Banking Sector Reforms: Post Consolidation Analysis

Didymus Tamen

Abstract

The paper evaluates the banking sector reforms through recapitalization. It examines the rationale and the supposed benefits of the consolidation exercise aimed at improving the productive base of the Nigerian economy. The paper argues that the consolidation has no doubt made people to have more confidence in the Nigerian banking system as depositors can now go to sleep but assured of their money in safe hands as the days of banking distress are gone for good. It further argues that the whole idea of the banking consolidation was not market induced but an advice from the World Bank and the International Monetary Fund. Be that as it may argues the paper, it may become a short-run marriage in the future. The article concludes that consolidation policy is concentrating the wealth of Nigeria to fewer and foreign hands and as such we are moving gradually to the pre-independence era when our banks were largely owned and controlled from abroad.

Introduction

Didymus Tamen, Department of Political Science, Bingham University, Karu.

Banks promote economic growth primarily by mediating between the economic units that have surplus funds and those that require such funds to support their investment plans. In this process according to Ebong (2006), banks facilitate capital formation and lubricate the production process. This intermediation function is important because, in the absence of banks, the savings would have been fragmented and in small pockets here and there. But by pulling together such savings, banks are able to achieve economies of scale with beneficial effects for their growing customers. Therefore, for banks to function effectively as financial intermediaries, it is imperative that they themselves are viable and healthy and that the whole industry is stable and sound. It is in this line that the banking industry world wide is usually heavily regulated and supervised. It is in the same vein that Nigeria in 2003 started the reform in the banking sector.

The reforms at the banking sector are an integral part of the generation's agenda of the government's economic program under the National Economic Empowerment and Development Strategy (NEEDS), in which The Central Bank of Nigeria (CBN) has been playing an active role in its implementation. By and large, the policy thrust of NEEDS include: to deepen the financial system in terms of asset volume and instrument diversity; drastically reduce and ultimately eliminate the finances of government deficits by the banking system in order to free up resources for lending to the private sector and review capitalization of financial institutions in the system and develop a structure of incentives to enable the financial system to play a developmental role by financing the real sector of the economy. (See page 75 of NEEDS). The NEEDS document is the cradle point for the banking reforms. The objectives of the reforms of the financial sector as announced by Chukwuemeka Soludo, the Governor of the Central Bank of Nigeria on 6th July, 2004 were to: prevent imminent systematic crisis; stop the boom and burst cycles of the industry, create a sound banking system that depositors can trust and banks that investors can rely upon; drive down the cost of banks; and ena Nigeria to become Africa's financial centre. (CBN bulleting, July 2004).

Rationale for Banking Sector Reform in Nigeria

The banking sector reforms were designed to strengthen local banks and enhance their competitiveness in the international financial markets. The medium-term objective is to professionalize the bureaucracy by tackling corruption which gives the country a bad name and poor citations in major corruption indices compiled by Financial Action Task Force (FATF) and the Transparency International. It is also hoped that the reforms will greatly increase the financial muscle of Nigerian institutions to become better able to support the private sector, especially the productive ends such as agriculture and manufacturing.

According to the governor of the CBN, Charles Soludo (2006), the industry was generally characterized by small size marginal players with very high overhead costs. Indeed, the capital base of the largest bank before the reforms was about US$240 compared to Malaysia when the smallest bank had a capital base of US$526m. Therefore, the small size of most Nigerian banks coupled with their high overheads and operating expenses had serious repercussions for the cost of intermediation. It also constrained them in terms of effective participation in big-ticket transactions, particularly in the light of the simple obligor limit.

Another reason for the consolidation of banking industry in Nigeria was the heavy reliance of banks on government patronage. According to Charles Soludo (2006), public sector accounted for over 20% of aggregate deposits in the industry. For some banks, the dependency ratio was as high as 50 percent. This was seem as an unhealthy development from the perspective of long term planning given the volatile nature of these deposits. With the huge deposits from the public sector, these banks were not under pressure to aggressively exploit the retail end of the market to source for more stable funds that would have been channeled to support the real sector. It was therefore, not surprising that the growth witnessed in the banking industry was not matched by a corresponding increase in economic activities in the real sector.

Again, the challenge for ethics and professionalism constituted another reason for the consolidation of the banking sector. The unhealthy competition that existed in the market, which was engendered by the relative ease of entry into the market as a result of low capital requirement necessitated some banks going into rent-seeking, unwholesome, unethical and non-core banking business. Some of the banks were preoccupied with trading in foreign exchange and sometimes, indirect importation of goods and wares through surrogate companies. These problems mpacted negatively on the health and performance of the industry.

Before the consolidation, the Nigerian banking system was fragile and as ,uch, could not effectively meet the growth and development aspirations of the economy. The industry was in such a state that the nation could not rely on it to facilitate rapid economic growth and development. It was obvious that a reform of the sector was inevitable.

Banking Sector Reform Agenda

The 13 point reform agenda below summarizes the key elements of the banking sector reform as announced by the Federal Government:

- Raise banks shareholders funds to N25 billion with full compliance before end of December, 2005;
- Banks consolidation through mergers and acquisitions;
- Adopt a risk-focused and rule-based regulatory framework;
- Eliminate weak corporate governance, misconduct and lack of transparency;
- Strengthen community banking and develop a new microfinance policy;
- Accelerate the completion of the electronic Financial Analysis and Surveillance System (e-FASS);

- Enforce the contingency planning framework for systematic banking distress;
- Establish an Asset Management Company;
- Promote the enforcement of dormant laws, e.g the Dud Cheques Act;
- Revise and update relevant laws, and draft new ones;
- Collaborate with the EFCC in the establishment of the Financial Intelligence Unit (FIU) and the enforcement of the anti-money laundering and other economic crimes measure;
- Strengthen the implementation of the monetary policy;
- Rehabilitate and effectively manage the National Security Printing and Minting Plc-(NSPM)-the mint; (The African Economy, May-July, 2005, P.32)

With this the journey for the recapitalization of the nations banking sector was started. According to Soludo as reported by Business World Intelligence (2007: 19).

The Nigerian banking system today is fragile and marginal. Our vision is a banking system that is part of the global change and which is strong, competitive and reliable. …Evolving such a banking system is a collective responsibility of all agents in the Nigerian Economy.

He mentioned persistent illiquidity, weak corporate governance, poor assets quality, insider abuses, weak capital base, unprofitable operations, and over dependence on public sector funds among other issues that necessitated the banking sector reforms. He stated further:

In recent times, many banks appear to have abandoned their essential intermediation role of mobilizing savings and inculcating banking habit at the household and micro enterprise levels. The apathy of banks towards small savers, particularly at the grass root level, has not only compounded the problems of low domestic savings and high banks lending rates in the century, it has also reduced access to relatively cheap and stable funds that could provide a reliable source of credit to the productive sector at affordable rates of interests. (Business World Intelligence, March, 26, 2007) p.19

Therefore, by the end of the date-line of December, 2005, the 89 institutions of various sizes and operational styles coalesced into 25 banking institutions, with only five remaining some what unchanged from their pre-consolidation stage while a curious mix of mergers and acquisitions has altered the other 20 "new" banks giving them new "personalities". Thus, the transformed institutions have pulled into the banking sector about #350 billion in new investment and over $625 million in Foreign Direct Investment (FDI). Again virtually all of them are now listed on the Nigerian Stock Exchange (NSE). (The African Economy, May, 2006, p.18)

Table I: New Players on the Nigerian Financial Turf

S/NO	Bank Name	Constituent Institutions
1.	Access Bank PLC	Marina bank, capital Bank International, Access Bank
2.	AfriBank PLC	Afrikbank Plc, Afrimerchant Bank
3.	Diamond Bank Plc	Diamond Bank, Lion Bank, African International Bank
4.	Eco Bank	EcoBank, all States Trust Bank
5.	ETB	Equatorial Trust Bank (ETB), Devcom Bank
6.	FCMB PLC	FCMB, Co-operative Dev. Bank, Nig-American Bank, Midasbank.
7.	Fidelity Bank PLC	Fidelity Bank, FSB, Manny Bank
8.	First Bank Plc	FBN Plc, FBN, Merchent Bank MBC
9.	First Inland Bank Plc	IMB, Inland Bank, First Atlantic Bank, NUB
10.	Guaranty Trust Plc	GT Bank
11.	IBTC Chartered:	Chartered Bank, Regent Bank
12.	Intercontinental Bank Plc:	Global, Equity, Gateway, Intercontinental
13.	NIB:	Nigerian International Bank
14.	Oceanic Bank Plc:	Oceanic Bank, Int'l Trust Bank
15.	Platinum-Habib Bank Plc:	Platinum Bank, Habib Bank
16.	Skye Bank Plc:	Prudent Bank, Bond Bank, Coop. Bank, Reliance Bank, EIB
17.	Stanbic Bank Plc:	Stanbic Bank
18.	Spring Bank Plc:	Guardian Express Bank, Citizen Bank, Fountain Trust Bank, Omega Bank, Trans Int'l Bank, ACB
19.	Standard Chartered Bank Ltd:	Standard Chartred Bank Ltd
20.	Sterling Bank Plc:	Magnum Trust Bank, NBM Bank, NAL Bank, INMB, Trust Bank of Africa.
21.	UBA Plc:	STB, UBA, CTB
22.	Union Bank Plc:	Union Bank, Union Merchant Bank, Universal Trust Bank, Broad Bank
23.	Unity Bank Plc:	New Africa Bank, Tropical Commercial Bank, Centre-Point Bank, Bank of the North, NNB, First Interstate Bank, Intercity Bank, Societe Bancaire, Pacific Bank.
24.	Wema Bank Plc:	Wema Bank, National Bank
25.	Zenith Int'l Bank Plc:	Zenith Int'l Bank Plc.

Source: The African Economy, May, 2006 P.20

Implications of Banking Sector Reforms

The new banks are winning the respect and confidence of foreign lenders and investors who hold a favourable perception of Nigeria's investment destination. The four foreign banks in the country rather than pull out were among the earliest to comply with the new regulations. Now that Nigerian banks are encouraged to think global there is an upsurge in the application for new branches and licenses in the West African sub-region. For example, GT Bank and Zenith Bank have established off-shore banking in the ECOWAS member states. (The African Economy, May 2006) p.20. GT Bank is also listed at the London Stock Exchange (Business Times, December 18 – 24, 2006 front page). Similarly, a Nigerian bank UBA operating in Ghana single handily advanced a loan facility of 85million dollar to Kuffour's government after all the local banks failed to raise the money (Business Times, 2006). Thus, the reform is making Nigeria the new financial hub in Africa.

The reforms has built in confidence to depositors who can now put their money in the bank and go for sleep soundly since the days of bank distress and failure are over for good. Significantly, the CBN's systematic and purposeful monitoring of the entire process has boosted this confidence level. According to Tony Elumelu, the UBA chief, "the consolidation-driven merger has paid off by creating value in three different ways: Cost reduction in operations, merger synergies or economies of scale and growth in the overall business". The story is best told by the gross revenues which more than doubled from #19 billion to #44Billion when the nine months results ending in December 2004 and the same period in 2005 are placed side by side, concludes Elumelu. (The African Economy, May 2006) p.21 A recent poll of the new banks reveals similar results. For example, Zenith Bank moves from a profit of #6.4 billion in 2004 to #9.16 billion in 2005 to a walloping profit of #15.15 billion in 2006 and now #26billion in 2007. (Tell, 2007).

Thus, the actual benefits of the consolidation excise can be summarized as follows:

- Huge confidence in the banking sector
- Improved branding of the banks
- Rapid multiplication of the Branches
- Creation of stronger banks-from big three to big seven
- Improved inflow of long-term multilateral funds
- Deepening banking services and capital market
- Rapid introduction of mobile banking and improved IT backbone
- Driving restructure of the insurance sector and making of financial supermarket

- Increasing use of e-payment systems and improved use of plastic money.

With these many people are now convinced that the banking reforms are probably the best thing that has ever happened to the industry. Thanks also to the consolidation exercise for Nigerian banks are now financing multi-billion-naira mega projects in the manufacturing and telecommunication sectors. One of such projects is the $150 million (#19 billion) provided by a consortium of 13 local banks to partly finance the Obajama Cement Company in Kogi State, a company owned by the Dangote Group. (Tell, May, 2007: p10) p.10. Currently, not only that Nigeria banks have far exceeded the N25 billion capitalization bench mark, every of their steps in business has the international trade mark. For example, banks offerings now have Global Depository Receipts (GDRs) components which exposes investors to the international stock markets. Therefore, according to Ugwu Adeogun (2007), most Nigerian Banks going to the capital market to raise fresh funds to enhance their capital base are incorporating the Global Depository Receipts (GDRs) as a component part of their capital raising schemes. Thus, in the spirit of expanding their world view and business focus, Nigerian banks are no longer satisfied with just raising only naira denominated capital but also dollar capital by offering their shares to international investors through GDRs.

Meanwhile, recently Nigerian banks came under global acclaim in bountiful proportions in far away Washington DC United States where shareholders in the financial sector shower encomiums on the central bank of Nigeria and its governor, Prof. Charles Soludo. Soludo has for the second time emerged the African Central banker of the year 2007.

Again, at a poll conducted by an International Financial Organization, IC. Publications, Global Finance (GF) of Washington DC, First Bank of Nigeria Plc. Clinched three awards-best bank in Nigeria; Best Trade Finance Bank; and Best Foreign Exchange Bank for 2007. Announcing the award from its New York headquarters, Joseph Giarraputo GF President noted:

> We have identified the bank that provide services to corporations seeking to take advantage of substantial opportunitiesfor growth in a sometimes challenging environment and First Bank is one of them (Ugwu and Adeogun 2007:25)

At another event packaged by a London based organization, I.C publications, publishers of the African Banker magazine, six other Nigerian Banks-Oceanic International Bank Plc, UBA Plc, Zenith Bank, Access Bank Plc, Bank of Industry, and IBTC Chartered Bank Plc. received awards. For example, UBA got the prize for the best emerging Global Bank in Africa, the most innovative bank of the year went to Access Bank Plc, while Zenith Bank got the Socially Responsible Bank of the year. (Ugwu and Adeogun 2007: 26).

However, inspite of all these gains, recent revelations emanating from the industry and from analysts and economists are pointing to the fact that the purpose for which the consolidation exercise was carried out is far from being achieved. Bode Augusto reports on the state of the nation's banking industry has been a revelation. The Business World (March 26, 2007) had also come out with a similar findings in its Banks Intelligence Reports.

One of the main issues for the consolidation was the dominance of activities in the sector by a few players with the majority merely adding to the number as fringe players or even by-standers. This is still happening in the recapitalized banks. According to the reports by Augusto and company, a rating agency (Business world, March 26, 2007 at page 19),"The top seven banks control 70 percent of the industry assets, deposits and earnings". The enhanced capital base according to the report, has not translated to better access to credit by a wide spectrum of the economy. The report concludes that this was because of the concentration of credit in the hands of few clients. See table 2 below.

Table 2

Top Capitalized Banks

S/NO	Banks	N Billion
1.	Oceanic	213
2.	First Bank	189
3.	Intercontinental Bank	150.25
4.	UBA	111.65
5.	Union Bank	110
6.	Zenith Bank	95
7.	GT Bank	62

Source: The Nation Money, Wednesday October 10, 2007. p.19

Again, merchandising still dominates banks' business even with consolidation. The aim of the banking sector reforms was expected that banks would fund better productive sectors of the economy because, they now have huge capital base. But, Banks still concentrate on trading and general commerce, which includes trade, importation and other intermediation related activities. Loans to this sector are short term and align well with the funding mix of the Nigerian Banks. The report gave manufacturing and others 15 percent of cumulative credit within the year while agricultural sector got 1 percent of banking funding. These figures show that about 50 percent of what was devoted to trading, general and merchandising was given to "other/general". This shows that nothing has changed as banks penchant for avoiding lending to this sector remains.

Accompanying the low funding of the productive sector is the high rates of charges on credits advanced by banks. The National Association of Chambers of Commerce, Industry Mines and Agriculture (NACCIMA) has been so vocal in telling the nation that the effect of the improved capital base has not been achieved. It noted; "Even after the banking sector consolidation, manufacturers have continued to groan under the high lending rates in banks". The body further states in its review of the economy in 2006, as it was in 2005 government projected in the 2006 Budget to attain a maximum lending rate of 17 percent, it was also expected that with the consolidation exercise in the banking sector completed, interest rate would eventually come down. However available information from the private sector operators reveals that lending rates remained high and discouraging to intended borrowers and investors. Interest rate still hovers around 21 percent to 27 percent when all incidental charges and commissions are added. (Tokede: 2007)

There is a wrong assumption by the CBN that the mere large size of the banks will ensure their soundness. This is no less fallacious than that the mere large size of Nigeria's population guarantees the soundness of our economy and the dexterity of our governance. According to Aluko (2007), very large banks in the world have collapsed while small banks have remained sound and alive. Just as there are small, medium and large industries so there should be small, medium and large banks. Moreover, forced merger and acquisition had been creating ripples and other issues such as, weak corporate governance, boardroom squabbles, in adequate due diligence, concealing of bank risk, bad and doubtful debts, incompatible management, inequitable allocation of shares among emerging partners, conflicts in core competence areas and capacity development. For example, the CBN had sacked the board of Spring Bank Plc in June 2007 due to a board crisis. An interim board was appointed to run the Bank. Spring Bank Plc is a merger of former Omega Bank Citizens International Bank, ACB International Bank, Fountain Trust Bank and Tran International Bank. (The Punch, Thursday October 25, 2007 p.6).

Again, it should be noted that bank consolidation was engineered by the IMF/world Bank advisers since 2000. The implication is that since mergers and acquisitions are not market induced it may become a short run marriage in the future.

Also, as a result of this IMF/World Bank advise, bank ownership in Nigeria has become more foreign controlled than ever before. And this is the current case in South Africa where the four largest banks there are owned and controlled from Europe, and it is the sizes of these four large south African banks that the CBN always cite as the reason for the bank consolidation in Nigeria. Sadly enough according to Aluko (2007: 32), "it is these large consolidated banks in partnership with foreign sponsors, that are expected to manage the #45b dollar reserves of Nigeria". In effect we are moving gradually to the pre-independence era when our banks were largely owned and controlled from abroad. To my opinion, the bank consolidation is in the same mode of the privatization policy which has been concentrating the wealth of Nigeria in fewer and fewer hands.

The banking consolidation, according to the Institute of Bankers, caused the loss of jobs immediately before and after the exercise as many senior members of staff of the banks are being regularly retired or forced to retire since the consolidation. To date, according to the Institute, over 20, 000 banking officials have been rendered jobless since the announcement of the consolidation in July, 2004 (Aluko 2007).

One of the worst effects of banks consolidation is the killing of very many small banks that cater for special needs of limited areas of the country or for small and medium scale enterprises without which no modern economy can develop rapidly. This can be seen in the abolishing of community banks and replacing them with micro-finance institutions with minimum capitalization of #20million. This has drastically reduced the 960 community banks to 400, thus further denying the Nigerian rural communities of the benefits of rural banking services. Today, only about 35 percent of Nigerians are served by the large consolidated banks. It has thus become increasingly difficult for small business to access investment fund from these large banks inspite of the avowed policy of the CBN to compel th banks to provide such funds.

Furthermore, the issue of integration processes are facing a great hitch as customers from the various merging banks could not cash or deposit money in other banks within the same group and such customers are being directed back to their original banks due to lack of proper integration of processes. For instance, UBA and Standard Trust Bank completed their mergers and it is still difficult for account holders of any of the two banks to operate his or her account without going to the original banks where their accounts are opened (Obike, 2006). So, if a UBA account holder cannot transact any business in STB and vice-versa, how would the customer say he or she has benefited from a merger that was supposed to add value not only to the long term, but on the short term to customers. A similar case has happened to depositors of all-States Trust Bank that was acquired by Eco Bank. After the re-capitalization, depositors were asked to report to the (Eco Bank) for the revalidation of their deposits and status with the bank. As requested of them, they reported and complied with all conditionalities of the bank. They were again invited the second time to open accounts with their various branches. Contrary to standard banking practices however, they were neither given their new accounts numbers nor issued with cheque books. While the bank had since completed the verification of depositor's document it is yet to allow depositors' access to their hard earned money. To date, many have not received their new account numbers while those who did were denied cheque books with which to access their deposits (Samed, 2006). For instance, Nigeria Deposit and Insurance Corporation (NDIC) have just announced the payment of insured deposit and liquidation dividend to public sector depositors of All States Trust Bank Plc. The payment is to commence on Monday, 15th Nov., 2007. (Daily Trust, Friday, Oct. 26, 2007) p.28 Therefore, the issue of integration would definitely make or mar some mergers especially in any bank group that had more than two or three merging partners.

Conclusion

One can conclude that it is too early to expect much impact on the economy from the newly recapitalized banks, but let us consider this situation. During the pre-recapitalization era, only ten of the 89 banks operating in the country were responsible for 80 percent of the nation's banking business. Even now, only the top seven banks in the country control 70 percent of the industry assets, deposits and earnings. Going by the findings, one can simply conclude that nothing has changed and except something drastic happens the situation continues. There has never been the urge in Nigerian banks to fund the productive sector of the economy. The improved capital base has not been able to change this situation and the pendulum may not swing in favour of Nigerian banks. Perhaps, what will bring this about may not necessarily be through coercion but through incentive from the regulator of the industry. And unless something drastic happens, Nigerian banks may not likely change in a hurry, no matter how huge their capital base become.

References

"A New Banking System Emerges in Nigeria". *The African Economy*, Special Edition, May 2006)p.18.

Aluko S. (2007), "Economic Reforms Unattainable after Obasanjo", *Business Trust* and *Daily Trust* Newspapers, Wednesday, March, 21 p31.

Aluko S. (2007), "Economic blueprint should align with people's aspirations", *Daily Trust* Newspaper, Thursday, March, 22 p.32.

Atojoko, S. (2007), The Obasanjo Legally, 1999-2007", *Tell News*-magazine, Special Edition, may) p.10.

"Central Bank of Nigeria: The Challenge of Reforms", *The African Economy*, May – July, 2005 pp31-34.

Daily Trust, Friday, October 26, 2007, p.28.

Ebong, B.B. (2006), "Banking Sector Reforms: Opportunities and Challenges" Paper presented at the Lagos Chamber of Commerce and Industry, Quarterly Business Luncheon on 4th October.

Ekanem, W. (2007), "Banking under Yar'Adua", *Business World*, June, 4th p.13.

Obike; U. (2006), "Many more Rivers to Cross", *This Day*, Sunday Business, January 8. pp.25-27.

Omoremi; M. (2007), "Special Report on Nigeria's 25 Banks", *Thisday* News-Paper, Wednesday, April 18 p.37.

Samed; A. (2006), "Unfair deal at EcoBank" *Leadership* News paper, Sunday, September 10 p.12.

Soludo, c, (2006) *Thisday* News-paper, Wednesday, Oct.11.

Tokede; W (2007), "Bank recapitalization: All Noise, Little impact", *Business World*, March 26)) p.19

"The Obasanjo Reforms: Banking Sector" A Publication of the Federal Ministry of Information and National Orientation.

The Nation Money, Wednesday, October 10, 2007. p19

The Punch, Thursday, October 25, 2007. p6

Ugwu; E and Adeogun, B (2007), "Post Consolidation: Acclaim for Nigerian Banks as they play globally "Money Watch", *The Guardian*, Wednesday, October 24, 2007 pp 25 & 26.