

**LOAN DEFAULT, CREDIT RECOVERY AND BANKING SYSTEM  
STABILITY AMONG DEPOSIT MONEY BANKS IN NIGERIA**

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**AUGUST, 2022**

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MANAGEMENT AND SOCIAL SCIENCE, COVENANT  
UNIVERSITY, OTA, OGUN STATE, NIGERIA**

**AUGUST, 2022**

## **ACCEPTANCE**

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## **CERTIFICATION**

We certify that the thesis title, ‘**LOAN DEFAULT, CREDIT RECOVERY AND BANKING SYSTEM STABILITY AMONG DEPOSIT MONEY BANKS IN NIGERIA**’ is based on original research carried out by **AMADI, AGATHA NKEM (19PAG1906)**, under our supervision and that it has not been submitted for the award of any degree in this or any other University. We have examined and found this work acceptable as part of the requirements for the award of Doctor of Philosophy (Ph.D) degree in Finance.

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## **DEDICATION**

I dedicate this thesis wholly and entirely to God Almighty for His presence and guidance through the Holy Spirit all through this research work.

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## LIST OF ABBREVIATIONS

AMCON	Asset Management Corporation of Nigeria
BSSI	Banking system stability index BSSI
BVI	Banking Vulnerability Index
CBN	Central Bank of Nigeria
CDS	Credit Default Swap
CRM	Credit Risk Management
CRMS	Credit Risk Management System
DMBs	Deposit Money Banks
DRA	Debt Recovery Agent
ECI	Economic Climate Index
FDIC	Federal Deposit Insurance Corporation
FEM	One-Way Fixed Effect Model
GMM	Generalized Methods of Moments
GSI	Global Standing Instruction
ICAD	Industry Customer Accounts Database
IFRS	International Financial Reporting Standard
KYC	Know Your Customer
KYCB	Know Your Customers' Business
LGD	Loss Given Default
NDIC	Nigeria Deposit Insurance Corporation
NIBSS	Nigeria Inter Bank Settlement System
OLS	Ordinary Least Square
OPEC	Organization of the Petroleum Exporting Countries
PLAS	Personal Loan Against Salary
PLS	Partial Least Squares
PLS-SEM	Partial Least Squares Structural Equation Modelling
QMLE	Quasi-Maximum Likelihood Estimation
SES	Systemic Expected Shortfall
SMEs	Small and Medium-Sized Enterprises
SPSS	Statistical Package for Social Sciences

## ABSTRACT

The banking system is essential in driving business growth and macroeconomic effectiveness. Evidence, however, revealed that the Nigerian banking system had suffered various degrees of instability from shocks arising from both endogenous and exogenous sources, leading to default in repayment of bank loans. This has made deposit money banks (DMBs) in Nigeria ineffective at meeting set targets for sustainable banking and stable performance. The constant growth of loan default rate that gradually develops into hardcore bad debt continues to trend amongst DMBs. These issues necessitate the basis to empirically examine the effects of loan default and credit recovery on banking system stability among the DMBs in Nigeria. The study adopted the techniques of Partial Least Squares Structural Equations Modelling (PLS-SEM) and the dynamic panel of the system of the Generalised Method of Moments (SYS-GMM) to analyse data from primary and secondary sources. The result of the PLS-SEM indicated that there are various idiosyncratic factors among DMBs that encourage loan default and its increase. Scholars discovered that borrowers' non-adherence to loan agreement terms is mainly responsible for bank loan loss. The effect of loan default on banking system stability indicates that loan default has a negative impact on banking system stability in Nigeria both in the short and long run. The result further reveals that credit recovery has a positive and significant influence on banking system stability both in the short and long term. The findings of the combined causal effect of loan default and credit recovery on banking system stability reveal that the result is negative in the short run. However, in the long run, the negative effect is neutralised when credit recovery is achieved. The individual impact of the three categories of non-performing loans on banking system stability showed that each category negatively impacts banking system stability in the short and long run, except sub-standard loans, which have a positive effect in the short run. The findings showed that the vulnerability index is more pronounced than the banking soundness index. This is because the independent variables have higher and more significant relationships with the Banking Vulnerability Index (BVI) than with the banking soundness index, which means that the impact of loan default and credit recovery on the banking system stability is more significant on the Banking Vulnerability Index. The finding implies that exogenous factors rather than endogenous factors mainly cause the instability of DMBs in Nigeria. The study thus recommends that bank borrowers adhere strictly to loan agreement terms and conditions while lending officers should be penalised for defaulting on loans they booked. Therefore, bank management should ensure that inexperienced and non-risk professionals are not saddled with assignments in the risk directorate of banks to avoid causing unnecessary losses. In addition, banks should not wait as long as 90 days of default before activating prompt credit collection/recovery activities while maintaining favourable minimal recovery expenses, particularly with their Debt Recovery Agents (DRA). This is to ensure recovery expense does not outstrip the actual amount recovered.

***Keywords: Bank Stability; Vulnerability; Loan Default; Credit Recovery; Regulatory Authorities; Non-performing Loan Category; Renege***