Regulation and the (Ir)Relevance of Other Financial Institutions in Banking System Growth

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Abstract
The banking system growth through capitalisations in Nigeria produced some after-effects, both salutary and otherwise on the other financial institutions. The major objective of this paper was to find out the impact of the growth of the banking system on the OFIs. It used primary and secondary data to assess the impact of the growth and regulation on the OFIs. The paper adapted the Regulatory Pressure Index to assess the perception of regulation and supervision of the OFIs with granger causality and regressions and the main techniques of estimation. The results indicate that the bank growth had positively impacted the Primary Mortgage Institutions and the Microfinance banks while it has a negative near-significant effect on the Finance Houses. The results of the nine RPI objectives indicate that operators agree that there is inadequate supervision in the areas of capital adequacy, liquidity and products offerings of the OFIs. The paper concludes by recommending the change in the mode of supervision and the strengthening the Other Financial Institutions Department of the monetary authority or establishment of a new one to oversee and adequately regulate the activities of the OFIs.

Keywords: Regulation, Supervision; Finance Houses; Primary Mortgage institutions Microfinance Banks, Bank Growth, Regulatory Pressure Index

JEL: G21, G28

1.0 Introduction

Attention has been focused on bank financial institutions to the detriment of other financial institutions that make up the total bank and non-bank financial system, this, understandably with the size and the significant roles being played by the banks in the aggregate economy. So much focus has been on the banks as if they only constitute the financial system and are in total control of the dynamics of the economy. This misplaced opinion has caused the issues of bank financial institutions to be considered as main arrow heads for the development of the economy, the empowerment and improvement of the lives of the people.

While no doubt exists as to the role being played by the banks in the economy as far as their intermediation functions are concerned, the attention being focused on the sector can be detrimental to the performance and the effectiveness of other subsectors of the financial system, especially the non-bank deposit taking institutions. Also no doubt exist that when large banks fail a substantial amount of resources are lost and many micro units are negatively affected. The establishment of these institutions were for the development and the improvement of the sectors they were meant to finance. Financial institutions of various types exist to intermediate funds within various sectors given their level of risks and peculiarities. Gorton and Winton (2002) discusses the role of the institutions in the intermediating

process and their significance in the free market system in the saving – investment paradigm. Central banks in developing countries have focused on the banking system growth and distress management to the detriment and chagrin of other sectors. While it is understood that the economic and developmental efforts alone cannot be achieved by the banks, it is an established fact that the other non-bank thrift or deposit taking institutions have stakes in the economy and can aid the development of the potentials often overlooked by the deposit money banks.

Banks generally intermediate funds between surplus and deficit units, so do the non-bank financial institutions (Cetorelli et al, 2012) and nothing has changed much, but for channels of delivery. The weight attached to the Deposit Money bank firms tends to leave the other firms out of the purview of the regulators, or at best not much of focus is on them in the supervision process. These institutions are mainly the Finance Houses (FHs), Microfinance banks (MFBs) and Primary Mortgage Institutions (PMIs). By the neglect or passive regulation these institutions are receiving, two effects are noticeable. One, the non-effectiveness of their operations and inability to achieve the desired objectives set for them by the financial system. This has often made them derail and shift focus to non-objectives. A second effect is the rampant failures regularly experienced by these institutions. The failures have led to a general belief that thrift institutions and other non-bank firms cannot be profitable and at the same time intermediate well. The long run survival and performance of these institutions will not only help the economy in terms of employment and other issues, but also improve the sectors they are meant to service.

With the unwieldy structures banks have assumed during the era of universal banking, the banking firm's services can be divided into approximately 25 different sections (KPMG, 2013). Given the fact the universal banking seems to be out favour of most financial systems, the financial institutions acquired and managed by these banks are now being separated from the banks in a new wave of banking structure being adopted worldwide. This study becomes important at this time to enable the OFIs and non-bank deposit taking institutions to take firm and rooted stand and be impactful in the area of operations rather than being overshadowed by the banking system or rather being an appendage to them.

The position of the banks, whether they are bank financial and bank non-financial controlled is established as far as credit allocation is concerned in the economy. This is mainly because of the power of deposit acquisition and seeming liquidity. The introduction of universal banking made the financial system more challenging for non-banking markets as banks could not directly differentiate between carving niches and specialising, preferring to open up in all markets. The main segments of universal banking being insurance, securities and retail banking were fully operated by the banks in spite of insufficient of resources to cater for the risks being encountered in each of the sectors. Thus an average bank opened or acquired a Primary Mortgage Institutions (PMIs), a capital market arm, an insurance firm and still remained a bank.

The role being performed by the other financial institutions (OFIs) is apposite when the economy is developing and a larger percentage of the people are poor as subsist in many developing countries. The OFIs are known to be particularly useful for supplementing the role of the banks, create more competitive environment in the financial system and generally make the banks more efficient (Shrestha, 2007). The role of the OFIs have increased with the growing pension sector that is aggregating funds at an high rate though the market is immature in the very sense of the word. The market for financial products by the consumers is also growing. These are the areas where the OFIs should remain vibrant and strong, but these areas have been taken over by the banks. The main areas of the banks should rather be the corporate sectors and small and medium enterprises. Sellon (1992) emphasises the role of the pension and mutual funds in the delivery of the financial services given their seeming closeness to the people.

The main objective of this paper is to discover the relevance of the OFIs within the current structure and framework and the need to bring adequate regulation and supervision that has been made available to the banks in order to fulfil the role expected of them. To do this, the paper is divided into five sections. Following after this introduction is a brief review of the significance of OFIs, regulation and other issues. The third section centres on measurement of the variables used and methodology and the fourth is on the discussion of results and the expected impacts while the final section concludes the paper with recommendations.

2.0 Literature on Significance of Thrift Institutions

A complex vortex of policies and actions bring financial intermediation to a point where the dynamics regularly introduce new paradigms into the financial system. The role of financial intermediation is being regularly redefined with continuous changes to a section or many sections of the finance industry. Earlier theories have argued the importance of either money or credit in the growth of the economy through financial market intermediation Levine (2000) believes there are four sides to which an economy development may tilt, one being the financial services.

The competition existing between banks and other financial firms has reached a height that banks over the years have become weaker in most developed economies. Beim (1992) argues that traditional banks are dying while the other financial institutions are becoming stronger, more relevant and undercutting the banking firms businesses. For instance, shadow banking is a becoming more significant than before. This was followed by counterarguments by Kaufman and Mote (1994). Somehow the other financial institutions (Thrift Institutions in the US) have grown stronger and are able to completely compete with the Banks offering services more readily and cheaply. Two institutions particularly analogous to those of the Nigerian financial environment: the finance houses and primary mortgage institutions both providing consumer finance and mortgages services respectively.

OFIs are all involved in intermediary role in finance and are purportedly closer to the households from whom much of the savings in the financial system come from. Over the years, through regulatory capital increases and capital adequacy policies, banks have suddenly grown to emasculate other financial institutions and have taken over the services rendered by these institutions. The bulk of domestic savings come from the various economic units particularly the households and Levine et al (2000) prove that OFIs contributes to domestic economic development of their respective countries. In most developed countries traditional banking has been on the decline which emphasises the leading and important role for OFIs. Edwards and Mishkin (1995) prove the importance of the TSIs in the United States over the traditional banking system and calls for their regulation to be stepped up. While the entrance of banking firms into the trading market through the universal banking system has produced risks and instability, the engagement of OFIs in the provision of services traditionally and conventionally undertaken by them enable them to develop business practices that suit the environment they service. Boot and Ratnoviski (2013) conclude that universal banking was inherently and dynamically risky for the banks by veering into trading activities as a result of the available short term opportunities.

The vista of opportunities available to the OFIs to engage in consumer finance efforts is dimmed by the bigger banks that have seized the domestic financial market to maximise their investment. The OFIs can compete effectively against the Banks by introducing financial products with lower cost for the welfare of the population, subject to the regulators' approval. Lovati (1975) had brought out the products in which the Banks were dominant and the opportunities available for the OFIs to exploit and compete effectively with the Banks. The banks generally are disadvantaged in the pricing of products because of their expensive profile and other requirements. Reserve requirements of the Banks are rigorously implemented unlike the OFIs. Also, the OFIs can offer products that bring in cheapest sources of funds in form. Primary Mortgage Institutions (PMIs), Microfinance Banks (MFBs), Discount and Finance Houses (FHs) all have similar products that can compete with the conventional current accounts of the banks. The OFIs also have the advantage of personal touch at lower levels of the economically active persons.

Regulation as a key issue in the financial services industry constitutes a barrier to entry. Both the banks and other financial institutions are regulated since their instrument of trade is the wealth of the people. While most economies have devolved the regulation to a single regulator or a modified form of it and not directly linked with the monetary authorities, the Nigerian economy still practises multiple regulators with central bank as the leading authority. Adetiloye (2008) calls for the adoption of regulation separated from the monetary authority using a modified form of single financial regulation. There are contentions that banks are overregulated making their services expensive, while issues of "Too big to fail banks" (TBTF) that survive on public sustenance rage on (Moosa, 2010). An attempt to increase the Tier 1 equity requirements of the PMIs is being seen with the effect to reduce the number of participating firms.

Much unlike Nigeria, the Office of Thrift Supervision (OTS) deals with the supervision and regulation of Thrift Institutions. It basic functions span the registration and ensuring that they follow laid down guidelines and fair competition. The Financial Services Authority (FSA) in United Kingdom as a single

financial system regulator concerns itself with products fairness, pricing in the financial system and consumer protection while at the same time ensuring that the system is not available to those who would want to use it to perpetrate crime or commit fraud (Brauilt, 2002). Various reports have cited that less than half OFIs render returns (The Guardian, 2008) after being brought into the audit of the Central bank (The Punch 2009) and with explicit deposit insurance from the Nigerian deposit insurance corporation (The Punch, 2007). This has not changed much (NDIC, 2012).

The conclusion is that while the OFIs are expected to increase in significance and the banks dwindle in influence, the banks have rather increased in power. The issue bring to fore the role of financial intermediaries in the economy, with the early belief that they are value creating and reduce costs. The gamut of regulations and dynamics of the financial system and market especially with the developments in information technology, deregulation, deepening of financial markets, tending to reduce transaction costs and information asymmetries, financial intermediation theory may come to the conclusion of irrelevance in the financial markets (Scholtens and van Wensveenshall, 2003). Vittas (1995) concludes that active peer monitoring and enforcement of contractual obligations are the best way forward if the other financial intermediaries must survive and thrive in the developing world.

The Nigeria scenario of OFIs shows that the investors have always moved to benefit from loosely regulated financial environments that have always ended up with the clients in these firms losing their deposit or investments. At different times as revealed by Figures 1 and 2 many of these institutions that were established have closed down with depositors sustaining losses. The heights of FHs and PMIs were in 1993 - 1996. These have tended to draw people close to the banking firms where ostensible deposit insurance subsists. The banks investment in the MFBs and PMIs are not significant enough to draw inference that their involvement has had positive effect on this set of OFIs. Two banks have wholly owned MFBs subsidiaries while seven other MFBs have investment of less than 30% from the Banks (NDIC, 2010). The OFIs are supervised by a section in the CBN that collates reports that are submitted for analysis as to performance. This seems to be where the whole exercise ends.

3.0 Methodology
The paper adopts a twofold technique to deal with the issue of impact perception and regulation challenges of the OFIs. A primary data was obtained using the metrics developed by KPMG (2013). Nine of the ten metrics were adapted to be tested in the case of the OFIs, though they were originally meant for the Deposit money banks. The Regulatory Pressure Index (RPI) as measurements was used to assess the regulatory impacts on the banking system in consideration of the improvements that have come into the system. Though, all the reference points have not been adopted by the CBN for the banking system, its use in this paper ensures that a global standard is used to measure financial institutions. It becomes useful especially to measure the perceptions of the operators' of the supervisory and regulatory functions expected to be performed by in the running of the firms.

A proper comparison of the stance of the banks requires a measurement of the banks regulatory impact using the above metrics. Four banks were selected at random as a sample of the 21 in the banking system to act as proxy for the system. Two of the banks were established in the post-Structural Adjustment Programme of 1986, while the other two were established before 1952. The mean difference using t test for the bank produced a result of 4.065. This was used further on in the test for each of the OFIs.

The primary data consist of the Likert scale questionnaire ranging on scale of 5 to 1. The questionnaires were distributed to the available members of the OFIs and the managers of the branches of these institutions that could be accessed on a convenient sampling basis. The number of OFIs covered was 3 namely, the primary mortgage institutions, finance houses and Microfinance banks. Appendix 1 shows the different OFIs and the total capitalisation in comparison with the banks. The questionnaire is to the intent of the operators' perception of the adequacy of supervision of the OFIs.

The metrics are:

Table 1 Regulatory Pressure Index

	Reforms	Objectives
1	Capital	Increase both the quantity and quality of capital buffers in order to reduce the possibility of failures
2	Liquidity	Ensure that financial institutions have enough liquid assets to meet a

3	Products offering	Reduce risks to financial stability, from the structure of the financial services sector or the failure of a systemically important financial institution.
4	Supervision	Ensure that OFIs are properly supervised, proportionately to the nature, size and complexity of their business.
5	Board Competence	Ensure that Boards have sufficient skills, experience and availability to assume full accountability for the decisions taken by the organization.
6	Remuneration	Regulate excessive remuneration practices
7	Customer Treatment	Protect the customer, help the customer make informed investment decisions and ensure that the products sold to the customer suit his/her investment profile.
8	Quality of Financials	Ensure that Accounts presented are reliable and can be compared across industry.
9	Accounting and Disclosure Objectives	Consider whether accounting policies need to be revised and the additional disclosures that may be required Move to expected loss provisioning.

Source: Adapted from KPMG (2013)

The second stream of data is secondary and sourced from the Central Bank of Nigeria Statistical Bulletin 2012.They are the numbers of other financial institutions reporting, the assets of the institutions in each category and thereby their growth rate was established. This is presented in the appendix. The techniques of estimation of the secondary data are granger causality and vector autoregressive processes. This is to show that massive growth of the banks and its impact on other financial institutions.

Table 2

Questionnaire Distribution and Retrieval

Institutions	**Banks**		Primary Mortgage Inst.		Microfinance Banks		Finance Houses	
Average Reporting	21	%	98	%	823	%	104	%
No Served	6	28.57	35	35.71	35	4.25	32	30.77
No Retrieved	4	19.04	35	35.71	33	4	30	28.84

Source: Authors' Questionnaire Distribution

The variables are first correlated to discover the relationships between them. Then granger causality is adopted to measure the causality of dwindling fortunes of the OFIs. Causality relates to the ability of one variable to predict the (and therefore cause) the other (Asteriou and Hall, 2011). Granger (1969; 1986) developed a VAR model that expresses both unidirectional and bi-directional feedback relationship between two variables Y_t and X_t.

$$Y_t = \alpha_1 + \sum_{i=1}^{n} \beta_i X_{t-i} + \sum_{i=1}^{m} \gamma_i Y_{t-j} + e_{1t} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots (1)$$

$$X_t = \alpha_2 + \sum_{i=1}^{n} \theta_i X_{t-i} + \sum_{i=1}^{m} \delta_i Y_{t-j} + e_{.2t} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots (2)$$

Where e_{yt} and e_{xt} are uncorrelated error terms. The direction of causality of Y_t and X_t could results in any of four causes: bi-directional causality and a unidirectional pairwise causality (Asteriou and Hall, 2011). To obtain a fit we test with the normal Wald *F*- statistic on coefficient restriction as follows:

$$F = \frac{RSS_R - RSS_U / m}{RSS_U / n - k} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots (3)$$

Which follows the $F_{m,n-k}$ distribution and $K = m+n+1$. Should the computed F-value exceed the F-critical value, the null hypothesis is rejected and concludes that X_t cause Y_t. Rss_u and Rss_R represents sum of squared residual from the unrestricted and restricted equations respectively. Since causality results are not signed the need to introduce a superior technique becomes important to see the signs of the results and impact of the independents on the dependent variables. To estimate the impact of the growth of Bank assets on the OFIs institutions we estimate a regression with the variables measured in percentages as growth of the assets in current year over the next i.e. $\%\Delta X = (X_2 - X_1)/X_1$

where: *Bankgrwt* is growth in the banks' assets; same for the *PMI*s, *MFB*s, *FH*s

4.0 Results and Discussions

The results are set out beginning with correlations indicating relationships, causality and regressions. Thus the results indicate the degree of relationships and impacts of the various financial institutions one against the other. In this order banks growth predominance and impact on the growth of the OFIs becomes plausible to accept.

	BAKGRWT	FINGRWT	MFBGRWT	PMIGRWT	BANKASST
Mean	45.77911	52.84834	37.31285	-59.8245	5786246.
Median	32.58166	9.992105	16.13446	-13.4606	2766880.
Maximum	328.2609	589.4760	207.5224	23.19566	19396634
Minimum	-14.0623	-140.7368	-52.05387	-580.484	226162.0
Std. Dev.	70.97014	147.6736	60.95893	140.8170	6808557.
Skewness	3.528629	2.615866	1.234222	-2.95679	1.023324
Kurtosis	14.76812	10.45609	4.532318	11.14127	2.412000
Jarque-Bera	149.0658	65.68005	6.682631	80.15679	3.589824
Probability	0.000000	0.000000	0.035390	0.000000	0.166142
Sum	869.8030	1004.118	708.9441	-1136.67	1.10E+08
Sum Sq. Dev.	90661.69	392534.9	66887.85	356929.6	8.34E+14
Observations	19	19	19	19	19

4.1 Correlations Results

One very important observation of the result is the fact that the correlation of the average size of the each of the institutions does not have any relationship apart from the Finance houses and the banks. The finance firms had grown considerably in the early 1990s. With the correlation matrix in Table 3, there is only one significant relationship as expressed between the pair of microfinance banks and the PMIs which is negative at *r -0.6*. Other relationships are as low as *r 0.077* for PMIs and Banks growth. However, the relationships are all show positive though insignificant. This is expected as a result of the money supply and economic growth. A noteworthy observation in the results is the negative signs that most of the *r*s have in the pairs with the *Bankasst* variable except for the PMIs. The relationship is negative for the Microfinance and Finance houses subsector with *r*s of.*-189* and.*-105* respectively. A fair inference on this is that the growth of banks assets has somehow has negative relationship with the other financial institutions in the financial system.

Table 3 Correlations between the Variables

		BankGrwt	PMIGrwt	Finhgrwt	Mfbgwt	Bankasst
BankGrwt	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	20				
PMIGrwt	Pearson Correlation	.077	1			

	Sig. (2-tailed)	.755			
	N	19	20		
Finhgrwt	Pearson Correlation	-.098	.149	1	
	Sig. (2-tailed)	.681	.529		
	N	20	20	21	
Mfbgwt	Pearson Correlation	.416	-.600**	.052	1
	Sig. (2-tailed)	.077	.007	.831	
	N	19	19	19	19
Bankasst	Pearson Correlation	-.057	.151	-.189	-.105	1
	Sig. (2-tailed)	.813	.537	.426	.670
	N	20	19	20	19	20

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Authors Output of data

4.2 Granger Causality Results

The significant *Wald* statistics for each of the pair of variables is indicated by the *p* values and are flagged. The results show that there is significant bi-directional relationship between bank assets and PMIs growth. The reason for this obvious as most of the Banks have acquired or invested heavily in PMIs in the bid to diversify their assets and invest their seeming surplus equity from the capitalisation exercise concluded in 2006. Single direction causality is observed between the Finance Houses and banks on one hand and bank assets and Finance House on the other. Also, the result of the causality between finance houses and PMIs is also significant. This relationship is bi-directional. While the result may indicate that the growth of one causes the other it may also indicate the fact the growth of one impact negatively against the other. The market situation between the PMIs and Finance houses in Nigeria show that the two, though different largely by nomenclature, invariably operate in the same market, with the PMIs offering products and services where the Finance house should predominate. PMIs selectively sell and their mortgage products with care avoiding possible default risk. The basic reason adduced for this scenario is the perennial and traditional problem of liquidity affecting the sub-sector.

Table 4
Abridged Granger Causality Results (Significant Results are in Bold)

Null Hypothesis:	Obs	F-Statistic	Probability
FINGRWT does not Granger Cause BAKGRWT	17	0.21713	0.80792
BAKGRWT does not Granger Cause FINGRWT		**3.92026**	**0.04895**
FINGRWT does not Granger Cause BANKASST	**17**	**23.8776**	**6.6E-05**
BANKASST does not Granger Cause FINGRWT		2.20972	0.15238
PMIGRWT does not Granger Cause BANKASST	**17**	**6.51333**	**0.01215**
BANKASST does not Granger Cause PMIGRWT		**5.31101**	**0.02228**
PMIGRWT does not Granger Cause CMFBGRWT	17	0.16863	0.84679
CMFBGRWT does not Granger Cause PMIGRWT		0.11725	0.89037
	17	**31.5105**	**1.7E-05**
FINGRWT does not Granger Cause PMIGRWT		**7.54107**	**0.00757**

Source: Authors Output of the Variables

4.3 Regressions Results

The results show in all cases the PMIs have benefitted from the growth in banking assets and the growth in the banking subsector. This relationship is clearly adduced to banks' ownership and investment in some of the PMIs. The relationship is strong in this regression and significant beyond 0.05 level. The case

of the Microfinance banks show positive too at a much higher level of significance at 0.01. The reasons for this are clear, though MFBs are competing with the banks though not at the same level, the rate of growth of the MFBs have been astronomical, as the investors in the banking system elect to invest in the sector since capital requirement of the regular banks have become difficult to meet. Figure 2 also show the rate of growth of the MFBs in unwieldy manner. The FHs result is not so significant. With the *t* at -*1.217* it cannot be ignored as it is close to 0.1 level of significance. The FHs have been losing out in the growth of the banks within the financial system. The obvious reasons for this can be attributed to the loss of deposits as well as products in the financial market to the commercial banks. The consumer finance market has been taken over to a large extent by the banks. A cause of the problem could be lack of deposits (placements) insurance for deposits with the FHs.

Table 5: Regression Coefficients Results

Model	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
	B	*Std. Error*	*Beta*	*t*	*Sig.*	*Tolerance*	*VIF*
(Constant)	44.853	23.364		1.920	.076		
PMIGrwt	.306	.136	.607	2.259	.040**	.586	1.706
Mfbgrwt	.909	.305	.781	2.978	.010***	.617	1.621
FinHgrwt	-.080	.065	-.266	-1.217	.244	.886	1.128
Bankasst	-1.351E-6	.000	-.130	-.604	.556	.921	1.086

Dependent Variable: BankGrwt
Source: Authors' Output of Variables

The regression results help to see the impacts of the growth of the banks in each case of the OFIs. While it has been negative entirely for the FHs it has been helpful to the PMIs while it cannot be ignored in the growth of the MFBs. The banks growth over the years was induced mainly by the continuous increases in regulatory Tier 1 capital especially in the period of 2005- 2006. The effects continued till 2008 when the assets of the affected institutions either were positively or negatively affected. Figure 2 shows the increase or growth in the assets of each of the institutions against the growth in the banks' assets. The results for the FHs by regression is insignificantly negative, however the VAR results with 2 year lag and with Bank assets and growth rates (Table 2 in the Appendices) prove that the impact of the growth of the banks has been adverse against the FHs.

4.4 Primary Data Results

The secondary data reveals that the monetary authorities have not done so much for the OFIs sector, concentrating on the bank finance sector. The metrics for various RPI objectives shows dismal negative values with the average for the FHs recording the highest negative *t* values and overall average of *t* -13.41 with its highest of *t* -23.18 in disclosure objectives. From every indication they are not supervised in this area. Its best (least) negative result is the areas of customer satisfaction which of course shows that they are have developed close relations with many of the clients or customers while many have switched over to the banks for patronage. Capital adequacy is next in term of supervision with *t* -19.04 indicating that they are not regulated in this area. The mean difference of the data is more revealing because of the adopted Banks metric and *mean* difference of 4.065. From this mean disclosure objectives is highest with -*2.589* followed by adequate supervision -2.446. Operators here believe they are not adequately supervised or regulated.

The MFBs record a slightly better output with the negative *t* averaging at *t* -10.1. It has the least negative *t* (best result) in customer satisfaction with *t* -5.2 and its worst result in the product offerings with *t* -17.1. This shows there is lack of imagination in their product offerings. Remunerations control is the next poorest at *t* -11.5 which indicates that there are few controls on earning of officials. It is hardly surprising that board competence records a second lowest *t* of -5.65 with the ownership of MFBs coming mainly from the retired bankers and persons who could not obtain license to operate banks due to the capital requirements barrier. The means difference for each of the objectives is also slightly better than the FHs. The average mean of -1.52 is better than the FHs at -2.589. This is where the bank measures 4.065.

The PMIs seem to have the best results somehow, and show that the regulation perception of the RPI objectives measure better on the average t with -7.6. It is worst result is in liquidity with t of -14.8 and next worst is product offering with -13.3 followed by disclosure objectives with t of -9.53. It is clear that the perception of the operators concerning the observation cannot be more correct since the liquidity crises which the subsector can face if not carefully managed can engulf the subsector. This is perhaps why the product offering is poor: most PMIs compete outside their main area of providing mortgage finance and other similar services. The mean result of the PMIs shows an average of -1.61. This is slightly close to the MFBs. Means difference show that the customer satisfaction is perhaps best in the PMIs with the lowest -0.792. Financial record quality and capital adequacy is next with -1.065. The worst result is shown by liquidity and product offerings with means of -2.52 and -2.383 respectively. Overall the PMIs results seem to respond to better interaction with regulators.

Table 6 Abridged Results of One Sample t test for the three OFIs

Objectives	Finance House				Microfinance Banks				Primary Mortgage Institutions			
	T	Df	Sig. (2-tailed)	Mean Difference	t	Df	Sig. (2-tailed)	Mean Difference	t	Df	Sig. (2-tailed)	Mean Difference
CAPADQ	-19.04	29	0	-2.398	-10	32	0	-2.429	-4.33	34	0	-1.065
LDTY	-11.12	29	0	-2.208	-10.2	32	0	-2.474	-14.8	34	0	-2.52
PRDTFRG	-14.47	29	0	-2.113	-17.1	32	0	-2.792	-13.3	34	0	-2.383
ADQTSPVN	-13.93	29	0	-2.446	-10.5	32	0	-2.292	-7.96	34	0	-1.701
BRDCPCE	-6.336	29	0	-1.113	-5.65	32	0	-1.565	-3.51	34	0.002	-1.02
RNMTN	-13.79	29	0	-2.255	-11.5	32	0	-2.474	-8.05	34	0	-1.974
DSFDCST	-6.299	29	0	-0.684	-5.2	32	0	-1.52	-2.91	34	0.008	-0.792
FNRQLT	-12.49	29	0	-2.017	-9.79	32	0	-2.338	-4.05	34	0.001	-1.065
DSCOBJ	-23.18	29	0	-2.589	-11.4	32	0	-2.565	-9.53	34	0	-1.974

Source: Summary Results of Primary Data Collected by the authors (2013): Test Value for Banks = 4.065

5.0 Recommendations and Conclusions

One observation of the whole study is that little attention is paid to the OFIs with much attention being paid the banks. The OFIs therefore need adequate attention from the regulators. It behoves on the authorities to ensure that the level of soundness that exist in the banking system be transmitted to the OFIs for the smooth running of the financial markets. With this observation it may not be possible for the Other Financial Institutions Department (OFID) of the Central Bank of Nigeria as presently constituted to perform the regulatory functions. The department should either be reconstituted or be taken up by another separate regulator for better and more effective performance of the sector.

It is clear that liquidity is a key issue in the OFIs from the results and the perception of the operators. The problem can be overcome by increase in equity capital requirements of the institutions in each sub-sector. With an increased equity capital the institutions can be more confident in the market and can have cushion for risks that are undertaken. This will also bring confidence to the system for customers and clients to patronise them with no fear of losing their deposits or placements. The downside effect of this would be the reduction of numbers of operators. When raising capital becomes difficult it may be more sensible for the banks to acquire these firms, especially the FHs where any value can be obtained. With the new structure being implemented in the banking industry, OFIs, especially the FHs face bleak future if nothing is done.

Products offerings and disclosure are the other key areas that the OFIs need to improve on. Each firm must improve on products offerings and must be innovative to bring back the clients and customers that

patronised them before the banking boom episode of 2004 - 2006. Sustainability of products offering can be ensured by adequate and close-marking regulation. The products must be market friendly for it to succeed. If, in Nigeria, banks have taken over the financial system through the acquisition of other financial institutions and the regulators of the other financial institutions seem powerless to change fortunes of the firms, then it is *death* to the FHs.

The paper has investigated the effects of the growth in the banking industry in Nigeria on the OFIs. It is clear that that increase in capital during a universal banking regime can have the effect of allowing banks to invest into other financial institutions. The effects have been both negative and positive on the Finance Houses, Primary Mortgage institutions and Microfinance subsectors. The impact on the Finance Houses has been negative as the Banks began to offer and sell products where the finance houses have been predominant before. There is also evidence that regulators and supervisors have not done much in the OFIs as the perception by operators show. The particular areas identified are capital adequacy, liquidity and products offerings. All these need to be improved. These would improve the OFIs subsector and the financial system in general.

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APPENDICES
Table 1Numbers of other financial Institutions and Total and Average Assets

| Years	Primary Mortgage Institutions			Microfinance Banks			Finance Houses		
	Total Asset ₦m	No	Ave Asset ₦m	Total Asset ₦m	No	Ave Asset ₦m	Total Asset ₦m	No	Ave Asset ₦m
1992	2243.2	145	15.47034	967	334	2.895209581	2446	618	3.957928803
1993	3610.7	252	14.32817	3198.6	611	5.23502455	13386	310	43.18064516
1994	3070.3	279	11.00466	4693	902	5.202882483	11660	290	40.20689655
1995	2951.8	279	10.57993	4106	745	5.511409396	11266	279	40.37992832
1996	4388.6	278	15.78633	4432	693	6.395382395	8940	279	32.04301075
1997	6078.9	115	52.86	4706	674	6.982195846	12059	270	44.66296296
1998	6593.2	115	57.33217	6477.2	552	11.73405797	8213	279	29.43727599
1999	7856.3	115	68.31565	8903.6	550	16.18836364	8941.7	279	32.04910394
2000	7124.7	71	100.3479	12014.7	881	13.63757094	7871.3	280	28.11178571
2001	7982.7	80	99.78375	4884.4	747	6.538688086	12903.5	98	131.6683673
2002	55000	81	679.0123	15463	769	20.10793238	11685	102	114.5588235
2003	64400	81	795.0617	28689	774	37.06589147	29607	104	284.6826923
2004	81200	83	978.3133	34162	753	45.36786189	34508	107	322.5046729
2005	99900	90	1110	82886	757	109.4927345	37460.6	112	334.4696429
2006	114454	91	1257.736	55145.8	750	73.52773333	54339	112	485.1696429
2007	302278	93	3250.301	75549.8	709	106.5582511	65804.65	112	587.5415179
2008	329591.5	82	4019.409	122338.9	733	166.9016371	134180	114	1177.017544
2009	329613	98	3363.398	151610	828	183.1038647	118136	114	1036.280702
2010	358809	102	3517.735	170330	801	212.6466916	113781.6	114	998.0842105
2011	342136.1	102	3354.275	190721.2	821	232.3035323	114920.7	114	1008.076316

Source: Derived Variables from CBN's Statistical Bulletin 2012

Figure 1 Relationship between the Growth in Finance Houses, Microfinance Banks and PMIs
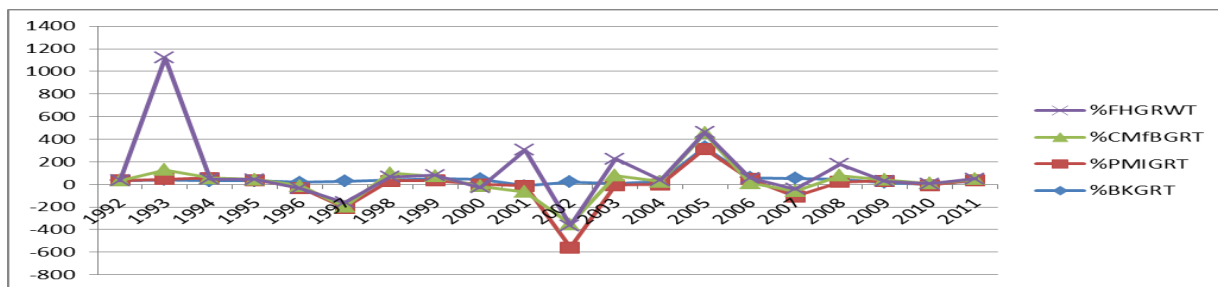
Source : Authors' calculations as adpated from CBN Statistical Bulletin (2012)

Figure 2   No of Financial Institutions in the System 1991- 2011
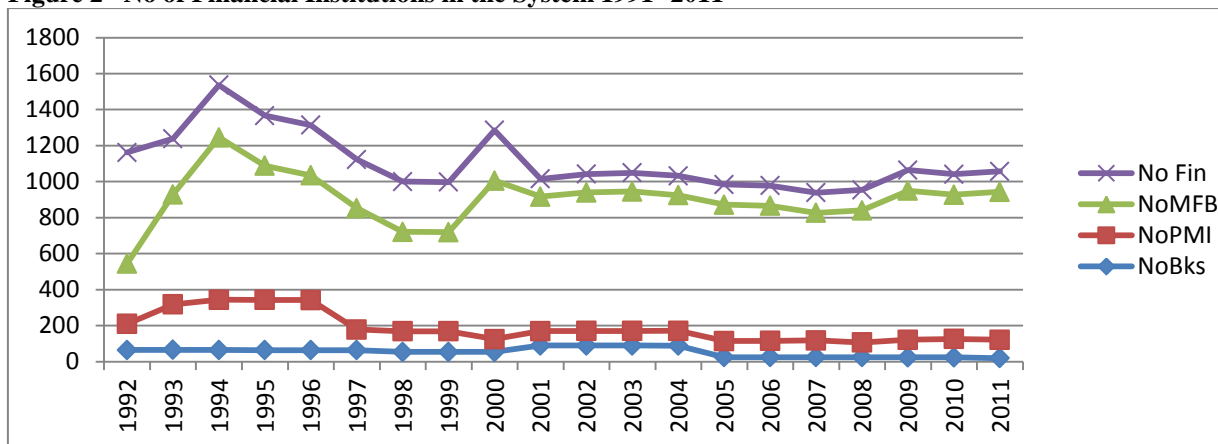
Source: Abstracted from CBN Statistical Bulletin