PDF - MANAGEMENT CRISIS OF THE BANKING INDUSTRY : (A CASE STUDY OF SOME DISTRESS BANKS) - researchcub.infoABSTRACT

The banking industry of the Nigerian economy is today passing through what might seem the roughest phase in its history. The wave of insolvency or distress in the sector is very unprecedented comparable only to what happened during the 1st era of bank failure in Nigeria 91953-1957) and the era of free banking (1892-1952) was such that generated under stand able apprehensive among the banking public. Because of the prominent and sensitive role the banking industry plays in the determination of the buoyancy of any economy, its present state has agitated the government and people of Nigeria. In a bid to correct this unhealthy development the regulatory authorities ie. The central bank of Nigeria (CBN) and the Nigerian Deposit Insurance Corporation (NDIC) have devised and implemented many novel policies to check this drift. Yet the cankerworm continues to eat deeper into our banking system. The issue of problems banks and management crisis in the banking industry has become a disturbing one in Niger. Given the consequences of bank failure, the problems has become a major source of concern to the government the regulators of financial institution and to the general public.

TABLE OF CONTENT

CHAPTER 1: INTRODUCTION
Background of the Study
The development of banking in Nigeria can be traced to 1891, in that year, a company known as the African Banking Corporation opened a branch office in Lagos. Incidentally, it happened that the bank was a South African organization. By January 1892, ABC acquired a License to import and distribute coins from Britain to Nigeria. In 1984, the ownership of the bank changed hands when a British out fit acquired it and its name was changed to British Bank for West Africa (BBWA). The BBWA has since changed name again to standard bank of (Nigeria) plc. A few other banks were opened after this.
The development of Banking in Nigeria can be conveniently categorized into eight (8) stages for the purpose of analysis. The stages are as follows:
Era of free Banking (1892-1952)
Era of 1st Bank failure  (1953-1959)
Era of consolidation (first decade of independence 1960-1969).
Era of indigenisation (Oil boom period (1970-1979).
Period of depression (first stage of expansion 1980-1985).
Era of Universal Banking (2001-2004)
The Banking Seltor Reforms (2004-2006)
Structural Adjustment programme (SAP) period (Era of deregulation
2nd stage of expansion 1986-1993)
Era of regulation (period of 2nd Bank failure 1994-1995).
Era of guided de-regulation (1995-till date).
One of the main features of the era of free banking was lack of controls or banking regulations. Al that was required was registration under the company's ordinance. The ordinance allowed anybody or group to engage in the business of banking like any other business. This caused a scramble for banking regulations. This was caused by two major factors. There was freedom of entry between 1947 and 1952 about 185 organizations sort for banking registration, 145 were registered in 1947 and 40 in 1952. Some of these companies did not actually operate as banks due to internal problems like their inability to mobilize enough

finds from shareholders and even from prospective depositors. May of them folded up no sooner than they got their registration.
The second factor is that banking was the most profitable business to do them. The result was a wide spread fraud and banking abuse. Three banks failed during the period. This became a source of concern to the then colonial government forcing it to set up the portion commission on the 7th September 1948 to enquire into the operation of general banking business and recommend the extent of control. Four years later, in 1952 the first banking ordinance or registration was enacted.
The enacted of the bank ordinance resulted in new banks finding it difficult to get registered and do business. On the other hand, the existing banks which could not fulfill the requirement of the ordinance were forced to close shop resulting into a series of bank failure. The ordinance stipulated some conditions for the operation of banking business many banks could not satisfy these conditions and this caused a mass failure of banks and collapse of the prevailing business. In all nineteen banks failed during this period out of a total of 29 banks.

## Purpose Of The Study

The principal purpose of this research work is to highlight the need and measure for achieving a sustained viability of the banking industry. Through critical appraisal of the presented political and economics environment under which the system (banking) operates.
In line with the principles purposes of this study is the need to examine thee extent to which the new system and structure of government in Nigeria will lie in positively and encourage the profitable operation in the banking industry in Nigeria
Distress in the banking system is a serious problem, which like a banking dropped into pool water affects every aspect of the economy.
The purpose of this study is to:

- Identify the origin of distress in Nigerian Banks.
- Identify the immediate and possible remote cause of distress in Nigerian banks.
- Highlight the role each participants ie. operators depositors and regulations played in bringing about distress in banks.
- Recommend possible solutions to the problems.
- Proffer prophylactic measure to forestalls future occurrence.

The study will also examine how the present federal charter system will exist side by side with the banking system. It is hoped that the federal government in Nigeria whose interest in this area of applied research has been indicated through the central bank of Nigeria (CBN) will initiate and carryout the studies for the planning and implementation of the banks in Nigeria.

## Significance Of The Study

This project will enable the reader to understand the importance of banks in the life of a nation. The banking system plays the role of the engine of growth for the economy and this is supported by Bell .O (1993) who said that banks are the heart of an economy.
The banking public are concerned because their deposits are at stake and the Authorities are concerned about the ability safety and soundness of the banking system and its overall effect on the economy. It is against this background that the researcher seeks interest to address these problems.

- The loss of public confidence in the banking sector due to the distress or crisis in the sector.
- The shortcoming of the regulatory/supervisory Authorities in handling the crisis.
- The Authorities wrong direction of efforts as shown in decree 18 of 194, thus being unable to prevent distress in healthy banks.
- How the Authorities, depositors and operators contributed to the problems.
- Why the holding action has not been successful.
- How the ownership structure of distressed banks contribute to their predicament.

There are numerous problems that have raised as a result of the crisis in the banking sector and this project will attempt to solve or provide solutions to these problems of the bank.

Scope of the Study

The scope of this study or research project is within the effect of management crisis in the banking industry in Nigeria. The work extends to specifically deliberate on its impacts on the various arms of regulation/deregulations in banking industry.
The project also covers the existing force that causes bank distress and the strategies to recurrent the activities of banking industry in Nigeria.
Distress reared it ugly head in 1987 after the with drawl of treasury funds from banks. Since then more and more banks have been joining the bandwagon of distressed banks every year.
The study is going to focus on some distressed banks such as African continental Bank Plc, National bank of Nigeria, Equity Bank Plc, Lobi Bank Plc. Mercantile Bank of Nigeria PLc, New Nigerian bank Ltd, Pan African Bank Ltd etc.

Research Question

In other to consolidate views as regards the causes and possible solution to the problems of management crisis in the banking industry, the researcher decided to test four hypothesis, to be specific, the hypothesis are as follows:

1. Ho: The CAMEL rating scheme is the best way of assessing the performance of a bank.

Hi: The CAMEL rating scheme is the best way of assessing the performance of a bank.

2. Ho: The supervisory/regulatory Authorities have contributed in the making viable banks distress.

Ho: The supervisory/regulatory Authorities have not contributed in the making viable banks distress.

3. Ho: Distressed banks are to be liquidated once identified.

Ho: Distressed banks are not to be liquidated once identified.

4. Ho: Problem banks are to be acquired by healthy banks.

Ho: Problem banks are not to be acquired by healthy banks

Definition Of Terms

1. Distressed bank: A bank that has precarious financial position overtime. A bank with managerial, operational and financial weakness.
2. Regulatory/Supervisory Authorities: These are made up of the central bank of Nigeria (CBN) and Nigeria Deposit insurance corporation (NDIC).
3. Operators: The management and staff of bank including the shareholders.
4. Insider: The management and staff of a bank.
4. Insolvency: The condition in which a bank or firms liabilities exceed it asset
5. Letter of Credit: A written statement by a bank that money will be paid provided conditions provided in the letter are met.
6. Liquidity: The conditions in which firms has inadequate cash to meet its obligations.
7. Financial Asset: A claim to a present or future payment of money (e.g) company's debenture or bond that has a claim to future interest and principal payment by a company.
8. Management efficiency: Measure of management qualification, competence and achievement.
9. Capital Adequacy: A measure of funds provided by the shareholders of the banks and it s ability to meet the banks capital requirement.

**MANAGEMENT CRISIS OF THE BANKING INDUSTRY : (A CASE STUDY OF SOME DISTRESS BANKS)**