The Banking Industry Of Nigeria: A Note

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1. Introduction

The Banking Industry remains one of the brighter spots in the Nigerian economic landscape. It is believed that the growth opportunities are enormous given its over 150 million population, vast land and plenty of resources. The impetus for banking services comes in the areas of corporate and retail banking, infrastructure financing, small and medium scale enterprises. Approximately 46% of the adult population has no access to banking facilities due to low level of branch network and cumbersome account opening process leaving huge growth potential for the industry.

An attempt has been made in this paper to highlight the structure of the Nigerian banking industry, to shed light on the banking regulations and the regulators, to look into the behaviour of deposit as well as credit mix, to have an idea regarding the nature and trends of lending rates and cost of deposits, to show the extent of adoption of Information Technology in banking transactions, to assess the management style of the banks to perform their day to day marketing and operational activities through job specification and line of staffing and also to provide some concluding remarks.

2. Banking Regulators

The Nigerian Banking Industry is one of the most regulated industries in the country. Nigerian Banks are mainly governed by the Central Bank of Nigeria (CBN) Act 2007, Banks and Other Financial Institutions Act (BOFIA), 1991 as amended, Companies and Allied Matters Act, 1990, Nigeria Deposit Insurance Corporation Act, 1988, Failed Banks (Recovery of Debts) & Financial Malpractices in Banks Act, 1994, Anti Money Laundering Act, 1995, CBN Prudential Guidelines, and other Monetary, Credit, Foreign Trade and Exchange Policy Manuals, Guidelines and Circulars that are issued from time to time.

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To this end, there are 4 (four) major regulators/supervisors of the banking industry, namely:

1. Central Bank of Nigeria (CBN)
2. Nigeria Deposit Insurance Corporation (NDIC)
3. Securities and Exchange Commission (SEC)
4. Nigerian Financial Intelligence Unit (NFIU)

CBN as the apex regulator has financial institutions under it comprising the deposit money banks, the discount houses, primary mortgage institutions, microfinance, community banks, finance companies, bureau-de-change and development finance institutions. Supervisory process involves both on-site and off-site examination includes an assessment of banks' corporate govermance, internal control and compliance. During the recent years it has undergone a massive reformation in financial sector to ensure efficiency and stability of financial system. Virtually CBN is called one of the most reformist institutions in the country. Sanusi Lamido Sanusi, the honourable present Governor of CBN is considered as one of the efficient Governors of central bank in Sub- Sahara African region.

* NDIC complements the efforts of the CBN in bank supervision and examination in order to ensure a safe and sound banking system. It is established as a part of reforms in Nigerian banking industry. Its principal objectives are to contribute to the stability of the financial system and to protect small depositors when banks fail.
* The Securities and Exchange Commission (SEC) is the government agency responsible for the regulation and development of the Nigerian capital market. The commission undertakes various activities to protect investors and monitor activities of market operators thus ensuring the integrity of the market systems, and the reliability of information provided in statutory returns.
* NFIU is an arm of Economic and Financial Crime Commission (EFCC) involves in regulating and monitoring of irregularities in banks and financial institutions specially the money laundering issues.

3. The Banking Structure of Nigeria

The central bank of Nigeria authorises the following banking structure as per BOFIA 1991 as amended: (1) Commercial Banks; (2) Merchant Banks; and (3) Specialized Banks.

3.1 Commercial Banks

The Nigerian Banking Industry currently consists of 21 banks; three of which are foreign owned and one is non-interest bank (Islamic Bank). Out of the rest 18, three are now taken over and managed by Asset Management Corporation of Nigeria (AMCON), an enterprise owned by the Government which takes over and manages Toxic assets (bad loans) of other banks and also the failed banks. With a total of about 5,000 branches located all over the metropolitan and the rural areas in the country, corporate and commercial banking remains the most competitive front in the Industry. The Industry is a key driver of the Nigerian capital market; almost all the banks in Nigeria are listed on the Nigerian Stock Exchange. The performance of the capital market is largely influenced by banks' share prices as the Banking Industry accounted for about 40% of the total value of equities on the Nigerian Stock Exchange.

It may be noted here that merger and acquisition is frequent in the Nigerian banking sector. During the last few years it is observed that a large number of such merger and acquisition was held. In Nigeria, the problem of bank distress has been observed as far back as 1930s. A study conducted on recapitalization revealed that the total numbers of banks in Nigeria was 115 in 1995 and the number of distress banks grew from 15 to about 55 in 1994; 60 banks were known to be distressed in 1995 and by 1997 (Yauri et al, 2012). As a result the total numbers of bank reduced significantly and at present 21 banks are running. Recently two banks were merged with others. However, only one bank namely, Jaiz Bank Plc, was awarded license during this period to conduct non-interest banking.

3.2 Other/ Specialized Banks

All banks will be classified broadly into two categories; Mono-line Banks and Specialized Banks. The Mono-line Banks, otherwise known as commercial banks, are further categorized by geographical areas; Regional, National and International. CBN issues the license for all categories of banks mentioned here. Considering the potentiality and capital structure of the banks, this classification is done. Mono-line Banks can only carry out core banking activities. While specialized banks are only allowed to focus on the areas for which they have been licensed. The banks that fall into the category of specialized banks are:

a. Non-Interest Banks (Islamic Banks)

b. Microfinance Banks

c. Development Banks

d. Mortgage Banks

3.3 Non-Interest Banking (Islamic Banking)

The CBN has developed a guideline for the regulation and supervision of non-interest banks/financial services in Nigeria.

A non-interest bank means a bank which transacts banking business, engages in trading, investments and commercial activities, as well as the provision of financial products and services in accordance with the principles and rules of Islamic commercial jurisprudence. Where also receiving and giving interest, gambling, speculation unjust enrichment, exploitation/unfair trade practice, uncertainty or ambiguity relating to the subject matter & terms/conditions dealing with pork, alcohol etc. are strictly prohibited and not allowed.

Non-Interest banking has become a fast growing concept in Nigeria due to the increasing demand for Islamic banking products. This is supported by the introduction of a new framework governing the operations of Islamic banks by the Central Bank of Nigeria in March 2009. In the guidelines, non-interest banks are regulated by the same laws as the conventional banks, in addition to adhering to the principles of Islamic commercial jurisprudence.

Only one bank, Jaiz Bank Plc, has been licensed to undertake non-interest banking activities thus far. This bank started operations to the public since January 2012. Also a license has been given to an existing conventional bank for doing non-interest banking operation through windows. Besides these, there are few other financial institutions in Nigeria that offer non-interest banking products/services. Mentionable that the licensed name of a Non Interest Financial Institution (NIFI) shall not include the word “Islamic” as per banking law of Nigeria. From the findings of a study conducted by Orisankoko (2012) it is observed that Habib Nigeria Bank Limited was the first Islamic variant banking model to have opened a window for non-interest banking and Al-Baraka Micro Finance is considered for the pioneer Islamic micro finance. While Lotus Capital Investment Limited is regarded as the primal Islamic financial investment institution in Nigeria. According to Ofurum (2008) the implementation and success of Islamic banking in Nigeria would require: re-shaping the society, restructuring of the economic system and re-framing of the laws according to the dictates of Islam. This will not be easy in Nigeria, given her multi-religious nature. The most difficult and important task, however, is the reformation of society, which has to be undertaken as an on-going process. The paper recommends a dual banking system, where the conventional system will run side by side with the slamic banking system.

3.4 Development Banks

There are four development banks which are providing lending and other services for the development of import-export business, infrastructure, agricultural and industrial sector of the country.

4. Some Major Indicative Information of Banks and Financial Institutions

The size of Nigerian economy is quite big, GDP for 2011 was about Naira 39,520 billion which stood 40th position in the world economy. Accordingly, the volume of banking business is also high. The total deposit of the commercial banks is about N20,000 billion and their total credit to private sector is about N13,000 billion ($1 ˜ N158). As mentioned above at present there are 21 deposit money banks (Commercial Banks) in Nigeria. Out of which few banks have their dominancy in banking in terms of deposit, credit, profit earnings etc. The volume of business of some of the banks as at the end of 2011 is shown below (Table-1):

Table-1: The Major Indicative Information

(Figure in billion Naira)

Name of the Bank	Deposit	Credit	Profit
First Bank of Nigeria	1947	1235	50
Guaranty Trust Bank	1026	706	62
Access Bank	1630	1100	15
Eco Bank	1931	1177	43

Source: *Business Day and Daily Trust*, various issues in 2011 & 2012, the daily news published in Nigeria.

It is found that most of the banks in Nigeria have their investment in securities about 40% of its total credit and investment portfolio. Attractive yield in treasury securities (around 14%) makes the banks interested to invest more in this sector rather than to go for lending to private sector resulting its prevailing LDR at far below the allowable 80%.

Table-2: Some Regulatory Requirements and Market Indicators

Regulatory Requirements	Rate
a. Cash Reserve Ratio (CRR)	8%
b. Statutory Liquidity Ratio (SLR)	30%
c. Loan/Deposit Ratio (LDR)	80%
d. Capital Adequacy Ratio (CAR)	10%
Market Indicators	
a. Monetary Policy Rate (MPR)	12%
b. Inter Bank Rate (IBR)	Appx. 15%
c. Spread between Max. Lending Rate & Ave. Savings Deposit Rate	Appx. 20%

Source: *Ibid*

5. Deposit Mix

The banking sector has had a tilted deposit mix which sometimes has been responsible for its leaning towards serving certain sectors of the Economy more than others. It is believed that cheap funds can only be derived from savings and demand deposits with the tenured deposit coming at a cost.

The deposit mix in the industry is current deposit 45%, savings deposit 15%, term deposit 28% and other deposit 12%. On maturity aspect it is found that one month maturity deposit is about 62%.

The deposit mix has its impact on the volume of credit/investment asset that can be created by the Deposit Money Banks (DMBs) and as such most opt for short term credit/investment with high turnover hence the reason behind inadequate financing of some sectors of the economy like agriculture and manufacturing. The high risk in the agricultural sector makes it the least favourable investment option for the DMBs. This situation impacts on manufacturing and agricultural production of the country which is supposed to ignite the Nigerian economic growth.

It is observed that most of the banks here allow interest on demand deposit ranging from 0.01% to 3% on certain threshold amount. All the banks allow interest on savings deposit at 1% to 3% while they allow interest on term deposit ranging 2% to 12%. Variation of interest rate from product to product as well as bank to bank is very significant.

6. Credit Mix

Nigerian banks have historically concentrated lending to blue-chips companies, particularly oil and telecom sectors. It has been observed from a report of Business Day that overdraft allowed by the banks is 25%, term loan 62% and others is 13%. Also the report says that 88% of the loans have twelve months maturity, 83% has six months maturity, 78% has three months maturity while 33% has one month maturity.

The prime sector for credit is oil and gas while lowest is agricultural sector (2%) though the agriculture sector contributes 23% of the GDP of the country. Other sectors of credit are manufacturing, construction, SME etc.

Like deposit products, credit products has also large difference in respect of their interest rate which also varies from bank to bank (12% to 28%). The possible reasons behind the high lending rate may be high rate of default in banking sector and high rate of establishment and operational cost in the country.

7. Pattern of Foreign Trade Business

Nigerian banks handle big volume of import and export business as under:

* Export - Nigeria being a member of OPEC, is one of the large exporters of crude petroleum. Other items of export are minerals, plastic, rubber, beverage, tobacco etc. Its major importing countries are India, USA, The Netherlands, Brazil, etc. The volume of export in the First Quarter of 2012 was about Naira 4,970 billion.
* Import - It imports varieties of consumable and other items like refined petroleum products, vehicles, air-craft, food stuff, machineries, chemical, tobacco, etc. Major partner countries in this regard are - China, USA, UK, Brazil, India etc. Total import during the First Quarter of 2012 was about Naira 1,652 billion.
* Upon obtaining the Authorized Dealer (AD) licence from the central bank all the branches of commercial bank can do foreign exchange transactions. Also with regards to accepting and giving withdrawal facility of foreign currency, a bank can allow upto $10,000 at a time to a customer having Domiciliary Account with the bank without any regulatory report.

It is very interesting that Nigeria, unlike other countries exports petroleum/minerals, beverage, tobacco etc. in crude/raw forms and then imports those in refined/processed forms. This is due to lack of refinery and other related industries of the country (Business Day, 11 June 2012).

8. Management Style of Banking Operation and Marketing

Almost all the banks in Nigeria have their marketing and operational approach of business management. The marketing teams are in both the branches and head office. There may be a number of marketing teams in an office/branch depending on the size of the branch/office. The branch Manager usually works as the Head of the Branch and also the head of the marketing teams there. Each team have their own target and Balance Sheet for performance. Operations of the branches are conducted through separate set of staff who are solely responsible for the day to day operational job. Each branch has an Operations Manager apart from Marketing Manager. These staffs do not have responsibility in marketing until they are advised to do so under any special marketing drive.

9. Automation Status in Banking Sector

Nigerian banking sector is well automated. Most of the banks perform their transactions through the use of computer and other electronic devices. Use of ATM, Electronic Fund Transfer (EFT), Visa/Master Card, Mobile Banking, POS terminal etc. is in place. The Central Bank of Nigeria has declared a cashless policy aiming at reducing the usage of cash and increasing the use of Electronic Payment Channels and started implementing it. However a study reveals that most banks in Nigeria are facing keen competition both within and outside the shores of Nigeria such as mass movement of high-assets based banks toward efficiency thereby combining their advantages of big assets with efficiency which further expands their market and narrows those of the banks with relatively lower assets (Dabwor, 2011).

The Nigerian Inter-Bank Settlement System (NIBSS), a company owned by all the banks and the central bank established in 1993 is providing banking industry shared automated services through streamlining inter-bank payment, fund transfer, clearing and settlement, electronic payments etc.

10. Concluding Remarks

It is believed that the Central Bank of Nigeria (CBN) had apparently been successful in recapitalization and consolidating the banking industry. Nigerian banking industry now is taking new dimension due to timely intervention, review and reforms by the central bank. The banks are now developing good corporate governance which will positively impact on the industry as a whole. Also allowing non-interest banking

operation and issuing separate guidelines for it in the country by the CBN has opened a new pave of banking which is expected to contribute in the developing process of the country as well as to reach the banking services to the doors of mass people.

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