

This project was prompted by obvious dominant bank failure in the Nigeria Economy. The recent urge is to know the extent to which the financial sector affects the economic life of the people. Therefore led to the analysis, which prove the fact and various systems to checkmate the situation.

This project is categorized into positive and negative effect of bank on the basis of their economic contributions, which thus, the negative effect would be highly revealed as a result of the regression base in the Nigeria economy.

The method of study measure up current abnormalities that exist in the sector using qualitative and quantitative analytical data's as to attain its objective furthermore the presentation and analysis in chapter four revealed unethical approach in banking system and their effect in managing the system.

Lastly is chapter five which drew conclusion to the project followed by the biography and index

This research work will be carried out using all internal control questionnaire from banks in strategic state in Nigeria like Enugu, Lagos, Port Harcourt and Abuja. The research has used hypothetical data like chi-square to analyze the quantitative that concern bank fail in Nigeria.

## **TABLE OF CONTENTS**

Declaration

Dedication

Acknowledgement

Abstract

Table Of Content

### **Chapter One**

#### **1.0 Background Of The Study**

1.1 Schedule Of Banks In Nigeria

1.2 Objectives Of Bank Study

1.3 Justification Of The Study

1.4 Scope Of The Study

1.5 Structure Of The Study

1.6 Structural Changes In Banks

1.7 Unethical Practice In Banks

1.8 Effect Of Unethical Practices

1.9 Checkmate Of Unethical Practice

2.0 Legal Proceedings On Banks

2.1 Large Scale Fraudulent Practices

2.2 Reasons For Committing Fraud.

### **Chapter Two**

#### **2.0 Literature Review**

- 2.1 The History Of Banking In Nigeria
- 2.2 Foreign Based In Nigeria
- 2.3 Establishment Of Content Bank In Nigeria
- 2.4 The Commercial Banks
- 2.5 Indigenous Banks
- 2.6 Merchant Bank
- 2.7 Community Bank.
- 3.8 Federal Martage Bank
- 3.9 Development Banks
- 3.10 Nigeria Agricultural And Cooperative Banks
- 3.11 The Nigeria Bank For Commerce And Industry
- 3.12 Urban Development Bank
- 3.13 Finance Companies
- 3.14 Insurance Companies
- 3.15 Excess Liquidity Data
- 3.16 Structure And Growth Of Banks

### ***Chapter Three***

#### ***3.0 Research Design And Methodology***

- 3.1 Sample Size And Sample Techniques
- 3.2 Method Of Data Collection
- 3.3 Method Of Data Presentation

### ***Chapter Four***

#### ***4.0 Data Presenation And Analysis***

- 4.1 Hypothesis Of Study I
- 4.2 Hypothesis Of Study li
- 4.3 Hypothesis Of Study lii
- 4.4 Research Assessment
- 4.5 Researched Experienced
- 4.6 Measures To Meet Standard.

### ***Chapter Five***

#### ***5.0 Conclusion***

- 4.1 Findings
- 5.2 Recommendation

References

Appendix

## **BACKGROUND OF THE STUDY**

Bank has been defined in various ways by different people. It is basically a service industry operated by people for the general interest of the public providing a mechanism for the mobilization of finds from surplus units in the economy and channeling them to the deficit units through extension of credits. The link between

this surplus and deficit is actually vital because it facilitates business transaction and economic development. As an economic unit, the business enterprise acquires, organizes and transforms factors of production in the activity of producing goods and services, the way in which these goods and services or input factors are combined and transformed into an output flow may be considered as a problem of maximizing an output from a given input. As a result, the advent of banking institution and its scope limitation was to that business activities find their expressions in monetary terms.

The banking institution is defined in section 61 of the bank and financial institution decree sub-section 21 of 1991 as a business of receiving cheques, deposits on current accounts, saving accounts or other account like paying or collecting cheques drawn by or paid in by customers, provision of finance or such other business or services for the government and the entire economy.

### **1.1 SCHEDULE OF BANKS IN NIGERIA**

The banking system in Nigeria is controlled by one body known as the Central Bank of Nigeria (CBN) which serves as a clearing house for economic purpose. It veils control in the naming include Commercial Bank, merchant banks, special banks like mortgaged bank, development banks such as Nigeria banks for commerce and industry, Nigeria agricultural and cooperative banks, peoples bank and community banks.

The banking system is a regulated sector of government and we could understand that its nature of activities spelt out the position it occupies in the economy since the funds they lend to deficit units are owned by third parties, therefore prudence on accounting theories and principles demands that such funds should be managed properly to sustain the confidence of the depositors. As a result of this prudential requirement, the authorities would want to intervene in the operation and control of the banking system to correct all the shortcomings of the price fixing mechanism in ensuring that what is commercially reserved for an individual bank also approximate social rationing as much as possible. Example interest rates charged by banks may be regulated to encourage savings mobilization, banking habits and ensure adequate investment for rapid economic growth. Considering the imperfect market in most economy both developed and developing financial institutions often include government intervention to boost investment, redirect credit to economic sectors with social but low commercial rates returns. These and a lot of other rationing pre-informed government thinking towards regulation control in it and also supervise the sector. Experience here, therefore shows that authorities' short fall in financial intervention does affect the finance market function as shall be illustrated in hypothesis I. Such intervention frequently results in new economic desertion leading to less optimal result to resource utilization. For example, the establishment of new banks in pre-SAP (structural adjustment programme) era was highly restricted, the existing ones constituting a kind of oligopoly did not really care either to extend their services to the rural communities or care for how to improve their activities and operation pattern.

Consequently economic deregulation has often been resorted to in order to remove or minimize those desertions. Deregulation implies the relaxing or minimization of control or regulation. Financial markets are usually the first sector of the economy to be subjected to deregulation in view of their strategic locations.

The campaign for deregulation of financial institutions has been vigorously undertaken in many developed and developing economies. Example in United States of America regulation which had imposed interest rate ceilings on the deposit of the federal reserve banks was abolished in 1983. Recently, a member of third world countries with heavy debt burden and dwindling foreign exchange earnings has also adopted policies to deregulate their economy particularly the financial institution in the economy.

This has usually been carried out as part of comprehensive structured and statistical experience to stop large scale fraudulent practices. It also follows with the reasons for committing fraudulent art and ended with a computer abuses in the banking industry.

## **1.2 OBJECTIVE OF THE STUDY**

Following the background introduces the study of aims which analyses the factors that lead to the bank failure in Nigeria and its consequences and as well as various measures taken to prevent or minimize such occurrence in future

The main aim for the study is an assessment of bank failure in Nigeria which necessitated the conduct of general banking system and tool included the rural and urban satisfaction of service from commercial and merchant banks in Nigeria economy

Economically, lack of development roles in banking programme an unethical practices in the financial institution, the lending system in a developing economy, savings system and deposit system has contributed immensely to a stand still financial institutions. There are other undesirable internal and external factors that affected the Nigeria banking system both in Nigeria and the global world in general.

However, this study is automatically recommended to treat various steps to be taken by the authorities to checkmate fragment fall in financial institution as to restore the eroded public confidence in the financial institutions.

## **1.3 THE JUSTIFICATION OF THE STUDY**

Interested banking programme in 1977 was rural banking system, the programme was raised in Nigeria to motivate rural dwellers to cultivate the idea of mobilization of profit from various ventures for saving purpose.

But as pointed earlier the deregulation formula and excessive licensing of new banks have brought a lot of charges in the banking system leading to over competition operational techniques has changed to an era of strike competition including (SAP) structural adjustment programme. These whole problems lead to banks inability to fulfill their present obligation.

Recently, the confidence and stability of banking industry is threatened and that lead to a call for chartered institute of bankers and insurance and the federal government non stop to further issue of license to new banks in Nigeria. The need for these procedures is to study the people desire and examine savings mobilization and creation and expansion in the economy. It is also an effort to evaluate the Agricultural and agro allied industries development using banking scheme to checkmate the ability to source funds and make loans and advances available. These justification has been hindered immensely by poor performance of banking consequences of bank strategies, the commercial and merchant bank objectives is to maximize profit but other social and economic functions deflect banks from profit maximations as their primary objectives. Since bank is a commercial or service venture, it raise profit so as to give confidence to the public and depositors as well as impression of management efficiency and to the shareholders. In order to maximize the profit banks attempt structure their assets and liabilities in such a way yield returns subject to some constraints. However in a violated economic environment as ours where things change quite rapidly and with banking education and business, experience yet to recognize bank failure in Nigeria and modern system of computer banking to bring improvement, a bank would have been caught off guard because of poor administrative control of its loan portfolio.

Under certain or prevailing economic uncertainties a business man lives more on his wits ore capacity as a result of inherent dangers or hazards of overtrading, over stocking, unjustified expansion and diversification

which has resulted in business catastrophes and consequently leading to bad debts of the banks.

#### **1.4 SCOPE OF THE STUDY**

The limitation of this work is not far fetched from the failure of banks in Nigeria and modern system of computer banking increase efficiency, emphasizing little on the geographical locations of banks in Nigeria. The ability of banks to meet up its current obligation was absolutely questionable and no examined solution has been arrived at solving the problems emanating from this situation. This project work is to highlight the cause of these problems its effects and modern system of solving the problems. The entire research work extended to the hazard act or proactive in the banking sector, similarly, general survey on both old and new generation bank is highly carried out including the prevailing economic situation which was made available for the work. The credibility and accuracy of this findings and conclusion depends mainly on the authenticity of data available or collected and questionnaires schedule of some banks in Nigeria and suggestion with computer system of banking to checkmate the problems.

#### **1.5 STRUCTURE OF THE STUDY**

The entire study is systematically arranged in five chapters from chapter which provide the background of the study while chapter two dealt with literature review, followed by the research design of the study. Including chapter four, the data presentation and analysis where hypothesis is highly detailed about Lastly is the concluding part which constitute findings recommendation, reference, bibliography and appendix.

#### **1.6 STRUCTURAL CHANGES IN BANKS**

The financial sector remained under serious pressure in 1995 as the distress in the sector persisted therefore lead to the suspension of granting license to new generation banks. However these assure remained intractable deferring the year significant steps were taken in the task to sanitize the financial sector through a package of comprehensive failure resolution measures but to no avail was the solution.

The withdrawal of the operating license of one more commercial bank as republic bank brought to a total number of banks whose licenses were evolved during the period 1995 to 1996 which the number of licensed banks fell further from 116 to 115 consisting of 64 commercial banks and 51 merchant banks. They exist of the bank coupled with on going restructuring and rationalization in most banks influenced the decline in the total number of bank branched which was 2541 to 2351 offices from commercial banks and 149 for merchant banks. Laws promulgated in 1995 that significant implication for the financial institution include. The money laundering decree No.3, the Nigeria investment promotion commission decree No.16 and the foreign exchange monitoring and unscillaneous provisions decree No.17. The aim of the money laundering decree is the prevention of the placement of illicit money and other illegal acquired wealth into the financial sector.

#### **1.7 UNETHICAL PRACTICES**

Unethical practices otherwise called lack of good conduct when the principles of ethical practice are not observed in financial sector, the Nigeria financial status is viewed as follow:

- a. Conflict of interest: The arises where an institution official engages in other activities which conflict, interfere or affect the primary objectives of the institute adversely, it generate when the official has:
  - i. Undue interest in customers
  - ii. Engages in other business interest which encroaches in the ability to carry out primary objectives of the organization.

iii. Acceptance of costly entertainment, gift from potential borrowers or suppliers

b. Abuse of position: It arises where an official of financial institution enrich himself with the wealth of the organization not considering the advantages of investment and improvement of position in logical manner not considering the capability of the staff. It can take the following form.

i. Back scratching exercises in which beneficial collude to provide unbeneficial facilities to themselves outside their entitlement

ii. Forgery or conversion of security documents such as share stock certificate, dividends warrants cheques and receipts.

iii. Fraudulent withdrawal from customers account or misappropriation of clients funds etc.

iv. Receiving gratification before discharging duties of the day

c. MISUSE of information: This is another form of abuse of position. It involves the use of manipulation to achieve some beneficial or avoid some liabilities. Some of the ways information is misused are as follows

i. Non disclosure or misstatement of materials facts. In the return of information sent to regulation and bodies main to make use of it.

ii. Insider use of non-public information to maximize gain or minimize losses in the financial market.

d. Unreliable accounting records. Accounting records are said to be unreliable when

i. They are not prepared according to the accounting standard or principles.

ii. The necessary details are not presented

iii. Information provides is false and

iv. The records are not accessible when as at when required.

These state of affairs could arise either because of incompetent people are hired to keep records or because competent hands deliberately manipulated it for selfish reasons

e. Breach of confidentiality: This is a special misusing of information the reputation of a financial institution is to enhance its ability of maintaining confidential relation with its customers an other financial bodies as the maintaining integrity.

f. Lack of fair and equitable treatment: A common unethical practice in the financial sector is lack of fair play and equity in dealing with other players in the sector, friends, relations, satiation and individual selfishness are some of the forces which influence officials of financial institutions in undertaking professional transaction which replace transaction which is in line with the law and normal business criteria. The problems of distressed bank has been generalized and have affected not only commercial banks and merchant banks bent also community bank, mortgage bank and Finance companies

## **1.8 EFFECT OF UNETHICAL PRACTICES**

An existence of unethical practices in the financial sector as highlighted earlier has tremendous effect in lowering confidence in the financial market of Nigeria. This contributed significantly to aggravate distress in the banking system and to encourage the existence of large scale informed financial market as well as to constraint the management of the economy. I have come up with the following. In the efforts to reduce the problems of banks, they could be traceable to several factors that include political instability poor policy and bad management which improve capital inadequacy poor asset quality, illiquidity and poor earnings

### **1.8.1 CHECKMATE ON UNETHICAL PRACTICE**

In the effects to reduce the problems as stated above, financial sectors were intensified during 1995. the restructuring of existing, six banks selling off the banks to the public in 1994 was due to the above

irregularizes in the banking sector. In the banking sector. Among other regulatory measures, the authorities assumed to control about 19 banks was due to persistence deterioration of their owners to solve the problems of these institution in terms of re-capitalization and assets restructuring to achieve improved performance. In recognition of the inability of distressed banks banks whose accounts with (CBN) central bank of Nigeria were over drawn to effect repayment of their liabilities, the banks boards of directors approved the conversion of such hardcore overdraft into long terms loans ir liabilities subject to the fulfillment of stipulated conditions. The bank approved the meeting up of the principles components of inter-bank indebtedness of distressed banks with a view to rehabilitate the repercussions of wide spread defaults in meeting inter bank obligations on the payment system. The implementation of the fouled bank decree No.18 of 1994 took off successfully as the offence under the decree commenced work. The implementation of the decree has provided an enabling environment for the recovery of non performing debts in banks as well as sanitizing the sector due to its subs.

Notwithstanding the ongoing official effort to restore confidence in the financial sector, the number of distressed bank reduced from 82% to 68% in 1996. prior to structural perform in 1976 the first major step taken to checkmate bank failure in Nigeria was bank ordinance of 1952 and regulation to guide banks and prevent reckless in providing banking service to customers. This was strengthened in 1988 by establishing central bank of Nigeria (CBN) which was charged with the responsibility of providing stability and sound financial structure since its inception. The central bank of Nigeria has attempted to prevent banks failure through its formulation and implementation of monetary and banking policies. These measure enhance central Bank of Nigeria power to ensure that banks remain viable and profitable while contributing to the nation economic growth. Effort to attain these goals are usually in the (CBN) policies to be a guidelines as bank supervision and examiner of financial institution in Nigeria.

Based on the above were structural reform, deregulation of the financial system between 1986 and also licensing of many banks become of keen interest subsequently. Competition among banks were modified by a simple technique by regulating the banking system as to respond to the challenges by setting in measures as to enable the banks to perform their role under a deregulation system.

Due to emergency of serious bank distress and failure to meet up with some of their vital obligations, the central bank of Nigeria has to decide in exploiting the fundamental of the bank failure drawing reasonable conclusion that it all emanated from internal abuse and problem of the sector which suddenly compromised their unaccountability as earlier described. However a good foundation for restoring unaccountability and discipline in the banking sector was lead by the promulgation of the failed bank recovery act of debt and financial imposed unaccountability and malpractices decree of 1994 as to exploit the presence of unaccountability in the banking sectors. The deregulation system was later strengthened through the (CBN) decree No.24 and the bank and financial institution decree No.25 of 1991

However the fail bank tribunals have provided to implies for restoring accountability and discipline in the system and therefore has assisted in restoring the system similarly, some of the cause of bank failure also depend to a significant extent on the sustenance and improvement of the fail bank tribunals.

### **1.9LEGAL PROCEEDINGS ON BANKS.**

The causes of bank failure in Nigeria have been in operational since its inceptions that it now become very worrisome affecting the economy rustically that the ability of the sector to meet up with current obligations now become difficult and questionable. The aid of these problem to ensure that the laws are observed

seems denuded, but the regulations of the various financial institutions of the various financial; institution and authorized to continue to oversee the activities of the sectors. The aim for the above supervision is to ensure that all the players in the industry play according to the rules usually approved by the government in order to check unethical practices and to encourage honesty in business dealings.

In some cases the records of the account of the operations are examined by an internal auditor to ensure that rules and regulation are followed. These strategies adopted varies from one segment of financial market to the other but for the purpose of this project we shall be limited to banking sector guidelines as issued by central bank of Nigeria which constitute the following

- i. Cash Reserve requirement
- ii. Liquidity ratio
- iii. Interest rate policy
- iv. Discount ration policy
- v. Prudential guidelines
- vi. Exchange rate and foreign exchange management
- vii. Credit policy
- viii. Capital adequacy
- ix. Code of ethics
- x. Renalties for all defaulties

#### CASH RESERVE REQUIREMENT CCR

Is amount paid to central bank of Nigeria by other bank if as a result these bank fold up it could be use to settle the indebtedness of these banks

Liquidity Ratio: This means the convince and speed of transforming assests into cash, or transforming assets from one person to another without any loss of value, central bank require banking sectors to improve liquidity and minimize transaction costs.

Interest Rate policy:- Interest rate is cost laid upon amount borrowed. Interest rate is a fax deductible as a result policies is raised by central policies is raised by central bank of Nigeria to control furring of interest.

#### COMPUTER MANIPULATION

Before the discussion of modern computers system to improve banking sector in Nigeria, we must hints on element of computer fraud which constitute

- a. Computer abuse where actions are committed into computer or other of its system making it an object of crime to the users since the system language comprises.
- b. Computer fraud is related action to computer abuse where computer is used as a tool or device to commit crime
- c. Computer crime is any illegal act for which knowledge of computer technology is used to perpetuate fraud. A further disclosure to the terminology is as follow.

##### i. Impute fraud

- Creation of false input
- Unauthorized amendment of input
- Abuse of input access privileges
- Destruction of genuine input

##### ii. Output fraud



- Suppressions of output
- Creation of fixations output
- Improper amendment of output
- Theft of output
- iii. Programmed fraud
  - Programmed related fraud
  - Illicit manipulation of computer programme
  - Rigging of programmes
  - Access to source of programmes documentation.

### **2.9.1 LARGE SCALE FRAUDULENT PRACTICE**

The licensing and registration of new bank, commercial, merchant, development, community and people banks in the country have brought with it a large scale frauds. Fraud and forgery are special concern to the monetary and supervisory authorities as those activities under mine the safety, soundness and stability of the banking sector. The prevailing issues of fraud and forgeries are the indicating weakness in the banking institutions. There fraud and forgeries are associated with bank failure. However, the reported cases of fraud and forgeries as at 1990 in commercial banks returns are tabulated as follows.

Source: Bank Return (BR) 1990 NDIC

Annual reports and statement of accounts. The above table shoes the reported cases of bank (commercial) fraud which the NDIC claims to have increased recently. It shows that bank fraud reported in 1990 above were 91 with a total amount of #788798.6 as against #98,232.6 on 1989 with 62 reported cases. All these are indication that since deregulations fraud has been on the increase, the main reason attributed to this could be traced to the fact that management has become inefficient and that with more bank everyone want to have a share of national cake without considering efficiency.

### **1.10 REASONS FOR COMMITTING FRAUD**

The basic aim for committing fraud could be listed as follows.

- Poor banking experience of staffs
- Inadequate/lack of staff training
- Desperate need for money making
- Job frustration
- Internal control
- Heavy personal indebtedness
- Everybody does it syndrome
- Enjoy beating the system
- Low level of detection
- Low level of persecution
- Opportunity
- Family or other induced extravagant
- Means of living
- Greed
- Low loyalty
- Revenge

-Possible connected with organized crime.

## **BANK FAILURE IN NIGERIA AND MODERN SYSTEM OF COMPUTER BANKING TO BRING IMPROVEMENT**

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Regards!!!