The Relationship between Regulatory Inconsistencies and Nigerian Banking Industry

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Abstract

Traditionally, the role of banks in any economy consists of financial intermediation, provision of an efficient payment system and serving as a conduct for the implementation of monetary policies. It is has been postulated that if these functions are efficient, the economy would be able to mobilize meaningful level off savings and channel such frauds to deficit unit, which will increase the gross domestic product (GDP) and create employment in long-run. This objective of this study is to investigate the implications of regulatory inconsistencies on the Nigerian banking industry. Regulation generally points to some kind of intervention in any business which ranges from explicit legal control to informal peer group control by government or some other such authoritative bodies. The methodology used in carrying out this work is descriptive desk research. The findings shows that regulatory in consistencies of Central Bank of Nigeria (CBN), Nigeria Deposit Insurance NDIC, Financial regulatory coordinating committee (FRSCC) have not guaranteed effective efficient banking practices in Nigeria. Also each administrative regime propound new banking regulation that is abounded by the next regime thereby contributing to bank distress failure. We recommend that regulatory agencies should be more proactive and be consistent regulatory policies; critical analysis should be carried out before implementation and the use of professionals and academia is necessary for the achievement of regulatory supervisory policies in Nigerian banking system.

Index terms— regulatory inconsistencies, central bank of nigeria (CBN), nigeria deposit insurance corporation (NDIC), banking industry.

The Relationship between Regulatory Inconsistencies and Nigerian Banking Industry Chude, Nkiru Patricia ? & Chude Daniel Izuchukwu ? Abstract-Traditionally, the role of banks in any economy consists of financial intermediation, provision of an efficient payment system and serving as a conduct for the implementation of monetary policies. It is has been postulated that if these functions are efficient, the economy would be able to mobilize meaningful level off savings and channel such frauds to deficit unit, which will increase the gross domestic product (GDP) and create employment in long-run. This objective of this study is to investigate the implications of regulatory inconsistencies on the Nigerian banking industry. Regulation generally points to some kind of intervention in any business which ranges from explicit legal control to informal peer group control by government or some other such authoritative bodies. The methodology used in carrying out this work is descriptive desk research. The findings shows that regulatory in consistencies of Central Bank of Nigeria (CBN), Nigeria Deposit Insurance NDIC, Financial regulatory coordinating committee (FRSCC) have not guaranteed effective & efficient banking practices in Nigeria. Also each administrative regime propound new banking regulation that is abounded by the next regime thereby contributing to bank distress & failure. We recommend that regulatory agencies should be more proactive and be consistent regulatory policies; critical analysis should be carried out before implementation and the use of professionals and academia is necessary for the achievement of regulatory & supervisory policies in Nigerian banking system.

1 Keywords: regulatory inconsistencies, central bank of nigeria (CBN), nigeria deposit insurance corporation (NDIC), banking industry.

I.

2 Section One a) Introduction

n recent years, there has been great concern on the management of banks' assets and liabilities because of large scale financial distress. The experience of many countries indicates that regulation and supervision are essential for stable and healthy financial system and that the need becomes greater as the number and variety of financial institutions increase. The banking sector has been singled out for the special protection because of the vital role banks play in preventing bank failures and ensuring that they carry out their activities in accordance with wider economic and social objectives of the country. Bank supervision entails not only the enforcement of rules and regulations, but also judgments concerning the soundness of bank assets, its capital adequacy and management ??Volcker, 1992). Regulation is effective supervision leads to healthy banking industry. To maintain confidence in the banking system, the monetary authorities have to ensure banks play by the rule. The deposit insurance scheme and prudential guidelines were adopted to improve the assets quality of banks, reduce bad and doubtful debt, ensure capital adequacy and stability of the system, and protect depositors funds ??Oladipo, 1993 ?? Oguleye, 2005).

Uche (2001:67) opined that "regulation generally suggest some form of intervention in any activity and ranges from explicitly legal control to informal peer group control by government or some such authoritative body. Sometimes it stems from market failure which usually occurs when market transactions give rise to spillover effects (or externalities) on third parties, or when there is information inefficiency in the market".

The banking system in any economy plays the important role of promoting economic growth and development through the process of financial intermediation. Development economists argue that the existence and evolution of financial institutions and markets constitute an important element in the process of economic growth.

In Nigeria, the rising cases of bank distress have also become a major source of concern to policy makers. It is not surprising to find banks to have nonperforming loans and advances that exceed 50 per cent of the bank's total loan portfolio. For instance, the Nigeria Deposit Insurance Corporation (NDIC) in its 1996 annual report put the number of distressed banks at 50 with N65.13 billion assets trapped. These banks had offered N50.55 billion loans, N40 billion or 79 per cent of which were classified as nonperforming credits. The recent liquidation of 26 banks put N16 billion or 32 per cent at risk since only N5 billion is insured by NDIC. More so that the N20 billion or 40 per cent worth of loans disbursed by these banks were hardly recoverable. Between 1994 and 2002, a total of 33 banks were closed ??NDIC, 2004).

Regulation of banks has been defined by Llwellyn (1999) as a body of specific rules or agreed behaviour either imposed by government or other external, agency or self imposed by explicit or implicit agreement within the industry that limits the activities and business operations of banks. But what is peculiar about the Nigerian banking environment is that these control are main direct and administration and as we all know, such regulations result in less efficiency in the management and allocation of resources (Olisambu, 1991, Adedipe, 2010).

In view of the importance of the banking sector in economic development and the imperfection of the market mechanism to mobilize and allocate financial resources to socially desirable economic activities of any nation, governments all over the world financial sector is regulated more than any other sector in the economy. The reason for regulation is to prevent bank failure which may have contagion effect and to ensure that they carry out their activities in accordance with economic and social objectives of the country (Uche, 2001).

Banking regulation was first introduced in Nigeria in the early 1950s in response to the failure of local banks. The 1952 Banking Ordinance imposed minimum requirements for paid up capital and the establishment of reserve funds. This was followed by the enactment of the 1958 Central Bank Act and the Banking Ordinance of 1959. The banking legislation was further strengthened with the enactment of the Banking Decree of 1969. This consolidated previous banking legislation; raised minimum paid up capital requirements and empowered the CBN to specify a minimum capital/deposit ratio ??Nwankwo, 1980, Ekundayo, 1994 ?? Uzoagu, 1981 ?? Uchendu 1991and Nwankwo 2011). It also empowered the CBN to impose liquidity ratios and placed restrictions on loan exposure and insider lending ??Oloyede, 1994 and ??dekange 2004). The legislation contained in the 1969 22 Money at call from other banks accounted for 17.2 per cent and loans and advances from other banks (excluding the CBN) for 8.6 per cent of merchant banks' total liabilities at the end of 1991: these fell to 11.8 per cent and 4.8 per cent respectively at the end of 1992 (NDIC, 1992). The figures given in NDIC Reports for later years are not directly comparable but it is evident that Inter-bank funding from loans and call deposits fell to less than 6 per cent of merchant banks' liabilities in 1993 and 1994 ??NDIC 1994). As a share of merchant banks' total local currency deposits, Interbank funds fell from 44 per cent in 1990/91 to 11 per cent in 1994/95 (Agusto, 1995).

The vulnerability of the merchant banks to the liquidity squeeze was exacerbated by the impact of CBN regulations which stipulated that minimum shares of their loan portfolios had to be allocated to long term loans, leading to a mismatch in the maturity structure of their assets and liabilities (Umoh, 2002). Their ability to mobilise deposits was also impeded because regulations prevented them from accepting deposits below a specified minimum amount.

The CBN Decree of 1991 established the regulatory framework for the prudential control of banking for the next 22 years until it was superseded by the 1991 Banking and Other Financial Institutions Decree (BOFID). The prudential system was ineffective in preventing mismanagement and fraud from becoming widespread in the banking system for a number of reasons. First, although the CBN was responsible for supervising banks, it lacked independence from the Federal Ministry of Finance (FMF), especially with regard to the licensing of banks (the authority for the granting of banking licenses lay with the FMF until this was transferred to the CBN under the 1991 BOFID), and the enforcement of sanctions when infractions of legislation were discovered. Political considerations, and a lack of technical expertise in the FMOF, impeded proper bank regulation and supervision in particular because many of the public sector banks were expected to follow developmental objectives (Ologun 1994).

Second, the primary regulatory concern of the CBN was with ensuring compliance with the allocative controls, such as the sectoral lending guidelines, rather than the prudential controls. The allocative controls weakened loan portfolio quality by diverting loans towards non viable borrowers (Jimoh 1994).

In 1988 the NDIC was set up to insure the deposits (up to a maximum of N50,000per account which have been reviewed upward to N500,000 per account in 2010) of all deposit money banks, funded by a premium of 15/16 of 1% of total deposit liabilities of each as at 31 st of the previous year (NDIC, 2010). NDIC in conjunction with CBN supervise financial institution using on-shore and off-shore surveillance and acts as a liquidation of failed banks.

Thirdly, between the mid 1980s and 1991 the licensing procedures were too lax, allowing politically connected people to obtain licenses and operate banks despite having no obvious qualifications or relevant experience. The CBN suspended granting new licenses in 1991, but between 1986 and 1991, 84 new banks were established. This was asserted by Oliambu (1991) that between1989and 1990, 21 new banks centered the industry bringing the numberto102. The rapid growth in the number of banks overwhelmed the examining capacities of the CBN/NDIC. On-site inspections were infrequent and were confined mainly to checking compliance with allocative requirements.

This, combined with political constraints allowed banks to flout the banking laws. In 1989, twenty seven banks failed to meet the minimum capital requirements (Alawode 1992). It is also clear that the restrictions on unsecured insider lending were flouted. The de facto liberalising of licensing policy before prudential regulations and supervisory capacities were strengthened allowed under-capitalised and poorly managed banks to be set up in large numbers, and was therefore a significant contributory factor to the financial fragility which subsequently afflicted the banking industry.

However, following the CBN approval-in-principle of the adoption of universal banking (UB) in Nigeria 2001, and the subsequent ratification of the report of the committee on the preparation of guidelines for same, the Governor of CBN in the exercise of the power conferred on him by the Provisions of section 61 of Banks and other Financial Institutions Decree (BOFID) 1991 as amended, has approved the issuance of guidelines for the implementation of universal banking in Nigeria. With effect from January 1 2001, the CBN adopted universal banking in the country. Under the arrangement, banks were no longer categorized as commercial or merchant but were issued a uniform license, with each bank determining the market in which it intends to operate. Accordingly, bank operational scope was broadened with other measures adopted to ensure improved resilience to withstand financial and operational shocks.

The universal banking policy has removed discrimination in the implementation of policies in the industry as uniform policies are now adopted and implemented across the industry. Today, the repeal of universal banking has brought back International, regional and specialized banks under the pillars of the Banking sector reforms (Adedipe, 2010).

3 b) Objectives of bank regulation

The objectives of bank regulation, and the emphasis, vary between jurisdictions. The most common objectives are:

1. Prudential-to reduce the level of risk bank creditors are exposed to, 2. Systemic risk reduction-to reduce the risk of disruption resulting from adverse trading conditions for banks causing multiple or major bank failures 3. Avoid misuse of banks-to reduce the risk of banks being used for criminal purposes, e.g. laundering the proceeds of crime 4. To protect banking confidentiality 5. Credit allocation-to direct credit to favored sectors 6. Monetary and financial stability; 7. The need to ensure competition and innovativeness by the prevention of oligopoly/monopolistic behaviour; 8. Vulnerability of banking system to collapse; 9. Promotion and development of sound and wide range of financial services; 10. Ensuring efficiency, security and responsiveness of banks to meet the need of customers. 11. Ensuring compliance with laid down rules and regulations; 12. To achieve important developmental and social goals;

13. Protection of depositors and the economy from the vagaries of the financial system, and protection of banks' customers from the monopolistic/oligopolistic tendencies.

The rest of this study will be divided in section 11 Concept of regulation; section 111 Implications of regulatory inconsistence on the Nigerian banking system and section IV Conclusion and Recommendations.

4 II.

5 Section ii a) Concept of Regulation

The necessity for public intervention in the economy has traditionally been justified by the need to correct market imperfections and unfair distribution of resources. Hence, the main objectives of such intervenetion: pursuit of stability, equity of resource allocation and efficient use of resources. From this perspective, financial regulatory mechanisms and regulation of the banking industry in particular can be considered extremely important. Capital accumulation and allocation of financial resources are crucial to economic development of each country (Adam, 2009).

Regulation and supervision of the business activities, pertaining to the banking industry units will be essential for their effective functioning. Generally, the concept of banking regulation and supervision is defined as control over the creation, operation, and liquidation of banks.

The most general definition of the concept of banking regulation and supervision is control over the creation, operation, and liquidation of banks. Such control is very diverse, carried out by specialized banking supervisory authorities. Supervision over the bank's operational activities aims to protect the interests of depositors and to ensure effective functioning of the banking industry units. This supervision is the most important and essential part of the functions of banking supervisory authorities, which is carried out in the name of a sound banking system (Austin, 2006).

6 b) Theoretical studies

The arguments on whether or not government should intervene in economic and financial affairs has long been debated by classical economists, notably, Adam Smith, John Stuart Mills, Thomas Malthus and others. The classicals propose free market economy. Today, market failure has been accepted as justification for intervention by government in economic and financial activities. However, economists differ on the level of government interventions in the economy, particularly on regulations imposed on the financial intermediaries. While some believe that many regulations are necessary in order to protect the depositors' funds others believe that the banks are over regulated ??Short and O'Driscoll, 1983).

The economic theory of regulation postulates that regulation result from the desire of government to eliminate or correct market failures. The public interest theory views that regulations come from pressures brought to bear on the government by multifarious interest groups. Pressure groups in the economy such as business, consumers, workers, environmental groups among others lobby government to pass legislation to protect such group. The economic theory of regulation seems to have gain more acceptance among economists (Llewellyn, 1999).

Specifically, in the case of banks, regulation is necessary to maintain safe and sound banking system that can meet its obligations without difficulty hence a high solvency and liquidity level is expected of individual banks than they would ordinarily maintain. Oloyede (1994) acknowledges that, by its nature, the banking industry is highly prone to volatility and fragility, either arising from exogenous or endogenous shocks, and is therefore amenable to regulations and supervision. ??wankwo (2000) argues that the historical evolution of banking in any country provides the rationale for the regulation of banks in that country. The regulatory authorities supervise the banks to ensure that they are conducting their business either in accordance with regulation or more generally in prudent manner in the public interest. Ogunleye (2002) summarized the rationale for bank regulation as: efficiency, diversity of choice, competition, stability of financial system, macroeconomic stability and developmental and social objective. He went further to identify four approaches to bank supervision as: information disclosure, self regulation, bank examination and takeover, and finally, deposit insurance scheme. World ??ank (2002) notes that good regulation and supervision will minimize the negative impact of moral hazard and price shocks on the financial system thereby leading to a reduction in bank distress and failure. ??ishkin (2000) provides reasons why the regulatory process may not work as expected. First, the regulators and bank managers may not have sufficient resources or knowledge to do their job properly. Second, the regulators may not do their job properly because of the moral hazard problem or the principal agent problem. The principal agent problem stems from asymmetric information because the principal does not have sufficient information about what the agent is doing to make sure that the agent is operating in the principal's interest. ??ishkin (2000) concludes that forging a strong bank regulation system will be one way out of financial crisis. Llewellyn (1999) defines prudential regulation as a body of specific rules or agreed behaviour, either imposed by the government or external agency or self imposed by explicit or implied agreement within the industry that constrains the activities in the industry to achieve a defined goal and/or act prudently. In a nutshell, it is the codification of public policy towards banks (Ogunleye, 2002). The prudential guidelines draw theoretical backing from the anticipated income theory, which form the basis of what is referred to as the cash flow approach to bank lending (Llewellyn, 1999). It views that the borrowers' repayment ability should be in line with his/her income generating ability, and not on sales of asset of the borrower liquidation). Banks are expected to generate lending policies that do not emphasis reliance on securities or its realisation. Llewellyn (1999) classifies prudential regulation into three by as preventive, protective and supportive.

Preventive regulations are design to limit the risk incurred, while the protective regulations offer protection in the event of failure. The supportive regulation is in the form of lender of last resort.

Banking supervision, on the other hand, is the process of monitoring banks to ensure that they are carrying out their activities in accordance with laws, rules and in a safe and sound manner. It is a means of ensuring compliance with laid down rules and regulations and to determine their financial condition at any given time (Llewellyn, 1999).

According to the latter, bank regulation and supervision may take the following forms: provision of a safety net for depositors, restrictions on bank asset holdings, capital requirements, chartering and bank examinations, disclosure requirements and prompt corrective action.

Earlier, ??ama (1989) states that if the asset portfolio of bank is deemed too risky or its capital inadequate, the relevant supervisory agency will attempt to compel a change in the banks' balance sheet. Regulators however, give more attention to regulating banks' capital than the detail of assets portfolio because capital adequacy is seen as the most important single indicator of banking distress. According to him, the regulators often over rely on Capital Adequacy Asset Quality Management Earnings Liquidity (CAMEL) parameters as a measure of identifying bank distress. However, CAMEL only concerns itself with the internal environment of a bank, the external factor contributing to bank distress are often neglected when using CAMEL indicators.

According to Donli, (2002) deposit insurance system (DIS) is one of several supervisory tools employed by the authorities for effective control of risks associated with failure of deposit taking financial institutions. In this respect, DIS is an insurance system supported by insured banks and administered by a regulatory agency for the purpose of protecting the banking system and offering some financial guarantee to depositors. Banking supervision is an essential element of a DIS as it seeks to reduce the potential risk of failure and ensures that unsafe and unsound banking practices do not go completely unchecked. For a DIS to be effective in achieving its objectives, it must be properly designed, well implemented by the regulatory

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The presence of adverse selection and moral hazard problems makes the need for deposit insurance indispensable ??Mishkin, 2000). He argues that a crucial Impediment to the efficient functioning of the financial system is asymmetric information. This is a situation in which one party to a financial contract has less accurate information than the other party. Asymmetric information leads to those two main problems in the financial system.

There are two types of DIS practiced in the world today, i.e. implicit DIS and explicit DIS. The implicit DIS is a discretionary method use to prop up some failing financial institutions, while an explicit DIS is created by the passage of a deposit insurance statute.

The features of DIS differ from one country to another in terms of membership, coverage, administration, and funding, but there is a common goal, which is that of minimising the risks and reducing the costs of bank failure (Alashi, 2002).

7 General principles of bank regulation

Banking regulations can vary widely across nations and jurisdictions. This section of the article describes general principles of bank regulation throughout the world.

8 i. Minimum requirements

Requirements are imposed on banks in order to promote the objectives of the regulator. The most important minimum requirement in banking regulation is maintaining minimum capital ratios.

ii.

9 Supervisory review

Banks are required to be issued with a bank license by the regulator in order to carry on business as a bank, and the regulator supervises licenced banks for compliance with the requirements and responds to breaches of the requirements through obtaining undertakings, giving directions, imposing penalties or revoking the bank's licence.

iii.

10 Market discipline

The regulator requires banks to publicly disclose financial and other information, and depositors and other creditors are able to use this information to assess the level of risk and to make investment decisions. As a result of this, the bank is subject to market discipline and the regulator can also use market pricing information as an indicator of the bank's financial health.

11 c) Instruments and requirements of bank regulation i. Capital requirement

The capital requirement sets a framework on how banks must handle their capital in relation to their assets. Internationally, the Bank for International Settlements' Basel Committee on Banking Supervision influences each country's capital requirements. In 1988, the Committee decided to introduce a capital measurement system commonly referred to as the Basel Capital Accords. The latest capital adequacy framework is commonly known as Basel III. This updated framework is intended to be more risk sensitive than the original one, but is also a lot more complex.

ii.

12 Reserve requirement

The reserve requirement sets the minimum reserves each bank must hold to demand deposits and banknotes. This type of regulation has lost the role it once had, as the emphasis has moved toward capital adequacy, and in many countries there is no minimum reserve ratio. The purpose of minimum reserve ratios is liquidity rather than safety. An example of a country with a contemporary minimum reserve ratio is Hong Kong, where banks are required to maintain 25% of their liabilities that are due on demand or within 1 month as qualifying liquefiable assets.

Reserve requirements have also been used in the past to control the stock of banknotes and/or bank deposits. Required reserves have at times been gold coin, central bank banknotes or deposits, and foreign currency.

13 iii. Corporate governance

Corporate governance requirements are intended to encourage the bank to be well managed, and is an indirect way of achieving other objectives. Requirements may include: 1. To be a body corporate (i.e. not an individual, a partnership, trust or other unincorporated entity) 2. To be incorporated locally, and/or to be incorporated under as a particular type of body corporate, rather than being incorporated in a foreign jurisdiction. 3. To have a minimum number of directors 4. To have an organisational structure that includes various offices and officers, e.g. corporate secretary, treasurer/CFO, auditor, Asset Liability Management Committee, Privacy Officer etc. Also the officers for those offices may need to be approved persons, or from an approved class of persons. 5. To have a constitution or articles of association that is approved, 6. or contains or does not contain particular clauses, e.g. clauses that enable directors to act other than in the best interests of the company (e.g. in the interests of a parent company) may not be allowed.

14 d) Financial reporting and disclosure requirements

Banks may be required to:

1. Prepare annual financial statements according to a financial reporting standard, have them audited, and to register or publish them 2. Prepare more frequent financial disclosures, e.g.

15 Quarterly Disclosure Statements

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3. Have directors of the bank attest to the accuracy of such financial disclosures 4. Prepare and have registered prospectuses detailing the terms of securities it issues (e.g. deposits), and the relevant facts that will enable investors to better assess the level and type of financial risks in investing in those securities. i. Credit rating requirement Banks may be required to obtain and maintain a current credit rating from an approved credit rating agency, and to disclose it to investors and prospective investors. Also, banks may be required to maintain a minimum credit rating.

17 ii. Large exposures restrictions

Banks may be restricted from having imprudently large exposures to individual counterparties or groups of connected counterparties. This may be expressed as a proportion of the bank's assets or equity, and different limits may apply depending on the security held and/or the credit rating of the counterparty.

18 e) Types Of Regulation

Idam (2005) state that, there are two types of regulation in financial institution, they are as follows:

1. External regulation: This is a situation where government establish some bodies to regulate the activities of financial institution to avoid distress.

19 Section iii a) Implications of regulatory inconsistency on Nigerian banking system.

Let us start with the Repeal of Universal Banking Guidelines.

The Universal Banking Guidelines are hereby repealed from 15th November, 2010 to pave way for new banking model. Notwithstanding the repeal aforesaid, nothing in this Regulation shall affect the legality, validity and/or the enforceability of any right, remedy or liability, which may accrue to any person in respect of any act validly undertaken pursuant to a Universal Banking Licence between the commencement date of the Universal Banking Guidelines and the Effective Date. From the date hereof, all pending applications for any authorisation, approval and/or consent pursuant to the Universal Banking Guidelines, except those relating to core banking activities permitted under this Regulation, shall be deemed withdrawn **??**Akogun, 2010).

From the Effective Date (14 th May, 2012), the only types of banks that will be permitted to carry on banking business in Nigeria shall be limited to the following types as contemplated under BOFIA: (a) Commercial banks; (b) Merchant banks; and (c) Specialised banks, which include non-interest banks, microfinance banks, development banks and mortgage banks. The question is how long will this inconsistency last. Udendeh (2009) asserted that, "barley four years after banking consolidation when Nigerians should be reopen its benefit or otherwise, evaluating the policy points to document and adopt or review for subsequent replications in other sectors, ganging its sore point or leverage to government in terms of cost another era of reform has set in". Should one, therefore agree with Shakespeare that things without an end should be things without regard.

Accordingly, from the effective date, no bank in Nigeria shall be licensed to operate as a bank other than as one of the types specified in Section 4(1). The Money deposit banks referred to in Section 4 (1) (a) may be authorised by the CBN to carry on banking business on a regional, national and international basis in accordance with rules, regulations, and guidelines on licensing, authorisation, operation and conduct of business that the CBN may issue from time to time.

The non-interest banks referred to in Section 4 (1) (c) may be authorised by the CBN to carry on banking business on a regional or national basis in accordance with rules, regulations, and guidelines on licensing, authorisation, operation and conduct of business that the CBN may issue from time to time (CBN, 2010).

20 Positive implication of regulation

Eradication of corruption in Nigerian Banking System: CBN regulation was aimed at sanitizing the Nigerian banking system with the view of exposing the practices of the bank executives who were diverting depositors funds for their personal aims and objectives (Onwuamaeze, 2010).

The rule of law: The arrest of the Bank chief executives justifies the principle of the rule of law. To a large extent all hopes are not lost for this great country. If we can have people like Sanusi in all levels of government across the federation sincerely speaking there will be a change, this is because he did not decide to cover the cases of mismanagement of funds among the board of directors in the affected banks as found in the investigation of the banks, but he went ahead to ensure that the wroth of the law caught up with the offenders who flouted the law.

Ensuring confidence in the Co-operate banking system: The banking sector is an important aspect of the Nigerian economy not only due to its viability in terms of employment rate but due to the fact that virtually every citizen deals with banks either as depositors or borrowers. Following to the CBN regulation, there was no transparency and accountability in most banks in the country. Loans were given based on sentiments and connections, common citizens who had good business plans and initiative were denied loans from banks (Ighomwenghian, 2010).

Despite the recapitalization of banks by the former governor of CBN Professor Charles Soludo, Nigerians were still scared of depositing their monies into most banks due to the memories of bank failure in the country. But as the CBN reforms have been implemented, it implies that there is a new beginning in the relationship between banks and customers. The CBN reforms is geared towards protecting the interest of depositors by ensuring that the right leaders are appointed to lead the banks in other to eliminate all forms of corruption which is asymmetrically opposed to the objectives of the depositors or investors (Uwe, 2010).

The Negative impact of CBN reforms i. Unemployment following the CBN regulation, the banking sector was one of the highest employers of labour in the country. However, with the heart breaking reforms orchestrated by CBN most of the workers of the affected banks are back in the streets begging for daily bread. Most affected banks in this category are Oceanic bank and Intercontinental bank. Oceanic Bank sacked about 1,500 workers while intercontinental bank also sacked close to 3,000 workers.

Nigeria as a third world economy is popularly known for its high rate of unemployment and CBN have contributed his own quota by increasing the numbers of jobless youths in the country. The resultant effect of this is the rapid increase in poverty, increased crime rate and criminal acts among the frustrated youths in this category.

21 ii. Cash Squeeze

Any reasonable economist would support the idea of an effective and easy circulation of money across the various sectors of the economy. Infact this notion is compatible with the liberal capitalist school of thought which advocates for effective participation in economic activities, however as regards to the CBN banking regulation, we wonder how CBN wants to make funds available to the Nigerian business men with his new policy of strict capital control of banks.

According to the manufacturers association of Nigeria (MAN) CBN banking regulations have negatively affected the production rate as well as contributed to the high rate of fuel scarcity, this is because major stake holders within the oil industry need capital from banks in other to properly finance their business. This situation of cash squeeze is detrimental to a developing economy like Nigeria which needs local investments through properly financed SMEs to develop (Akogun, 2010).

22 iii. Forced Loans

The CBN banking regulation have been criticized for breaching the professional banking rules, this is because CBN illegally forced the banks to agree to the loans which were given to them. The 450 billion Naira loan was illicitly forced on the banks. Firstly, although these banks were in financial predicament but ideally these banks did not need this large sum of money. According to financial experts and analysts, what the banks needed was merely 100 billion naira only (Nwokoji, 2011).

However CBN went ahead to force the banks to collect such loans to be paid back in seven years' time and with 11 percent interest. With the financial predicaments which these banks are facing and the high level of uncertainty in the Nigerian business environment how sure is the CBN governor that these banks can pay back these loans with 11 per cent interest? Under an ideal banking system, there must be a mutual agreement between the giver and the collector. Sentiment and Personal Vendetta: It is obvious that Central Bank of Nigeria are not void of sentiments and personal vendetta. The big question that CBN have failed to answer is that why was some banks treated with fairness and others were not. Take for instance Wema Bank was given the opportunity to recapitalize while spring bank was not.

IV.

23 Section iv a) Conclusion and Recommendations

24 i. Conclusion

Conclusively, the challenges posed by inordinate ambition of bank operators, precarious nature of bank operations, deregulation of the financial sector, globalization of operations and technological innovation make it imperative for adoption of supervisory and prudential measures that conform to best practices of international standards regarding banking operations in the country. The findings, to an extent, show that the prudential guidelines and deposit insurance have improved the quality of bank loan assets and loan provisioning. Essentially, the implementation of the two have moderated banks' profit, and also improved the provision for doubtful and bad debts. However, it has resulted to increase in bank distress and failure. Some banks were found to have become distress as a result of the new regulatory control measures a case of 2006 where 14 banks went under. The industry has returned to profitability after a period of global economic depression. The distress problem is being addressed through the assistance of regulatory agencies who have given financial assistance to some banks in the recent past. Public confidence in the industry is on rise, banks capitalization has improved, thereby increasing their capacity for their primary mandate of financial intermediation and there has been modest investment in information technology by banks. Five brigade regulatory measures results into recovery from the initial shocks and rebounces back and the whole process repeats itself.

25 ii. Recommendations

On the basis of the above analysis, we proffer the following recommendations.

1. The regulatory agencies should be given more powers to strengthen bank regulation and supervision in Nigeria. 2. They should firm up prudential guidelines and encourage market discipline. 3. They should also put up tighter limits on excessive concentration of risk. 4. Tightening provisioning requirements on nonperforming loans is essential to ensuring that banks remain liquid during economic downturns, establishment of Amcon is helping in this regard. 5. Similarly, constant review of minimum amount of capital requirement will reduce moral hazard by putting shareholders at risk. It can also help banks weather economic downturn and make problem banks easier to be liquidates. 6. In addition, well trained onsite inspectors are important to ensuring that banks comply with regulations, thus, strong supervision must ensure that banks conduct careful credit analyses of their borrowers to avoid doubtful debts. 7. The apex bank should maintain stern eyes currently in place on the operations of the deposit money banks. 8. Critical analysis of issues before formulating a policy is essential because banking in wheel on which the economy moves. 9. The role of academia should be felt which is now lacking. The informal advocacy role of academia does shape policies in any system that allows for it. [1]

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