is often justified when seen as an attempt to facilitate the execution of monetary policy and ensure the most optimal allocation of resources to important sectors of the economy and in the process assist in ensuring success of government macroeconomic objective. For instance, in each year government in its monetary, credit, foreign trade and exchange policy guidelines prescribes the percentage of credit allocation to specific sectors of the economy.
b. Protection of banks against risks – In the exercise of their functions, bank take several risks for instance crest risk which arises out of delay or default in making or receive payment, liquidity risk arising from maturity mismatches, foreign exchange rate fluctuations, risks arising from frauds among others
c. Safeguard against market failures- The banking boom and crises in Nigeria between 1940s and 1950s led to the enactment of the first banking law in Nigeria in 1952. In addition, the market failure resulting in the U.K fringe banking crises of 1973/74 accelerated the process of towards formal legislation in the 1979 Banking Act.
d. Restoration of confidence – The substance of the banking system is built on confidence. If that confidence collapses, the sector and the entire financial system face imminent collapse. Regulation is therefore justified to restore confidence and ensure successful and sustained operation of the financial system and to protect the consumers of banks' products.

e. Ensuring a systematic stability in the financial sector – Regulating the banking sector by way of government intervention ensures a systematic stability in the sector by protecting the aggregate deposits of the system and thus preventing the collapse of single institutions from destabilizing the entire financial system.

f. As a means of limiting foreign participation – The policy implication here is to limit foreign ownership in critical sectors of the economic. This was done in Nigeria in 1973 and 1976. For instance the federal government took 40 per cent equity interest in the three biggest banks in Nigeria in 1973 and upgraded it to 60 per cent in 1976.

The promulgation of the Nigerian Enterprises promotion Decree (NEPD) otherwise known as indigenization decree in 1972 provided an opportunity for Nigerian government to participate and owned majority shares in some banks such Union Bank of Nigeria and First Bank of Nigeria. Thus, the Federal Government in 1973 acquired a 40 per cent interest in the three biggest foreign banks in Nigeria namely First Bank, Union Bank and United Bank for Africa. This participation was upgraded to 60 per cent in 1976, when the same level of Indigenous participation was extended to cover all foreign commercial and merchant banking in Nigeria.

However, with the deregulation of the Nigerian economy in 1986, that trend has changed. Deregulation implies to free trade and business activity from rules and control while liberalization (of trade) is the process of reducing tariffs and other restrictions on international trade.

2.2 CONCEPT OF BANK REGULATION

For the finance (particular banking) sector to be efficient, it has to be regulated to safeguard market failure, ensure social equity and stability and protect the market operators. Consequently, of all sectors of the economy (worldwide) the banking sector is the most regulated because of its critical role which is crucial to the survival of the economy. This role consists of collecting surplus funds from the general public, safeguard them, and lending them to the public. In doing this, the bank must also make such funds available at anytime to the true owner on demand.

Regulation is seen as a body of specific rules of agreed behaviour either imposed by some government or implicit agreement within the industry that limits the activities and business operations of financial institutions. The primary objective of regulating the financial system of a country is to ensure the safety of that country’s financial system by checking competitive inequities and other inefficiencies (Ekpenyong, 1995). Regulation in its intent seeks to ensure the safety of a country’s financial system. Today, the regulatory/supervisory activities of the finance sector are shared by: (i) the Central Bank of Nigeria (CBN) which is at the apex of the sector; (ii) the Federal Ministry of Finance (FMF) (iii) The Nigerian Deposit Insurance Corporation (NDIC; (iv) the Federal Mortgage Bank of Nigeria (FMBN) which oversees the mortgage institutions. Historically, bank regulation and supervision have been based upon the primary objective of preserving the stability of the national economy. The activities of banks can at times have destabilizing effects. The regulatory authorities especially the CBN attempt to stabilize the economy by using their regulatory power to influence the ability and willingness of banks to make loans and investments and attempt also to affect the interest rates at which banks undertake their activities. Depository insurance corporation e.g NDIC is concerned about the safety of depositors’ fund. Depositors’ will suffer losses as a result of bank failures. Besides, losses of large depositors are not covered fully; hence, regulations are embarked upon to protect all categories of depositors’ and prevent the effects of panic withdrawal of funds on a bank that customer may come and withdraw their fund when there is financial difficulties.

Without regulation/supervision banks can put depositors’ funds into risky assets. Should the events turn out well, the bank’s shareholders reap the benefits? Should the events turn out badly, the loss may be too heavy for the insurance agency to bear, moreso, when a commensurate premium had not been charge.

Regulation as a means of securing that safety has been justified on a number of grounds including:

i. Facilitation of the execution of macroeconomic policies: It facilitates the execution of monetary policy and ensures the most appropriate allocation of resources to important sectors of the economy and in the process assist in ensuring success of government macroeconomic objectives.

ii. Protection of Banks Against Risks: In the exercise of their functions, banks take several risks for example, credit risk arising from default or delay in making or receiving payment; liquidity risk arising from, maturity mismatches; faulty balance sheet structures and changes in interest rates; asset prices and foreign exchange rate fluctuations; operating errors and inefficiencies; arising from fraud s and defalcations etc

iii. Ensuring a Systematic stability in the Sector: According to the Governor of Central Bank cited in Egene (2009), of the ten (10) banks audited in 2009, the balance sheet of five banks (Union bank, Oceanic bank, Afribank and Intercontinental bank) had shrunken, shareholders' funds impaired hence CBN had to inject N420 billion into the banks. Other banks that were distressed are Finbank, Equatorial Trust bank, Wema bank, Spring bank and Fidelity bank. Regulating the banking sector by the CBN as lender of last resort ensures a systematic stability in the sector by protecting the aggregate deposits of the system and preventing the collapse of single institutions from destabilizing the entire system and ensuring that the CBN does not become the first-resort facility and that the financial institutions do not take advantage of the facility to project themselves through their increased risks level.

iv. Restoration of Confidence: Confidence is key for the banking sector to strive If that confidence collapses, the sector and the entire financial system face imminent collapse. Regulation is therefore justified on political reason to restore confidence and ensure successful and sustained operation of the financial system and to protect the customers of banks' products.

v. Safeguard Against market failures: The market failures resulting in the banking boom and crash of the late 1940s and the early 1950s led to the first banking legislation in Nigeria. Bank distress in the late 1980' and 1990's led to the Prudential Guidelines of 1991 and BOFIA OF 1991.

vi. As a means of Limiting foreign Participation; Regulation is also needed to limit foreign ownership in critical sectors of the economy.

On the hand deregulation is a response to regulatory failure which occurs when the outcome of attempting to fight market failure are inferior to what the situation would have been without regulation (Ojo, 1994). The aims of government deregulation are mainly to remove complex administrative controls on economic activities; reduce its direct involvement in many economic activities; encourage greater private sector participation; increase reliance on markets for the allocation of resources.

It is important to recognize that regulation/deregulation does not mean total abandonment of regulation and supervision but rather it is a call for the dismantling of the obnoxious, pervasive, excessive, misdirected and ineffective ones and the strengthening of effective. Regulators and operators in the design and implementation of legislation are critical to the success or failure of regulation/deregulation.

2.3 CATEGORIES OF BANK REGULATION

The major forms of bank regulation in Nigeria include:

(i) Capital requirements: A bank's capital is a measure of the amount of losses it could absorb before it would be unable to repay its creditors which are for the most part its depositors. Bank capital should clearly demonstrate the ability to absorb unanticipated losses. With the minimum paid-up share capital base of deposit money banks fixed at N25 billion but subject to future review as may be deemed necessary by CBN. The capital adequacy of a bank's capital is monitored during periodic examination by both the CBN and NDIC along these lines. If the authorities feel that a particular bank is undercapitalized, may suggest that the bank should raise additional capital and/or impose sanctions such as a fine (BOFD, S.16), prohibit from granting credit and making investment, and suspension of dividend payment. Extreme capital inadequacy could constitute ground for revocation of a bank license.

(ii). Reserve and Liquidity requirements: Reserves are the cash holdings that banks are required to keep on deposit at the CBN. Reserve requirements are important because they give the CBN some leverage in controlling the monetary and credit conditions of the economy. Section 15 of the BOFID stipulates that every bank shall maintain with the CBN cash reserve and special deposits and hold specified liquid assets as the case may be from time to time as prescribe by CBN.

(iii). Controls over lending activities: Constraints are imposed to restrict from preventing banks from taking undue risks which might impair their safety and soundness. For instance, to prevent from bank from overstating their profit and that dividends and taxes are not paid out from book earnings there is need for regulation. Without the prudential guidelines, the liquidity, capital adequacy and hence financial health of a bank could be eroded without the regulatory authorities detecting early enough. The Prudential Guidelines for Licenses Banks issued in 1990 assist in early recognition of losses and adequate provision for bad and doubtful debts.

(iv). Limitations on prices paid and charged: Regulatory authorities that is CBN placed restriction on the amount of interest banks are allowed to pay depositors in an effort to attract additional deposits and the intrest they charge on their funds based activities. However, the gap between the lending rate is still very wide in of interest on lending. While the deposit rate was between 2% -3% the lending was between 17% - 21% as at 2010.The saving rates does not motivate customers to save especially in our inflationary environment. Funds are being diverted from banks by customers seeking higher rates/yields.

The regulations are contained in the relevant Banking Act and the annual Monetary and Credit Policy Guidelines of the CBN (CBN Guidelines).

2.4 HISTORICAL PERSPECTIVE OF BANKING LAWS AND STATUES

The period between 1892 when conventional banking began in Nigeria and 1952 would remembered as a period of laissez-faire banking with no financing requirements and no regulations to restrict and control the establishment and operations of banks. Almost all new banks, especially the indigenous banks, went into voluntary liquidation as rapidly as they were set up due to poor management, inadequate capital, inexperience personnel and over-expansion and other structural constraints. This unpleasant development prompted an enquiry by the then colonial administration to investigate banking practice in Nigeria. The G.D. Paton report, which emanated from the enquiry, was the basis for the first banking ordinance of 1952. The ordinance was designed to ensure orderly commercial banking and to prevent the establishment of unviable banks. It provided for who could hold a valid license to operate as bank; laid down the standards and procedures for the conduct of banking business, and prescribed a capital and reserve structure for banks. The financial secretary was given wide and unrestricted powers in the granting of licenses under the ordinance.

Many nationalists at that time advocated for the establishment of a Central Bank to perform the functions detailed in 1952 banking ordinance and other traditional functions of Central Bank. The colonial administrators recognized that a highly organized money market was absent and the West African Currency Board was doing well and creation of CBN would reduce chances of inflation. Eventually, the agitation of the indigenes resulted in the draft legislation for the establishment of Central Bank of Nigeria, which was presented to the House of Representatives in March 1958. The Act was fully implemented on 1 July 1959 when the Central Bank of Nigeria came into full operations.

The Central Bank Act, 1958 (as amended) and the Banking Act 1969 (as amended) constituted the legal framework within which the CBN operates and regulates banks. Overtime, these laws become grossly inadequate to cope with challenges in the banking and other financial services industry. The wide range of economic liberation and deregulation measures following the adoption, in 1986, of a Structural Adjustment Programme (SAP) resulted in the appearance of more banks and the other financial intermediaries. Decree 24 and 25 of 1991 were, therefore, enacted to strengthen and extend the powers of CBN to cover the institutions in order to enhance the effectiveness of monetary policy, regulation and supervision of banks as well as non-banking financial institutions. Unfortunately in 1997, the Federal Government of Nigeria enacted the CBN [BOFID (Amended)] Decree No.4 to remove completely the limited autonomy which the Bank enjoyed since 1991.

The 1997 amendments brought the CBN back under the supervision of the ministry of finance. The composition of the Board was also changed to comprise a part-time Chairman, the CBN Governor, the Deputy Governors of CBN, the Director-General, Federal Ministry of Finance, the Managing Director, Nigeria Deposit Insurance Corporation (NDIC), and other part-time members. The Board was empowered to approve, among others, the Bank's annual Budget, audited Accounts, the formulation of the monetary and credit policy, as well as devise suitable mechanism for the determination of exchange rate.

The decree made CBN directly responsible to the minister of Finance with respect to the supervision and control of banks and other financial institutions, while extending the supervisory role of the bank to other specialized banks and financial institutions. The amendment placed enormous powers on the Ministry of Finance while leaving the CBN with a subjugated role in the monitoring of the financial institutions with little room for the Bank to exercise discretionary powers. Similarly, in 1997, the NDIC Decree No. 22 of 1988 was reviewed and amended to give more powers to the NDIC as well as autonomy from the CBN. The Corporation was given power to assume supervisory responsibility over insured banks.

The current legal framework within which the CBN operates is the CBN (Amended) Decree No. 37 of 1998, which repealed the CBN (Amended) Decree No.3 of 1997. The Decree now Act as result of the new dispensation of democracy provides a measure of operational autonomy for the CBN to carry out its traditional functions and enhances its versatility. Specifically section 2 of the 1998 Decree as amended contains the amendments to the membership of the Board of Directors of the Bank, which restores its Chairmanship to the CBN Governor. Other members of the Board are the Deputy Governors, the Permanent Secretary, Ministry of Finance and five part-time Directors. The Decree also reconstituted the Financial Services Regulation Committee (FSRC) for the purpose of co-coordinating the supervision of financial institutions in the country.

Membership of the committee comprises of the CBN Governor who is the Chairman, Director General, Security and Exchange Commission; the Commissioner for Insurance, the Registrar-General, Corporate Affairs Commission and a representative of the Federal Ministry of finance not below the rank of Director. Furthermore, the regulatory power of the CBN was strengthened by the Banks and other Financial Institutions (Amendment) Decree no. 4 of 1997. Through the amendments, the CBN may vary or revoke any condition subject to which a license was granted or may impose fresh or additional condition to the granting of a license to transact banking business in the country.

The Decree also empowered the bank to examine the books of specialized banks and other financial institutions, including Development Banks plus all primary Mortgage Institutions, Community Banks now (Microfinance bank), People Banks (defunct), Bureau De Exchange and Discount Houses. By the Decree (as amended) the CBN's power on Banks, specifically those relating to withdrawal of licenses of distressed banks and appointment of liquidators of these banks, including the NDIC was restored.

2.5 LAWS REGULATING/GOVERNING THE NIGERIAN BANKING AND FINANCIAL ENVIRONMENT.

Law refers to those Statutes, Decree, Act, Edit that guide and regulate the operations and activities of individual and companies operating within the financial environment. The financial environment consists of both banks and non-bank financial institutions. These laws include: banking laws, insurance law, and money laundering law as well as economic and financial crime commission. Banking laws regulating the banking environment.

Nigerian Financial Environment

The Nigerian financial environment consists of financial market (that is capital and money market), banks and othe non-banks financial institutions as well as regulatory agencies regulating the activities of individual operating within the financial environment. The banks are regulated by the Central Bank and the NDIC. SEC regulates the capital market and the non-banks are regulated by various bodies constituted to regulate their affairs.

1952 BANKING ORDINANCE

This ordinance defined banking business as "business of receiving" from the public on current account, money which is to be repayable on demand by cheque and of making advances to customers.

The period between 1892 and 1952 could be regarded as free banking era in Nigeria because there was no regulation governing the activities of banking business in Nigeria as at that period. However, the failure of many banks during the banking boom era of the 1940s resulted in a significant loss to depositors. The collapse of one bank after another caused considerable concern within government circles. Consequently, government felt there was the need for a code of banking conduct A commission was set up to inquire into banking business in Nigeria and make recommendations to the government on the extent as well as the form of control that was required in the country. The committee was set up in 1948 and was headed by Lord Paton. It was the recommendation of Patton that gave birth to the first banking law in Nigeria otherwise known as the 1952 Banking ordinance.

In 1948, Mr. G. D. Paton, an official of the Bank of England was appointed by the then Secretary of State for the colony to investigate the cause of Bank failures in Nigeria and to recommend policy control and operational guideline for preventing further deteriorating of the Banking condition in the colonies. His recommendation was what culminated into the famous 1952 bank ordinance. The Nigerian Legislature enacted it in May 1952. His recommendations are as follows:

1. Only companies engaged in the business of banking can transact banking business and they must be registered for that purpose.
2. Under the 1952 banking ordinance to operate a bank, one must obtain banking license. One must also have a minimum paid up capital of £200,000 for foreign banks and £12,500 for indigenous banks incorporated in Nigeria. Following the regulation, many banks wind up before the end of the three years of grace given for compliance with the requirement of the new ordinance.

3. Dividend payment is not allowed until 20% of the profit in the accounting period is paid to the reserve fund. The reserve fund has to be equal to the paid up capital and all capitalized expenditure must have been retired before any dividend payout.
4. All banks are required to maintain an adequate degree of liquidity.
5. Loans and advances limit. No bank has authority to make unsecured loans against its own shares, for more that N300 to any of its Directors.

In 1958, the Financial Secretary put a maximum of 25% of paid up capital as the amount of loan/advances that any bank can give out to any company as loan. The major defect of the 1952 ordinance was that it neither provided for the liquidation of banks nor for a bank examiner.

AMMENDMENT TO BANKING ORDINANCE

Amendment to 1952 Banking Ordinance

In 1958, the 1952 Banking ordinance was amended as follows;

1. The minimum paid up capital for indigenous banks was placed at N12,500 and N200,000 for expatriate banks.
2. The percentage of profit to reserve fund was increased from 20% to 25%.

3. The 1958 ordinance stated specifically the type of liquid assets (such as notes and coins of Nigeria, treasury bills etc) banks are to maintain a holding of as specified by the CBN from time to time.
4. Ceiling on loan was raised to 500 pounds.
5. Provision was made for the appointment of Bank Examiner, empowered to investigate all banks activities and to report to the Minister of Finance for special examination of banks.
6. The ordinance prohibited banks from engaging in trading and real estate businesses.

PROVISIONS OF THE 1958 BANKING ORDINANCE

In 1958, a bill establishing the Central Bank of Nigeria was passed in the Federal House of Representative based on the report of J.B. Loynes. The Governor General appointed the Board made up of the Governor and Deputy Governor. The Prime Minister of the Federation appointed few other members of the Board. The first Governor was Mr. R.P. Fenton, a bank of England official that resumed duty on July 27, 1958. There was also General Manager Department, which was responsible for issuing currency and managing public debt. In addition was the Secretary’s department, which was responsible for administration, research and statistics. The research function of the bank began extremely slow due to lack of trained personnel compounded by inability of the banking institutions in making their books available to the Central Bank.

Following the establishment of the central bank of Nigeria in 1958, another banking ordinance was enacted, known as the Central bank of Nigeria Ordinance of 1958. Under the ordinance, the minimum paid up capital of banks incorporated outside Nigeria remained at £200,000 and £12,500 for indigenous banks.

The 1958 ordinance also provided for the political independence of the Central Bank with an advisory committee whose members were:

- Federal Minister of Finance, regional Finance Minister (3), the CB Governor and,
- The Deputy Governor.

The functions of the Central Bank of Nigeria according to CBN ordinance of 1958 are as follows;

1. Currency: the Central Bank shall maintain the parity of the Nigeria pound on one-to-one ratio with the British pound sterling.
2. Regulations: the Central Bank in its capacity as the government bank and lender of last resort shall require the commercial banks to maintain a specified ratio of liquid assets to deposit at all times. The ratio to be maintained is subject to change as determined by the office of the governor.
3. The money and capital market: the Central Bank of Nigeria Act 24, 1991 and the Banks and Other Financial Institutions Act 25, 1991. Other legislations are the Failed Banks (Recovery of Debts) and Other Malpractices in Banks Act 18, 1994.There is now the Investment and Securities Tribunal that tries insider abuse and other malpractices against investors.

Further Amendment in 1962

There was a further amendment in 1962 to strengthen the banking sector in the economy. The amendments were as follows;

1. The paid up capital for indigenous banks was raised to N250,000 with 7years grace period for already established banks to build up their capital base.
2. In the 1962 amendment, banks were allowed to buy real estate for expansion purposes and the CBN was empowered to regulate the interest rate structure of the commercial banks. These developments had immediate impacts on the banking conditions.

The 1969 Banking Decree

The 1969 banking decree was more comprehensive than the previous ones in the range of addition to the central bank's armory of control techniques and in broadening the sphere of monetary control to embrace most banking institutions other than commercial banks. It makes provision that enhanced the central bank's grip on the economy and to participate positively in the development of the economy and the minimum paid up capital requirement was raised to £750,000 for foreign banks and £300,000 for indigenous banks.

See the capital structure of banks since inception in 1952 on **table 2-1** below.

2.6 REGULATORY AGENCIES AND WHY ARE BANKS HEAVILY REGULATED

Banks operating in Nigeria and in most other countries of the world must contend with heavy regulations as well as rules enforced by federal and state agencies governing their operations, type of service offered, capital reserve, quality of their loan and advances, the way and manner in which they grow and expand their facilities for better services. As bankers work within the financial system to supply loans, accepts deposits, and provide other services to their customers, they must do so within a climate of extensive regulation, designed primarily to protect the public.

The regulatory agencies include the Central Bank of Nigeria and the Nigeria Deposit Insurance Corporation regulating the Banking system. Duties of the regulatory agencies

i. They are ever demanding for more capital, more reports, and more transparency on the bank management.
ii. They approve new entrants into the banking industry.
iii. They also approve types of deposits and other financial instruments banks sell to the public to raise funds.
iv. They review quality of a bank's loan and investment and the adequacy of its capital.
v. They approve the construction of bank building, merger with other bank, setting up of a branch office, acquiring or starting a non- bank business for existing banks.
vi. They give approval in case of voluntary liquidation from the government agency that is granted license for operation.

Why Banks Are Heavily Regulated

i. Leading repositories of public's savings-individuals, families, corporations and organization place their savings in bank in form of short and long term deposit of highly liquid instruments.

Banks also hold large amounts of long term savings in retirement accounts. The loss of these funds due to bank failure or bank crime would be catastrophic to many individuals and families.

Many depositors lack the financial expertise and depth of information needed to correctly evaluate the riskiness of a bank. Therefore, the regulatory agencies are charged with the responsibility of gathering and evaluating the information needed to assess the true financial condition of banks in order to protect the public against loss.

ii. Power to create money: Banks are also closely watched because of their power to create in the form of readily spendable deposits by making loans and investments. Money created by banks have significant impact on the economy, it could bring about creation of jobs as well as presence or absence of inflation that is why they are regulated.

iii. Non-selective credit: Banks provide individuals and businesses with loans that support consumption and investment spending: The public has a keen interest in an adequate supply of loans flowing from the banking system where discrimination in the granting of loans is not present. If access to loan is denied because of irrelevant factors it deters progress in the nation. Government therefore tries to eliminate discrimination by enforcing non-selective credit.

iv. Taxation and Financing of government project: Banks have a long history of involvement with government. Government relied on banks to finance project embarked upon by the government and bank tax form a large portion of the company income tax.

v. Protection of Depositors and Bank Solvency: Banks are heavily regulated because of the creation of NDIC who bears the cost of bank failure. This is to prevent banks from taking risks that would impair the solvency of the bank. Excessive risk taking can be controlled by the imposition of risk-related insurance premiums and close supervision.

2.7 WHY ARE BANKS DIFFERENT FROM OTHER COMMERCIAL ENTERPRISES?

1. Banks have custody of a large amount of monetary items, including cash and negotiable instruments, whose physical security has to be safeguarded during transfer and while being stored.

2. Banks often engage in transactions that are initiated in one jurisdiction, recorded in different jurisdiction and managed in yet another jurisdiction (transnational operation)

3. They operate with very high leverage (that is ratio of capital to total assets is low), which increases bank vulnerability to adverse economic events and increase the risk of failure.

4. Banks have assets that can rapidly change in value and whose value is often difficult to determine. Consequently, a relatively small decrease in asset value may have a significant effect on their capital as well as their solvency.

5. Banks generally derive a significant amount of their funding from short term deposits. A loss of confidence by depositors in a bank’s solvency can in liquidity crisis.

6. Banks have fiduciary duties in respect of the asset they hold that belong to other persons. Negligence on their part may give rise to liabilities for breach of trust.
7. Banks engage in a large volume and variety of transactions that requires complex accounting and internal control systems and widespread use of information technology.
8. Banks have network of branches and department that are geographically dispersed. This necessarily involves a greater decentralization of authority and dispersal of accounting and control functions with consequential difficulties of uniform operating practices and accounting systems, particularly when the branch network transcends national boundaries.
9. Some transactions can be initiated and be completed by the customer without any intervention by the bank’s employee, for example an internet or ATM.

10. Banks are heavily regulated and some of these regulations affect the accounting principles that banks can adopt and non-compliance with regulatory requirements for example, capital adequacy requirements, could have implication for the bank's financial statements or the disclosure therein.

2.8 BANK AND OTHER FINANCIAL INSTITUTIONS ACT (BOFIA) No. 25 of 1991.

The Act (BOFIA) which contains <u>62 sections</u> spells out the legislative and regulatory conditions for establishing banks in Nigeria

Section 2 of the act states that:

1 No person shall carry on banking business in Nigeria except it is a company duly incorporated in Nigeria and holds a valid license under the act.

2 Therefore any person who transacts banking business without a valid license under the act is guilty of an offence and liable on conviction to a term of imprisonment not exceeding 10years or a fine not exceeding N500,000 or to both such imprisonment and fine.

Section 3 states that any person desiring to undertake banking business in Nigeria must apply writing to the governor of the central bank of Nigeria for the grant of a license and must accompany such application with the following:

a. A feasibility report of the proposed bank

b. A draft copy of the memorandum and articles of association of the proposed bank. A list of the shareholders, directors and principal officers of the proposed bank and their particulars.

d. The prescribed application fee and

e. Such other information, documents and reports as the central bank of Nigeria may from time to time specify.

After the applicant has provided all the above and such information, documents and reports as the CBN may require, the shareholders of the proposed bank must deposit with the CBN a sum equal to the minimum paid-up share capital that may be applicable. The minimum paid up capital for banks as at January, 2006 has risen to N25 billion. Upon the payment of the minimum share capital, the governor CBN may issue a license and the governor of the CBN needs not give any reason (s) for the refusal to issue a license. Where an application for a license is granted, then the CBN must give written notice of that fact to the applicant and the license fee must be paid. However, by the provisions of **Section 4** of the Act, the CBN may pending the issue of a license, invest any amount deposited with it until such a time as the governor of CBN shall decide whether or not to grant a license and where the license is granted, the CBN shall repay the sum deposited to the applicant together with the investment income after deducting administrative expenses and tax on the income.

Under section 5 of the act, the governor of CBN may vary or revoke any condition subject to which a license was granted or may impose fresh or additional conditions to the grant of a license. According to the provisions of **Section 6** of the Act, no bank may open or close any branch office anywhere within or outside Nigeria except with the prior consent in writing of the CBN. Minimum Equity requirements for banks in Nigeria from 1952 till date are shown in **table 2-1** below.

TABLE 2-1: TREND IN THE CAPITAL STRUCTURE OF NIGERIAN BANKING

(1952 – 2006)

YEAR	**FOREIGN (Commercial)**	**INDIGENOUS (Commercial)**	**MERCHANT**
1952	£200,000	£25,000	--
1958	£400,000	£25,000	--
1969	£1,500,000	£600,000	--
1979	N1,500,000	N600,000	N2,000,000
FEB. 1988	--	N5,000,000	N3,000,000
OCT.1988	--	N10,000,000	N6,000,000
OCT.1989	--	N20,000,000	N12,000,000
FEB.1991	--	N50,000,000	N40,000,000
1998	--	N500,000,000	N500,000,000
2001-Universal Banking	--	N1 billion (old banks) N2 (new bank)	N1 billion (old bank) N2 billion (new bank)
January, 2006	--	N25,000,000,000	--

SOURCE: CBN Annual Report (Various issues)

2.9 ROLE OF THE CENTRAL BANK OF NIGERIA IN MONTORING THE SYSTEM THROUGH BANK SUPERVISION, EXAMINATION AND INSPECTION

Bank supervision – section 30 (1) – (8)

The supervisory function of the CBN is structure into three departments:

a. Bank examination, which carries out off-site supervision
b. Banking supervision, which carries out on-site supervision
c. Other financial institutions department, which supervises the non-bank financial institutions under the purview of CBN supervision.

The directors of these department reports to the deputy governor. The on-site supervision department provides independent assessment of banks' corporate governance, internal control system, reliability of information provided, etc. the field examinations carried is usually conducted within six months of commencement of the operation by a new bank, routine which is the regular examination addresses specific areas of operation of a bank e.g. credit and special which is carried out as the need may arise as provided in section 32 of the banks and other financial institutions act.

The off-site supervision review and analyses the financial conditions of banks using prudential reports, statutory returns and other relevant information. The Bank Analysis System (BAS) is a software developed for analyzing the data provided by banks. It also monitors trends and developments for the banking sector as a whole. Industry reports are generated on monthly and quarterly basis. Off-site supervisors also conduct spot-checks for quick confirmation/verification.

The supervisory departments operate a team-based structure in which supervisors are organized into teams. In the off-site department, individual supervisors within each team era attached to the banks as relationship manager. With this arrangement, the supervisor is able to have a complete picture of the condition of the institution he supervises.

For on-site, each also has asset of banks attached to it for examination. In distributing the banks, related banks are grouped together as much as possible. That way a supervisor would have a complete picture of the condition of the institution he supervises.

Other financial institution department (OFID) handles the supervision of community banks (CBs), primary mortgage institutions (PMIS) finance companies and bureau de change. The department caries out both on-site and off-site supervision of these institutions. OFID also operates a team-based structure like the other two departments. Section 30 expressly specifies as follows;

i. There shall be an officer of the bank who shall be appointed by the governors known as the director of banking supervision or by such other titles as the governor may specify.

ii. The director of banking supervision shall have power to carry out supervisory duty in respect of banks and for that purpose shall-

   a. under condition of confidentiality, examine periodically the books and affairs of banks;

   b. have a right of access at all time to the books, accounts vouchers of banks;

   c. have power to require from directors, managers and officers of banks such information and explanation as he deems necessary for the performance of his duties under this section.

iii. The governor shall appoint to assist the director of banking supervision such other officer the bank as the governor may, from time to time decide.

iv. The officers may be designated examiners or have such other title as the governor specify.

v. for the purpose of this section, references to examiners are references to the director of banking supervision and any officer of the bank appointed pursuant to subsection (3)

vi. in examining the affairs of any bank under this decree, it shall be the duty of the examiner to avoid unreasonable hindrance to the daily business of the bank

vii. every bank shall produce to the examiners at such times as the examiners may specify books, account, documents and information which they may require.

viii. if any book, document or information is not produced in accordance with the requirement examiner may under this section or what is produced or furnished to an examiner is false in materials particularly, the bank is guilty of an offence and liable on conviction to a fine of $5,000 and condition, to a fine of $1,000 for each day during which the offence continues.

Importance of Supervision.

1. **Maintenance of stability and confidence in the financial system -** the key objective of prudential supervision is to maintain stability and confidence in the nation's financial system, by reducing risk of loss to depositors and other creditors. Also, supervision is often directed toward verifying compliance with laws governing banks and their activities.
2. **Control of entry into the banking system –** banking supervision is based on a system of licensing, which allows supervisors to identify the population to be supervised and to control entry into the banking system. In order to qualify for and retain a banking license, entities must observe certain prudential requirements. In addition to licensing new banks, they also have the authority to review and reject any proposal to transfer significant ownership or a controlling interest in existing bank to other parties.
3. **Timely corrective action –** bank supervisors have at their disposal recourse to legal power to bring about timely corrective action when a bank fails to meet prudential requirements, when there is violation of laws or regulations, or when depositors are faced with substantial risk of loss. In extreme circumstances, the supervisor may have the authority to revoke the bank's license.
4. **Ensure high standard of bank audit –** supervisors have a clear interest in ensuring high standard of bank auditing. Moreover, an important concern of supervisors is the independence of the external auditor who performs the audit of a bank, particularly when the auditor also provides certain types of non-auditor services to the bank.
5. **Sources of information –** effective supervision involves collection and analysis of information about supervised banks. For example, supervisors collect, review and

analyze prudential reports and statistical returns from banks. These include basic financial statement as well as supporting schedules that provide greater detail.

2.10 SURVEILLANCE REPORT AND THE RETURN SYSTEM OF FINANCIAL INSTITUTIONS

According to CBN (2009) Annual Report and Statement of Accounts, it intensified its supervisory and surveillance activities by adopting among other measures regular appraisal and review of banks' periodic returns, spot checks, monitoring and special investigations and adoption of risk based supervision (RBS). In January 2009, the CBN deployed resident examiners to the DMBs to monitor and supervise their activities on a daily basis and report to the Bank. Specifically, the programme placed emphasis on the evaluation of the banks' risk management system and controls, as opposed to performing transaction testing and asset valuation under the conventional examinations.This was designed to enhance hands-on knowledge of the banks' operation and the complexity of their risk profile, as well as provide real-time and continuous evaluation of their operations.

All banks in country are required to report accurately, faithfully and promptly none their activities in the prescribe formats for the mid-month, monthly, quarterly and semi-annual returns. Such designated returns (in diskette and hard copy) shall be forwarded to the banking supervision, bank examination, trade and exchange and research departments of the CBN as well as the Nigeria Deposit Insurance Corporation (NDIC) not later than 5 days after the day of each month in the case of monthly returns. 10 days after the end of each of each reporting month in the case of monthly returns. Copies of the returns duly signed as applicable to the relevant departments shall be submitted to directors to Directors of Supervision, Research, Bank Examination Department of the CBN and Director, off-site Supervision Department of the NDIC. Banks are enjoined to send monthly returns on public sector account balances with them to the CBN Director of Banking Operations.

(a) **Mid-month Returns**

(i) Report on Assets and Liabilities; and

(ii) Report on Interest Rates

(b) **Monthly Returns**

(iii) Report on Interest Rates;

(iv) Statement of Assets and Liabilities;

(v) Break-down of "Other" Liabilities;

(vi) Break-down of "Other" Assets;

(vii) Report on External Assets and Liabilities;

(viii) Schedule of Placement with Other Banks;

(ix) Schedule of Takings from Other Banks;

(x) Schedule of Negotiable Certificates of Deposit (NCDs) held;

(xi) Schedule of Negotiable Certificates of Deposit (NCDs) Issued;

(xii) Statement of Maturity Profile of Assets and Liabilities;

(xiii) Report on Total credit granted;

(xiv) Report on credit allocation by sectors, borrowers and interest rates;

(xv) Report on cost of funds;

(xvi) Report on deposit ownership;

(xvii) Report on lending above the statutory limit;

(xviii) Schedule of foreign exchange purchases from other banks;

(xix) Schedule of foreign exchange sales to other banks;

(c) Quarterly Returns

(xx) Profit and loss account

(xxi) Report on total credit granted

(xxii) Report on structure of deposits

(xxiii) Report on non-performing credits

(xxiv) Report on non-performing "Other" assets

(xxv) Report on non-performing off-balance sheet engagement

(xxvi) Report on non-performing credit by sector

(xxvii) Report on credit to officers, directors, principal shareholders and their related interests

(xxviii) Report on top users of funds

(xxix) Foreign exchange interest repatriation and distribution

(xxx) Report on distribution of naira proceeds of interest repatriated

(xxxi) Foreign exchange holding by authorized dealers

(d) Semi Annual Returns

(xxxii) Report on investment in shares

(xxxiii) Report on corporate profile

(xxxiv) Report on branch network

(xxxv) Report on Bank Director's

(xxxvi) Report on bank's shareholders

(xxxvii) Report on management and top officers

Copies of the returns, duly signed, as applicable to the relevant departments, shall be submitted to the following officers:

(i) Director, Bank supervision department, Central Bank of Nigeria, Abuja I lead Office or Lagos Liaison Office.

(ii) Director, Research Department, Central Bank of Nigeria, Abuja Head Office or Lagos Liaison Office.

(iii) Director, Bank examination Department, Central Bank of Nigeria, Lagos.

(iv) Director, Off-site Supervision Department, Nigeria Deposit Insurance Corporation, Abuja Head Office or Lagos Liaison Office.

BOFID 1991 – SECTION 25 (1) – (3)

(1) Every bank shall submit to the bank not later than 28 days after the last day of each month or such other interval as the bank may specify, a statement showing-

a. the assets and liabilities of the bank; and
b. An analysis of advances and other assets, at its head office and branches in and outside Nigeria in such form as the Bank may specify, from time to time.

(2) Every bank shall submit such other information, documents, statistics or returns as the bank may deem necessary for the proper understanding of the statements supplied under subsection (1) of this section.

(3) Any bank which fails to comply with any of the requirements of subsection (1) or (2) of this section is, in respect of each such failure, guilty of an offence under this decree and liable on conviction to a fine of N5, 000 for each day during which the offence continues.

SECTION 26

(1) The statements and information submitted by each under section 25 of this decree shall be regarded a confidential:

Provided that the Bank shall furnish any such statement or information to any agency of Government as required by law.

(2) Notwithstanding anything in this section, the Bank may prepare and publish consolidation statements aggregating the statements furnished under section 25 of this decree for each category of banks.

SECTION 27

(1) Subject to the prior approval in writing of the bank, a bank shall not later than 4 months after the end of its financial year-

a. cause to be published in a daily newspaper printed in and circulating in Nigeria and approved by the bank;
b. exhibit in a conspicuous position in each of its offices and branches in Nigeria and
c. Forward of Banks, copies of the bank's balance sheet and profit and loss account duly signed and containing the full and correct names of the directors of the bank.

(2) every published account of a bank, under subsection (1) of this section, shall disclosed in detail penalties paid as a result of contravention of the provisions of this decree and provisions of any policy guidelines in force during the financial year in question and the auditor's report shall reflect such contravention

(3) The balance sheet and profit and loss account of a bank shall bear on their face the report of an approved auditor and shall contain statements on such matters as may be specified by the Bank, from time to time.

(4) For the purpose of subsection (3) of this section, an "approved auditor" shall be an auditor approved for the purpose of section 29 of this decree.

(5) Any bank which fails to comply with any of the requirements of this section is in respect of each such failure guilty of an offence and liable on conviction to a fine of N100, 000.

2.11 REASONS FOR FAILURES OF REGULATION

The following reasons below are responsible for failure of regulation in Nigeria:

i. There is lack of political will by government to make them succeed and to enlist public support.

ii. Lack of adequate encouragement to private sector. In Nigeria, the history of attempts to promote non-oil export has been that of gross failure.

iii. There is lack of coordination between the regulators and the operators. For instance CBN and the deposit money banks. In Nigeria, we have frequent cases where banks and the private sector have faulted the CBN, the Federal Ministry of Finance and the Board of Internal Revenue on monetary and fiscal policies when the true picture of such policies becomes known. It is very important for there to be consultation before the formulation of such policies in order to minimize to the barest minimum areas of conflict and consequent failures

REVIEW QUESTIONS

Why banks are heavily regulated? Is there any need for any continuous heavy regulation of the Nigeria banking system?

1. What are the essential of BOFID and its subsequent amendment?
2. What is the role of CBN in monitoring the banking environment?
3. What is bank supervision?
4. Enumerate the importance of bank supervision
5. Why is the return system important?
6. Enumerate the reports to be submitted by banks to CBN on monthly basis
7. Enumerate the main feature of the 1997 and 1998 amendment to BOFID and CBN Act
8. Describe briefly the bank supervision process.
9. Critically examine the major policy implications of government intervention in the banking industry.
10. Examine the main provisions of the 1952 banking ordnance
11. Discuss the legislative and regulatory conditions for establishing banking business in Nigerian contained in the Banks and other financial instructions act No 25 of 1991.
12. In a chronological order, itemize the minimum equity requirements for banks in Nigeria since 1952 till date.

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CHAPTER 3

MONETARY AND FISCAL POLICIES IN NIGERIA

LEARNING OBJECTIVES: After studying this chapter you should be able to understand the following:

3.1 Introduction to Monetary Policies

3.2 Objectives, techniques and Instruments of Monetary Policies

3.3 Trend in Monetary Policy since independence

3.4 Factors militating against the effectiveness of Monetary Policy

3.5 Fiscal Policies

3.6 Effectiveness and Criticisms of Fiscal Policy

3.1 INTRODUCTION TO MONETARY POLICIES

Monetary policy can be defined as the conscious and deliberate action on the part of the monetary authority to control the supply of money, the general credit availability as well as the level of cost. It is aimed at influencing the intermediate variables for the purpose of manipulating the target variables. In general, monetary policy refers to the combination of measures designed to regulate the value, supply and cost of money in an economy, in consonance with the expected level of economic activity. An excess supply of money would result in an excess demand for goods and services which would cause rising prices and/or a deterioration of the balance of payment position.

It is thus applied in order to increase the money supply growth to a level that is consistence with the absorptive capacity of the economy. Its main goals are to maintain low rate of inflation and suitable levels of economic activity through adequate real interest rates. On the other hand, an inadequate supply of money could induce stagnation in the economy thereby retarding growth and development. Consequently, the monetary authority must attempt to keep the money supply growing at an appropriate rate to ensure sustainable economic growth and maintain internal and external stability. The discretionary control of the money stock by the monetary authority thus involves the expansion or contraction of money, influencing interest rates to make money cheaper or more expensive depending on the prevailing economic conditions and thrust of policy.

3.2 OBJECTIVES, TECHNIQUES AND INSTRUMENTS OF MONETARY POLICIES

Objectives

An analysis of the government monetary policies has shown that the policy objectives have always been:

- Stimulation of financial savings and capital formation.
- Price stability and control of inflation.
- Maintenance of confidence in the Nigerian currency through stabilizing measures on domestic wages and prices.

In a nutshell, the aims of monetary policy are basically the following:

1. To control inflation.
2. To maintain a healthy balance of payments position.
3. To promote adequate and sustainable level of economic growth and development.

The approach to monetary policies in Nigeria has evolved consisting of direct and indirect controls. We need to quickly mention that the appropriate institutional frame work for operating monetary policy did not exist until the establishment of Central Bank in 1959. Between then and the early 1980's, there was absolute reliance on direct controls. Selective credit controls, rediscount rate and moral suasion were therefore the pronounced techniques in use to achieve the maximum result given the numerous constraints then.

The attack on inflation and the need to achieve stable price level have always been in focus. The monetary authorities directly managed interest rate until August 1987 when they were regulated and were not deregulated until mid 1990's.

One of the principal functions of the Central Bank of Nigeria (CBN) is to formulate and execute monetary policy to promote monetary stability and a sound financial system. The CBN carries out this responsibility on behalf of the Federal Government through a process outlined in the Central Bank of Nigeria Decree, 1991 and BOFIA 1991 as amended. In formulating and executing monetary policy the Governor of the CBN is required to make proposals to the President of the Federal Republic of Nigeria who has the power to accept or amend such proposals. There after, the CBN is obliged to implement the monetary policy approved by the president. The CBN laws is to direct the banks and other financial institution to carry out certain duties in pursuit of the approved monetary policy.

Usually, the monetary policy to be pursued is detailed out in the formal "Guidelines" to all banks and other financial institutions. The guidelines are generally operated within a fiscal year but the elements could be amended in the course of the year. Penalties are normally prescribed for non-compliance with specific provisions in the guidelines.

The institutional framework for the execution of monetary policy is the Central Bank of Nigeria and Financial Institutions, especially the commercial banks that have the capacity for his instrumentality of money creation. Monetary Policy is executed traditionally, through the following techniques:

- Open Market Operation
- Monetary policy rate
- Reserve Requirements
- Liquidity ratios
- Moral Suasion

Although these techniques work with varying effects, their operational impact is exerted on commercial banks willingness and ability to lend and the Central Bank's ability to control the supply of the money in circulation.

Techniques and instruments of monetary policy

The techniques by which the monetary authority tries to achieve the above objectives can be classified broadly into two categories – the direct control and indirect or market based approach.

Under a system of direct monetary control, the monetary authority uses some criteria to determine monetary, credit and interests rates targets that would achieve the ultimate objectives of monetary policy. The direct control instruments place restrictions on a particular group of institutions (especially deposit banks) by limiting their freedom to acquire assets and liabilities. This is often employed in developing economies and examples are quantitative ceilings on bank credit selective credit controls and administered interest and exchange rates.

The market-based control used mainly in developed financial systems relies on the power of the monetary authority as a dealer in the financial markets to influence the availability and the rate of return on financial assets, thus affecting both the desire of the public to hold money balances and the willingness of financial agents to accept deposits and lend them to users. Examples of such instruments are open market operations, discount rate and reserve requirements.

3.3 TRENDS IN MONETARY POLICY SINCE INDEPENDENCE

The Central Bank of Nigeria like other Central Banks today has its activity centered on bank supervision and regulation, formulation and execution of monetary policy. The CBN in consultation with the Federal Ministry of Finance and where there is a disagreement, the Federal Executive Council being the final arbiter, perform the function.

The monetary policy changes can be divided into seven phases in Nigeria since independence.

Phase 1 (1961 – 1964)

The CBN had the objective of maintaining a sound and stable currency and that of promoting economic development through the provision of adequate supply of finance to the economy.

Interest rate was the most active instrument used during the period while the treasury bill rate fluctuated between 3 and 5% during the period.

There was inflationary pressure and deterioration of the balance of payment position.

Phase 2 (1964 – 1966)

This was a period of credit restrained policy. The objective of monetary policy changed to become:

(i) the achievement of balance of payment equilibrium

(ii) the advancement of the developmental process i.e. aiding the growth of the productive sectors of the economy.

The instruments adopted include direct credit control, discount and other interest rate charges moral suasion and reserve requirements. These measures succeeded in bringing about some desirable movement in the nations micro-economic aggregates. Despite the rising price level, significant growth was recorded in industrial activities.

Phase 3 (1966 – 1970)

This was a period of easy monetary policy and it manifested in the following:

(1) Policy of reflating the economy to cure a down turn in economic activity rather than pursuing monetary stability.

(2) The liberalization of credit conditions by the CBN i.e. the removal of the aggregate and sectoral ceiling on the rate of credit expansion.

(3) Provision of war finance by the CBN's lowering of interest rate to facilitate the expansion of government borrowing.

(4) Introduction of the treasuring certificate.

The capacity to borrow was enhanced and while the credit to the government sector rose sharply, those of the private either stagnated or declined. Monetary stability was threatened due to the growing inflationary rate.

Phase 4 (1970 – 1976)

Inflationary pressures started in 1970 due to the combined effect of the disruption in the productive capacity by the civil war and a number of salary awards culminating in the Udoji Award of 1976.

There was improvement in the balance of payment position in 1972. The objective of the CBN and the monetary policy primarily then were

(1) To curtail the inflationary pressure.
(2) To ensure that the bulk of bank credit goes to the productive sector.

It was a period of the monetary restrained expansion which necessitated the specification of a sectoral distribution of credit in favour of productive activities as against consumption – prone expenditures. This was the period when stabilization securities were issued by the CBN with the aim of reducing the liquidity of the commercial banks. Between 1974 and 1975 money supply rose sharply from 43% to 74%.

Phase 5 (1976 – 1980)

The objectives were the following:

(1) to maintain price stability
(2) to salvage the rapidly depleting external reserves

The existing approach was continued but with significant modifications namely:

(1) Re-introduction of aggregate ceiling on commercial banks credit.
(2) Widening of the scope of the credit guidelines to include the merchant banks.
(3) Restructuring of the interest rate policy.
(4) Issuance of stabilization securities and call for special deposits.

Phase 6 (1981 – 1985)

A period of monetary restraint policy and it has the following objectives:

(1) Economic growth and development. Economic development flow from Economic growth. Growth in National income is required to translate to economic development. Economic development therefore represents growth accompanied by an acceptable level of fair and equitable distribution of the national income and benefits of growth.

(2) Price stability.

The policy measures were aimed at augmenting financial resources in addition to controlling inflation and encouraging domestic production. One of the developments that affected the Nigerian's monetary policy was the rejection of IMF Structural adjustment loan and the option to revamp the economy without the loan.

The policy measures adopted were:

(1) upward revision of interest rate;
(2) Permissible rate of increase in commercial and merchant bank loans and advance reduced.
(3) Slight modification in the guidelines for sectoral allocation of banks loans and advances.

Phase 7 (1986 to 1990)

A period of relatively tight monetary policy with the following objectives:

(1) Maintenance of balance of payment equilibrium.

(2) Price stability.

(3). Economic Recovery

Post SAP 1986

The course of the monetary policy was affected by following:

(1) Structural Adjustments Programme (SAP) 1986.

(2) Deregulation of the economy

(3) Withdrawal of government parastatals deposits from commercial banks to the Central Bank.

(4) Commercialization and Privatization.

Monetary and credit policy during this period was deregulated specifically to curb excessive demand pressures and stabilize the economy, had some salutary impact especially in its moderating effects on the growth of monetary aggregates during the first half of 1990.Monetary and credit policy for 1991 were formulated against the background of the problems such as financial weaknesses of some banks, the under-development of the financial system in terms of depth and breadth of the money and capital markets, as well as the adverse impact on competition among banks and linkages between financial markets of the prolonged use of direct monetary controls.

The main objectives of monetary and credit policies were:

(i) Moderation of inflation rate;

(ii) A reduction of pressures on the balance of payments, and the maintenance of a stable exchange rate for the naira.

In order to eliminate the distortions and inefficiency in the financial system caused by the prolonged use of credit ceilings, it was decided that monetary policy will shift from the direct control of credit of credit growth to the market oriented approach based on generalized tools. Monetary and credit policy objectives in 1991 are expected to be achieved mainly through the use of instruments of indirect credit control, namely cash reserve requirements, liquidity ratio and Open Market Operations (OMO).

Government's commitment to abstain from additional borrowing from the banking system in 1991 led to more credit being made available to the private sector in order to exert additional downward pressure on the interest.

Phase 8 (1991- 1995)

As in **1991**, the objectives of monetary and credit policies in 1992 focused on moderation of inflation, reduction of pressure on the balance of payments and maintenance of a stable exchange rate. Monetary and credit policies was aimed at enhancing government efforts at solving the problems of low productive capacity and unemployment.

The core mandate of the CBN, which is spelt out in the Central Bank of Nigeria (CBN) Act (1991) as amended, includes:

(i) Issuance of legal tender currency notes and coins in Nigeria

(ii) Maintenance of Nigeria's eternal reserves to safeguard the international value of the legal tender currency;

(iii) Promotion and maintenance of monetary stability and a sound and efficient financial system in Nigeria.

(iv) Acting as banker and financial adviser to the Federal Government; and

(v) Acting as lender of last resort to banks. In accordance with the above mandate, the Bank implemented the provisions of the Banks and Other Financial Institutions (BOFI) Act (1991) as amended, which aims at ensuring high standards of banking practice and financial stability through its surveillance activities and maintenance of an efficient payments system.

The specific monetary objectives were:

(i) Reduction of excess liquidity in the banking system.

(ii) Sustenance of a single digit inflation rate.

(iii) Maintenance of exchange rate stability.

(iv). Sustenance of a market-based interest rate regime.

(v) Promotion of non-inflationary growth.

(vi). Achievement of balance of payments viability.

(vii) Maintenance of financial sector stability.

As in 1991, the objectives of monetary and credit policies in **1992** focused on moderation of inflation, reduction of pressure on the balance of payments and maintenance of a stable exchange rate. Monetary and credit policies was aimed at enhancing government efforts at solving the problems of low productive capacity and unemployment.

1993 was Christened budget of transition and was aimed at reversing the deficit trap with extra-budgetary expenditure which posed great threat to fiscal viability and macroeconomic stability. To extricate the economy from the labyrinth, fiscal discipline became the bedrock of the transition budget. The monetary policy was centered on economic management with emphasis on discipline, transparency and accountability. There was a full linkage among deficit finance, money supply, inflation, interest rates and the naira exchange rate.

The stance of monetary policy in 1993 was designed largely to ensure stability of the key macroeconomic variables and prevent deviations from prescribed targets. To this end, the objectives of monetary and credit policies in 1993 included the following:

(i) reduction of inflationary pressures in the economy;

(ii) reduction of pressures on the balance of payments in order to boost external reserves and stabilize the exchange rate of the naira and

(iii) support for government effort at solving the problem of low productivity, depressed capacity utilization and output.

In **1994**, Government was concerned about developing an appropriate macroeconomic package that would address the issue of the low value of the national currency, the steep rise in the interest rate, high commodity prices and the inability of the productive sector to source credit and perform adequately. Government decided to firm up in interest rates so as to save genuine economic activity. Consequently, the Central Bank was charge to enforce strict compliance with the various existing regulations and to ensure that Banks and other Institutions found violating such rules were sanctioned.

Government decided to peg interest rates as follows:

(i) Savings/Deposit rate was fixed at between 12-15 percent;

(ii) Lending rate was fixed at 21 percent, inclusive of all charges. 21 percent represented the upper limit to be charged on any loan inclusive of legal and other charges.

Economic policy measures in **1995/1996** were focused on consolidating and building on the modest gains made in growth and stabilization in 1995. Consequently, the essential elements of macroeconomic and structural policies adopted in 1995 were retained in 1996, while some reforms in fiscal revenue drive were introduced. Specifically, these policies were focused on improving economic performance, stemming the tide of high and rising inflation as well as improving the balance of payments position.

Between 1995 -1998, monetary policy was deregulated. For instance, in 1995, some aspects of the economy were deregulated in order to create a more conducive environment for the economic activities needed to generate growth and development. Government subsequently embarked on an intensive revenue generation drive, reduction in fiscal deficit, curtailment of extra-budgetary spending, and adoption of a tight monetary stance. In addition interest rates were deregulated and sectoral allocation of credits was abandoned. There was pursuance of managed deregulation of the exchange with a unified free floating exchange rate regime Overall the Government sought to reduce the rate of inflation.

Phase 9 (1996- 2000)

The monetary policy in **1997** was designed to complement fiscal policy in maintaining macro-economic stability, strengthening the external sector and the Naira exchange rate and stimulating economic growth and development.

In **1998**, the aims included price and exchange rate stability.

The objectives of monetary policy in **1998** are to reduce the annual rate of inflation to a single digit, strengthen external sector performance and thereby ensure continued exchange rate stability and provide support for output and employment growth. Interest rate remained deregulated. The monetary policy instruments are achieving the above targets are open market operations, cash reserve requirements (8%) liquidity ratio (30%), stabilization securities, discount window operations (CBN role as lender of last resort) and interest rate policy.

The **1999** policy thrust will aim at enhancing and achieving sustained economic growth and macroeconomic stability in order to address the problem of unemployment and poverty in society. In the face of the drastic fall in world crude oil prices, emphasis was placed on the completion of on-going critical projects and the rehabilitation of existing social and economic infrastructural facilities. It was aimed at eliminating of the dual exchange rate regime, to maintain appropriate fiscal, monetary and exchange rate policies with a view to achieving overall macroeconomic stability and to sustain the single digit inflation rate achieved in the 1998 financial year.

In **2000**, the main monetary thrust was:

(i) To lower inflation rate

(ii) To provide an enabling legal, fiscal and monetary environment for a private sector led growth and development.

(iii) The continuance of market based and pro depreciation to stimulate non-oil export oriented activities.

Phase 10 (2001- 2005)

In **2001**, and in line with the provisions of the Central Bank of Nigeria (CBN) Act (1991) as amended, the Bank pursued its core mandate of ensuring price stability in 2001.The bank also continued to perform other development functions through its contributions to small and medium scale enterprises and agriculture.

Monetary policy implementation faced daunting challenges in **2002** as the problem of excess liquidity persisted, and the demand pressure in the foreign exchange market intensified. The Central Bank of Nigeria (CBN) in 2002 pursued its principal objectives of maintaining price and exchange rate stability, in line with the provisions of the CBN Act of 1991 as amended. In this regard, the CBN took policy actions aimed at fostering a stable macroeconomic environment. In addition, the Bank performed developmental functions, including adoption of programmes for the development of small and medium enterprises, and promotion of food security through facilitation of the financing of agriculture.

In **2003**, the policy measures outlined in the Monetary Policy Circular No.36 for fiscal 2002/2003 were aimed at consolidating the gains of 2002. Specifically, the policy measures were designed to achieve a non-inflationary growth of 5.0 percent through the mobilization and prudent use of resources. Consistent with its core mandate, the CBN in 2003 pursued the goal of achieving price and exchange rate stability and financial sector soundness and; achieve an external reserve stock that could support at least 6 months of current import cover. Monetary policy was designed to support real sector activities while liquidity and exchange rate management was market-based.

In **2004**, the Central Bank of Nigeria (CBN) pursued its primary objective of maintaining price and macroeconomic stability, which is consistent with the broad targets under the National Economic Empowerment and Development Strategy (NEEDS). Consistent with these objectives, monetary policy was anchored on monetary targeting and the mopping up of excess liquidity, aimed at ensuring a non-inflationary macroeconomic environment.

The CBN focused on liquidity management to achieve the objective of maintaining price and macroeconomic stability.

In **2005**, the monetary policy was anchored on monetary targeting and its objective was to ensure price stability and non-inflationary growth. A tight monetary policy stance, complemented by the prudent fiscal operations of the Federal Government, resulted in relative macroeconomic stability. Excess liquidity, which was a major problem in 2005, was contained through the sterilization of excess earnings from crude oil exports and the deployment of special instruments, such as the non-discountable CBN Bills and special foreign exchange auction sales. The CBN Minimum Rediscount Rate (MRR) was adjusted downwards by 200 basis points to reflect the decline in headline inflation.

Phase 11 (2006 - 2010)

The monetary policy framework, which is anchored on monetary targeting, remained unchanged in **2006**. The main policy thrust was to contain the surging domestic liquidity in order to achieve price stability, promote an efficient money market and ensure non-inflationary growth. Relative macroeconomic stability was achieved, due largely to the non-accommodating monetary policy which was complemented by the prudent fiscal operations of the Federal Government. Excess liquidity, occasioned by the enhanced statutory allocations to the three tiers of government, the monetization of part of the excess crude revenue, the population census and pre-election spending, characterized the banking system throughout the year. This posed a great challenge to monetary policy implementation and was addressed through the introduction of non-discountable special Nigerian Treasury Bills (NTBs), the proactive use of reverse repo transaction by the CBN, and the aggressive sale of foreign exchange including the use of foreign exchange swaps.

Typical objective of monetary policies include the following:

(i) Price Stability

(ii) Full employment

(iii) Rapid economic growth and development

(iv) Balance of payment equilibrium.

The key instruments of monetary policy include the following:

(i) Open Market Operation (OMO): This involves buying and selling of government securities from and to the banking as well as the general public.

(ii) Discount Rate: This is the rate at which the central bank is prepared to lend to the banking system when the latter is short of liquid fund.

(iii) Reserve Requirement: This is usually expressed as a percentage of customer deposit and it determines the maximum amount of credit that can be granted by the banking system.

(iv) Margin Requirement: This technique involves controlling the amount of securities required for all kinds of bank advances.

(v) Aggregate Loan Ceiling/Selective Credit Control; This is an administrative order preventing commercial banks from increasing total advances above a level attained at a particular date. In Nigeria, this takes the form of sectoral allocation of credit.

Like fiscal policy, monetary policy can be expansive or restrictive in nature depending on the desired government objective. Expansionary monetary policy leads to increase in money supply while restrictive monetary policy will reduce the money supply.

The primary objective of 2007 monetary policy was management of excess liquidity, price and exchange rate stability.The persistent excess liquidity in the banking system was a major challenge for monetary management in **2007**. This development arose from the monetization of excess crude receipts and the distribution of enhanced statutory allocations to the three tiers of government, huge autonomous inflow and pre-election spending as well as supplementary budget.Consequently, the Bank intensified its monetary operations to ensure that the targets under the Policy Support Instrument (IPS) were met at the exit period in June 2007 and the rest of the year.This was accomplished by using the Open Market Operations (OMO), issuance of treasury securities in the primary market, standing facilities (deposit and lending) and foreign exchange swaps.

The monetary policy in **2008** was designed to achieve price and exchange stability and minimize imminent effect of the global credit crunch. Monetary management was challenging in 2008 as a result of the tight liquidity condition occasioned by the impact of the global financial crisis on the domestic economy.There was aggressive utilization of the Open Market Operations (OMO), an upward review of the monetary policy rate (MPR), and additional issue of treasury bills for liquidity management.There was reductions of monetary policy rate (MPR), cash reserve rato (CRR) and liquidity Ratio (LR) while discount window operations were expanded to accommodate other instruments in addition to Federal Government securities.

The CBN monetary management was geared towards improving liquidity and efficiency of the financial market. Monetary management during **2009** was largely influenced by internal and external economic environments, both of which were characterized by tight liquidity. The Bank took measures to mitigate the tight liquidity conditions of the banking system. The policy was also aimed at attaining single digit inflation rate. Other monetary policy measures included the introduction of consolidated and risk-based supervision and the adoption of a common accounting year-end for all banks, effective from end-December 2009, to improve data integrity and comparability. The thrust of monetary policy in 2009 was to ease tight liquidity conditions in the banking system and ensure and ensure financial stability without compromising the primary goal of price stability. The monetary policy in **2010** was primarily to reduce inflation, improve liquidity and maintain price stability.

Effectiveness and Critism of Monetary Policy

It is widely argued that monetary policy with its heavy reliance on money and capital market will not be effective in achieving the desired objective. Moreover, due to the presence of the following monetary policy may be ineffective as a stabilization tool:

(i) If increase in money supply does not lead to a fall in interest rate, due to high liquidity preference of the people, the monetary policy under this liquidity trap will not achieve its desired objective.

(ii) Also, if interest rate falls as a result of increase in monetary supply, it is not automatic that investment will rise. As a result of investors' expectation about the future, fall in interest rate may not attract them to invest thereby rendering monetary policy ineffective in increasing income, output and employment.

(iii) There may be a considerable delay between the time a monetary policy action is necessary and the time it is actually implemented. This is referred to as 'Monetary Policy Lags" and its presence may render the policy ineffective.

(iv) Due to heavy reliance on a well developed financial sector by the monetary policy for its effectiveness, the policy may not achieve its desired objectives in a country where this is lacking.

Policy Timing

This refers to the time interval within which the need for an action arises and the time when the policy action becomes effective. All policies whether monetary or fiscal take time and may be outdated by the changing economic conditions before they become effective. The following lags can be identified:

(i) Recognition Lag: This is the time interval between which the need for an action arises and the time it is recognized. Early recognition of the needs for policy change is necessary whether the policy to be undertaken is monetary or fiscal.

(ii) Implementation Lag: This refer to the interval between the decision to act and the introduction of the actual policy change. It involves both administrative and legislative delay in formulating an appropriate.

(iii) Response Lag: This is the interval between the response of target variable to changes in intermediate variables. It is related to the rate at which changes becomes effective after they have been introduced.

3.4 FACTORS MILITATING AGAINST THE EFFECTIVENESS OF MONETARY POLICIES

The following factors militate against monetary policy in Nigeria:

(i) Some banks have not complied with credit guidelines with regards to increased allocation to the preferred sectors as against less preferred sector.
(ii) Interest rate and reserve requirements have had minimal impact on credit control and price stabilization.
(iii) Little success was achieved in controlling the drain on the nation's foreign exchange resources.
(iv) Political instability.
(v) Management and leadership problem.

3.5 FISCAL POLICIES

This policy is concerned with deliberate action which the government of a country take in the area of spending money or levying taxes with the objective of influencing macroeconomic variables such that the level of national output, unemployment, general price level etc in a desired direction. Fiscal Policy focuses on Government expenditures, taxes and borrowing in order to achieve some economic goals.The crux of a good and effective policy hinges on the fact that all necessary ingredients like expenditures, tax revenues, loans, debt management e.t.c. are kept in proper balance to achieve the best possible results in terms of desired economic objectives Thus fiscal policy consists of Government decision to vary certain fiscal aggregates such as total government spending and total tax revenue as opposed to some other aspects of public finance, which are primarily concerned with the effects of specific government expenditures and taxes.

Fiscal policies are employed to achieve varieties of economic policy objectives including full employment, price stability, external equilibrium, income distribution and general economic growth and development. Essentially therefore fiscal policy exerts its impact on the economy through its influence on aggregate demand.

The use of fiscal policies as instrument of growth and development in developing countries have particularly been made imperative because of their under developed nature. The lack of basic and necessary facilities for the operation of a fully effective monetary policy has reduced the reliance on it as a tool of economic management. Fiscal policy measures usually attempt to achieve the full employment, sustained general price stability, increase the rate of economic growth and redistribution of income and wealth.

.The fiscal policy objectives are summarized below:

- raising additional revenue or investing/saving surplus.
- Minimizing irregularities and inequalities in wealth.
- lessening the continued heavy reliance of the nation on the oil sector as the main source of revenue and foreign exchange earnings
- correcting the distorted patterns of both domestic production and consumption
- reducing the heavy burden of both external and internal debts

The two key instruments of fiscal policy are

(i) Government expenditure.

(ii) Taxation

Fiscal Policy could be expansionary or restrictive. An expansionary fiscal policy is characterized by increase in government expenditure and reduction in taxes. On the other hand, a restrictive fiscal policy can take the form of budget characterized by reduction in government spending and increase in taxes.

The main fiscal policy instruments in Nigeria are principally changes in taxation rates, government expenditure and public debt. An interesting aspect of fiscal policy in Nigeria is that being a Federation, fiscal jurisdiction of the various levels of government in Nigeria is constitutionally defined. For example, with respect to taxation, the country's laws specifically assign particular taxes to particular level of government. However, only the federal government is constitutionally empowered and most suitable placed to conduct fiscal policy.

The implementation of monetary and fiscal policies in Nigeria is replete with contradictions and inconsistencies. This is common in developing economies where there are myriad of economic problems calling for attention. Furthermore, a thorough analysis of both the monetary and fiscal policies may prove that one is much more potent and impactful than the other. Fiscal policy can be made or used to leverage on limitations of monetary policies. For example, it has been generally acknowledged that monetary policy can play only limited roles in the developing economies including Nigeria for a number of plausible reasons.

Firstly, there is the requirement of an efficient, fully monetized economy which is lacking. Secondly, it has also been observed that money and capital markets in Nigeria lack sufficient depth. Tradable financial stocks and assets are also limited. Furthermore, there is a vast existence of non- bank financial institution like mortgage and financial houses all rendering banking services and constituting serious leakages to the effectiveness of monetary policy.

On the other hand, there are also a number of limitations in the application of fiscal policy. Faced with rising prices (inflation) and unemployment, a situation which contradict the traditional micro-economic theoretical postulations, we are with growth and, in fact, deficit government financing. This further accelerates inflationary trends. Furthermore, the size of government debts continues to be on the increase. We are further confronted with inefficient tax collection and administration resulting in massive tax evasion and fraudulent activities in tax management.

A major policy summersault stems from that the CBN is supposed to be the custodian of monetary policies while the Ministry of Finance and the executive arm of government have responsibility for fiscal policies. On a number of times, both act cross purposes and in apparent conflict to each other. For example, it has been discovered that when the CBN is pursuing tight monetary and excess liquidity mop up, the Federal Government is at the same time injecting additional funds through allocation releases to agencies and projects. In addition, tax collection efforts have been disproportionately focused on wage earners and the formal sector. There has been little progress to address tax issues on the informal sector and non-wage earners who constitute a large chunk of the economy. This makes the CBN monetary policy ineffectual.

A much more fundamental reason why there is the need for harmonization is the effect that the agents of implementation ordinarily have different objectives. While the agents of fiscal instruments, which are basically government organs, are under the direction and control of government and would therefore necessarily, share the concern of government on the policy objectives, this is unlikely to be the situation for monetary policy. Financial institutions are the primary routes for implementing monetary policies and because they are privately owned, they are largely driven by profit motives and would look at the implementation of monetary policy that would be to their advantage.

So, government policies, whether monetary, fiscal or otherwise become useless as long as they are unable to address the fundamental issues of our economy in a way that would better the lives of the ordinary people. The barometer for measuring the effectiveness of these policies would always be to what extent they have improved the living conditions of the people.

3.6 EFFECTIVENESS AND CRITICISM OF FISCAL POLICY

Fiscal policy measures have strong and direct impact on the economy; therefore they tend to be more effective in influencing the level of economic activities, compared with monetary policy measures which operate indirectly through the financial system. However, a number of situations in which level of economic activities include:

(i) If government increases its spending so as to stimulate growth, the resulting spending may be earned as income by people in the economy. If people do not spend this income, it will constitute a leakage out of the circular flow of income. The multiplier effect will therefore be greatly reduced and the resulting effect on the level of income and employment may not be realized.

(ii) Also if people who earn income as a result of government spending decide to spend the income on import due to their high propensity to import, the multiplier effect may be generated abroad and not in the domestic economy. Thus, the level of output and employment may not change as a result of increased government spending.

(iii) In addition, due to time lag between the time when fiscal policy is required and the time it is implemented, the policy may not achieve the desired objective. This is due to the fact that by the time a particular fiscal policy becomes operational; the result will be contrary to what was required originally.

REVIEW QUESTIONS

I (a).What is Monetary Policy? Briefly explain the objectives of Monetary Policy.

2. Trace the Monetary Policy function of the CBN.

3. What is fiscal policy and its Objectives?

4. Discuss the Factors militating against the effectiveness of the Monetary Policy and

 Fiscal Policy.

5. Discuss the role of the CBN in the Nigerian financial system.

6. Give a brief explanation of each of the following:

(a) Reserve Requirements
(b) Selective credit controls
(c) Rediscount Rate
(d) Open market operation
(e) Moral Suasion.

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CHAPTER 4

NIGERIA DEPOSIT INSURANCE CORPORATION (NDIC)

LEARNING OBJECTIVE: After studying this chapter you should be able to understand the following:

4.1 The duties of NDIC

4.2 Distinction between NDIC and Coventional Insurance.

4.3 Comparing the supervisory function of NDIC and CBN

4.4 How NDIC handles separate accounts.

4.5 Payment of Insured Deposit

4.1 DUTIES OF NDIC

The Nigeria Deposit Insurance Corporation (NDIC), is an independent agency of the Federal Government of Nigeria. The NDIC protects a customer against loss of insured deposits if an NDIC-insured bank or other deposit taking financial institutions (primary mortgage banks or community) fails. The NDIC Decree No 22 of 1988 now Cap. 301 Laws of the Federation 1999 (as amended), established the corporation as a body corporate with perpetual succession and a common seal. The NDIC commenced operations in March 1989.The Nigeria Deposit Insurance Corporation has its Head Office in Abuja. The Corporation has offices located in Lagos, Kano, Benin and Enugu

As a Deposit Insurance System (DIS) it serves as a financial guarantor to depositors, particularly the small ones, in the event of a bank failure. Deposit Insurance ensures that the depositor does not lose all his money in the event of a bank failure. Thus, it engenders confidence in, and promotes the stability of the banking system by assuring savers of the safety of their funds.

Deposit Insurance makes a bank failure an isolated event; hence it eliminates the danger that unfounded rumours will a contagious bank run.

How NDIC Asesses Premium

Premium for the Deposit Insurance Scheme is paid by all participating institutions. The premium is paid by all participating institutions. The premium is assessed based on 15/16 of 1 percent or about 0.94 percent of participating institutions total assessable deposit liabilities as at December of the preceding year. The assessable deposit liability is total deposit with the exception of some deposits listed in Section 20 of the NDIC enabling Act of 1988 (as amended).There is a possibility of a reduction in premium payable as indicated in section 10(2) of the NDIC Decree No. 22 of 1988 which provides that once the Insurance Fund is adequately built up, a portion of the net operational surplus of the Corporation would be used to reduce the annual premium payable by insured institutions. Besides, the proposed amendment to the NDIC Act is seeking to make premium rate flexible to enable the Corporation carry out appropriately reviews to reflect the dynamism of the banking business as well as the developments in the overall macro-economy.

The NDIC protects the Deposit Insurance Fund (DIF) by investing the Fund in safe financial instruments such as Treasury Bills, Federal Government Bonds and instruments. Secondly, the Corporation ensures that all its overhead and administrative expenses are met from its investment income. The DIF is used only for paying insured deposits when a participating institution fails as well as granting financial assistance to deserving participating institutions.

Protecting of Bank depositors and Collection of Insured Sums

The NDIC protects bank depositors against loss through:

i. Deposit Guarantee – Here the NDIC guarantees the payment of deposits up to a maximum of N200,000 and N100,000 to customers of deposit money banks and microfinance banks respectively in the event of the failure of a participating financial institution. Balances in all deposit accounts held in the same right and capacity by a depositor in all branches of the closed insured institution, net of outstanding debts, are aggregated to determine the maximum insured amount.

ii. Distress Resolution – The Corporation is empowered to provide financial and technical assistance to failing or distressed banks in the interest of depositors. The financial assistance can take the form of loans, guarantee for loan taken by the bank or acceptance of accommodation bills. On the other hand, the technical assistance may take the following forms: take-over of management and control of the bank; change in management; and/or assisted merger with another viable institution.

iii. Bank Supervision – The Corporation supervises banks so as to protect depositors, ensure monetary stability, and effective/efficient payment system as well as promote competition and innovation in the banking system. Banking supervision seeks to reduce the potential risk of failure and ensures that unsafe and unsound banking practices do not go completely unchecked. It also provides the oversight functions required to preserve the integrity of and promote public confidence in the banking system.

Insured sums are collected by depositors filing their claims through the completion of relevant forms provided by the corporation. In addition, they have to furnish the Liquidator with account documents such as unused chequebooks, old cheque stubs, passbooks, fixed deposit certificates e.g. The depositor would also be required to identify him/ herself with a valid identification document like driver’s license or International Passport. After verification of ownership of the account as well as the account balance, the depositor would be duly paid the insured sum ay a designated Pay Centre which is usually not far from the branch where he/she maintains the account. However, where claims are filed later but within the statutory period of 18 months such payments would be made by agent banks duly appointed by the Corporation.

If a depositor losses his/her passbook or saving documents, a police report along with a sworn affidavit duly certified by the court must be presented. The depositor will also be required to identify him/herself with a valid Identification document like driver’s license or International Passport. The primary mandate of the NDIC is to protect depositors. However, through supervision to ensure safety and soundness of banking institutions, the interests of creditors and shareholder are also protected. In the event of bank failure, creditors and shareholder could be paid liquidation dividends after depositors had been fully reimbursed.

NDIC pays depositors Liquidation dividend in case of bank failure. Liquidation dividends are payments made to depositors of failed institutions in excess of the insured sum. While the insured sums are paid from the Corporation's Deposit Insurance Fund (DIF), liquidation dividends are paid from funds realized fro the sale of the assets and recoveries fro debtors of the failed institutions. However, the system is designed to protect small depositors since the small depositors are generally more in number and less informed about the safety and soundness of depository institutions. Unlimited coverage could induce excessive risk-taking, promote moral hazard and weaken market discipline.

The Deposit Insurance limit is not increased merely by dividing funds owned in same right and capacity among different types of deposits in the same bank. For example, current and saving accounts owned by the same depositor, in the same right and capacity, in the same bank are added together and insured up to the maximum. The maximum insurance limit is applicable to deposit in each of the participating banks. In the case of a bank having one or more branches, the main office and all branch offices are considered as one bank. Therefore, if a person has many accounts in one bank, all the deposits are taken together as one account even if the deposits are in various branches of the same bank. Or the contrary, however, if a depositor has accounts in ore than one bank, they are insured independently up to the maximum insured sum per bank.

4.2 THE DISTINCTION BETWEEN NDIC AND CONVENTIONAL INSURANCE.

Deposit insurance is different from a conventional insurance in several respects. The main differences are as follows:

i. Deposit insurance is a regulatory tool. Aimed at ensuring the safety, soundness and stability of a nation's financial system, thereby protecting the macro –economy at large. On the other hand, a convention insurance policy is designed only to protect the micro-interest of the policyholder.
ii. Deposit insurance is usually a tripartite agreement involving the deposit insurer, the participating institutions and the depositors whereas a conventional insurance is a bilateral agreement between the insurance company and the insured (policy holder).

iii. Best practice indicates participation in deposit insurance to be compulsory, wheras under a conventional insurance arrangement, participation is generally voluntary.

iv. Under deposit insurance, the participating institution pays the premium while the direct beneficiary of the protection offered is the depositor who does not pay any premium. In the case of conventional insurance, the beneficiary, who is the insured, pays the premium.

v. Under deposit insurance, best practice indicates that the amount of coverage should be limited; whereas in the case of conventional insurance, coverage may be total.

The NDIC insurance covers all types of deposits received at an insured deposit-taking institution, including demand deposit, saving accounts, and time deposits. NDIC deposit insurance covers the balance of each account, Naira-for-Naira, up to the insurance limit, including principal and any accrued interest up to the date of the insured bank’s closure. The NDIC insures deposits in only licensed deposit-taking financial institutions in Nigeria such as Universal Banks (deposit money banks), Community Banks and Primary Mortgage Institutions (PMIs).

6.3 COMPARING THE SUPERVISORY FUNCTIONS OF THE NDIC AND CBN

There is no duplication of supervisory functions between the two bodies rather what exists is collaboration. There is framework whereby the Corporation collaborates effectively with the Central Bank of Nigeria through a joint committee on supervision at which both organizations are represented at every senior level. Secondly, in order to void duplication of supervisory functions, the two institutions share banks between themselves for examination purposes on an annual basis and when such examination are concluded the examinations are exchanged. The supervisory efforts of the two institutions are sometimes conducted jointed when the need arises. In deed, the involvement of the NDIC in bank supervision has reduced the examination cycle from about once in two years to once a year in spite of the increase in the number of banks.

The Corporation supervises banks basically, to protect depositors. Banking supervision is therefore an essential element of a Deposit Insurance Scheme as it seeks to reduce the potential risk of failure and ensures that unsafe and unsound banking practices do not go completely unchecked. It also provides the oversight required to preserve the integrity of and promote public confidence in the banking system. The Corporation carries out its supervisory responsibilities through the on-site examination and the off-site surveillance of insured institutions.

4.4 HOW NDIC HANDLES SEPARATE ACCOUNTS

If a husband and wife or any two or more other persons, have, in addition to the individual-owned accounts of each, a valid joint account in the same insured banks, each account is separately insured. If each of the co-owners has personally signed a valid mandate card and has a right of withdrawal on the same basis as the other co-owners, the joint accounts are separately insured up to the insured maximum sum

When an account is held by a person designated as agent for the true owner of the fund; the account is insured as an account of the principal or true owner. The funds in the account are added to any other accounts owned by the owner and the total is insured to the maximum. If an account is held by either a company or partnership, insured separately from the individual accounts of shareholders or partners; the company or partnership is an independent activity and as such its account is separately insured to the maximum insured sum. The term ‘independent activity’ means any activity other than one directly solely at increasing insurance.

So long as the combination of the joint accounts is not the same, the account will be insured separately up to the maximum insured limit. Where the joint accounts are owned by the same combination of individual than the accounts will be added together and the total is insured up to the maximum insured sum. Also, if the records of the bank indicate that the person is depositing the funds in a fiduciary capacity such funds are insured separately from the fiduciary’s individually-owned account. Funds in an account held by an Executor or Administrator are insured as funds of the decease’s estate. Funds in accounts held by guardians, conservators or custodians (whether court-appointed or not) are insured as funds owned by the ward and are added to any individual accounts of the ward in determining that maximum coverage. Account in which the funds are intended to pass on the death of the owner to a named beneficiary, are considered testamentary accounts and are insured a s a form of individual account. If the beneficiary is a spouse, child or grand-child of the owner, the funds are insured for each owner up to a total of the maximum insured sum separately from any other individual accounts of the owner. In the case of a Revocable Trust, the person who holds the power of revocation is considered the owner of the funds in the account.

Where the amount of depositor's fund in a closed bank exceeds the maximum insured amount, the owners of such accounts will share, on a pro-rata basis, in any proceeds from the liquidation of the bank's asset with other general creditors including the Corporation.

4.5 PAYMENT OF INSURED DEPOSIT

According to NDIC Report 2006, the Corporation made a cumulative payments from 1994 to 2006 of N4,157.09 million as at December 31, 2006, to 337,568 insured depositors compared to the figure of N3,302.578 million paid to 270,299 insured depositors as at 31,2005.

Payment of Liquidation Dividends to Depositors

Liquidated dividend is payment made to depositor of a failed insured institution in excess of the insured sum. While the insured sums are paid from the Corporation's Deposit Insurance Fund (DIF) or Special Insured Institutions Fund (SIIF), liquidation dividends are paid from funds realized from the sale of the assets and recoveries of debts awed to the failed insured institution. The NDIC protect the Deposit Insurance Fund (DIF) by investing the fund in safe but liquid financial instruments such as Treasury bills, federal government bonds and instruments of similar nature. The main sources of income of the NDIC are the proceeds from investment of the DIF in securities issued by the Federal Government. The DIF is used only for paying insured deposits when an insured institution fails as well as for granting financial assistance to deserving participating institutions.

The insured limit is currently a maximum of N200,000 for each depositor in respect of deposits held in each insured deposit money banks and N100,000 for each depositor in Microfinance Bank and Primary Mortgage Institutions in same right and capacity. The amount to be reimbursed has to be definite. Limited coverage is to minimize moral hazard through excessive risk taking by bank management and depositors, Unlimited coverage could constitute a perverse incentive for excessive risk-taking.

Financial institutions not covered by NDIC include; Development Finance Institutions such as Bank of Industry, Federal Mortgage Bank, Bank of Agriculture (Former NACRDB) and Urban Development Bank. Others are discount houses, finance companies, investment firms, Unit trusts/mutual funds, insurance companies and pension fund administrators

According to NDIC Report 2006, as at December 31 2006 the sum of N13, 263.59 million had been paid as liquidation dividend as at December 2006 as against the sum of N5967.06 million paid as at December, 2005. The Corporation declared 100% dividend (i.e full recovery of deposits) for uninsured depositors of eleven banks. The affected banks were:

(i) ABC Merchant bank Ltd

(ii) Alpha Merchant bank Ltd

(iii) Amicable Bank of Nigeria Ltd

(iv) ICON Ltd (Merchant Bankers)

(v) Kapital Merchant Bank Ltd

(vi) Nigeria Merchant bank Ltd

(vii)Pan African Bank Ltd

(viii) Premier Commercial Bank Ltd.

(ix) Rims Merchant Bank Ltd

(x) Merchant Bank of Africa

(xi) Continental Merchant Bank Ltd

According to NDIC Report, twenty-two other banks-in –liquidation had declared dividends ranging from about 5% to about 96% for uninsured depositors.

According to NDIC Report 2006, as at the end of `2006, a total of N8,603,11 million had been recovered from debtors of the 34 banks –in-liquidation and eight (8) out of the fourteen (14) that were closed in 2006, compared to N5,710.17 million that was reported as at December 31, 2005.

According to NDIC Report 2008, the sum of N60,839.72 million was paid as liquidation dividend as as December,2008 to 969,831 depositors as against the sum of N41, 955.296 million paid to 162,758 depositors as at December,2007. The above payments included the uninsured portion of private sector depositors of 11 of the 13 banks closed post consolidation which was funded by the CBN. Out of the thirty-four (34) liquidated banks prior to consolidation, eleven (11) banks had declared a final dividend of 100% of total depositors indicating that all their depositors had fully recovered their deposits. The affected banks were:

(i) ABC Merchant Bank Ltd

(ii) Alpha Merchant Bank Plc

(iii) Amicable Bank of Nigeria Ltd

(iv) Continental Merchant Bank Ltd

(v) ICON Ltd (Merchant Bankers)

(vi) Kapital Merchant Bank Ltd

(vii) Merchant of Africa

(viii) Nigerian Merchant Bank Ltd

(ix) Pan African Bank

(x) Premier Commercial Bank

(xi) Rims Merchant Bank Ltd

Liquidation Related Legal Matters

The NDIC Report (2006) as at December 31, 2006 revealed that the Corporation as liquidator, had 1041 debt recovery cases pending in various courts with a total value of N13,551,940,669.06 and $36,923,737.54 as against the total number of 1042 cases valued at N14,056,568,952.83 and $45,955,937.69 pending as at December 31, 2005. In 2008, the NDIC report shows that the sum of about N2,299 billion was recovered from loans and advances owed to failed banks. That brought the total recovery to N16.64 billion as at December, 2008.Out of the amount, recovery from 11 out of the 13 banks closed in January 2006 amounted to about N2.192 billion.

The number of debt recovery cases in which judgments were obtained as at December 31, 2006 totaled 756, involving the sum of N6,725,068,766.70 and $43,746,976.12 while the cumulative number of judgments enforced totaled 24 valued at N154,229,003.11 and $4,244,322.99. As at the end of 2006, 123 accounts involving the sum of N991,074,711.74 and $117,049.33 under litigation had been liquidated. The sum of N2,175,078,362.99 and $533,144.83 were the cumulative recoveries made through litigation.

As December 31, 2006 the corporation was faced with 418 defensive suits involving the sum of N3,410,182,071.51, $9,109,458.17 and GBP21,613.00. As at the same date, the Corporation had secured favourable judgments in 66 of the 96 defensive cases concluded. A total of 8 defensive cases involving the sum of N47,094,971.62 were settled as at December 31, 2006. A total of 18 criminal cases, involving the sum of N4,040,800,000 and $18,685,926.72 were awaiting adjudication at the courts as at December 31, 2006.

REVIEW QUESTIONS

i. What is deposit insurance system and how is it different fro the conventional insurance.

ii. What does the NDIC Deposit Insurance Cover? Are all financial Institution participants in the system?

iii. Briefly explain how NDIC assess premium and protect the deposit Insurance fund.

iv. Describe in detail how the NDIC protect bank depositors, creditors and shareholder against loss.

v. Explain how NDIC will treat depositors funds placed in different accounts

BIBLIGRAPHY/FURTHER READINGS

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CHAPTER 5

DISTRESS IN THE NIGERIAN BANKING SYSTEM

LEARNING OBJECTIVES: After studying this chapter you should be able to understand the following:

5.1 Introduction- Financial distress in the banking sector.

5.2 Historical Perspectives of bank distress and Failure in Nigeria.

5.3 Origins of distress.

5.4 Signals of distress.

5.5 Symptoms of distress often ignored.

5.6 The Role of the Nigerian Deposit Insurance (NDIC).

5.7 Identifying a Good bank for securing depositors' fund.

5.1 INTRODUCTION: FINANCIAL DISTRESS IN THE BANKING SECTOR

Meaning of Bank Distress: These are banks with problems relating to illiquidity, poor earnings and non-performing assets. The extreme case of distress is referred to as insolvency, which implies that a bank's liabilities are more than its assets.

Illiquidity is perhaps the most important measure of distress. Liquidity results in the suspension of payments to depositors for a period of time or causes a bank to default on its maturing claims. While a technically insolvent bank can remain sufficiently liquid long after it became insolvent particularly if it has a large and stable deposit base, a technically solvent bank can run into liquidity problems arising from a mismatch between the maturity patterns of its assets and liabilities (CBN, 1994). Liquidity if not assisted by the relevant monetary authorities, can lead to insolvency if the bank has to sell its assets at a distressed price or pay above market rates or deposits in a desperate scramble for funds.

Distress in the financial services industry will therefore occur when a fairly reasonable proportion of financial institutions in the system are unable to meet obligation to customers, owners and the economy as a result of weaknesses in their financial, operational and managerial condition which have rendered them either illiquid and /or insolvent. In other words, distress is a situation in which a sizeable proportion of financial institutions have liabilities exceeding the market value of their assets, which may lead to ruin, and other portfolio shifts and collapse of some financial form (Osaze, 1993).

Distress is characterized by:

i. Negative net worth that drastic fall in capital funds.

ii Operational, managerial and financial difficulties cessation of inadequate operations or continuance without the assistance of the relevant authorities.

iii. Insolvency where the sum of the assets is less than the sum of the liabilities, its obligations to depositors and shareholders.

iv. Illiquidity arising from inadequate cash flow.

Distress affects the amount of deposits that a bank can mobilize from the public because of lost of confidence in the affected financial institutions. The loss of confidence has not been adversely affected to a level that can trigger off runs on the system. This is because of the prevailing low level of awareness in the country, CBN and NDIC management of information flow, the existence of a functional deposit insurance scheme (NDIC) and the concern of the monetary authorities quickly intervening to restore sanity to the system. During distress period there is a rise in the incidence of capital flight to safety within the same government controlled financial institutions to the bigger, older and better managed banks.

5.2 HISTORICAL PERSPECTIVES OF BANK DISTRESS AND FAILURE IN NIGERIA

Prior to independence in 1960 the Nigeria banking industry witnessed several failed banks.(**See Chapter 1**). However, in 1985, there were 40 banks made up of 28 commercial and 12 Merchant banks. At the end of two year's deregulation, 1988 there were altogether a total of 66 banks comprising 42 commercial banks and 24 merchant banks. In 1992, the number rose tremendously to 120 banks comprising 66 commercial banks and 54 merchant banks. Commercial banks' branches were 2,275 while Merchant banks had 116 altogether in 1992.

From 1986 (inception of SAP) distress entered into banking industry in Nigeria. A bank shows early signs of distress whenever it is unable to meet its financial obligation that falls due to its depositors or creditors. The problem of distress in the nation's banking industry has persisted over the years and has now become a significant feature of Nigeria's financial system. The rise in the number of distressed banks has increased public awareness of this problem and has tended to erode confidence in the banking system.

From available statistics, the number of banks adjudged to be technically insolvent in the system has being indicating an upward trend. In 1989 for example, seven banks were identified as being distressed, nine in 1990, eight in 1992 and sixty banks as at the of 1995. (NDIC Report, 1995). During this period, the supervisory authorities through the joint CBN/NDIC committee on problem banks imposed holding actions on some distressed banks, taken over for restructuring and subsequent sale to the public. In the same year five merchant and 2 commercial banks were liquidated. In February 1995, the CBN acquired the ownership of six banks it had earlier taken over for management from their original shareholders. These banks were acquired at the price of N1.00 each. The implication of this acquisition is that capital/asset base of these banks has been so eroded that they cannot pay off their liabilities. This shows that the differential value of these banks is N1.00 each. The action by CBN was taken because of the failure of the appointed Interim Management Boards (IMB) to turnaround the misfortune of affected banks. The affected banks were:

(i). National Bank of Nigeria (NBN)

(ii). African Continental Bank (ACB)

(iii). Co-operative and Commerce Bank (CCB)

(iv). New Nigeria Bank (NNB)

(v). Pan African Bank (PAB)

(vi). Mercantile Bank of Nigeria Plc (MBN)

The CBN declared its preparedness to sanitise the system and restore confidence in the banking sector. In its efforts to achieve these objectives, it took over the management of 17 banks on 15th September 1995. The shareholders of these banks were given 30 days to re-capitalize their banks and also perfect facilities granted to customers, shareholders and staff. The board and Management of these banks were sacked and replaced with IMB appointed by the CBN. These measures were in addition to other rescue measures undertaken by CBN earlier. They include extending handsome life line credits to these banks, reconstituting their management and imposing continuous supervision on these banks. Between 1994 -2006 several banks were closed in Nigeria as stated in **table 5.1**

A major development in Nigeria’s Banking sector in 2006 was the revocation of the banking licences of fourteen (14) insolvent banks that failed to meet the new N25 billion minimum recapitalization requirement deadline of December 31,2005. As at the end of 2006, the Corporation had obtained Court winding-up orders and was thus appointed official Liquidator for nine (9) out of the fourteen (14) banks that lost their operating Licences in January, 2006. The banks were All States Trust Bank Plc, Lead Bank Plc, Assurance Bank Nig Ltd and Trade Bank. Others are were Metropolitan Bank Ltd, City Express Bank Ltd, Hallmark Bank, Gulf Bank Plc and African Express Bank Plc. The Corporation was appointed as provisional Liquidator for Fortune International Bank and Eagle Bank Plc during the year. The owners of the remaining three (30 namely: Societe Generale Bank of Nigeria (SGBN) , Liberty Bank and Triumph Bank had gone to Court to challenge the revocation of their banks’ licences.

From the NDIC Report 2006, the total number of banks whose licences were revoked by the CBN since 1994 stood at 50 as at December 31, 2006. The names of the banks are as listed below:

By far, the most important institutions in the Nigerian financial system are the banks commercial and merchant bank. The banks in Nigeria dominate the financial system to the extent of providing up to 80% of the total funds needed in the economy in any given year. This is not-surprising since the Nigerian capital market began to function in 1961 when the Stock Exchange was fully established by comparison with the bank dominated money market which has been in existence since 1894. The banks have grown in number from only one in 1894 to 13 surviving banks at independence in 1960 and 89 in 2001. By far, the largest growth took place between 1986 and 1994 when over 60 licensed banks were established in Nigeria with the liberalization of the economy as one of the policy thrusts of SAP. However, between 1999 and 2000, the number of banks in Nigeria dropped by 34 and the recent bank recapitalization in 2005 reduced the number of banks to 25 and further to 24 in 2008. Financial distress is traceable to the colonial era in Nigeria. There was proliferation of banking institutions in Nigeria between 1929 and 1959 when over 100 indigenous banks were established to redress the discrimination suffered by Nigerian businessmen from the colonial foreign banks, which denied them access to credit.

However, over 90% of them failed between 1930 and 1954, as they came on stream due to:

- Inadequate capital;
- Inexperienced and unskilled manpower;
- Outright fraud; and
- Absence of regulation and regulatory structures.

There was a repeat performance of these events in Nigeria between 1986 and 2004. The introduction of the SAP in 1986 and the liberalization of the economy saw a phenomenal increase in the number of licensed banks. In 1986, there were only 40 banks in Nigeria made up of 28 commercial banks and 12 merchant banks. By 1994, when the issuance of bank licenses was suspended by the CBN, the number of banks increased to 120; 66 commercial and 54 merchant. But the performance of the banks has been both sweet and sour. Sweet because deregulation allowed new players into what used to be a highly regulated and protected industry. There was also dynamism, challenges, aggressiveness, innovativeness, competition and growth of the financial sector. But performance was also poor resulting from overzealousness of the operators, incompetence, and fraud in the economy – which all leads to distress. **Table 5-1** shows lists of 50 closed banks.

TABLE 5-1: LIST OF THE 50 CLOSED BANKS

S/NO	BANKS (IN-LIQUIDATION)	DATE OF REVOCTION OF LICENCE
1	Abacus Merchant Bank Ltd	January 16,1998
2	ABC Merchant Bank Ltd	January 16, 1998
3	African Express Bank Ltd	January 16,2006
4	Allied Bank Plc	January 16,1998
5	All States Trust Bank Plc	January 16, 2006
6	Alpha Merchant Bank Plc	September 8, 1994
7	Amicable Bank of Nig. Plc	January 16, 1998
8	Assurance Bank of Nigeria Plc	January 16, 2006
9	Century Merchant Bank Ltd	January 16, 1998
10	City Express Bank Ltd	January 16, 2006
11	Commerce Bank Plc	January 16, 1998
12	Commercial Trust Bank Plc	January 16, 1998
13	Continental Merchant Bank Plc	January 16 1998
14	Co-operative & Commerce Bank Plc	January 16, 1998
15	Credite Bank Nig. Ltd	January 16, 1998
16	Crown Merchant Bank Ltd	January 16, 1998
17	Eagle Bank Plc	January 16,2006
18	Financial Merchant Bank Ltd	January 21, 1994
19	Fortune International Bank Plc	January 16,2006
20	Great Merchant Bank Ltd	January 16, 1998
21	Group Merchant Bank Ltd	January 16, 1998
22	Gulf Bank Plc	January 16,2006
23	Hallmark Bank Plc	January 16,2006
24	Highland Bank of Nig.Plc	January 16, 1998
25	ICON Ltd (Merchant Banker)	January 16, 1998
26	Ivory Merchant Bank Ltd	December 22, 2000
27	Kapital Merchant Bank Ltd	January 21, 1994
28	Lead Bank Ltd	January 16,2006
29	Liberty Bank Ltd*	January 16,2006
30	Lobi Bank of Nig. Ltd	January 16, 1998

31	Merchantile Bank of Nig. Plc	January 16, 1998
32	Merchant Bank of Africa Ltd	January 16,1998
33	Metropolitan Bank Ltd	January 16,2006
34	Nigeria Merchant Bank Ltd	January 16, 1998
35	North-South Bank Niger. Plc	January 16, 1998
36	Pan African Bank Ltd	January 16, 1998
37	Peak Merchant Bank Ltd*	February 28, 2003
38	Pinnacle Commercial Bank Ltd	January 16, 1998
39	Premier Commercial Bank Ltd	December 22, 2000
40	Prime Merchant Bank Ltd	January 16, 1998
41	Progress Bank Nig. Plc	January 16, 1998
42	Republic Bank Ltd	June 29, 1995
43	Rims Merchant Bank Ltd	December 22, 2000
44	Royal Merchant Bank Ltd	January 16, 1998
45	Savannah Bank of Nigeria Plc*	Febraury 15, 2002
46	Societe General Bank Ltd*	January 16,2006
47	Trade Bank Plc	January 16,2006
48	Triumph Bank Ltd*	January 16,2006
49	United Commercial Bank Ltd	September 8, 1994
50	Victory Merchant Bank Ltd	January 16,1998

Source: NDIC REPORT 2006

- **Liquidation Suspended due to Litigations**

The principal liquidation activities that engaged the Corporation in 2006 included loan recovery, valuation and sale of physical assets of the failed banks, payments of insured deposits and liquidation dividends to depositors, shareholders and creditors from the proceeds of realized assets.

The distress is widely known to be attributable to banks' unfavourable operating environment which has resulted in banks' poor asset portfolios, to unprofessional practices; inept management; as well as undercapitalization. However, what are not widely known but which have contributed in no small way to banking distress in the system are certain practices and attitudes by bank Directors, Managers as well as other employees of banks. For instance, in 2010, the ex-Managing Director of Oceanic bank (Mrs Ibru, Cecilia) was jailed for 18 months for unprofessional conduct. The ex-Managing Director of Intercontinental bank who went into exile and return is facing trial in the high court based upon charges by Economic and Financial Crimes Commission (EFCC).There is also penchant for mediocrity in the composition of bank's board and management; dearth of professionals of high integrity; an emerging societal norm which sees nothing wrong in fraudulent activities; and the confrontations of associations or trade unions with banks' management.

Regardless of who is to blame in the current spate of distress in the nation's banking industry, it is obvious that all of us must join hands to find solutions to the problem. This is imperative as no national can afford to harbor distressed institutions in its banking sector which is seen as the engine that drives the economy. Therefore, bank owners must adopt effective self restructuring policies to see their banks out of distress.

The following are recommended to bank management:

(i) Government should create not only a stable political environment but also the right macro-economic framework for banks and business firms to operate successfully.

(ii) Banks' in the system should at all times make deliberate efforts to have good Board of Directors and Management to give purposeful leadership and sound management.

(iii) Employees of banks can help in stemming further deterioration in the conditions of their banks. Apart from learning to minimize the frequency of unnecessary and fruitless confrontation with their banks' management, association such as National Union of Banks, Insurance and Financial Institutions Employees and Association of Senior Staff of Bank, Insurance and Financial Institutions Employees (NUBIFIE AND ASSBIFIE) should not only be seen as a means of obtaining the best conditions for members and other employees of the bank, they should see trade unionism as a means of contributing their quota to the meaningful development and growth of their banking institutions rather than only as a means of obtaining the best conditions for themselves.

With the liberalization and deregulation in 1986, borrowing and lending rates as well as foreign exchange rates rose phenomenally as shown in **table 5-2** below:

Table 5.2 – Interest and Foreign Rate Structure in Nigeria

Year	Interest rate % (lending)	Savings Rate	Exchange Rate
1986	11.75	9.50	0.77
1987	19.20	14.00	0.80
1988	17.60	14.50	5.00
1989	24.60	16.40	6.50
1990	27.70	18.80	8.54
1991	20.80	14.29	8.68
1992	31.20	16.10	8.031
1993	36.09	16.66	37.45
1994	21.00	13.50	56.40
1995	20.86	12.61	84.57
1996	20.86	11.69	79.60
1997	23.32	4.80	74.63
1998	21.34	5.49	84.37
1999	27.19	5.33	92.53
2000	21.55	5.29	109.55
2001	21.34	5.49	112.49
2002	30.19	4.15	126.40
2003	22.88	4.11	135.41
2004	20.82	4.19	132.67
2005	19.49	3.83	130.40
2006	18.70	3.14	128.27
2007	18.36	3.54	124.75
2008	18.79	3.21	119.79
2009	21	3.00	175

Source; CBN Statistical Bulletin 1999 and 2009

With rate of exchange, depreciating from N5 to $1 in 1988 to N112 to $1 in 2001 (in the parallel/autonomous market) and N175 to $1 in 2009, the cost of acquiring capital goods from abroad has increased and production cost have increased, further exacerbating the problem of high interest rates occasioned by deregulation of the economy. Similarly, from 11.75% in 1986, the cost of borrowing and lending rose to 21% in 2009. While cost of lending went up, the interest rate on saving dropped from 9.50% in 1986 to 3.00% in 2009 thus hampering the financial intermediation process of the deposit money banks. The yawning gap between saving and lending rates need to looked into by the regulatory authority that is CBN if meaningful development is expected in future.

The CBN Minimum Rediscount Rate (MRR) was also deregulated and official policy made it mandatory for government departments, agencies and parastatals to withdraw their depositors from the banks to the CBN. In addition, the introduction of stabilization securities which involved sudden and unexpected withdrawals of funds from the banking system by the CBN to control money supply – induced inflation created a credit crunch that saw many banks constantly out of funds. Secondly, the conventional sources of bank earnings – foreign exchange dealings, interest on loans and fees began to shrink with less to extend as loans and more non – performing loans cropped up. Non-performing arise from customers who are unable to pay up their loans taken from the banks. Other non – bank institutions also begin to seduce retail depositors into financial products such as money market funds and high – yield investment notes by offering higher returns on conventional bank accounts. The banks were struggling to retain their customers, many of whom they had earlier on rejected through high minimum deposit requirements.

Thirdly, the deregulation of the financial system led to a tremendous shake – up in the way banking business is conducted. The consequences was high cost of borrow, higher level of inflation, low demand for bank credit and lower levels of industrial development. In other to attract greater deposits, the banks resulted to ingenious and creative strategies through the offer of new financial products promising **mouth watering- interest rates**. Furthermore foreign investment rose to such a level that the naira is now believed to be grossly undervalued. With the rate of exchange, depreciating from N5 to $1 in 1986 to N121 to $1 in 2001 (in the parallel/autonomous market) and in 2009 N175 to $1 the cost of acquiring capital goods from abroad as increased and production cost have increased, further exacerbating the problem of high interest rates occasioned by deregulation of the economy.

In addition, bad loan policies and rising costs of funds have created a situation whereby borrowers are unable to service their obligations to the banks. Furthermore, paper profits declared by the banks from accrued interest on non – performing loans have been wiped out by the prudential guidelines of 1990 and the Banking and other financial institutions decree (BODFID) of 1991. The BODFI 25 of 1991 freed the Nigerian banking system from orthodoxy. Restrictive provisions on Nigerian banks' ability to participate in the equity of commercial, industrial and agricultural concerned as been removed. With the introduction of universal banking in 2001, banks in Nigeria can carry on both commercial and merchant banking without restriction But the BODFID, in ensuring the survival of more efficient and strategy oriented financial institutions in Nigeria has also nailed the coffin of the poorly managed banks that have been operating in distress.

5.3 CAUSES OF DISTRESS

The origins of distress can be classified into two:

A. **Macro-economic**

i. Structural imbalances in the economy and recession (eg. global crisis)

ii. Inappropriate economic policies

iii. External shocks, political instability and interference.

iv. Inadequacy of regulatory framework.

B. **Micro-economic**

i. Ownership structure

ii. Inept and inexperienced management.

iii. Weak capital base.

iv. Poor asset and liability management.

v. Poor asset quality, defects in asset quality and earnings arising from changes in the economy.

vi. Depositors greed and ignorance.

vii. Fraudulent and corrupt practices of owners and managers.

viii. Withdrawal of public funds from the banks to the CBN in 1986.

ix. Introduction of stabilization securities in 1992.

x Unprofessional and political boards of directors.

xi. Insider abuse.

Some banks were indeed set up with weak equity bases and some without any actual equity instrument. Some were set up with commercial paper arranged by the managers that were hired to run them. A director in one bank who owed other banks a lot of money off loaded the pressure by pressing his bank to take over the loans, which were non-performing. Following the lead of the directors through insider abuse, managers in turn helped themselves to the remaining funds. In addition, there were frequent boardroom squabbles over the sharing of premiums from the sale of foreign exchange.

5.4 SIGNALS OF DISTRESS

There are several signals of distress. These include:

1. Low risk-weight of assets ratio which deteriorates with time.
2. Negative return on assets ratio.
3. Rising loans, advances and leases to deposit ratio.
4. Rising provision or doubtful debt to loan and advances ratio.
5. Deteriorating deposit growth rate.
6. Rising interest expense to earning assets ratio.
7. Low liquidity ratio (liquid assets to deposits), which deteriorates over time.
8. Rising overheads to gross earnings ratio.
9. Negative cash flow to total liabilities ratio.
10. Deteriorating interest income or interest expense ratio.
11. Negative equity growth rate.
12. Deteriorating equity to total assets ratio.

13 Deteriorating equity to loans and advances ratio.

14 Substantial proportion of contingent liabilities related to customers with previous records of default.

15 Heavy reliance on government and quasi-government business

16 Investment in unviable enterprises and economic sub-sectors-construction, agriculture, machinery marketing.

17 Investment in uncollaterized advances.

18 Substantial transactions with third parties having the same shareholders as the banks.

19 Extension of credit facilities to companies whose directors are also directors of the bank.

20 High unsecured loans and advances to total loans and advances.

21 Skill in creative accounting and figure manipulation.

22 Contingent liabilities in respect of litigation and claims up to 15% that could be lost.

23 Transport, travelling and medical expenses of up to 20% of operating expenses.

5.5 SYMPTOMS OF DISTRESS OFTEN IGNORED

These are many symptoms of distress, which are often overlooked. These include:

a) Persistent lateness in submitting required returns/accounts to the regulatory authorities.

b) Rapid staff turnover.

c) Frequent change in the top management of the bank.

d) Persistent liquidity problems (less than the prescribed 30%) attracting CBN penalties.

e) Higher offered deposit rates than market rates.

f) Frequent change of auditors who had refused to compromise.

g) Market gossip and/or petitions and anonymous letters.

h) Chief executive officers who are less than 42 years old (see research report to NDIC on predicting distress in Nigeria 1993)

i) Top management with less than ten years cognate banking experience at the managerial level.

j) Chief executive and board of directors' expenses higher than ten percent of operating expenses.

k) Chief executive who have changed jobs at least twice in the last three years.

l) Offer of up-front interest to depositors and subsequent advice to roll redemption over after maturity.

m) Where management and ownership are not separated.

5.6 THE ROLE OF THE NIGERIAN DEPOSIT INSURANCE CORPORATION (NDIC)

The NDIC was set up in 1988 basically to monitor the performance of the banking system and insure depositors against bank failure. Its functions spread over failure prevention, re-organization, re-capitalization and re-vitalization of distressed banks that can be salvaged and the liquidation of insolvent and illiquid banks. In the latter case, the NDIC liquidates the bank, repays depositors the insured amount up to a maximum of N200,000 and N100,000 to bank customers of deposit money banks and microfinance banks respectively. In addition proceeds of the sale of the bank's assets and recovered debts are shared to its depositors in the form of dividends. But its most important function is supervision and inspection of banks to ensure the protection of depositors' funds. Even though the NDIC may be aware of unsound banks at any point in time, it is not permitted to alert depositors. Bank customers and depositors are thus required to exercise the care in identifying and patronizing sound banks for safety, security and convenience.

5.7 IDENTIFYING A GOOD BANK FOR SECURING DEPOSITORS' FUNDS

There are several measures for determining a secured safe and distress free bank and these include the following:

I. Banks used by government, its agencies and parastatals to receive payments for VAT,NITEL and NEPA bills, customs duty fees, etc.

II. The BIG Five Banks- First, Union, UBA and GTB and Zenith

III. Information technology is one of the strategies used to facilitate financial services delivery.

IV. Verify the audited financial statements of banks before any investment. Where you cannot do it yourself consult a financial expert for advice.

The distress syndrome is still with us and must not be ignored. Ethnicism and parochialism would not recover trapped or lost funds in a distressed/failed bank even if the belong to a depositor's state. The Nigerian financial system has undergone and is still undergoing fundamental restructuring. The financial system has centered on the need to realign the resource mobilization and allocation mechanism in tune with the incentive structure brought about by the reforms in other sectors.

REVIEW QUESTIONS

(i) Explain the concept bank distress.

(ii) Identify and discuss the origin and signals of bank distress.

(iii) There are many symptoms of distress often overlooked, discuss.

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CHAPTER 6

FRAUDS IN BANKING

LEARNING OBJECIVES: After studying this chapter you should be able to understand the following:

6.1 Introduction/Concept of Fraud

6.2 Growth of bank fraud

6.3 Types of Fraud

6.4 Causes and Prevention of Frauds

6.1 INTRODUCTION/CONCEPT OF FRAUD

In the Nigerian Auditing Standards Committee (NASC) of Institute of Chartered Accountant of Nigeria (ICAN: 2006) Exposure draft 1, it define "fraud as an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage". Two types of intentional misstatement are relevant to the auditor: misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

The Concise Oxford Dictionary of current English (1974) defined fraud as deceitfulness, criminal deception and use of false representations. Hur-Yagba (2003) opined that there is a general consensus among criminologists that fraud is caused by three elements called: Will, Opportunity, Exit (WOE) i.e. the will to commit frauds by the individual, the opportunity to execute the fraud and the exit which is the escape from sanctions against successful or attempted fraud or deviant behavior. According to Harrell cited in Financial Standard (2003), no matter what we do in life, if we have a positive attitude, we would always be 100 percent in all human endeavors. This is even evident in the numerical value of the word "Attitude". We can check this by assigning value to each letter; **A=1… Z=26 isn't Attitude =100**.

Fraud has been around from the beginning of time and would certainly continue to be an issue until the end of time. The Holy Bible recorded the early fraud. Genesis chapter 27 verse 22 confirmed Jacob as the first recorded fraudster. Jacob impersonated Esau and stole the blessing meant for his brother, Esau. It was the father Isaac who suspected a fraud when he noted that **"the voice is Jacob's but the hands are the hand of Esau"**. No investigation was conducted to verify the truth; the fraud succeeded. It is no longer uncommon in the land for Landlords to put inscriptions on houses warning all and sundry that **"This house is not for sale' with emphasis 'beware of 419".**

Classification of fraud

According to Venables & Impey (1985) cited in Nwaze (2008), fraud may be classified into three as follows:

(i) Theft: The taking of another's possessions.

(ii) Forgery: The falsification of documentation.

(iii) Manipulation of accounting records or entries.

The Nigerian law makers have since recognized the existence of frauds and other financial crimes. Hence, adequate provisions have been made via legislation whether during civilian or military regime include the following:

- The Banks and Other Financial Institutions Decree (BOFID) – 1999 as amended.
- Companies and Allied Matters Decrees No.19 1990 (CAMD 1990) as amended.
- The Central Bank of Nigeria (CBN) decree No.24 of 1991.
- Nigerian Deposit Insurance Corporation decree No.22 1988.
- Special Tribunal (Miscellaneous Offences) Act 1990.
- National Drug Law Enforcement Agency Act 1990.
- Economic and Financial Crime Commission (EFCC) Act 2004.
- Various criminal and penal codes in our statute books.

The above legislation are designed, in the main to bring to justice not only banks clients and customers but also bank staff and executives who deliberately engage amongst others in fraudulently or knowing forging, procuring, altering, accepting or presenting to any person, any cheque, promissory note or other negotiable instrument knowing it to be false, forged, stolen or unlawfully procured.

Harell's work and experiences is from established psychological and behavioural research, for gaining control of our carrier. Gire (2005) posited that attitude tend to vary in strength - some being much stronger or weaker than others. The importance of determining the strength of an attitude lies in the fact that strong attitudes are presumed to be more difficult to change. People tend to hold attitudes only toward objects that exist in their psychological world. The tripartite models of attitudes – the affective, behavioral tendency and the cognitive components have implication for attitude change. The cognitive component refers to one's knowledge or beliefs about the attitudinal object, the affective component relates to a person's feelings about the object while the behavioral tendency component relates to the predisposition to act in a certain manner toward the object of attitude. These variables have strong implications on Nigerian attitude to fraud.

Chizea (1991) explained fraud as any premeditated act of criminal deceit, trickery or falsification by a person or group of persons with the intention of altering facts in order to obtain undue personal monetary advantage. He mentioned the following as typical manifestation of fraud: cash thefts from the tills of bank by staff, forgeries of a customer's signature, use of forged cheque to withdraw money from his account with the bank, unauthorized and illegal transfer of fund from a customer's account, opening and operating of fictitious (ghost) account for illegal transactions, lending to fictitious borrowers through fictitious account opened at a branch, suppression of cheque by disloyal staff, payment against unclear effects, granting loans without adequate information and security from borrowers or lenders. The list is endless.

In his contribution, Kolawole (2003) attributed cases of frauds in the banking system to unskilled employee who are not professionals; our legal system that prolong cases of fraud for too long making room for undue interference. Atijosan (1993) also stated that frauds could be carried out through addition of fictitious transactions, altering transactions through wrong posting of accounts and deleting transactions by omitting specific accounts. Archibong (1993) noted that the long-term survival and growth of any organization depends on how the issue of fraud and fraudulent practices in any organization is handled. Ojo (1997) stated that the current economic downturn, unstable political environment and fragile financial outlook in Nigeria require adequate preventive and control tools to manage the banks and other institutions and enterprises.

The notable efforts made by the relevant authorities to strengthen bank regulatory framework are: (i) The Accounting Standards for Banks and Non-banks financial institutions (Part 1) issued by the Nigerian Accounting Standard Board (NASB), (ii) The Prudential guidelines for licensed banks was issued by the Banking supervision Department of the CBN on November, 1990,(iii) The adoption of International agreement on bank's capital adequacy or Basle Accord on capital adequacy. These measures were meant to stem the tide of bank failures by establishing standard policies to regulate banking business. Accountants, bank professionals through the audit and inspection unit could assist in putting in place and ensuring compliance with the required internal control systems and procedures to tackle the problem of frauds and related financial malpractices. Section 32 of the Nigerian Deposit Insurance Corporation (NDIC) Act No.22 of 1988 (as amended) stipulated “any licensed bank or such other financial institution which insures its deposits with the corporation shall be required to provide fidelity bond coverage”. The fidelity insurance policy covers frauds and forgeries committed by staff of insured banks. The insurance policy is intended to reduce the adverse effect of insider frauds and forgeries on the banks. Therefore, it is expected that all insured banks be expected to take up fidelity insurance cover and renew it on annual basis.

Chizea (1991) and Atijosan (1993) opined that computers are used to perpetrate fraud and it is sometimes referred to as computer fraud. Computer fraud entails input manipulation, operations manipulation, and file manipulation, program manipulation e.t.c Bank frauds has assumed various dimensions. Employees sometimes who are reflection of the larger society assist in consummating bank frauds. Some of the causes of fraud are discussed below. By NDIC’s (2002) analysis, seven commonest types of fraud and forgeries cases are presentation of forged cheque, granting of unauthorized loans, posting of fictitious credits, suppression of cash/cheques, fraudulent transfer and withdrawals, outright theft and loss of money to armed robbers .

6.2 GROWTH OF BANK FRAUDS

Table 6-1 below shows the status and number of banks staff involved in frauds and forgeries for the past five years. For instance, a total of 331 staff of banks were reported to be involved in frauds and forgeries in 2006, a decrease of 14.19% and 15.70% respectively when compared with the previous year’s figure of 378 in 2005 and 383 in 2006. Of the total, core operations of staff such as supervisors, officers, accountants, managers, executive assistants, clerks and cashiers totaled 258, thus accounting for about 77.93 %, a decrease of 13.85% points relative to the 2005 level. By implication, there was a drop in terms of the absolute number of staff that perpetrated fraud in 2006, as well as, the core bank staff that engaged in fraudulent activities during the year when compared with those of 2005. **Table 6.2** shows banks response to NDIC fidelity insurance cover. Of special mention is the total number of fraud cases reported which has been on the increase. **Table 6-1** also shows the status and number of banks' staff involved in frauds and forgeries in 2007 and 2008.A total of 313 membes of staff of banks were reported to be involved in frauds and forgeries in 2008, an increase of about 14.65% when compared with the previous year's figure of 273. According to the NDIC report (2008), Of the total, core operations staff such as supervisors, officers, accountants, cashiers totaled 223, thus accounting for about 71.25 percent.That represented a decrease of 4.57 percentage points relative to the 2007 position.

TABLE 6-1: BANK'S STAFF INVOLVED IN FRAUDS AND FORGERIES (EXTRACT)

Rank	2004		2005		2006		2007		2008	
	No	%	No	%	No	%	No	%	No	%
Supervisors &Managers	157	40.99	169	44.70	118	35.64	84	30.76	48	15.33
Officers Accountant & Executive Assistance	129	33.68	124	32.80	90	27.19	89	32.60	127	40.58
Clerks & Cashiers	61	15.93	54	14.28	50	15.10	34	12.45	48	15.33
Typists, Technicians & Stenographers	18	4.70	16	4.23	16	4.83	21	7.69	20	6.39
Messengers, Drivers, Cleaners, Security, Guards & Stewards	15	3.92	12	3.17	7	2.11	-	-	-	-
Temporary Staff	3	0.78	3	0.79	50	15.10	45	16.48	70	22.37
Uncategorised Staff	-		-	-	-	-	-	-	-	-
Total	383	100	378	100	331	100	273	100	313	100

Source: NDIC Annual Report and Statement of Accounts (Various issues)

TABLE 6-2: BANKS RESPONSE TO NDIC FIDELITY INSURANCE COVER (EXTRACT)

Year	No of Banks In Operation	No of Banks that complied	Total No of Fraud Cases	Total Amount Involved (N'000)	Actual Expected Loss (N'000)	Proportion of Total Expected Loss to Amount Involved (%)	No of Insured Banks with Adequate Cover. (C/M)

1994	115	72	170	3399.39	950.65	27.97	40
1995	115	73	147	1,011.36	229.13	22.66	42
1996	115	84	606	1,600.68	375.243	23.44	64
1997	115	68	487	3777.89	227.44	6.02	46
1998	89	70	573	3197.91	692.25	21.66	51
1999	90	54	195	73944.28	2730.06	36.87	34
2000	89	14	403	2851.11	1094.55	37.9	14
2001	90	81	943	11,243.94	906.3	8.06	61
2002	90	74	796	12,919.55	1,299.69	10.06	55
2003	89	56	850	9,838	857.46	9.13	49
2004	89	29	1,133	8,309.83	1,804.45	21.71	N/A
2005	89	49	1,229	10,606.18	5,602.05	39.17	N/A
2006	25	20	1,193	4,832.17	2,768.67	57.29	N/A
2007	24	19	1,553	10,005.81	2,870.85	28.69	N/A
2008	24	22	2,007	53,522.86	17,543.09	32.78	N/A

SOURCE: NDIC ANNUAL REPORT AND STATEMENT OF ACCOUNT

*** N/A: Not Available**

Table 6-3: **DATA ON FRAUD IN INSURED BANKS**.

Year	Average Nos of Banks Rendering Return	Total No. of fraud cases	Total amount involved (N'm)	Total Expected loss (N'm)	Proportion of total expected loss to amount involved %

2000	63	403	2,851.11	1,080.57	37.90
2001	75	943	11,243.94	906.30	8.06
2002	77	796	12,919.55	857.46	10.10
2003	79	850	9,383.67	1,299.69	9.13
2004	77	1,133	8,309.83	1,804.45	21.71
2005	25	1,229	10,606.1	5,602.05	39.17
2006	25	1,193	4,832.17	2,768.67	57.29
2007	24	1,553	10,005.81	2,870.85	28.69
2008	24	2,007	53,522.86	17,543.09	32.78

Source: NDIC Annual Reports (2000-2008)

The above **table 6-3** shows the number of insured banks that reported cases of fraud and forgeries, the number of fraud cases, the amount involved and the actual/expected losss from 2000 to 2006.

From the above table, the reported cases of fraud increases from 403 cases in the year 2000 to 796 in 2002 depicting about 97.5% increase. As a result, the total amount involved in fraud increased from N2,851.11 million in 2000 to N12,919.55 million in 2002 representing as increase of amount 353%.On the other hand, expected loss was estimated at N1,299.69 million as at Dec. 2002 compared to N1,080.57 million in 2000. The proportion of expected loss to the amount involved decreased significantly to 10.10 percent in 2002.

In 2003, reported cases of fraud increased significantly from 796 in 2002 to 850 in 2003 depicting about 6.85 increase. In spite of the increase however, the total amount involved decreased from N12,919.55 million in 2002 to N9,383.67 million in 2003 representing a decrease of about 27.4%. In the same vein, the expected loss was estimated at N857.46 million as at December 2003 compared to N1, 299.69 million in 2002. The proportion of expected loss to the amount involved decreased slightly to 9.13 percent as at end of 2003 from 10.10 percent in 2002.

The reported cases of fraud increased significantly from 850 in 2003 to 1,229 in 2005 depicting about 44.6% increase. In spite of the increase however, the total amount involved in fraud decreased from N9,383.67 million in 2003 to N8,309.83 million in 2004 and increased to N10,606.1 million in 2005. The expected loss was estimated at N5,602.05 billion as at December

2005 compared to N857.46 million in 2003. The proportion of expected loss to the amount involved increased significantly to 553.3% as at the end of 2005.

In 2006, there was a total of 1,193 reported cases of frauds and forgeries involving N4,832.17 million compared with 1,229 reported cases of frauds and forgeries involving N10,606.1 million in 2005. Also total expected loss in 2005 was N5,602.05 million and reduced to N2,768.67 million in 2006. In spite of the reduction in the number of frauds and forgeries and amount involved, the proportion of expected loss to the amount involved increased significantly to over 57.29 percent as at the end of 2006 as against 39.17 percent in year 2005.

From the data and analysis (NDIC reports), the types of fraud and forgeries cases perpetrated showed that the commonest types were the presentation of forged cheques, granting of unauthorized loans, posting of fictitious credits, fraudulent transfer and withdrawals, outright theft, loss of money to armed robbers and suppression of cash/cheques. As shown in the above table, fraudulent transfer and withdrawals constituted the largest proportion in both the amount involved in fraud cases and actual/expected loss in year 2000.

In the years 2001 and 2003 presentation of forged cheques constituted the largest proportion in both the amount involved in fraud cases and expected loss during the period. While in years 2003, 2004 and 2005 fraudulent transfers and withdrawals constituted the largest proportion with regard to the amount involved in fraud cases and expected loss as against what was obtained in 2002 when presentation of forged cheques occupied the first position. Also on the increase were reported cases of loss of money to armed robbers.

According to NDIC report 2006, the commonest types of fraud and forgeries perpetrated during the period were the presentation of forged cheques, granting of unauthorized credits, posting of fictitious credits, fraudulent transfer/withdrawals, cheques suppression and cash defalcation and outright theft of money. **Table 6.1** shows the rank and number of banks' staff involved in frauds and forgeries during the year under review.

In year 2002, a total of 85 staffs of bank were involved in frauds and forgeries. Out of which core operations staff accounted for 90.6% of the total frauds and forgeries. In spite of the decrease in the number of staff involved in frauds and forgeries were very high compared to 2001.Likewise, a total of 106 staffs of bank were involved in frauds and forgeries in 2003, an increase of about 24.7% when compared with year 2002. Of the total, core operations staff accounted for about 85.84% of the total frauds and forgeries. Analysis of frauds and forgeries in year 2004 shows that 383 staffs of bank were involved, an increase of about 46.7% when compared with year 2003. Of the total, core operations staffs that were involved in frauds and forgeries accounted for about 90.6%, an increase of 4.76% relative to the 2003 level.

It also evident from the **table 6-1** that 378 and 331 persons were involved in frauds and forgeries in 2005 and 2006 respectively. In both years, core operations staff perpetrated most of the frauds and forgeries, thus accounted for about 91.78% and 77.93% respectively. By implication, there was a drop in terms of the absolute number of staff that perpetrated frauds in 2006, as well as the core banks' staff that engaged in fraudulent activities during the year when compared with those of 2005.

As shown in the **table 6-3**, there was a total of 2,007 reported cases of attempted frauds and forgeries involving over N53.0 billion in 2008 compared with 1,553 reported cases of frauds and forgeries involving N10.01 billion in year 2007. Core operation staff such as supervisors, officers, accountants, managers, executive assistants, clerks and cashiers totalled 207, thus accounting for about 75.82% of frauds in 2007 while in 2008, core operation staff such as supervisors, accountants, managers, executive assistants, clerks and cashiers totalled 223, thus accounting for about 71.25% of frauds in 2008..

The NDIC Report (2008) reveals that the types of frauds and forgeries perpetrated during the year under review shows that the commonest types were presentation of forged cheques, granting of unauthorized credits, posting of fictitious credits, fraudulent transfers/withdrawals, cheque suppression and cash defalcation, outright theft of money; and loss of money to armed robbers. Cheque-kiting also accounted for the largest proportion of frauds.

11.2 TYPES OF FRAUD

According to Ebhodaghe cited in Newswatch Magazine of March 11, 1996 the types of fraud are listed below:

I. Advance Fee Fraud: This may involve an agent approaching a bank, a company or individual with an offer to access to large funds at below market interest rates often for long term and the source of funds is not specific. The agent also asks for fee or commission in advance. Immediately the agent receives the fee, he disappears, and the loan never comes through. Distressed banks anxious of a bailout fund can easily fall victim to this type of fraud.

2. Cheque Kitting: Cheque kitting involves the unauthorized use by depositors of uncollected fund in their accounts. Uncollected Funds refer to cheque lodgments accepted by a bank for which it cannot fully guarantee collectability until the institution on which such cheque is drawn has determined that fund is available to cover the item. The goal of the cheque kitter may be to use the uncollected fund interest-free for a short time to overcome a temporary cash shortage or to withdraw the funds permanently for personal use. Other category includes:

(i). This often involve suppression of customers' cash deposits/cheque

3. Account Opening Fraud: This occur when a person not known to the bank asks to open a transaction account such as current or saving account with false identification but unknown to the bank. Later the deposit is fraudulently cashed by cheques. The person opens the account with a small initial deposit of cash or cheque. Within a few days, the person will deposit a number of bad cheques and obtain cash in returns either by cashing the fraudulent items outright or by withdrawing cash as soon as fund is available. The bad cheques may be large overdrafts drawn on other banks or drawn on bank accounts that are closed or never existed; stolen, counterfeited, forged or otherwise fraudulent. Other categories of account opening fraud include:

(i) The customer may also misrepresent facts to deceive the bank officer.

(ii) Lodgments of stolen dividend warrants/cheques.

4. Letter of Credit Fraud: An account officer or an employee of the documentary unit could create a phoney letter of credit application or enter a non-existent credit into the system using the name and credit capacity of an existing bank customer. Letters of credit fraud are orchestrated by beneficiaries to the credits using forged or fraudulent documents. The forged or fraudulent documents are presented to the conforming or issuing bank and payment is demanded against the credit. Whether or not the bank pays the beneficiary will depend upon whether the presented document appears to comply with the terms of the credit. If the credit transaction turns out to be fraudulent, it is the applicant who suffers the loss.

5. Money Transfer Fraud: In this case a genuine request can be altered by changing the beneficiary's name or account number or changing the amount of the transfer. The fraud involves a non-repetitive; three person transaction. The perpetrator will obtain the particulars of the account (especially inactive large balance accounts) and names of bank personnel. This information is then used to alter legitimate money transfer or initiate a fraudulent transfer in favour of a third party, usually an accomplice.

6. Loans Fraud: Fraud losses as a result of improper risk management are a significant factor in a majority of bank failures worldwide. It is expected since the bulk of the bank's income come from loan granted to customers. In loan management, fraud may occur at any stage, from the time application is submitted by the customer to the final approval and payment of the loan. Loan fraud occurs when credit is extended to non-borrowing customers or to a borrowing customer who had exceeded his credit ceiling. The fraud is most times concealed from the head office inspectorate division of the bank by submitted false statement, document etc. Dud cheque/instrument also falls into this category. Drafts and certified cheques sold against insufficient funds may be concealed in suspense account instead of debiting the account of the purchaser. Improper use of loan proceeds other than stated business use, criminal enterprise, money laundering. Loan frauds often inflict huge losses upon victim banks. Years of profit-making effort can be negated by a single loan fraud. It puts the bank at risk.

There are other forms of loan fraud such as:

(i). Overvaluation of collateral, false collateral-non-existent, multiple pledge, counterfeit

(ii). Lending against uncleared effect.

(iii). Deliberate premature draw-down procedures inspite of deceptive customer – false financial statement, pretence of credit worthiness and false guarantees, fictitious/ghost borrowing etc.

(iv). Failure to comply with laid down procedures/Fraudulent withdrawals.

(v). Forgery of official document to seek loan approval

(vi). Unauthorized overdraft

(vii). Unofficial borrowing/I.O.U.

(ix) Corrupt bank officers – improper loans to insiders, friends/relatives, improper loans benefitting hidden interest of officers, kickbacks to bank officers, embezzlement of loan proceeds or loan payment

7. Counterfeit Securities: Like counterfeiting of money, counterfeiting of commercial financial instruments is one of oldest forms of crime. Modern photographic and printing equipment had greatly aided criminals in reproducing good quality forged instruments. A common method is to present the counterfeit stocks or bonds as collateral for loans. It can also involve counterfeit of treasury notes, cashier's cheques, bankers acceptance, or certificate of deposits in counterfeit or altered form, may be presented to a bank for redemption. For instance, documents that are counterfeited look like true resemblance of the original. The documents may be total counterfeits or may be genuine documents that are copies, forged or altered as to amounts, payout date, payee or terms of payment. The presenter would draw out the proceed and disappear before the financial instrument is discovered. Other category includes:

(i) Inflation of invoices

8. Cheque Fraud: Cheque is mostly used in settling financial obligations in modern economy. The most common cheque frauds involved cheques that stolen, forged, counterfeited or altered. Common types of cheque are personal, business, government, traveller's certified, draft with each having its own characteristics and vulnerabilities for fraudulent use. Other category includes:

(i). Forged/stolen cheques belong to this category.

(ii) Credit Card Fraud

9. Money Laundering Fraud: The cash is disguise to make the income appear legitimate. The launderer conceal the existence, source or use of illegal-obtain money by converting the cash into legitimate and untraceable transactions in banks **(see Chapter 8)**

10. Clearing Fraud: With the assistance of the collecting bank, the customer will get value as though the paying bank had confirmed the instrument good for payment. Misrouting of clearing cheque/delay in confirmation of clearing cheque from the paying bank to collecting bank assist fraudsters to complete clearing fraud. The challenge is as a result of inadequate supervision.

Other category includes:

(i) Presentation of cleared cheques

(ii) Suppression of customer's cheque/cash deposits.

11. Computer Fraud: Computer frauds can take the form of corruption of the programme or application packages. The system may be hacked to gain access to unauthorized areas or give credit to an account for which the fund were not originally intended. Computer fraud could remain undetected for a long time especially where the Auditor is not computer literate that is auditing round the computer instead of auditing through the computerOther category includes:

(i) Operation fraud

12. Telex/Electronic fraud: This can result from transfer of messages effected through telex or modern ICT. The message, though often coded can be diverted to an account not originally intended.

13. Foreign Exchange Fraud: In foreign exchange fraud bank official apply for forex on behalf of their customers from CBN at a lower rate and divert the forex to the black market in order to obtain higher rate. Before the Nigeria banks were collapsed from 89 to 24 in 2005 some were trading in foreign exchange like the 'mallams' in broad street, Lagos.

Others are Forgery of official documents, misrepresentation of facts, unofficial borrowing/I.O.U Failure to comply with laid down procedures, Fictitious/Ghost borrowing,deliberate premature draw-down procedures.

6.4 CAUSES AND PRVENTION OF FRAUDS

Some of the causes and prevention of fraud are discussed below:

(i) Lack of Experienced And Adequate Personnel

In view of rapid expansion in the banking industry in the mid '80's, provision was not made to train bankers to fill the missing gaps. This led to the dilution of standards and professionalism was thrown to the wind. Honesty and integrity, which are the hallmark of banking, took a secondary position. This is reflected in the lack of competent hands among the management cadres of liquidated and distress bank. The CBN and the Chartered Institute of Bankers of

Nigeria should assist to bridge the gap by assisting to train the required personnel for the banking industry.

(ii) Internal Audit And Control

There is absence of internal auditing procedures to ensure compliance with standards. This has contributed to bank loses as a result of inefficiencies, inaccuracies, irregularities and willful manipulations There is the need to ensure that there exists an independent and competent internal audit or inspection unit. Systems of control must be put in place to safeguard assets, accuracy and reliability of the records. The need for an independent and competent internal audit or inspection unit becomes very relevant.

(iii) Inadequate Book Keeping/Accounting Procedure

Improper bookkeeping record gives rise to an unhealthy meddlesomeness. This has led some accountant and auditors comprising 'doctoring' or window dressing financial statements to present a rather distorting or misleading state of affairs of enterprises being serviced by colluding with bank management. There should be strong accounting controls and security measures, which are subject to periodic re-assessment for the continued good health of the organization. The supervisory control arm of the CBN should be strengthened to check inconsistent accounting policies and practices in banks. This would in the long run pave way for comparison of bank performance.

(iv) Poor Credit Administration

This is the bane of many Nigerian banks. Many loans granted are not properly appraised. And this as resulted in an increase in volume of non-performing assets or bad debts putting many banks in precarious financial situations. Cases abound of unauthorized lending and lending to ghost borrowers. The Failed Bank (Recovery of Debts) and Financial Malpractices in Banks Decree No. 18 1994 should be encourage and strengthened while the Economic and Financial Crime Commission (EFCC) should operate as an independent unit of the government to enable it deal with cases of Advance Fee Fraud '419" whose transaction sometimes pass through bank.

(v) Inadequate Job Rotation/ Segregation of Duties

Where a staff stays too long on one schedule, it provides an opportunity to commit and cover frauds. Also where schedules meant for different individuals are cumulated in one person, it gives an opportunity to also commit fraud. Bank management should avoid an individual with too much jobs by employing individuals to fill the gap.

(vi) **Ineffective Bank Management**

Some of the top management staff lacks knowledge of principles and practice of management such as planning, control, directing, coordination and supervision. Thus, they exhibit poor judgment and promote fraudulent behavior. Bank management requires training, retraining and re-orientation on values.

(vii) Poor Knowledge of The Job

Some bank employees exhibit lack of knowledge of their duties and responsibilities and therefore easily fall prey to fraudsters. There is need for training and retraining of employees.

(viii) Clearing Fraud

All parties in the clearing system such as drawer, presenting/collecting bank, paying/drawee bank must comply to clearing guidelines. Clearing fraud is an unlawful conferment of financial or monetary benefit upon any person through the clearing system to which that person otherwise would not be entitled. These include presentation of spurious instruments on other banks that is fake or forged cheque; drawing instruments on unfounded accounts by a bank and/ or with the connivance of customers of the banks; issuance of bank drafts, manager cheque and bankers payments to other banks. When there is insufficient funds in the bank account to accommodate the instrument; and wrong presentation of instruments of high value on other banks with fraudulent intent. To minimize the incidence of clearing fraud, there should be an enabling environment for employees to work. This implies clean environment, centralize waste disposal, good equipments such as good photocopies, air conditioners in good working order and adequate, employment of high caliber staff/officials assigned clearing duties with good track records, motivation of staff to avoid temptation, accountability of lines of authority must be clear and supervision and control are very essential in a clearing environment.

(ix) Society Expectation

The unquestioning attitude towards who are involve in frauds/sudden wealth especially from bank staff that eagerly yearn to meet rising society expectation. There is the need by the larger society to change their value system by questioning source of all wealth. This measure would require government support.

(x) Delayed Justice

The lack of adequate capacity to detect, investigate and prosecute reported cases of fraud by the law enforcement agents. The judiciary is often slow in dispensing cases of fraud and the non-disclosure of frauds and lack of cooperation from the affected institutions because of the adverse publicity it brings to them encouraged bank employees to engage in frauds.

(xi) Other Miscellaneous Issues

The list of frauds and forgeries in the banking industry is by no means exhaustive in this paper. However, it is pertinent to mention that bank staff need to comply with operational guidelines, code of conduct, while management need to be security conscious to protect their assets. Banks must render statements Account to their customers in order to resolve differences that are fraud suspect. Special Squad at the state and federal intelligence division of the Nigerian police should be trained and retrained to deal with cases of fraud. Staff dismissed in banks on account of fraud should be circularized to other banks to prevent re-employment. All bankers irrespective of their status should be registered with the Chartered Institute of Bankers of Nigeria so that the institute can watch over their activities and can summon anyone to the disciplinary committee on account of fraud.

Fraud Prevention Measures

The fraud prevention measures can itemized as follows:

1. Management Supervision
2. Regular Balancing of accounts.

3. Allocation of staff duties ensuring checks and balances in operation.
4. Internal Audit (Periodic Inspection).
5. Dual control over assets and other Security documents.
6. Regular rotation of jobs/staff
7. Manual of instruction.
8. A sound employment policy.
9. Proper training of bank staff.
10. The checking of cashiers.
11. Internal disciplinary action.
12. Lending limits
13. Prosecution of fraudsters by law enforcement agents.
14. Preparation of monthly returns to Head Office.
15. Societal re-orientation/moral re-awakening.
16. Positive reward for blowing the whistle on potential fraudsters.
17. Regular/up-to-date training and retraining of all staffs.
18. Trusting facts rather than trusting colleagues.
19. Appropriate reward system

REVIEW QUESTIONS

i. Outline and discuss the types of fraud
ii. Discuss the causes and prevention of fraud
iii. Discuss the consequences in the growth of bank fraud.

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From 2000 to 2002, he was the Head of Business Studies, Shaka Polytechnic, Benin-City, during which period also he was an associate lecturer at the Federal University of Technology, Owerri, FUTO, Benin-City Outreach, where he taught Financial Accounting, Marketing and Elements of Banking; Open Cast Polytechnic, Benin City, affliated to the University of Ekpoma, Edo State. He has supervised over 80 undergraduate projects. His areas of interest include bank management, strategic financial management, financial services marketing, bank audit, examination and inspection, practice of banking, bank lending and specialized bank sevices.

Dr Ikpefan is an accomplished academic who has published over forty articles to reputable journals both local and international. His hobbies include reading and sports, especially football. He is a retired Grade One Referee and now a match commissioner with the Nigerian (Football) Referees Association. He is married with children.