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Deposit Money Banks Distress And The Nigerian Economic Growth

AUTHOR

Abstract
One of the major issues arising in recent times among management and practitioners relates to the parameters which determine corporate successes and failures i.e. why some organizations grow and others fail. Many nations have experienced failures especially in their banking sectors, and this has caused great harm to their economies. The Nigerian banking system has also experienced series of failures in spite of the Nigerian Banking Ordinance promulgated in 1952. The period between 1994 and 2003 was characterized by a great surge of banking distress, resulting into a recapitalization of Banks capital. And this had negative effects on most banks in Nigeria, which had a great impact on the economy.
The main objective of this study is to make a critical analysis of the concept of corporate failure in Nigerian banks, identify the most significant reasons for the series of bank failures, analyze the effects of these crises on the Nigerian economy and make policy recommendations on how to prevent future crises. Findings indicate that there are common factors that lead to failure in banks and there are also factors which are country specific. Based on these findings, stakeholders and investors can have a clearer view of the causes of the recurrent bank failures in Nigeria and the impact on the Nigerian economy.
Keywords: *Corporate, Failures, Banking, Recapitalization.*

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I. Introduction

Corporate industry has continued to experience impressive growth in recent times despite the global economic crisis and the Nigerian banking crisis, for example the country experienced a growth in GDP of 8% in 2010 and 7.2% in 2011 (Global Finance, 2011). Corporate failure could

quirements. A financial institution is therefore about to fail when it is faced with harsh financial, operational and managerial weaknesses which make it difficult for the institution to meet its obligations to its stakeholders.

According to Kauffman, (2015) in economic terms, a bank has failed when the value of its assets becomes lower than the value of its liabilities, therefore making its net worth negative. In such situations, the bank wbe dates back to the failure of the Nigerian banking industry to the 1980's and 1990's, the repercussions of these are still felt in recent times. It is relevant to note that some of the bank failures in Nigeria were due to the global financial crises that happened back then.

Bank failures have also been very costly in terms of fiscal costs and the effects it leaves on the stakeholders; they are usually accompanied by adverse consequences on both stockholders and other stakeholders outside the failed banks. The cost of a bank failure is usually high, and most times, this cost has negative effects on the nation's growth rate, this consequently causes the government of the country or the Central Bank to intervene in order to rescue such banks. The cost incurred by the government and the Central banks to resolve these crises in failed banks is high especially in a competitive environment. There have been various estimates of the costs of resolving bank crises in different countries, in a survey by the World Bank published in 1996, the cumulative cost was expressed as a percentage of its gross domestic product. The cost was estimated at 2%-3% for the US affecting both their savings and loans deposit in banks during the 1980's and early 1990's, 13% -18% gross domestic product (GDP) in Venezuela, 10% in Hungary and 4% in Bulgaria. (Latter, 1997).

A study by the IMF in 1996 shows that, 130 countries in the world has experienced banking crises since 1980 and some are still in crises (Latter, 1997), hence, bank failure is a global phenomenon and not specific to Nigeria.

Failure in the banking industry occurs when banks are either illiquid or in debt and depositors are scared of losing their deposits and so there is a breakdown of contractual obligations (Ebhodaghe, 2016). Ekpenyong (2014) in his article, emphasizes that a bank shows early signs of failure when it is unable to meet its financial obligations as at when due. This becomes obvious when a bank is hugely indebtedness to other banks, inability to meet depositor's demands, inability to meet operating obligations and weak capital adequacy ratio requirements among others

A failure can result in unemployment, reduction in earnings, slow financial development and other associated economic interests (Smith & Walter, 2017). The failure of a bank has an adverse effect on the economy and therefore its occurrence should be taken seriously. Bank failures are viewed to be more harmful than other corporate failures because of a fear that the failure of one bank may spread throughout the banking system. Thus, the failure of a particular bank increases the possibility of system-wide failures or systemic risk (Kaufman, 2015). A systemic risk is a risk that affects the entire collection as against a particular portfolio.

There have been a couple of failed banks in other countries of the world, even in the developed economies. Notable among them are: Herstatt Bank in Germany, Banco Ambrosiano in Italy, Barings Bank and the Bank of Credit and Commerce International (BCCI) in the United Kingdom, Rumasa in Spain, Credit Lyonnais in France, Daiwa Bank in Japan, African Express Bank Ltd in Nigeria amongst others. (Smith &Walter, 2017).

Corporate failure in banks manifests in various forms. Each country has specific factors causing bank failure, but the common factors which emerge in most countries include instability in the economy, weaknesses in the economic and financial system, harmful banking practices, ineffective regulation, weak corporate governance, poor decision making, ineffective internal controls and poor risk management among others. Bank failures are mostly observed in countries that have deregulated their financial market or in which their financial market have undergone liberalization. Failures among banks are also common where banks have given out a large proportion of loans, which have subsequently become non-performing. Other causes of bank failure include weak regulatory bodies, the existence of too many banks beyond the efficient capacities of the regulators, fraudulent practices by bank directors; poor capitalization and legislative interference (Kindleberger, 1989)

Several countries have laid down laws to prevent bank failure; an example is the United State of America which has instituted the Glass-Steagall Act (1933), International Banking Act (1978) and the recently promulgated Sarbanes Oxley Act (2002) which prohibits commercial banks in the US from engaging in the investment business.

Corporate failure in banks has great effects on the economy but companies are constantly breaking up, failing, or going bust. In spite of the critical importance of corporate health to the economic and financial well-being of a country, this issue has received little attention in literature; therefore there is still an urgent need for a systematic investigation of the factors responsible for bank failures in Nigeria. The causes and effects of corporate failure in the banking industry is not a commonly researched topic amongst researchers and academicians and because of the rise in the number collapsed banks; there is no better time to examine the causes, effects and offer recommendations to policy makers in order to improve the banking system.

This study therefore examines specifically the causes of corporate failure in Nigeria, using information from some banks that have failed over the years and investigate the effects which bank failures have on the development of the Nigerian economy with a view to placing more importance on the implication on the depositors, the affected banks, the wider banking industry and the general public. For the purpose of this research, I will consider the failed banks on the basis of two parts: banks that failed before the pre- consolidation era and those that failed after the consolidation in the Nigerian banking industry. Some recommendations as to the appropriate strategy to be employed to resolve the crises will also be examined.

CONCEPT OF CORPORATE FAILURE IN BANKS

Overview

Corporate failure, in relation to this thesis, refers to organizations that have fallen short in the goals and objectives they set to accomplish when they were incorporated and hence, could not achieve their respective organizational missions and visions. According to Liu and Wilson, 2000, corporate failure is the end result of a properly functioned and competitive economy that forces out inefficient enterprises. Corporate failure can also be described as a necessary component of an efficient financial system that allows the recycling of human capital, financial capital and other resources into more productive use and organization. (Brabazon et'al, 2012).
Corporate failure in a financial industry occurs when a fairly reasonable proportion of financial institutions in the system are unable to meet their obligations to their customers, their owners and the economy as a result of weaknesses in their financial, operational and managerial capabilities which render them either illiquid and or insolvent (CBN, 1997).

Definition of Corporate Failure

Argenti (2006) defined corporate failure, he referred to a company as failed when the performance of the company is so poor that sooner or later it will close down or go into voluntary liquidation, or has already done so.

Altman differentiates between insolvency, bankruptcy and failure. According to Altman (1998), failure is when a company does not earn enough return on risk capital and such a company can go on doing this for a long time without winding up and still be able to meet its current obligations. Insolvency is a more descriptive word than failure, it is a just a temporary situation, which arises when the company cannot pay its bills when they fall due. Insolvency is more serious when it leads to bankruptcy i.e. when the firm's liabilities exceed its assets at fair value, this means that bankruptcy occurs when the company has a negative net worth. Brabazon, et' al, (2012) also describes a failed company as one which has been sanctioned by courts of law to have failed or gone bankrupt, this leads to voluntary wind ups, mergers or takeovers.

According to the Central Bank of Nigeria Annual Report (2015), corporate failure occurs when a financial institution has a weak deposit base, is afflicted by poor management and fails to meet capitalization reill not be able to pay all of its depositors on time and in full. The bank should be wound up as quickly as possible in order to ensure that all depositors are treated fairly. The longer a distressed bank is allowed to stay in business, informed customers will have to withdraw their funds at market value and the bank will lose its valuable assets. The less informed depositors and holders of longer term deposits will be left to bear the loss. This can however have a negative effect on the industry and economy as public confidence and perception is very important in order to avoid depositor panic and maintain harmony.

Friedman and Schwartz (1963) defined corporate failure in banks in terms of monetary policy; he described it as a contraction of the money supply which, on the long run, affects aggregate economic activity. A bank is said to fail, if cessation in its operations as an independent entity is induced by a regulatory agency example of such regulatory bodies are the Central Bank of Nigeria, the Bank of England, England and the Federal Reserve Bank for United States of America. A bank can also be classified as a failed when it is technically insolvent; this implies that the bank's liabilities exceed its assets. In financial terms, banks are said to be insolvent when the present value of their capital becomes zero. At this point, the present value of the total assets of the bank is equal to the present value of its total liabilities other than its equity capital (Benston et'al, 1986).

Many people wrongly substitute bank failures with bank distress, which are different in concept. Bank distress happens before a bank failure. A bank in distress could have the opportunity of regaining its soundness, but a failed bank loses the chance of springing up again. The final verdict of a failed bank is liquidation.

Theories on Causes of Bank Failure

Studies have shown that factors that causes bank distress vary from one country to another, a well-known researcher, Balino in 1991, observed that banking crises in Argentina, Chile, Malaysia and Spain, were caused by country specific variations in their macroeconomic conditions. The regulatory framework, the strength of the crisis and the measures taken to deal with the crises, makes it difficult to recommend a standardized prescription for dealing with bank failure. The Spanish crises occurred between 1977 and 1983 when it was undergoing financial reforms. In the Philippines, the financial industry experienced a major distress after the deregulation of its financial sector in 1981.

Most company failures are caused by lack of inadequate planning; achieving organizational objectives is impracticable without a good plan and back up procedure. Adequate planning is the distinction between a successful company and one that is heading for failure. Entrepreneurs that plan for future problems and take actions to prevent it were successful and those that did not do so, failed (Wilke, 2013).

Altman's article in 1976 briefly assesses previous articles on the causes of corporate failure. His main conclusion was that there are varieties of causes. He observed that previous research papers conclude that failure is avoidable, but Altman believes that mere management policies cannot provide a good foundation for prevention. Altman concludes that prevention can be achieved by perceiving the imminent crises long before it happens. Apea & Sizebera (2012) in their research paper affirms that there are many opposing theories identifying the causes of bank failure. One says it is due to the lack of government intervention while another says bank failure is due to instability. A bank failure can occur as a result of rapid increase in bank credit. Other causes of bank failure include; poor regulation, lack of deposit insurance, lack of skills, mismanagement amongst others.

Hempel & Simonson (2009) also examined the causes of bank failure and they concluded that misconduct, lack of legislative and regulatory policies causes a bank failure. Fleming et al in 1996 also states that free banking is one of the reasons banks fail. A survey of 29 insolvent banks shows that bank failure is caused by a combination of macroeconomic and microeconomic factors. Macroeconomic factors include recession and conditions of trade in a particular country and also, on the microeconomic side, poor regulation, supervision and deficient management

Capital Inadequacy

The Central bank of Nigeria (CBN) says that banks should to hold adequate capital to take care of their financial commitments, generate profit and contribute to the promotion of a good financial system; this is why the CBN recommends a minimum capital requirement ratio. This ratio helps to protect depositors in case of bankruptcy and promote the stable and efficient financial systems. This minimum capital ratio was increased from 6 percent to 8 per cent in 1996 and presently it is 22%. Capital ratio is the percentage of a bank's capital to its risk-weighted assets. The CBN also stipulated that paid-up capital and reserves should be at least 50% and a bank should maintain a ratio of 1:10 between its capital and its total credit. With the promulgation of Prudential Guidelines by the Central Bank of Nigeria, banks were required to suspend interest on non-performing loans and classified assets and also to make provisions for non-performing credit facilities. (Babalola, 2011)

When the capital of a bank falls below the minimum ratio, it indicates that the bank may be heading for failure, the inability to meet the fixed minimum capital requirements is one of the yardstick used for classifying banks as been healthy or unhealthy. A thorough examination of the financial statements of banks showed that a large number of banks in Nigeria were undercapitalized, this is attributed to low start-up capital, increase in inflation rates, inability to recover non-performing assets and the large amount of non-performing loans which some banks grant.

Goodhart (2015) asserts in his article that as a bank’s capital reduces, the higher its motivation to survive and the lower the capital of a bank, the higher the possibility of its failure, therefore, the risk of failure rises with the decline of equity. Goodhart also said that one of the measures used to reduce the rate of bank crisis is to increase minimum capital held by banks. This minimum requirement encourages banks to hold much capital which is necessary to reduce losses incurred by banks in case of bankruptcy.

Ogubunka (2013) also asserts that when a bank has low capital base, it should not to continue with its large scale of business activities prior to the reduction of capital. If it does without sourcing for more funds this will lead to overtrading and eventual failure. Many Nigerian banks that faced crises were affected by low capital base, as a result of this; they could not maintain their operations due to overtrading, inability to absorb losses arising from operational costs. As at 2002, the minimum paid-up equity share capital was 2 billion but it was increased to 25billion in 2004 in order to enable banks to absorb operational shocks or unexpected losses, sustain their level of business, operate profitably and thus contribute towards upholding a sound financial system.

Inadequate Disclosure and Transparency

Inadequate disclosure of the state of affairs of the bank was a major factor causing bank failures in Nigeria, most reports by banks to the Central Bank of Nigeria were incorrect and incomplete, and this robbed the CBN of the true information to supervise the banking industry effectively.

Sanusi in 2002 said in his speech that adequate disclosure and transparency are the key support of an organization’s corporate governance structure, because they give all the stakeholders the information required to determine whether or not shareholder’s wealth are being maximized. He said transparency and disclosure are important factors to ensure sufficient supervision of the banking sector. He further stated that lack of transparency weakens the principles of good corporate governance and the ability of the bank to manage a systemic distress. A transparent piece of information can only be meaningful if it is accessible, qualitative, and provided on time.

Anameje (2017) also stated that transparency and adequate disclosure of information are key characteristics of good corporate governance which banks must promote so as to provide stakeholders with the necessary information to judge whether management has their interest at heart. Transparency has tobe taken seriously because it has been a persistent problem in the Nigerian financial industry; it has the potential of ruining the efforts of the supervisory bodies in improving the Nigerian banking system. (Imala, 2014)

Anya (2013) also found out during the course of his research that lack of transparency in Nigeria has affected the way financial activities are been conducted and has contributed to a large proportion of economic and financial crimes in the Nigerian financial system. The Nigerian banking system was founded on the trust principle between the banks and the stakeholders but banks now engage in practices which include deliberate manipulation or window dressing of financial statements in order to cover up the true state of affairs of the bank. The financial record of a bank forms the basis of supervision by the Central Bank of Nigeria in monitoring the soundness of the banking system. The manipulation of the financial statements has resulted in lack of information by regulatory authorities which would have taken adequate steps to prevent failure of the bank. Such concealment about the financial status of the bank renders the regulatory authorities handicapped until the bank eventually fails. Thus inadequate disclosure and lack of transparency has been pointed out as a major cause of bank failure in Nigeria.

Large Non-Performing Loans

Oluyemi, (2015) noted that insider abuse by owners of banks, directors and members of staff is another reason which aggravates loan defaults in banks. Many business owners and executive directors has misused their positions and violated their duties to the company by engaging in activities which are in conflict with the organizational goals, some banks involve themselves in giving of unsecured credit facilities to her directors and related companies which in most cases are more than the official lending limits. Insiders in banks acquire loans and advances without adequate collaterals which is a breach of banking regulations. Bank workers also conspire with customers to swindle banks by granting loans and advances without adequate collaterals. Most of the loan applications were badly appraised and not properly documented, therefore making such loans difficult to trace.

Ogundina (2016) found out that the Nigerian banking system has been in crises as a result as a result of large portfolios of nonperforming loans. A report by the Central Bank of Nigeria (CBN) says that the value of Non Performing Loans in the Nigerian banking industry in 1990 was ₦ 11.9billion, ₦ 1.11 trillion in December 2010 and ₦ 692 billion in August 2011, but with the efforts of the Central bank of Nigeria, the ratio of non-performing loans to total credit reduced by 29.5% between 2010 and 2011.The problem of huge non-performing loans is usually worsened by the carelessness on the part of the lending officials of the bank. Most of these loans are not granted in accordance with the basic principles of lending. A high level of non-performing loan can also be as a result of poor corporate governance practices. A thorough analysis of the Nigerian banking system in 2004 by the Central Bank of Nigeria shows that one of the problems affecting banks in Nigeria is lack of good corporate governance. The final reports of banks that liquidated in the late nineties also prove that poor corporate governance was the main cause of their failures.

Series of Failures in the Nigerian Banking System

Nigeria has a population of over 180 million people (NPC, 2016) and it's also a country with vast natural resources and rising disposable income, as well as poor infrastructure and often shoddy corporate governance, making the country both a substantial opportunity for an emerging market and also a challenge for nationwide or local financial market. With an assets base of over $500million in capital base, the Nigerian banking industry is arguable one of the biggest in Africa, after the South African banking Markets but when compared against other developed nations in the world, Nigerian banking industry is considered relatively small. For instance, there are only 24 banks in Nigeria as against over 14,000 in the United States (SiphoMakhubela, 2016). A quick ratio analysis will show an average of 5.8million people to a bank in Nigeria as against an average of 17,000 persons to one bank in USA, with a population of 240 million people. This implies that there is far more pressure on an average bank in Nigerian than a bank in the US. This also infers that there is more likelihood that a bank will fail as a result of these pressures which might be by implication, in the quality of service, the regulation and the economy.

The financial system of a country in which the banking sector is a component, is the entirety of all monetary institutions, regulatory bodies and mechanisms involved in financial intermediation. In addition to the intermediation process, the financial system of a country links the domestic economy with the rest of the world. When a financial system is functioning well, it is an indicator of how well the economy is. One of the components of a financial system that is in charge of intermediation is the banking sector.

The Nigerian banking industry is the main stream of Nigerian's economy, after the Oil and Gas industry. There have been significant growth in banks over the years, dating back from 1894 when the Bank of British West Africa was established (Now First bank of Nigeria) as the first commercial bank in Nigeria. The sector has also transformed over the years to assume the level of sophistication comparable to other emerging markets of the world. Such extents of development include new business models and strategy in terms of expansion and competition, product development and rebranding, technology leverage, regulation and supervision. The industry has experienced many unpredictable situations, ranging from growth and recession, reforms and deregulations, from the structural adjustment program embarked upon by government in 1986 to the consolidation program of the 2006, all with the aim of liberalizing and deregulating the industry to enable it operate better, boast the economy and compete with her peers at the international market. Most of the task of policy transformations, positioning and regulations are placed in the hands of the following regulatory bodies: Federal Ministry of Finance (FMF), Central Bank of Nigeria (CBN), also called the Apex Bank, Nigerian Deposit Insurance Corporation (NDIC) and the Security and Exchange Commission (Onyido, 2014)

Federal Ministry of Finance (FMF)

The Federal Ministry of Finance was incorporated in 1958 by the Finance Control and Management Ordinance; it was established to replace the Finance Department. The functions of the FMF includes: formulating policies on fiscal and monetary matters; mobilizing domestic and external financial resources through both internal and external financial institutions, for development purposes. (FMF, 2012).

Central Bank of Nigeria (CBN)

The Central Bank of Nigeria was established by the CBN Act of 1958 and commenced operations in 1959. The Bank is charged with the responsibility of administering the Banks and Other Financial Institutions (BOFI) Act (1991) as amended, with the sole aim of ensuring high standards of banking practice and financial stability through its surveillance activities, as well as the promotion of an efficient payment system. In addition to its core functions, CBN has over the years performed some major developmental functions, focused on all the key sectors of the Nigerian economy: the financial, agricultural and industrial sectors. Overall, these mandates are carried out by the Bank through its various departments (CBN, 2012). According to Onyido (2014), the CBN through its Banking Supervision Department ensures the soundness of the banking system; promote monetary stability and a sound financial system. In discharging this responsibility, the department carries out on-site as well as off-site supervision of banks.

Nigerian Deposit Insurance Corporation (NDIC)

Nigerian Deposit Insurance Corporation (NDIC), an independent agency of the federal government is set up with the aim of protecting depositors' funds and guaranteeing such in the event of a bank failure. The NDIC was established by the Nigeria Deposit Insurance Corporation Act of 1990 with the intention of insuring all deposit liabilities of licensed banks and other financial institutions after which they will be referred to as insured institutions operating in Nigeria. This policy is contained in Sections 16 and 20 of this Act so as to increase the confidence of depositors in the Nigerian banking system and giving assistance to insured institutions in the interest of depositors in case of imminent or actual financial difficulties of banks, and avoiding damage to public confidence in the banking system. The major functions of the NDIC are; guaranteeing payments to depositors, in case of a failure, assisting monetary authorities in the formulation and implementation of policies in order to ensure sound banking practices and also fair competition among insured institutions in the country (NDIC, 2012). Although the NDIC is an autonomous entity from the CBN, it complements the regulatory and supervisory role of the CBN and also acts as the liquidator for banks which the CBN decides to take over and close down (Umoh, 2014).

Security and Exchange Commission (SEC)

The Security and Exchange Commission is a government agency mandated to regulate and develop the Nigerian Capital Market. The agency is responsible for; registration of securities and market intermediaries to ensure that only fit and proper institutions are allowed to operate in the market; other functions of SEC includes; inspection of banks, which could be done either done onsite or off-site, surveillance, investigation and enforcement of policy changes in the Nigerian capital market (SEC, 2012).

The Nigerian banking sector has flourished over the years, witnessing changes in dispensation and their accompanying rules and regulations which have over the years helped in its growth and development. However corporate failure in the banking industry is generally not uncommon and Nigeria has not been left out of these series of failures, these failures in the banking industry have led to the liquidation of these financial institutions and subsequently, take-over by the authorities.

The World Bank team pointed out failure symptoms in Nigeria banks shortly before the promulgation of the NDIC Degree No 22 of 1988. The government established the deposit insurance scheme in order to complement the supervisory job of the CBN. The Central Bank of Nigeria (CBN), would normally not want a bank to fail or close down, because of the fear of the imminent adverse effects of a bank failure on the economy, hence as soon as there is a sign of failure which may lead to insolvency or bankruptcy. The CBN which is the Apex bank often encourages other banks to come in and rescue such a bank because of the ripple effects their closures will have on the Nigerian economy and the chaos these uncertainties it will create. This was done to protect depositors, the citizens and the economy from damage that may result therein (Babs, 2009).

The Nigerian Business Environment

The Nigerian Business environment has so far had a negative effect on the banking industry in Nigeria. Lack of sufficient infrastructure and corrupt legal processes has prevented banks from been able to punish defaulters on loans. Lack of access to credit information about customers has held back the assessment of customer credit and also increasing the stock of bad debts in the banks.

According to the Cowry Research desk (2009), regular examinations were carried out by the Nigerian Deposit Insurance Corporation (NDIC); this investigation uncovered some violations of banking laws. Such regulations which where been violated includes:

1. Non implementation of recommendations contained in their previous financial reports
2. Failure to provide enough information as stipulated by the CBN for credit print out
3. Acquisition of properties without the approval of the Central Bank of Nigeria

4. Engaging in large volume of non-performing loan, credit been granted to insiders and investments in subsidiaries without the approval of the CBN.
5. Presentation of inaccurate financial statements to the regulatory authorities

Apart from violations of banking rules and regulations there were cases of deliberate breach of the Foreign Exchange Rules and Regulations. Some of the banks were also yet to implement the code of corporate governance issued in 2006 by the Central Bank of Nigeria therefore there were still weaknesses in their enforcement of good corporate governance. The composition of the board of directors did not comply with the corporate governance rules and the directors of theses bank had failed to give feedback to shareholders to keep them informed about the status of credit portfolios. The weaknesses noticed by the CBN during the routine examination of the banks were:

1. Non reliability of the financial statement provided by banks, many loans were intentionally misclassified as assets and long term loans were also categorized as commercial papers which is a violation of the regulation for treatment of Bankers Acceptances and Commercial Papers.
2. Failure to establish a suitable framework for risk management.
3. Failure to employ independent directors.
4. Insider dealings.
5. Deliberate breach of banking rules and regulations.
6. Weak supervision of management by the bank's respective board of directors.
7. Failure to test for business continuity and recovery plans in an event of failure.

Effects of Bank Failure on the Nigerian Economy

Empirical studies on banking crises have observed not simply what causes bank crises but also the resulting effects of such crises on the economy. Several empirical researches, such as that of Lindgren, Gillian, & Saal (2016) found out that bank weakness has negatively affected economic growth. More empirical research have also revealed that growth in production and private credit growth fell considerably below standard in the years around the banking failures. Kaminsky and Reinhart (2016) and others also observed that although private credit growth and production output decreases, there were not the only casualties of the banking failures. The impact of banking crises differ across countries based on access to foreign finance, countries whose industries depend mostly on external finance like Nigeria are more affected by banking crises than countries e.g. Libya with restricted access to foreign sources of capital therefore the actual effects of banking crises are more distinct when access to foreign finance is limited.

The periods of bank crises in Nigeria has been characterized by low finance, in other words, the relative increase in net worth of monetarily dependent industries has been faster in periods before crises than during the period of crisis. During the banking failures, banks in Nigeria found it difficult to obtain credit and therefore they found it difficult to deal with periods of low internal cash flows and this eventually led to bankruptcy, the different periods of banking crises has also lead to lack of consumer credit and a decline in consumption and aggregate demand of goods and services thereby aggravating the level of unemployment. The bank failures in Nigeria also affected the dependability of the disbursement system, making transactions more difficult to execute.

Maishanu, (2012) observed that the inability of owners to recapitalize banks in distress results into the liquidation and total loss of investment by the owners of such banks. As in the case of the Nigerian banks the depositors of the failed banks lost all their investment except in banks with insurance cover. This situation discouraged other investors from participating in any other productive activity within the economy and this had an adverse effect on the growth of other sectors in Nigeria. Failure of banks in Nigeria has also caused the employees of the failed banks to suffer loss of their jobs and this has led to an increase in the unemployment rate in the country.

Milton Friedman (1963) noticed that a bank's failure makes its depositors panic and they withdraw most of their deposit; this is one of the primary means through which banking failure affected the economy in Nigeria. The reduction in money supply due to closure of banks and the consequent freezing of bank deposits has led to a reduction in economic growth

All these effects confirm the Credit crunch hypothesis which says that when a bank is fragile, it hinders economic activities.

II. Conclusion

This study offers detailed assessment of the causes, and effects of bank failure in Nigeria, and this can be summed up largely to risk that arose as a result of poor lending policies, large portfolio of nonperforming loans, inadequate capital requirements, poor regulatory authorities, weak corporate governance, political inference, inadequate disclosure and transparency among others. It was observed that these causes dealt a severe blow to the Nigerian banking sector and led to the failure of many of her banks.

It is a tough task to draw any specific conclusions as to the major cause of a bank failure. Episodes vary in different banks, and most times failures are caused by a combination of different causes as listed in previous sections. Macroeconomic factors are mostly assigned the blame whereas the failure may be caused by a fault in the bank's operational strategy. A lapse in supervision may also occur; it is not the function of the supervisory bodies to ensure that banks never fail. Bank supervision seeks to cut the risk of failure and provide financial and technical support to failing insured banks, in the interest of depositors. Unhelpful involvement by the government of a country may also add to the challenges and problems of banks and even aid bank failure.

Bank failures are part of the banking business and operational risk but due to the significance of the banking system in a country and systemic risk which is caused by such failures, it is important that failures are cut to the barest minimum. Considering historical occurrences, it is very likely that there will be more bank failures in the future; therefore the banking industry should continue to be highly regulated. Bank failures can never be entirely prevented. Certainly, it should not be, because in an entirely competitive environment there should be room for natural selection. Most times regulatory and supervisory bodies try to curtail the process of failure so failure of such a bank seems like as an orderly closure and not bank crises.

III. Recommendations

The consolidation of the banking system has changed the Nigerian financial system and opened doors for new opportunities for other financial institutions and market competitors. This development has helped to assist the monetary policy program and has even strongly supported the private sector growth. The Nigerian economy will continue to derive the benefits of consolidation if the supervisory authorities ensure that previous weaknesses do not re-occur in the post consolidated era. The following recommendations could be adopted in other to minimize the possibility of bank failure in the future;

Non-Performing Loans

Huge non-performing loans can be avoided and should be avoided by ensuring that every loan granted by a bank is sufficiently collateralized and the occurrence of insider related credits should be stopped to avoid loan losses. Insider related transactions have been stated as one of the causes of bank failure in the pre-consolidation era. This practice must stop in other to save the banks from collapse.

Internal Control System

Internal control measures should also be enforced in banks, these measures will help to encourage operational competence and efficacy, provide useful and reliable financial information for decision making, safeguard assets and promote adherence to policies set by regulatory agencies. A sound internal control will ensure that transactions are accurately recorded, valid and verified. Internal control measures also involve segregation of duties which ensures that errors made by a single employee in the subsidiary records are detected as they are examined thoroughly by other employees.

Supervision and Regulation

The Supervisory and regulatory aspect is another factor which needs to be strengthened. According to Goodhart et al. (2015) regulators have a supervisory duty to banks; however failures could be avoided when managers make efforts to address risks efficiently. They also noted that regardless of the competency of the supervisory bodies, they may not be able to prevent human errors. Efforts must therefore be stepped up to strengthen supervision and regulations. Remedial policies by the Central Bank of Nigeria and other regulatory agencies should include set of policies aimed at fixing the lapses in the industry, quality of data should be improved, enforcement of regulation, strengthening good corporate governance practices, adequate risk management, monitoring & control and adequate punishment for non-adherence. Anyone involved in fraudulent practices should be responsible for their actions, and pursue all fraudulent cases to a logical conclusion. The CBN can involve the Economic and Financial Crimes Commission (EFCC) and Independent Corrupt practices and Code of Conduct Bureau (ICPC) to help in this regards.

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