The Impacts of the Global Financial Crisis on the Nigerian Banking Industry

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Den Globala Finanskrisens Inverkan på Banksektorn i Nigeria

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Abstract

This research paper examines the impacts of the global financial crisis on the Nigerian banking industry. The Central Bank of Nigeria (CBN) initiated the first phase of the bank consolidation in 2005, to provide a strong and reliable banking sector that would guarantee the safety of depositor's money. The consolidated banks were expected to play a very active role in the economic growth and development of Nigeria. The consolidation exercise was remarkable as some of the Banks merged while other went for outright takeover of the assets and liabilities of the weak banks. Within the short period of consolidation there were positive changes in the entire system, as interest and lending rates became stabilized. And some of the consolidated banks became partners and correspondent banks to foreign counterparts. Unfortunately, the current global financial crisis, which has it roots in the United State of America and Europe, has spread to other part of the world. The crisis has eroded the confidence of the general public in the Nigerian banking industry, despite their consolidation. Even the Nigerian Stock Market (NSM) which is expected to act as buffer of fund, is not left out of the financial crisis. This research paper will therefore attempt to examine the impact of the global financial crisis on the Nigerian banking industry

Key words: Banks, Consolidation, Finance, Global, System.

Abbreviations

Abbreviation	Meaning
CBN	Central Bank of Nigeria
IMF	International Monetary Fund
IPO	Initial Public Offer
NSE	Nigeria Stock Exchange
SEC	Securities & Exchange Commission
ASI	All Share Index
NDIC	Nigeria Deposit Insurance company
ROIC	Return on Investment Capital
CRR	Cash Requirement Ratio
FDI	Foreign Direct Investment
FPI	Foreign Portfolio Investment
MPR	Monetary Policy Rate
M&A	Merger & Acquisition
Naira (#)	Currency of Nigeria

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1 Introduction

Before the consolidation exercise started in 2005, the Nigerian banking industry witnessed a lot of stress, uncertainty and anxiety. This eroded the confidence of the general public which used to be a great asset of the banking sector in the past. In addition, investor's and depositor's funds were not guaranteed, thereby making many of the banks to come under stress due to capital inadequacy. These problems greatly impaired the quality of the bank's assets as non-performing assets became unbearable and became huge burdens on many of the banks. The financial intermediation role of the banks became heavily impaired while the macroeconomic activities seriously slowed down. It was against this background, that the Central Bank of Nigeria (CBN) announced a major reform in the entire Nigerian banking industry. The recapitalization of the capital base of banks constituted the first phase of the reform policy in the entire banking sector of the Nigerian economy. The major issues in the consolidation exercise, according to Adeyemi (2005) include:

I. A minimum capital base of 25 billion naira with a deadline of 31st December 2005

II. Consolidation of banking institutions through mergers and acquisitions

III. Phase withdrawal of public sector funds from banks, beginning from July, 2004

IV. Adoption of a risk-focused and rule-based regulatory framework

V. Zero tolerance for weak corporate governance, misconduct and lack of transparency

VI. Accelerated completion of the Electronic Financial Surveillance system (e-FASS)

VII. The establishment of asset management companies

VIII. Promotion of the enforcement of dormant law

IX. Revision and updating of relevant laws

X. Closer collaboration with the Economic and Financial Crime Commission (EFCC) and the establishment of the financial intelligence unit.

The two outstanding issues in the reform initiatives that have attracted a lot of concern and reaction because of its peculiarities are:

I. The recapitalization requirement of 25billion by Banks before the end of 31st December, 2005

II. Consolidation of Banks through mergers and acquisitions.

The primary objective of the reform initiative was to have an efficient and effective banking industry that could guarantee rapid economic growth and development for the entire nation. But the current global economic crisis, which started as financial crisis in America and Europe and later spread to other parts of the world, has eroded the confidence of depositors and investors. Even the Nigerian Stock Market (NSM), which is supposed to function as fund buffer, was not left out of the crisis. This research study therefore will examine the impact of the current global financial crisis on the Nigerian banking industry. Data from both qualitative and quantitative sources will be used to gain an insight understanding and knowledge of the Nigerian banking industry. However, a structured questionnaire and telephone interviews will be used to get relevant information on areas that require further clarification.

1.1 Problem Background

The current global economic crisis started as a financial crisis in the United State of America in 2007. It has it root in credit contraction in the banking sector due to certain laxities in the US financial system. The crisis later spread to Europe and now has become a global phenomenon. The financial crisis at the early stage manifested strongly in the sub-prime mortgages because households faced difficulties in making higher payments on adjusted mortgages (Soludo, 2009). This development led to the use of credit contraction by financial institutions in the US to tighten their standards in the light of their deteriorating balance sheets. In addition, financial institutions stopped lending and recalled their credit lines to ensure capital adequacy (Aluko, 2009).

Since the use of credit contraction by foreign banks began, the Nigerian banking system has seriously been entangled in a financial crisis. At the moment, the banks are unable to carry out their statutory function in the Nigerian economy. In addition, the crisis has eroded the confidence of the general public in the entire Nigerian banking industry. In view of this development, this research study is undertaken to examine the impacts of the global financial crisis on the Nigerian banking industry. The outcome of this research study is expected to assist stakeholders in the Nigerian banking industry by addressing the following questions.

I. What was the position of banks before the global financial crisis?
II. What were the impacts of the global financial crisis on the Nigerian banking industry?
III. What made the crisis spread to the Nigerian banking industry?

1.2 Aim of study.

The Nigerian banking industry experienced remarkable changes after the consolidation exercise. Shortly after the recapitalization of the capital base in the industry, the public confidence in the industry became very high which can be seen from the increase in bank's depositors' funds. In addition, the banks went into project financing in the real sector of the Nigerian economy. Therefore, they were able to support the process of economic growth and development of Nigeria. But the current global financial crisis has seriously affected the Nigeria banking industry in recent time. At present, the public has lost confidence on the entire Nigerian banking industry. In addition to this, the value of investor shares in the Stock Market is also depreciating. The aim of this research study therefore is to examine the impact of the current global financial crisis on the Nigerian banking industry. The outcome of this research study is expected to assist Nigerian policy makers, banks management teams and banks regulatory bodies in Nigeria in the following ways.

I. To know the major causes of the financial crisis in Nigeria.

II. To determine the extent of the impact of the global financial crisis on the Nigerian banking industry and the entire economy.

III. To determine various options that could cushion the impact as well as avoid future occurrence.

1.3 Research methodology

The study will rely on both primary and secondary sources of statistical data, collected from a questionnaire, journals, textbooks, articles etc. The importance of secondary sources of data can not be over emphasized, because it allows researchers to have an in depth knowledge on "how and why" a certain phenomenon occurs in a system. The use of this method is likely to give very important insights into the impact of the global financial crisis on the Nigerian banking industry. The purpose of using this method is also to expand the knowledge and understanding of the researcher on the global financial crisis and the Nigerian banking industry. Nevertheless, recent studies provided a limited insight on the impact of the global financial crisis on the Nigerian banking industry. Therefore, this research study will also attempt to obtain the opinions of stakeholders in the banking industry through a structured questionnaire. In summary, the study will source data from the following areas;

(I) An overview of the literature of related studies with specific input from journals, publications and other materials.

(II) An overview of journal and financial reports of the Central Bank of Nigeria

(III) An overview of journal and financial reports of Nigeria Deposit Insurance Corporation. (NDIC)

(IV) Inductive inference from questions administered to stakeholders in the banking industry.

2 THEORY OF BANKS

2.1 Meaning of Banks and why do Banks exist?

Over the years it has been a difficult task to find an acceptable definition of a bank or a banker. Several attempts have been made to offer a comprehensive and acceptable definition. Starting from the time of J W Gilbart, he defined a banker as a dealer in capital, or more appropriately, a dealer in money. J W Gilbart regarded banks as intermediate parties between the borrower and the lender (Iganiga, 1998). This is because the banks borrow from one party and lend to another. It will be observed that this definition emphasizes the two traditional functions of a bank i.e. the mobilization of deposition and the granting of loans and advances. But in recent time banks business has been expanded considerably and as a result Gilbart's definition cannot be regarded as complete or comprehensive. In 1969, the Banking Act of England defined Banking by the following activities.

I. The business of receiving money from outside sources as deposit irrespective of the payment of interest.

II. The granting of loan, acceptance of credit or the purchase of bills, cheque and sales of securities.

III. The purchase and sales of securities on behalf of customers. (Isedu, 2001).

This definition fits better into the modern day role of banks in the economy, because the definition goes beyond mere collection of depositor's fund. The banks, be it central, clearing merchant, saving or whatever form, pursue similar goals (Umole, 1985). They contribute significantly to achieve the stated macro economic objective of economic transformation. Transformation in the economy implies a movement from a particular level of development to a more acceptable level of development (Todaro, 1997). Rapid transformation of an economy depends on the available resources, manpower and capital. Capital is defined as a factor of production, not required for immediate consumption but to help expedite the production process, and therefore capital is often regarded as the nucleus of economic development in any nation. Capital accumulation in any economy depends on the roles of the banks which include the following

Offering liquidity Liquidity in Banking refers to assets that can easily be converted into cash. Money in the form of cash is regarded as the most liquid asset in the banking Industry (Freixas & Rochet, 2008). Historically, the existence of Banks is credited to this unique function of providing liquidity to people and cooperative bodies to carry out their daily business activities. In order to perform this role Banks offer saving, deposit and current account facilities to the public. When a customer decides to operate an account, and pay a minimum amount as specified by the banks, the amount deposited on the various account is held by the bank as deposit liability. In addition to this, banks help in keeping other convertible equities, like certificate of occupancy, share certificate, deeds of conveyance etc. The bank is therefore requested by law to make a certain percentage of their deposit liabilities and capital funds available to the general public, to meet customer demand (Idahosa, 2000).

Payment Service A Bank is under obligation to pay back to the customer any amount as specified by the customer according to the value of the account held (Freixas & Rochet, 2008). A bank customer may also want his cheque cashed up to a stated amount and within a specified period, at another branch of the bank or another bank. Conversely, the customer can also receive money through the bank when a debtor has decided to pay from a distance with crossed or open cheque.

Lending function The deposits kept in banks need not be left idle, because from experience banks are aware that depositors may not need all the deposits at a time. It is therefore prudent of the banker to lend such money to investors at a higher rate which brings some revenues to them. They achieve this through overdraft, loan, bills discounting or through direct investment (Idahosa, 2000).

International trade services Banks help to provide the link through which payments for goods and services bought or sold by importers and exporters can be settled. In addition to this, they provide guarantee to exporters who need such guarantes before they can release their goods (Isedu, 2001).

Currency transaction Banks trade on foreign currencies, especially US Dollars and Pound sterling. They engage competitively in foreign currency transaction as it provides them a significant source of revenue. However, foreign exchange transactions laws in every country are very stringent.

Performance bond services A performance bond is issued on behalf of customers in the real sector of the economy where they are required to supply the bond before they can tender for contract. The bond guarantees that the company has adequate financial resources to execute the contract successfully. When a bank gives such a guarantee it usually takes an indemnity from the customer so that it can claim against him in case of default (Umole, 1983).

2.2 Regulatory institutions in the Nigerian banking industry

The Nigerian banking industry plays a very important role in the economic growth and development of Nigeria. This role has been enormous, particularly since the adoption of the structural adjustment program in the mid 1980's (Idehai, 1996). Since banking institutions in the financial system are directly related to the economic system, it is imperative that the government, through the various regulatory bodies, keeps a watchful eye on the system so as to eliminate all forms of deficiencies and malpractice that could destroy the entire system. In addition to this, banks' regulatory institutions determine the performance of the entire banking system. This section will therefore address the role of two major regulatory institutions in the Nigerian banking industry.

2.2.2 Central Bank of Nigeria

The Central Bank of Nigeria (CBN) plays a vital role in the Nigerian banking industry. Osiegbu (2006) argued that the performance of banks depends on the governmental monetary policy, implemented by the Central Bank of Nigeria. He argued further that, one of the traditional functions of the Central Bank of Nigeria is to manage the nation's money and economy through the use of monetary regulations. These are specifically designed to regulate and control the volume, cost and direction of the money and lending in the entire economy. These assertions were further buttressed by Nanna (2001), who claimed that the success of the CBN to effectively implement the monetary polices depends on the mandate of the Central Bank of Nigeria as specified in the CBN Act of 1958. He pointed them out as follows:

I. To maintain the Nigerian external reserves
II. To promote monetary stability and sound financial structure in the banking industry.
III. To safe guard the international bale of the currency.
IV. To act as a banker and financial adviser to the federal government of Nigeria.
V. Ensuring that banks keep adequacy of equity, liquidity and reserve funds.
VI. Regulating the lending pattern of banks to foreign and indigenous enterprise.

The Central Bank is generally regarded as the hub of the monetary and banking system of each country. Therefore, the stability of the entire system depends on how effectively the CBN discharges it mandated role in the banking industry.

2.2.2 Nigeria Deposit Insurance Corporation (NDIC)

Ogunleye (2002) pointed out that the establishment of NDIC was driven by the need to reform the banking industry in the Nigerian economy. Most especially, one purpose was to provide polices relating to bank shareholder funds because of the bitter experience of bank distress in Nigeria and the lessons from other countries with bank deposit insurance schemes. He emphasized specifically that the institution was established to provide the following functions in the Nigerian banking industry:

a. Insuring all deposit liabilities of licensed banks and other financial institutions operating in Nigeria so as to create confidence and trust in the mind of the public.
b. Giving assistance in the interest of depositors, in the case of imminent or actual financial difficulties of banks, particularly where suspension of payments is threatened and avoiding damage to public confidence in the banking system. Such assistance include the following:
    I. Taking over the management of a distressed bank.
    II. Specific changes recommended to be made in the management of the distressed banks.
    III. Recommending cases of merger and acquisition in cases of distress or financial weakness.

IV. Guaranteeing payments to depositors in case of imminent or actual suspension of payment by insured banks or financial institutions, up to the maximum amount of #50,000 of assessable deposit of an insured bank in the event of a failure.

V. Assisting monetary authorities in the formulation and implementation of banking polices so as to ensure sound banking practice and fair competition of money banks in the country.

Ogunleye emphasized further that, the institution has made impacts in two areas, namely in developing banks' directors and top management as well as assisting in banking with serious distress. The crucial role of this institution is to assists banks in mobilizing deposit money from the public for lending purposes.

2.3 Determinants of banks' performance in an economy.

A Bank's performance is measured by its capacity to maximize returns on investor's funds. In the Nigerian economy bank performance is determined by a number of factors, namely lending rates, deposit rate, management effect, ownership and control, market structure etc (Somayo & Ilo, 2008). In order to have an effective and efficient financial system both the banks and the regulatory institutions exert a lot of concerted efforts. This accounted for the reason why the CBN initiated the consolidation exercise in 2005. This section will discuss some of the factors that influence banks performances in Nigeria banking industry and elsewhere.

Lending Rate This is the rate of interest at which a Bank lends to it customers. In Nigeria, banks' major roles are financial intermediation and promoting the payment system to ensure efficient and effective allocation of depositor's money. Banks' objectives are to gives out loans because they need to generate income to meet the minimum rate of return on investor funds. Banks make the bulk of their income from lending out depositors money. However, the volume of loan grants by banks depends on size, depositor's base, liquidity, credit policy and internal factors (Olgunde, 2006).

Somayo & Ilo,(2008) also discussed the impact of lending on bank performance. They pointed out that the Nigerian government, through the CBN, set the lending rate for financial intermediaries at their various prevailing levels in the banking industry. To buttress their argument, they argued that the CBN set the rate to favor specific sectors in order to encourage or discourage lending to various sectors of the economy. However, the banks' desires to achieve favorable return on investment notwithstanding, the environmental factors play a vital role in banks' lending behavior. The environmental factor of banks refer to aggregate macroeconomic condition which consists of Gross Domestic Product (GDP), employment level, energy utilization, inflation, money supply and exchange. An overview of the various CBN annual reports indicates that the lending rate, which is a major determinant of performance, is not within the control of the banks.

Depositors Rate. This is defined as the interest paid on cash deposited by customers (Freixas & Rochet, 2008). According to Ogunleye,(2002) banks' deposits depend on a numbers of factors namely, public perception of the soundness of banks, the prevailing rate paid on deposits by the banks and the rate of inflation. He emphasized that the volume of deposits that banks receive determines their ability to grant loans and generate income, and that at the peak of business boom in the Nigerian banking industry deposit fund reflects a substantial amount on the balance sheets of many of the banks. He finally mentioned that the NDIC was established to protect depositor funds in the various Banks.

The distinction between fund deposit in banks and banks' lending in the Nigerian banking industry was examined in Somayo & Ilo, (2008). They argued that lower deposit rates do not attract customers, and that this accounted for the reason the CBN introduced the recapitalization exercise in the industry. This, they contended, made deposit rates low in relation to the lending rate. They pointed out further that, like the lending rate, the government, through the CBN, regulate banks' deposit rates to avoid slow growth of the economy. During periods of high deposit rates investors choose to deposit their funds in the banks instead of the capital market where the money would be needed for long term investment in the production of goods and services.

Ownership and control Ownership, direct intervention and control in the internal management of banks are a major determinant in banks performance in any economy. Before the recapitalization exercise, ownership contributed to the financial distress in some of the Nigerian banks (Idehai, 1996). Ownership and control of banks is determined by the shareholders of banks. The shareholders constitute the Boards of Directors and also appoint the chairman of Boards of Directors. One outstanding feature of this determinant is that individuals or corporate bodies with larger numbers of shares exert considerable influences on most of the banks decision (Idahosa, 2000).

Management effects Banks need highly competent personnel to handle products in a fiercely competitive market environment. Good management of banks ensures that the bank complies with all regulatory rules governing banking operation in the system. In addition, the management teams study the major macroeconomic indicators, to know when and how to invest shareholders funds to maximum return on investments (Ologunde, 2006).

Market Structure Bank market structure refers to the number and the characteristics of the sellers and buyers of products. The bank market structure reveals a relationship between the level of development of the banking sector of the economy and its long term out put growth. In a highly concentrated market, the structure of the market is believed to have a positive effect on cooperate profits (Atemnkeng & Nzongang, 2006).

2.4 Challenges of the banking industry before the global financial crisis

Before the global financial crisis spread into the Nigerian banking industry, the banks had passed through different kinds of reforms and restructuring policies initiated by the Nigerian government through the Central Bank of Nigerian. The reforms gave the banks a lot of challenging issues, because for the first time in the history of the Nigerian banking sector such major reforms were introduced. Some of these challenging issues preceded the global financial crisis in the sector. This research study will attempt to discuss some for them.

Returns on investment According to Adeyemi (2005), after the consolidation period, a lot of challenging issues came up for the banks with the minimum capitalization of 25billion naira. This, he contended, made the managements of the banks to operate under pressure from shareholders who needed quick and maximum returns on their shares. He argued further that, before the consolidation exercise, the average returns on invested capital (ROIC) in the Nigerian banking industry was estimated to be about 38%. With the substantial increase in shareholder fund following from the consolidation exercise, each bank needed to generate an averaged minimum of 9.5billion naira in profit before tax in order to maintain the same rate of return. Therefore the pressure to meet this target by the management of banks has been forcing them to be more innovative and creative in coming up with new products and financing the real sector, which has been neglected for a long period.

System integration Adeyemi (2005) also argued that after the merger and acquisition exercise, integration poses a lot of challenges to the banking institutions that are involved. He argued that most of the consolidated banks lacked the flexibility to respond to global banking challenges that requires technical skills for good judgments on asset management. Furthermore, he contended that the integration of the operation, processes, procedures, people and products as well as allowing the consuming public to see the emerging entity as one group is a daunting challenge which the consolidation banks had to face. In relation to this, Hall (1999) pointed out that experience of consolidation from developed countries shows that the integration of system and human capital sometime takes between 3 to 4 years. Therefore, the urgency at which the CBN carried out the exercise, coupled with the need to have a computerised operation was a basic challenging issue in the banks. Adeyemi (2005) further buttressed his argument that, financial players in the banking industry have constantly argued that computerisation of the entire sector will cost a total of 300 billon naira and some of the banks have already commenced the exercise. He contended that, the successful consolidation and system integration of the 25 big banks notwithstanding, system integration is also required in other sectors like telecommunication, insurance, trade and commerce, power supply, fiscal policy etc. The absence of this would come with the tendencies for disruption in the entire macro-economic development.

Human capital Integration According to Nnanna (2004) harmonisation of cultural differences in the merging banks is a big challenge that needs to be addressed. This is because the merging banks will come with their different attitudes, processes and priorites. He argued further that where integration is not properly done it could lead to disintegration and collapse of banks. This argument is further buttressed by Adeyemi (2005) who argues that two-thirds of mergers worldwide fail due to irreconcilable differences in corporate culture and management squabble. Therefore, the emergence of mega banks in the post consolidation era was an uphill task which required the skills and competencies of boards and management. In the light of this, the integration of human capital in consolidated banks became a burden which a lot of the big banks contended with before the present economic meltdown (Osunkeye, 2008).

Short term view of banking stocks According to Mobolaji (2008) investors who subscribed to bank shares in the consolidation exercise took a short term view of the bank stocks because they invested in the IPO of banks with the intention of making quick money. He added further that these investors were basically gambling on short term volatility which fundamentals of consolidation do not support. These kinds of short- term appreciation particular with shareholders of consolidated banks are some of the challenges banks faced in the post consolidation era. Aluko (2009) buttressed this assertion when he pointed out that the short term investment by shareholders made bank shares to be heavily traded on the floor of the Nigerian stock exchange, with cases of buy back of shares.

Corporate governance The CBN financial report (2005) pointed out that a survey of the Nigerian economy by the SEC shows that about 40% of quoted companies in the stock exchange market, including banks, have no recognized code of corporate governance in place. In addition to this, two thirds of mergers world wide are said to fail due to inability to integrate personnel and systems as well as irreconcilable differences in corporate culture and management squabbles. These are the reason why banking experts say that unless the CBN releases codes of corporate governance, the post consolidation banking sector would still contend with the challenges of high turnover in board and management staff, inaccurate reporting and non-publication of annual accounts.

Re- capitalisation According to Soludo (2005) one of the conditions for participating in the management of the nations external reserve is to re-capitalize to the tune of one billion US dollar. In addition, he stated that any foreign bank that is wishing to manage Nigerian external reserves in the succeeding year must be ready to partner with one or more local banks to develop them into world class players. In contrast, local Banks that recapitalized to the tune of one billion US dollars will receive at least five hundred million US dollar from the reserves to manage. In order to meet the post consolidation requirement some the banks approached the Nigerian stock exchange market either through public offers or right issues. For instance Zenith Bank and Guaranty Trust Bank in early 2008 raised additional fund from the stock market to comply with these directives.

Stock market According to Al-Faki (2005) the consolidation and the spring up of highly capitalised mega-banks has had tremendous concentration effects on the NSE; a development which he says could exacerbate market volatility and instability. He further remarked that SEC and the NSE must constantly monitor the market for signs of weakness in order to protect investors. In addition, he noted that consolidation would create mega banks that would threaten the competing market space with monopolistic tendencies, remarking that SEC will have to be particularly active to prevent this.

3 THE GLOBAL FINANCIAL CRISIS

3.1 Background

In recent history, three economic crises have occurred in the United States of America. The first two were, however, restricted due to limited communication and globalization (Aluko, 2009). The most recent one, which has spread to other parts of the world, started in 2007 in United States of America due to unrestricted lending to sub prime mortgages (Soludo, 2009). The easy spread of this crisis was due largely to improvements in technology, globalization and the removal of various trading barriers. Globalization is defined as the integration of independent countries, with respect to economy, culture and knowledge through modern technology (Allen and Thomas, 2000). This accounted for the quick and deep impact that the crisis had on other economies around the world.

3.2 Causes

Many factors accounted for the present financial crisis. This study will attempt to discuss some of the causes briefly.

I. **Liquidity** Excess liquidity in the United State of America’s financial system made institutions lend to sub prime borrowers in droves because they wanted quick returns on investor funds. This resulted in cases of poor judgments by lenders, speculation in the financial market, and higher personal and corporate debt with disregards to sound regulation (Aluko, 2008).

II. **Credit Contraction** Banks and other financial institutions restored to credit contraction when 25% of the loans granted turned out to be bad loans and 9.5% of all mortgages loans were reported to be delinquent (Komolafe, 2008). The use of this financial instrument minimized the amount of credit that was made available to prospective consumers, particularly when financial institutions were facing difficulties in recovering doubtful debt from the public. According to Soludo (2009) the use of credit contraction made it harder for customers to obtain credit facilities from banks and other financial institution.

III. **Stock Market** The financial institutions in the United States of America did not prevent what could be regarded as over-size corporate risks which slacked and created turmoil in the stock market of the United State of America. This made the stock market inaccessible to raise fresh funds for capital investments. Even the existing stock of investors was consistently depreciating in values, which resulted into loss of confidence and interest in the capital market by investors (Aluko, 2009)

IV. **Pressure to raise funds** The reckless lending led to serious capital inadequacy in many of the financial institutions. And their inability to raise funds from the capital market created another problem. This is what led to credit line recalls by various banks and financial institution across the globe (Soludo, 2009).

3.3 Impacts

The integration of different countries' economies made any crisis in one country's economy to spread to other economies of the world. This became more evident when the crisis occurred in the more advanced countries of America and Europe. As at today, these two continents alone are not facing the impact but the entire world. The collapse of major financial houses in the Wall Street of the United States of America has spread across the world. This research study will attempt to highlight some of the impacts.

I. **Liquidity and credit crunch**. The use of credit contraction by financial institution in Europe and United States of America led to serious liquidity and credit crunches in almost all the financial industry across the globe. Liquidity and credit crunches manifest strongly among the investment banks that act as intermediaries to companies and investors in London and other parts of the world (Komolafe, 2008).

II. **Credit Lines recall** When financial institution could not approach the stock exchange for fresh capital and the need for capital adequacy in their balance sheet became necessary, the banks and institutions began the process of recalling their credit lines which they had extended to other banks and institutions. Credit lines are facilities given to banks to boost their foreign exchange transactions. In the past, credit lines were usually not recalled immediately but gradually. But this time, because of the present global financial crisis, and its effects on the balance of banks, they had to recall these credits lines immediately (Soludo, 2008).

III. **Financial Institutions' Revenue contraction**. Bank liquidity is characterized by a high level of trading, and therefore the amount of liquid assets held by a bank determines its capacity to meet customers' demands (Iganiga, 1998). One major outcome of credit recalls by banks and financial institutions was a liquidity crisis in various banks across the globe. As a result of this, banks could not meet their customer's demands for loans and advances that could have earned them revenue.

IV. **Capital market downturn** The use of credit contraction to contain credit facilities by banks and institutions, led to disinvestments by foreign investors and the collapse of stock markets across the globe (Aluko,2008).

From the above analysis it became obvious that the crisis was well spread, despite having its roots in the United State of America. And this was made possible because of improvements in communication and globalizations concepts.

4 EMPIRICAL STUDY

This study relies on both primary and secondary data. The latter is obtained from the official website of the Central Bank of Nigeria and the Nigeria Deposit Insurance Corporation. The primary data, collected by the author, is used to complement data from the secondary sources, to provide answers to the research questions.

4.1 Research Method

The research instrument used for obtaining the primary data for this research study is a questionnaire. According to Jamiyu (2008), a questionnaire is a set of questions formulated to obtain data for analysis. He further pointed out that the results from a questionnaire can be used to provide answers to research questions and used also to test relevant hypotheses.

In this research study, a total of forty-eight (48) questionnaires were administered by email to selected stakeholders. But the number of questionnaires that were duly completed and returned was thirty (30). The stakeholders include, shareholder of the banks in the Nigerian banking industry, employees of banks and bank depositors.

Jamiyu (2008) also argued that the use of descriptive statistics and a frequency table can be used to extract for example, opinions of question raised in a research study. He emphasized further that descriptive statistics and a frequency table enable a researcher to effectively analyze data collected from the questions which addressed the respondent to the questions posed in the questionnaire. Based on the above, the primary data collected in this research study will be presented in Table I, and with their corresponding percentages interpreted.

Data analysis In the process of answering the questions, this study considers the uses of a Chi-Square statistic as a method to test the hypotheses raised in this research study. According to Newbold et al, (2007), the Chi-Square method is a statistical method used to determine whether an observed distribution of answers shows a significant difference from a hypothetical distribution of answers. Assume that there are answers which can be divided into *K* categories. Let the number of observed answers in category *i* be O_i and let the number of expected answers of type *i* be E_i. Then the chi-square statistic is

$$\chi^2 = \sum_{i=1}^{K} \frac{(O_i - E_i)(O_i - E_i)}{E_i}, \tag{1}$$

Where the degree of freedom is *K-1*. If the different between the E_i:s and the O_i:s is small then χ^2 takes a smaller value. Then the hypothesis represented by the expected values (E_i), is more likely to be confirmed.

The outcome of the hypothesis test is based on the level of significance. This is the statistical standard which is specified for rejecting or accepting the null hypothesis. The rejection of the null hypothesis implies the automatic acceptance of the alternative hypothesis. The reverse is true when a null hypothesis is accepted. Under the chi-square test, if the calculated value happens to be greater than our statistic value, then we reject the null hypothesis, meaning that there is a significant difference between the observed and the expected frequencies.

4.2 Data Presentation

Below is a tabular presentation obtained from the questionnaire distributed to the stakeholder in the Nigerian banking industry. In particular, the frequency of Yes and No answers to various questions are shown. Moreover, some inductive inference is included, but note that this is not build on the chi-square tests that follows. Rather it is a summary of the questions and answers from the respondents.

Questions	Percentage of Respondents	Yes	No	Inductive inference
Did all the banks comply with the central bank	100%	100%	-	All the banks have a minimum of #25B as capital base.

directive of recapitalization of capital?				
Do you agree that the time allowed for recapitalization affected the operation of the banks after the recapitalization exercise?	100%	86.79%	13.33%	Which means the time allowed for recapitalization did not affects the banks
Is the state of the economy connected to the present financial crisis in the banks?	100%	66.6%	33.3%	This show that the state of the economy is very related to the present crisis in the banks/
Do you think the recapitalization exercise that changes the ownership structure of bank is significance related to the present financial crisis in the banking industry?	100%	90%	10%	Change of ownership is not related to the present financial crisis.
How will you rate your bank in terms of customer service relation after the recapitalization exercise?	100%	60.0%	39.9%	Majorities of the respondents contended that customer service was excellent.
Is the management of your bank competent to manage	100%	56.6%	43.4%	This Indicate that the management of banks are competent to manage

investment in the real sector of the economy?				investment in the real sector of the economy.
Do you think there is any significance relationship between poor management of capital base of bank and the present financial crisis in the banking industry?	100%	80%	20%	There is no significance relationship between poor management of capital base of bank and the present financial crisis in the banking Industry
Do you think there is any relationship between Top level management of consolidated banks and the present financial crisis in banking industry?	100%	90%	10%	There is no significance relationship between top level management of consolidated banks and the present financial crisis in the banking industry.
Do you think there was appropriate protection for the shares of consolidated banks in the stock market?	100%	93.3%	6.7%	This shows that there was appropriate protection for the share of consolidated banks in the stock market.
Do you think foreign direct portfolio investment is healthy for Nigeria banking Industry? Do you think the various policies are adequate to protect bank lending in the	100% 100%	53.3% 53.3%	46.7% 46.7%	This is an indication that direct portfolio investment is healthy for Nigeria banking industry. The various policies are adequate to protect bank lending in the Nigeria banking Industry.

Nigeria banking industry?				
Do you recommend policy driven consolidation exercise for banks?	100%	13.7%	86.3%	Policy driven consolidation is not recommended for banks.
Do you think the present Global financial crisis resulted from the consolidation exercise?	100%	46.6%	53.3%	The present global financial crisis did not resulted from the consolidation exercise.
How will you rate the entire consolidation exercise in the banking industry?	100%	90.0%	10%	This indicates that the entire consolidation exercise in the banking industry is good and above average.

Table 1 - Data description.

4.3 Chi-square tests

Now follow the chi-square tests of hypotheses related to the questions in the previous table. The tests are constructed such that the expected number of answer is equally high in each category (Yes and No). Since the numbers of respondent were 30, we thus have $E_i = 15$ in all the three tests.

Test One

The first hypothesis is related to Question eight: Do you think there is any significant relationship between top level management of consolidation banks and the present financial crisis in the banking industry? This leads us to the following two hypotheses.

H_o: There is no significant direct relationship between top level management of consolidated banks and the present financial crisis in the Nigerian banking industry.

H_1: There is a significant direct relationship between top level management of consolidated banks and the present financial crisis in Nigerian banking industry.

The answers to this question are summarized as follows.

Response	No. of Respondents	Percentage
No	27	90%
Yes	3	20%
Total	30	100%

These answers can then be translated to variables that can be used to compute the χ^2 statistic.

Oi	Ei	Oi - Ei	(Oi - Ei) 2	(Oi - Ei)2/Ei
27	15	12	144	9.6
3	15	-12	144	9.6
30	30	0	288	19.2

Using this information in the χ^2 formula (1) we have,

$$\chi^2 = (27 - 15)^2 / 15 + (3 - 15)^2 / 15$$

$$\chi^2 = 19.2$$

Using the 95% confidence level (0.05) at 1 degree of freedom, the theoretical chi-square value is 3.84. Therefore the calculated chi-square of 19.2 is greater than the critical 3.84.

We therefore reject the Null- hypothesis that there is no significant direct relationship between top level management of consolidated banks and the present financial crisis in the Nigerian banking industry.

Test Two

The second hypothesis is connected to Question Four: Do you think the recapitalization exercise that changed the ownership structure of banks is significantly related to the present financial crisis in the banking Industry? This leads to the second pair of hypotheses.

H_o : There is no significant relationship between ownership structure of consolidated banks and the present financial crisis in the Nigerian banking industry.

H_1 : There is a significant relationship between ownership structure of capitalized banks and the present financial crisis in the Nigerian banking industry

The answers are summarized as follows.

Response	No of Respondents	Percentage
Yes	24	90%
No	6	10%
Total	30	100%

These answers are then translated to variables that can be used to compute the χ^2 statistic.

Oi	Ei	Oi- Ei	(Oi-Ei)2	(Oi-Ei)2/E
24	15	9	81	5.40
6	15	-9	81	5.40
30	30	0	162	10.80

It follows that the Chi square statistic is

$$\chi^2 = [(24 - 15)^2 / 15] + [(6 - 15)^2 / 15].$$

$$\chi^2 = 5.40 + 5.40$$

$$\chi^2 = 10.80.$$

Using the 95% confidence level (0.05) at 1 degree of freedom, the theoretical chi-square value again is 3.84. Therefore the calculated chi-square of 10.80 is greater than the critical level 3.84. We therefore reject the Null- hypothesis that there is no significant relationship between ownership structure of consolidated banks and the present financial crisis in the Nigerian banking industry.

Test Three

Finally, the third hypothesis is formulated from Question seven: Do you thinks there is any significance relationship between poor management of capital base of banks and the present financial crisis in the banking industry? We therefore formulate the following two hypotheses:

H_o : There is no significant relationship between poor management of the capital base of consolidated banks and the present financial crisis in the Nigerian banking industry.

H_1 There is a significant relationship between poor management of the capital base of consolidated banks and the present financial crisis in the Nigerian banking industry.

The following table summarizes the answers.

Response	No. of Respondents	Percentage
Yes	24	80%
No	6	20%

The answers obtained from the questionnaires are also translated into variables that enable the use of the χ^2 statistical computation.

Oi	Ei	Oi-Ei	(Oi-Ei)2	(Oi-Ei)2/E
16	15	1	1	0.6
14	15	-1	1	0.6
30	30	0	2	1.2

Thus in this case, the Chi-square statistic is

$$\chi^2 = (16 - 15)^2 / 15 + (14 - 15)^2 / 15$$

$$\chi^2 = (0.66) + (0.66).$$

$$\chi^2 = 1.2$$

Under the same condition as before, namely a 95% confidence level (0.05) at 1 degree of freedom, the theoretical chi-square value is 3.84. The calculated chi-square value 1.2 is thus less than the critical 3.84. We therefore accept the Null- hypothesis that there is no significant relationship between poor management of the capital base of consolidated banks and the present financial crisis in the Nigerian banking industry

4.4 Findings

The Statistical findings obtained from this research are now used to provide answers to the following research questions.

I. What was the position of banks before the global financial crisis?

II. What are the impacts of the global financial crisis on the Nigerian banking industry?

III. What made the crisis spread to the Nigerian banking industry?

I. **What was the position of banks before the global financial crisis?**

The position of the Nigerian banking industry before the global financial crisis reflects a post consolidation era in the banking industry. Evidence from the primary source of data collected indicates that all the banks complied with the #25billion capital base requirement in the industry. In addition, the sudden policy shift of recapitalization did not impact negatively on the operation of the banks. This means that the banks were strong, sound and reliable to play the role of financial intermediation in economic growth and development of the entire nation before the global financial crisis. The stakeholder views are supported by Somayo (2008), who writes that the recapitalization exercise made it easy for ordinary business people to access public fund held by banks. He went further in the paper to point out that the total asset base of the entire bank sector rose from #3,753.28billion (US$28.250million) in 2004 to #6400.78billion (US$49.88million) indicating a 70.54% growth within the period. He contended that the growth rate represents an impressive performance of the banks in the industry.

The banks customer service relations in the industry before the global financial crisis were also good enough to attract deposits funds. This is reflected in the increase in average money deposited by customers, from #10.482.36billion in 2004 to #188.478.55billion, implying a 1690.05% growth (CBN Report, 2006). It was also confirmed by respondents that the management of the banks is competent to handle investment in the real sector of the Nigerian economy. The CBN annual report (2006) buttresses the claim when it reports that credit to private sector/GDP rate in the Nigerian economy before the financial crisis stood at 27.82% compared to 26.6% of the previous years.

II. What are the impacts of the global financial crisis on the Nigerian banking industry?

From this first research question, this research study has been able to establish the position of banks before the global financial crisis from the primary source of data. To address the impact of the global financial crisis this study is relying on the secondary sources of data. Evidence from the secondary data indicates that the global financial crisis was manifested strongly in liquidity crisis due to the withdrawal of credit lines by foreign banks (Soludo, 2009). According to the CBN annual report (2008), in order to cushion the impact of the global financial crisis and ensure adequate bank liquidity, the Monetary Rate of Policy (MRP) was reduced from 10.25% to 9.75% and the Cash Requirement Ratio (CRR) was also reduced from 4% to 2%. In addition to this, the rate at which banks lend to each other, the Inter Bank rate was also increased from 14.01% to 15.79%.

The impact of the global financial crisis on the Nigerian banking industry was also reflected in the Broad and Narrow money. During this period, the Broad and Narrow money contracted by 1.9% and 3.9% respectively, compared to the preceding quarter. According to the CBN Quarterly report (2008) the decline in Broad money was as a result of the fall in the asset values of the banking system caused by the global financial crisis.

Furthermore, the lending and deposit rates have increased since the global financial crisis began. Evidence from the CBN annual Report (2008) indicates that the maximum lending rate has widened from 8.13% to 9.97%. Also, the margin between average saving deposit and maximum lending rate has widened from 16.62% to 19.33% during this period of crisis. These various impacts led to a confidence crisis in the banking industry and consequently to the capital market downturn**.** Presently, disinvestment by foreign investors with attendant tightness has resulted in capital market downturn. The ASI has declined, exhibiting a secular bear posture since July 17th, 2008 when at ASI-52,910 the index fell below 20% of its all-time high, and continued to fall (Aluko, 2009). In terms of capital decline, the Nigeria capital market has since the March 5th, 2009 lost to date about 3.38trillion or about 26.7%.

III. What made the crisis spread to the Nigerian banking industry?

Evidence from this research study shows that immediately after the consolidation exercise of bank, the banks had a lot of liquidity to meet customer demand for loans and advances. In addition to this, the banks were desperate to meet the required minimum rate of return on investment. This could be regarded as their own concept of sub-prime mortgage, because banks borrow money to customers to investors in the IPO's of the same banks. So when foreign investors withdrew their credit lines, the impacts manifested strongly as a lot of the banks loans became toxic.

Further, the CBN pronouncement after the consolidation exercise that banks with a minimum of one billion dollars will be allowed to participate in the management of the country's foreign reserves was untimely. This might to a large extent have increased the level of their exposure to financial institutions with poor record of capital adequacy. Therefore, when these financial institutions began to recall their credit lines the Nigerian banks became more vulnerable to the crisis.

5. Discussion & Recommendations

The statistical analysis pointed out implying that the present global financial crisis is significantly related to top management of consolidated banks and the ownership structure of banks in Nigeria. These two contentions are determined by the state of the entire economy. Onyekakeyah (2008) describes the Nigerian economy as a crude oil oriented economy and therefore refers to it as a commodity based economy. He pointed out in the paper that the price of crude oil at the international market determines the amount of revenue that flows into the economy. Further, he mentioned that the recent global economic crisis has reduced the price of crude oil from $140 per to $60 per barrel. This has seriously affected the inflow of revenue and resulted in macroeconomic instability in the Nigerian economy. The CBN annual report (2008) also buttresses this argument, by pointing out that the proceeds from the sale of crude oil accounted for 80% of Nigerias GDP. Somoye & Ilo (2008) also argued that the general performance of the economy is reflected by the macroeconomic aggregates which include, gross domestic product, employment level, industrial capacity utilization, inflation, money supply and exchange rate. They argued further that banks' performance depends on these factors and that banks at different points in time during their operations adjust their lending tendencies to suit the prevailing macroeconomic environment. Macroeconomic instability in the Nigerian economy has been a consistent trend because the survival of the economy depends on revenue from the sale of crude oil. This is because the annual budget of the entire Nigerian economy is based on the expected proceeds from the sale of crude oil. Onyekakeyah (2008) again stated that the Nigerian government operates a bubble economy that cannot withstand the problem of illiquidity. If the government experiences a shortfall, the various tiers of government seek a bail out from banks to finance their budget deficits. Data obtained for this study, pointed out that the present global financial crisis is related to the internal management attitudes of the banks and also that the state of the economy is strongly connect to the global financial crisis. Therefore banks became grossly affected when the economy run short of revenue due to shortfall in the price of crude oil at the international market. What could be observed as responsible for the present global financial crisis of the Nigerian banks is the characteristic feature exhibited by the Nigerian economy. To avoid this undue pressure from government agency on banks, Obamuyi (2008) suggested a financial liberalization. He pointed out that a financial liberalization in the economy would facilitate the flow of funds for private sector development and generates increased savings, investment and efficient allocation of capital for economic growth. He argued that a financial liberalization policy would encourage interest rate administration, saving behavior and bank credit to the economy.

6 CONCLUSION

The purpose of this research study is to discuss the impacts of the global economic crisis on the Nigerian banking industry. This has become necessary because the present financial crisis in the Nigerian banking industry has been attributed to a lot of factors. The characteristic features of the Nigerian banks show that the banking sector before the global financial crisis was sound and vibrant enough to support the nation's economic growth and development. This is evident from the questionnaire that was distributed to stakeholders in the banking industry. But the management teams attempt to boost the standards of their banks and also to have high returns on investments, and therefore have exposed some the banks to the financial crisis. The impacts of the crisis could have been avoided if there were precautionary measures. This study, will suggest the following.

I. The Nigerian banks do not have access to long term deposits that would enable them to grant long term loans to their customers. This made the banks to over rely on foreign financial institution and banks for credit lines. In order to avoid this, the Nigerian government through the CBN should organize and strengthen the growth of institutions like the pension fund, Housing fund, Health insurance fund etc. This could be achieved through a financial liberalization policy.

II. The Nigerian government should find alternative ways to fund their budget deficit so as to reduce the pressure of financing projects in the real sector of the Nigerian economy by banks.

III. Nigeria Deposits Insurance Corporation should strengthen its legal frame on insuring of deposit fund. This will create confidence in the mind of the public.

IV. Banks should stop giving out loans to invest in the stocks of banks that are quoted in the Nigerian stock market.

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APPENDIX

Appendix A: The Chi-square table

	$\chi^{2\,0.995}$	$\chi^{2\,0.99}$	$\chi^{2=0.975}$	$\chi^{2\,0.95}$	$\chi^{2\,0.90}$	$\chi^{2\,0.75}$	$\chi^{2\,0.50}$	$\chi^{2\,0.25}$	$\chi^{2\,0.10}$	$\chi^{2\,0.05}$	$\chi^{2\,0.025}$	$\chi^{2\,0.01}$	$\chi^{2\,0.005}$
1	7.88	6.63	5.02	3.84	2.71	1.32	0.455	0.102	0.0158	0.0039	0.0010	0.0002	.0000
2	10.6	9.21	7.38	5.99	4.61	2.77	1.39	0.575	0211	0.103	0.0506	0.0201	.0100
3	12.8	11.3	9.35	7.81	6.25	4.11	2.37	1.21	0.584	0.352	0.216	0.115	0.072
4	14.9	13.3	11.1	9.49	7.78	5.39	3.36	1.92	1.06	0.711	0.484	0.297	0.207
5	16.7	15.1	12.8	11.1	9.24	6.63	4.35	2.67	1.61	1.15	0.831	0.554	0.412
6	18.5	16.8	14.4	12.6	10.6	7.84	3.45	2.220	1.64	1.24	0.872	0.676	0.676
7	20.3	15.1	16.0	14.1	12.0	9.04	6.35	4.25	2.83	2.17	1.69	1.24	0.989
8	22.0	20.1	17.5	15.5	13.4	10.2	7.34	5.07	3.49	2.73	2.18	1.65	1.34
9	23.6	21.7	19.0	16.9	14.7	11.4	8.34	5.90	4.17	3.33	2.70	2.09	1.73
10	25.2	23.2	20.5	18.3	16.0	12.5	9.34	6.74	4.84	3.94	3.24	2.56	2.16
11	26.8	24.7	21.9	19.7	17.3	13.7	10.3	7.58	5.58	4.57	3.82	3.05	2.60
12	28.3	26.2	23.3	21.0	18.5	14.8	11.3	8.44	6.30	5.23	4.40	3.57	3.07
13	29.8	27.7	24.7	22.4	19.8	16.0	12.3	9.30	7.04	5.89	5.01	4.11	3.57
14	31.3	29.1	26.1	23.7	21.1	17.1	13.3	10.2	7.79	6.57	5.63	4.66	4.07
15	32.8	30.6	27.5	25.0	22.3	18.2	14.3	11.0	8.55	7.26	6.26	5.23	4.60
16	34.3	32.0	28.8	26.3	23.5	19.4	15.3	11.9	9.31	7.96	6.91	5.81	4.14
17	35.7	33.4	30.2	27.6	24.8	20.5	16.3	12.8	10.1	8.67	7.56	6.41	5.70
18	37.2	34.8	31.5	28.9	26.0	21.6	17.3	13.7	10.9	9.39	8.23	7.01	6.26
19	38.6	36.2	32.9	30.1	26.2	22.7	18.3	14.6	11.7	10.1	8.91	7.63	6.84

Source: Extract from Catherine M. Thomson, Table of percentage points of the χ^2 distribution

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