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Assessment of Amcon's Role in Resuscitating the Banking Sector during the Global Financial Crisis

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Abstract: *The Strengthening Of The Banking Sector Of The Nigerian Economy Has Always Been The Epicenter Of Every Macro-Economic Policy In Nigeria. Establishing The Asset Management Corporation Of Nigeria (Amcon) In Reviving This Sector During The Global Financial Crisis Is An Indication That The Country Is Unwavering In Its Pursuit Of Becoming The Continent's Financial Power House Come 2020. This Study Examined The Role Played By Amcon During This Period. Empirically, Will There Have Been Distress In The Industry As The Crisis Unfolded? It Is In View Of This That Desk Information Were Collected And Analyzed Using Content Analysis By Comparing Various Financial Variables - Capital Adequacy Ratio (Car), Non-Performing Loans (Npls),Eligible Bank Assets (Ebas) And Non Financial Variables- Determinants Of Survival Of A Firm. The Results Revealed That The Banking Sector Would Have Distressed Had Amcon Not Intervened And That Its Intervention Was A Lifeline.*
Keywords: *Amcon, Npls, Ebas, Car, Ndic*

I. Introduction

The core interior motive of any firm besides profit making is to see it exist in perpetuity, hence, the accounting concept, going concern. In many cases in the past, profit making, income maximization are the chief objectives of organizations but many of themnever foresaw extinction so fizzled out obliviously. Many businesses had to wrestle their way out of so many ordeals that threatened their survival time immemorial and so shall it always be as it is a feature of a business to experience a business economic cycle of bubble and burst. The Nigerian banking industry can never be an exemption in this regard as it had to find out its way through the stormy crisis. Sanni (2014) blamed the exposure of the Nigerian banks on the introduction of Society for Worldwide Interbank Financial Telecommunications (SWIFT) and Clearing House Interbank Payment System (CHIPS) which are advancement in telecommunications that has connected the entire globe as such creating a chain of indispensable financial activities.The survival of Nigerian banks is the pivot upon which the economy rests. The banking sector accounts for 90% of the country's financial assets (Abdullahi and Obiechina, 2009; Soludo, 2009) and on another occasion it was said to account of 65% of the total market capitalization (Abdullahi and Obiechina, 2009).

The survival of the banking sector is measurable both in quantitative and qualitative terms. According to Göran and Martins (1999), corporate survival is an omnipresent concept in firms. They argued that corporate survival can be measured with static and dynamic features that centre around four factors – company name and brand names, geographical location, core business area and company form.

However, it can be measured in quantitative terms - Non- Performing loans, Capital Adequacy ratio can be used to predict the direction towards which a company or an entire industry moves although not limited to these aforelisted parameters.

Nonetheless, having observed these ailing signals threatening survival of these banks, the government rose up to the challenge by establishing the AMCON to tackle the problem. The establishment of AMCON is one of the several measures adopted. Ajakaye and Fakiyesi (2009) and Lamido (2010) affirmed that several policies and reforms were designed to address the issue. The role of AMCON seem to be the most undeniable as it plays the role of a pay master offering stimulus packages to rescue the economy part of which a great chunk went to the banking industry which is a replication of what was adopted in other developed economies. According toObadan (2010), the US, the UK, France and Germany provided $500bn, $692bn, €360bn and $570bn respectively.

Originally, AMCON was set up to revive the entire economy -- finance/insurance, oil and gas, transportation and storage, construction, information and communication, real estate, general commerce, capital markets, manufacturing and others (AMCON, 2013). According to AMCON, financial sector still accounts for 77% of listed Equities Portfolio Distribution. This of course has been a more reason to find out what significance AMCON has in the financial sector recovery.

Table1. Distribution of AMCON loan

Sector	% of loan Distributed
Oil and Gas	27%
General Commerce	19%
Capital Markets	18%
Manufacturing	6%
Financial/ Insurance	5%
Real Estate	5%
Transport and Storage	5%
ICT	4%
Construction	4%
Others	7%

Source: AMCON (2013) www.amcon.com.ng

Table 1 above gave clear indication of how 24% of loans was earmarked for general commerce and financial/insurance put together. This is a bracket into which the banks and other financial institutions fall. The questions raised are, Isloan intervention essential? What are the symptoms warranting this intervention? To what extent are these intervention channelled and are there successes recorded at the aftermath else AMCON is a white elephant project?

II. Literature Review

The Nigerian economic development is as old as the development of the banking industry itself. In fact, they are hardly explicable ex parte without reference to the other. In this same manner, evolution of banking development is equally underscored by the crucial experience of distress, liquidation name them. The biggest of all is the global financial crisis, an unmanouvrable contagion that had a swipe on almost all economies of the world. Empirical studies have been carried out on global financial crisis among which are- the effect of global financial crises on Islamic bank (Abdulmonem and Raji, 2013).Interest rate pass through since financial crisis (Anamaria and Marco, 2013).Role of monetary policy in the great recession (Charlie, 2011).Unconventional monetary policy and the great recession (Christianeand luca, 2010).Relationship between bank and interbank ratein Euro Area during the financial crisis (David and Manuela, 2012).Impact of economic recession on business strategy planning in UK companies (Glyn et al, 2010).Trade and global recession (Jonathan et al, 2011).As good as it is that several studies have been conducted on global financial crisis, equally, it is sad to observe that bulk of these studies focused on developed and/or foreign countries but fewer studies in Nigeria which include the study of the impact of global financial crisis on banking sector in Nigeria by Ashamu and James, 2012 and study on the causes and impacts of global financial crisis on the performance of four (4) banks in Ilorin by Olaniyi and Olabisi(2011).

However to address the challenges posed on banks by the global financial crisis , the Asset Management Corporation of Nigeria (AMCON) was set up on the 19th July, 2010 by act of parliament. It was created to stabilize and revitalize the banking sector by efficiently resolving the non- performing loans crisis of these banks. Though established by third quarter of 2010, it commenced operation by fourth quarter. At commencement, it had share capital of ₦10bn evenly contributed by Ministry of Finance and the CBN with two offices in Abuja and Lagos with a work force of 205 personnel among which is a 10-man board of directors (AMCON, 2013). The same publication provided detailed information about its objectives, functions, risks and mitigants.

Objectives of Amcon

- Providing liquidity to the intervened banks and the non- intervened banks
- Providing capital to the intervened banks and the non- intervened banks
- Increasing confidence in banks' balance sheet
- Increasing access to restructuring / refinancing opportunities for borrowers.

Functions of Amcon

- To issue debt securities
- Acquire eligible bank assets (EBAs)
- Restructure EBAs
- Dispose collateral
- Provide Financial Accommodation (Deposit Restoration Fund)
- Manage Proceeds for Collateral disposal
- Redeem debt securities

Table 2: Risks facing AMCON

Risks	Description	Mitigants
Refinancing risk	• Challenges in refinancing zero coupon bond, when they fall due	• More developed, liquid and informed debts markets • Appointment of dealers/ market makers • On-going investor engagement
Funding Risk	• Risk that liability cannot be repaid as they fall due	• Sinking fund • Recoveries • FGN guarantee
Interest rate risk	• Exposure in the adverse change in the market value of financial instruments caused in market prices or rates	• Asset-liability management
Counterparty credit	• A counter party's inability to make payment or otherwise perform under its contracts with AMCON leading to direct credit exposure as well as open market risk positions	• Power under the AMCON act
Operational	• Risk of loss to inadequate or failed internal process, people, systems or external event`	• Best practices in management • Process and policies • Access to resources

Source: AMCON (2013) www.amcon.com.ng

III. Methodology

The data for this study are secondary data collected from the AMCON publication, the World Bank publications. Content analysis was applied to ascertain AMCON's success independently.
The hypotheses to be tested are:
Ho_1: There is no significant need for AMCON's intervention.
Ho_2: There is no significant impairment to banks' survival
Ho_3: There is no significant impact made by AMCON.
Ho_4: There is no significant success recorded by AMCON?

IV. Data Presentation, Analysis And Results

In this section, the four hypotheses formulated to guide the study are tested.Hypothesis 1: there is no significant need for AMCON's intervention. To test this hypothesis, the study analyzed data to help illustrate the non-financial and financial signals portraying imminent winding up of some Nigerian banks. The global financial crisis has been signalling:

- recorded shutdown of credit markets and increasing job losses
- negative impact on Nigeria's credit rating and risk rating as a result of banks' negative shareholders' funds.
- negative impact on the real sector
- intervened banks had ₦4.4 trillion deposits and interbank takings including over ₦2 trillion of public sectors under threat
- 8-10 million customers threatened
- 50000 staff prone to lose jobs
- contagion impact on other banks with total banking deposits of ₦ 10.9 trillion
- (Nigeria Deposit Insurance Corporation (NDIC) proposal to settle depositors of ailing banks at 3 kobo per Naira; thatis 3% settlement.
- diminishing confidence by foreign creditors and investors
- almost 50% of Nigerian banks are in critical conditions.

Table 3. Financial implications of liquidating intervened banks by NDIC

Banks	Deposits(₦,M)	Due to banks (₦,M)	Total (₦,M)	Total (US$,M)
Union	729566	51274	780840	5205
Oceanic	552766	211014	763780	5092
Intercontinental	563024	276847	839871	5599
Bank PHB	700782	145477	864259	5642
Afribank	355531	2936	358467	2390
ETB	163024	48268	211291	1409
Unity	202156	4707	206863	1379
Finbank	158493	17712	176205	1175
Spring	131927	24200	156127	1041
Wema	01652	----------	10162	677
Grand total	3658920	782434	4,441,355	29,609

Source: AMCON (2013) www.amcon.com.ng

Table 4. Capital Adequacy Ratio (Bank Capital to Assets ratio) 2005-2009

Years	2005	2006	2007	2008	2009
CAR	------	16.0	15.5	17.7	4.0

Source: Catalog Sources World Development Indicators (2014) http://www.data.worldbank.org

Table 5: NPL ratio 2005-2009

Years	2005	2006	2007	2008	2009
NPL ratio	------	9.3	8.4	6.3	27.6

Source: Catalog Sources World Development Indicators (2014) http://www.data.worldbank.org

From the information of signalling effects, it was obvious if the trend is allowed to continue, it will be devastating for the industry. It is sad to note that ten (10) out of 21 Nigerian banks are exposed to winding up. This figure is outrageous, that is about 50% of the total banks having about USD 26,609m (₦4.4Tr)in deposits due to customers and other banks endangered. Table 4 showed that CAR effectively high before the crisis peaked in 2009 when CAR drop unimaginably to 4.0. Table 5 showed a declining ratio from 9.3 in 2006 to 6.3 in 2008 until when the crisis deepened in 2009 with NPL ratio almost exponentially rising to 27.6 in 2009 which is very bad for the industry. Therefore, the null hypothesis that there is no significant need for AMCON's intervention is rejected since it will help to stop an imminent exodus in the banking industry.

Hypothesis 2: there is no significant impairment to banks' survival. The testing of this hypothesis is strictly based on qualitative factors that measure corporate survival in the banking sector as conceptualized by Göran and Martins (1999). Company's name and brand name, geographical location, core business area and company form. Meanwhile, the researcher extended these to six (6) parameters including NPLs build-up and sell off.

Table 6: Rating of degree of threat to survival

Banks	NPL build-up	Partial/ substantial geographical loss	Company name and brand name loss	Core business area loss	Company form (Absorbed by/nationalized **	Sell off by AMCON to	Degree of responsiveness to parameters
Etb	✓	x	✓	✓	✓(sterling)	N/A	(0.67)
Oceanic	✓	✓	✓	✓	✓(Ecobank)	N/A	(0.83)
Intercontinental	✓	✓	✓	✓	✓(Access)	N/A	(0.83)
Afribank	✓	✓	✓	✓	**(Mainstreet)	Skyebank	(1)
Spring bank	✓	✓	✓	✓	**(Enterprise)	Heritage	(1)
Bank PHB	✓		✓		**(Keystone)	(2015)	(1)
Wema	✓	✓	x	x ✓	Regionalized	N/A	(0.5)
Unity	✓	✓	x	x	Regionalized	N/A	(0.5)
Finbank	✓	✓	✓	✓	✓(FCMB)	N/A	(0.83)
Union	✓	x	x	x	x	N/A	(0.17)
Other eleven banks	✓	x	x	x	x	N/A	(0.17)
Total	21✓	8	7	7	9	3	

Source: Author's compilation (2014)

NB: ✓ Applicable to a named bank; X not applicable to a named bank; **

nationalized(and company form changed); N/A Not applicable to AMCON sell off

From table 6 above, 8 banks lose their geographical coverage either partially or substantially, 7 banks lose company name and brand name, 7 banks lose core business area (fizzled out), 9 banks lose their company form in terms of control, size and ownership and three (3) of which were nationalized (bridge) and two later sold off with other one pending till 2015, 3 nationalized banks flagged for sell off and the entire 21 banks had 95% of their NPLs taken over by AMCON. Finally, 7 banks have at least 4 of these negative indicators threatening survival. That is not less than 7 banks have 67% exposure to all the risks of shut down or sell off. Therefore the null hypothesis that there is no significant impairment to banks' survival is rejected.

Hypothesis 3: there is no significant impact made by AMCON.

In testing this hypothesis, CAR,NPLs, EBAs, capital injection by AMCON and number of banks rescued shall be assessed.

Table7. Capital Adequacy Ratio 2010-2013

Years	2010	2011	2012	2013
CAR	1.5	10.5	10.7	10.3

↓

AMCON

Source: Catalog Sources World Development Indicators (2014) http://www.data.worldbank.org/indicator

Table 4 showed that CAR was 4.0 in 2009 ; dropped to 1.5 in 2010 when AMCON came on board by mid-year, CAR rose to 10.5, 10.7 in 2011 and 2012 respectively dovetailed to the pre-crisis brilliant performance though negligibly dropped to 10.3 in 2013, all credited to AMCON's intervention.

Table 8. NPLs ratio 2010-2013

Years	2010	2011	2012	2013
NPL ratio	15.7	5.3	3.5	3.2

Source: Catalog Sources World Development Indicators (2014) http://www.data.worldbank.org/indicator

AMCON

Table 5 showed that NPL ratio was 27.6 in 2009 which is a great disincentive to progress of these banks. AMCON's birth and intervention has been curtailing the NPL ratio and has reduced between 2010 and 2013 by 80% which is unarguably commendable.

Table 9 AMCON's Capital Injection into the Banking sector

Period	Description	Capital Injection
Dec 2010	Purchase of EBAs	N366.2bn
April 2011	Purchase of additional of EBAs	N377.8bn
Aug. 2011	Capitalizationof Mainstreet, Enterprise & Keystone banks (Bridge banks)	N765.3bn
Sept- Oct 2011	Deposit Reconstruction Fund to ETB, Finbank, Oceanic, intercontinental and Union bank (intervened banks)	N1.566tr
Dec 2011	Acquired important EBAs	N748.3bn
Dec 2012	Acquired additional EBAs	N75.9bn
	Total injection	N4.3995tr

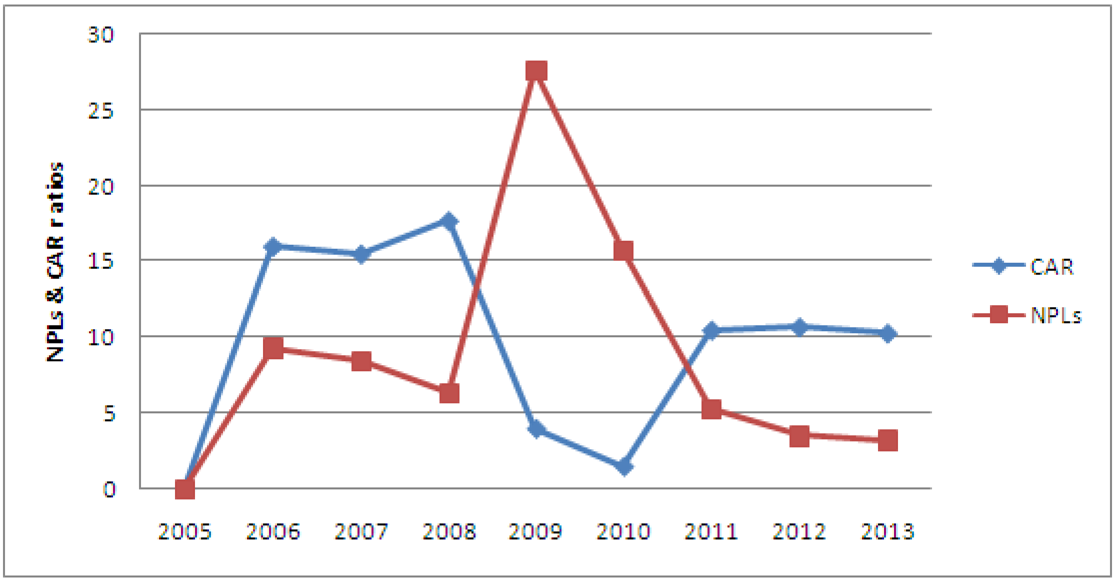
Source: AMCON 2013 (www.amcon.com.ng)

- AMCON acquired over 12500 banking sector NPLs with N1.845tr
- AMCON purchased over 95% of NPLs
- AMCON restructured N600bn ($3.85bn) of NPLs acquired in 2011 (AMCON,2013)

About N4.401tr so far disbursed by AMCON to revive a single sector; it is a milestone in the industry. Considering the CAR, NPLs, EBAs and capital injection indices obtained in this study, the null hypothesis that there is no significant impact made by AMCON is therefore rejected.

The figure below gives a clearer picture of what transpired since 2005 as regards state of risks and viability of Nigerian banks.

Fig 1 **CAR & NPLs Ratio 2005 – 2013**



Source: Generated by researcher using Microsoft Excel, 2009. (2014)

Hypothesis 4: There is no significant success recorded by AMCON

In testing this hypothesis, relevant data about the value of zero-coupon bond redemption, total bond retirements and total realizations to date on the sale of bridge banks. In 2014 alone, AMCON redeemed zero-coupon bond of N976bn and fully retired N1.87tr (Thisday, 2014). AMCON equally recovered N56bn and N126bn from the sale of Enterprise bank to Heritage bank and sale of Mainstreet bank to Skye bank respectively (Vanguard,2014). This of course countered most of the conceived risks. Therefore, the null hypothesis that there is no significant success recorded by AMCON is rejected.

V. Discussion Of Findings

From the analysis done above, it was discovered that in hypothesis one of this study, Nigerian banks' NPLs ratio will continue soaring while the CAR will continue dwindling if unchecked and that trillions of depositors' funds would have been lost among others but for the intervention of AMCON. Almost 50% of the entire banking industry is exposed to survival threats with almost all of them having problem with NPLs build-up as shown in hypothesis two while in hypothesis three, it was revealed that AMCOM's impacts are deeply felt by the industry. Moreso, the last hypothesis unveiled the successes recorded in terms bond redemption, retirements and proceeds from sale of two of the bridge banks.

VI. Implications Of The Study

The establishment of AMCON as observed in this study has been of high positive impact on the entire economy in general and the banking sector particularly. This study found out that CAR, NPLs, survival problems that are indices of these banks' exposure to global financial crisis will in the not-too-distant future be mitigated completely.

On the basis of data presented, AMCON's intervention will be a bulwark for the financial sector against any future contagion that might threaten their existence. Interestingly, AMCON's impact has been hugely felt but not without a very high exposure as AMCON itself is prone to several risks as observed in this study.

Above all, a key implication in this study is that there is a very high degree of poor risk management by the Nigerian banks that has dragged them almost into extinction as such government through its various agencies under its aegis should tighten lending conditions and control structures to avoid reoccurrence of these observed problems.

VII. Conclusion

The establishment of AMCON to intervene in the banking crisis is timely, productive and progressive as observed. Based on these findings, the following conclusions are drawn:

i. The intervention of AMCON created a safety net for depositors, banks' employees et cetera
ii. Threats to banks' survival via soaring NPLs and dwindling CAR et cetera have all been repelled by AMCON
iii. AMCON's intervention will strengthen the banks against future threats
iv. AMCON has been able to prevent a distress crisis in the industry.

VIII. Frontiers For Further Research

The study has examined the role of AMCON in resuscitating the banking industry during global financial crisis. In as much as the banking sector is isolated for the purpose of this study and considering trillions of capital injection into the sector implies that efforts are not spared at ensuring a healthy financial system and that AMCON must have been relentless in pursuing this ideology. At this juncture, further studies on how AMCON's intervention will benefit the banking sector are needed. Examples are: What extent of risk has AMCON averted in banking sector? To what extent has AMCON strengthened the financial sector against future threats? How has AMCON improved banks' profitability?

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