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Banking Industry as a Central Nervous System of an Economy, the Role, Challenges and Prospects

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Abstract

The study aimed at examining banking industry as a central nervous system of an economy with particular emphasis on its role and challenges in Nigeria. In achieving the objective of the study, the study adopted only secondary sources of data to present and analyse the information leading to its recommendations. The testing of hypotheses was done using regression analysis with SPSS version 17.0. The research discovered among others that, there is no significant relationship between loan default, insider abuse and bank distress and there is no significant relationship between unemployment, bank distress and Gross Domestic Product (GDP). These findings are attributable to the fact that bank distress became a non-issue from 2005 to date while the other variables are still occurring in the banking sector. The research recommends among others that financial agencies should urgently compel all the banks management to address the weak corporate governance in order to correct the inaccurate reporting and non-compliance with regulatory requirements, falling professional ethics and de-marketing of other banks in the banking industry in Nigeria.

Key Words: *Bank Distress, Unemployment, Gross Domestic Product, Banking Sector, and Economy*

Introduction

Banking industry is among the most important financial institutions in the economy of any nation. According to Rose (1999), they are the principal source of credit (loanable funds) for millions of households (individuals and families) and for most local unit of government (school districts, cities, countries, etc). She further maintained that for small local businesses ranging from grocery stores to automobile dealers, banks are often the major source of credit to stock them with merchandise or to fill a dealer’s show room with new cars. According to Rose (1999), when businesses and consumers must make payments for purchases of goods and services, more often than not they use bank provided cheque books, credit or debt cards, or electronic accounts connected to a computer network. In addition, according when they need financial information and financial planning, it is the banker to whom they turn most frequently for advice and counsel.

Rose (1999), states aptly that banks are financial service firms, producing and selling professional management of the public’s funds as well as performing many other roles in the economy such as intermediation role, the payments roles, the guarantor role, the agency role, and policy role. In Nigeria, according to Ofanson, Aigbokhaevbolo and Enabulu (2010), the banking industry is the hub of productive activity, as it performs the vital role of financial intermediation and effecting good payments system as well as assisting in monetary policy implementation.

The process of financial intermediation involves the mobilization and allocation of financial resources through the financial (money and capital) market, by financial institutions (banks and non – banks) and by the use of financial instruments (savings, securities and loans) (Ofanson, Aigbokhaevbolo and Enabulu, 2010). In the words of the above authors the efficiency and effectiveness of financial intermediation in any economy depend critically on the level of development of the country's financial system. In effect, the underdeveloped nature of the financial system in most developing countries accounts largely for the relative inefficiency of financial intermediation in those economies. In these countries, the financial system is dominated by banks, which are typically oligopolistic in structure and tend to concentrate on short – term lending as against investment with long – term gestation period (Ofanson, Aigbokhaevbolo and Enabulu 2010).

Okpara (2009) supports the above ideas when he noted that banks represent the nerve centre of the payment system, the vessel endowed with the ability of money creation and allocation of financial resources and conduit through which monetary and credit policies are implemented. The success of monetary policy, to a large extent, depends on the health and stability of the banking institutions through which policies are implemented. As a result of this central role of banks in the economy, their activities have kept under surveillance to ensure that they operate within the law in line with safe and sound banking practices so that the economy will not be jeopardized. Hence, governments generally legislate to influence and directly control banks activities to suit the developmental objectives of the economy (Okpara 2009).

Okpara (2009), states that legislation was absent in the Nigeria banking system from August 1891 that marked the establishment of commercial banking in Nigeria to 1952 when the banking ordinance was enacted. The era of supervision, examination and control of banks in Nigeria was necessitated by the banking ordinance of 1952 and subsequent amendments made especially with the establishment of Central Bank of Nigeria (CBN) Act of 1958. The establishment of CBN created the platform for adoption of monetary management by indigenous personnel, stricter rules and regulations, and improved institutional facilities (Okpara 2009).

Statement of the Problem

In contemporary business world because of tough competition, the banking industry that plays different role in the economic development of any country is confronted with many problems and challenges. Nigerian banks are confronted with problems such as weak corporate governance, late or non-publication of annual accounts, gross insider abuses, insolvency, over dependency on public sector deposits and neglect of small and medium class savers. Banks in Nigeria are also confronted with challenges such as imbibing best practice corporate governance, improvement of self regulation practices of banks and other challenges. This study seeks to provide answers to the various problems and challenges encountered by banks in Nigeria.

It is against this backdrop that this study is conducted to find out the effects of loan default and insider abuse (fraud) on the operations of the banking industry; and the

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effect of bank distress on Gross Domestic Product and unemployment in Nigeria. Based on this, the following two research questions are formulated to guide the study: (i) What are the effects of loans default and insider abuse (fraud) on the operations of banking industry with respect to banks distress in Nigeria? (ii) How does a bank distress affect Gross Domestic Product and unemployment in Nigeria?

Hypotheses of the Study

The following hypotheses were designed the study:

Ho_1 Loans default and insider abuse (fraud) does not have significant effect on the operations of banking industry with respect to banks distresses in Nigeria.

Ho_2 Banks distresses have no positive and significant effect on the nation's gross domestic product and unemployment in Nigeria.

Literature Review

The Principal Role of Banks in Nigerian Economy

While many people believe that banks play only a narrow role in the economy taking deposits and making loans, the modern bank has had to adopt new roles in order to remain competitive and responsive to public needs. Rose (1999) states that the banking industry principal roles today are as follows: -

The Intermediation Role: Banks transform savings received primarily from households into credit (loans) for business firms and others in other to make investments in new buildings, equipment, and other goods.

The Payment Role: Banks carry out payments for goods and services on behalf of their customers (such as by issuing and clearing cheques, remitting funds, providing a conduit for electronic payments, and dispensing currency and coin).

The Guarantor Role: Banks stand behind their customers to pay off customer debts when those customers are unable to pay (such as by issuing letters of credit).

The Agency Role: Banks act on behalf of customers to manage and protect their property or to issue and redeem their securities (usually provided through the bank's trust department).

The Policy Role: Bank serves as a conduit for government policy in attempting to regulate the growth of the economy and pursue social goals.

According to Anyaele (2005), the role of banks in the economic development of Nigeria in and West Africa in general are as follows:-

1. Commercial banks make both short-term and medium term loans and overdrafts available to those involved in economic activities.

Short Term Loans: These loans are advanced for the period of six months to one year. This loan attracts interest that is charged on the account.

Medium Term Loans: These loans are given for the period of one to five years. This loan attracts interest that is charged on the account.

Overdrafts: This is a facility which allows trustful customers to draw more than the deposit they have in the bank. Banks charge interest on overdrafts.

2. Commercial banks through issuance of traveler's cheques and opening of letters of credit help in the development of international trade which contributes to the economic development of Nigeria in particular and West Africa in general.
3. Banks render expert financial advice to those engaged in various businesses that involved directly or indirectly in economic development activities.
4. Commercial banks play significant role in food production by directly or indirectly giving agricultural loans to farmers, and sponsoring agricultural conferences/seminars.
5. Banks offer employment opportunities in their banks to many citizens thereby contributing to manpower development and reducing the rate of unemployment in Nigeria and in West Africa in general.
6. Commercial banks discount bills of payments for their customers before their maturity dates, this help to make more money available for economic activities in a country.

Commercial banks use the difference types of cheques provided them to assist in increasing economic activities and also making remitting of money easy.

Commercial banks participate in the buying and selling of shares and stocks and Federal Government treasury bills which contributes in the development of money and capital markets which are important indices to economic development.

According to Swiss Bankers Association Media Seminar (2002), the responsibility for sustainable economic development and good governance is another important role of banks in a national economy.

Swiss Bankers Association Media Seminar (2002) notes that banks are expected to maintain proactive promotion of sustainable funds. It must be a part of the strategy of every bank to increase the percentage of money invested in sustainable or viable securities from today's 0.15% to 5%, 10% and 20%. More and more clients want their money to be invested in an ethical way and viable ventures. This demands the institutionalization of corporate governance in the banking industry.

Ogunleye (2010) mentioned the following as the importance of good corporate governance. Good corporate governance requires additional decency and safety rules such as:

No chairman of the board of directors of a given company should also hold the post of chief executive officer;

There should be no reciprocal mandates between the boards of directors of two companies;

We must have transparency with regarding the compensation paid to boards of directors, the salaries of executive board members of executive boards, with bonuses and severance payments show in the annual reports.

Publication of reserves, investments and risk analyses.

In performance-related pay for boards of directors and executive boards, not only the return must play a role, but also factors such as sustainability strategies, employee satisfaction and ethical behaviour.

Managers' salaries must not depend on share options, as this tempts them to think in terms of the next quarter and leads to one-sided stock maintenance measures.

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Challenges of Banks in Nigeria

Soludo (2004) highlighted the following challenges of Nigerian Banks in the 21st Century:

Imbibing Best Practice Corporate Governance: Banks are expected to imbibe best practice corporate governance in all their operations in order to eradicate some of the bad sharp practices in the banking industry.

Improvement of Self-Regulation Practices of Banks: Financial institutions are expected to improve on their self-regulation practices in order to improve their operations.

Enhancement of Banks Capital Base: Banks are expected to improve in their capital base in order to impose more confidence in the mind of their customers and members of the public.

Institute IT Driven Culture: The need to institute information technology driven culture in all their operations cannot be over-emphasized as the introduction of more sophisticated computer equipments will improve the customer's service and entire operations of the banks.

The Urge to be Competitive in today's Globalizing World: Banks need to seek to be competitive in today's globalizing world which calls for the need for banks to be competitive in all their operations in today's globalizing world. These competitive pressures have acted as a spur to develop still more services for the future.

Diversification of the Productive Base on the Economy: The diversification of the productive base of the economy remains a fundamental challenge of economic management, and banks will increasingly be challenged to become more innovative in their intermediation function, and especially to increase financing to the productive sectors.

Rising Funding Costs: Rose (1999) highlight additional challenges affecting all banks, one of them is raising funding costs. Deregulation, in combination with increased competition, dramatically increased the real average cost of selling deposits which the principal source of funds for most banks. With deregulation, bankers are forced to pay competitive market determined interest rates for the bulk of their deposit funds. At the same time, government regulators have demanded that banks use more of their owner's capital a highly expensive source of funds to support banks' assets. These more expensive sources of funds have encouraged banks to look for ways to cut other operating expenses, such as reducing the number of employees and replacing aging equipments with modern electronic processing systems.

Consolidation and Geographic Expansion: Rose (1999) state that banks have had to expand their customer base by reaching into new and more distant markets and by increasing account volume. The result has been a dramatic increase in bank branching activity, the formation of holding companies that purchase smaller banks and enclose them in large multiple-office banking institutions, and mergers among some of the largest banks in the industry (such as Chemical Bank and Chase Manhattan in New York or Bank America and Nations bank).

With the spread of automation in the industry, more banks will branch into distant regions electronically with automated teller and telecommunications equipment a much cheaper way to expand the size of their markets than building elaborate new facilities.

Increased Risk Of Failure And The Weakening Of Government Deposit Insurance System: Rose (1999) further state that while consolidation and geographic expansion have helped to make many banks less vulnerable to local economic conditions, increasing competition between banks and non banks coupled with problem loans and a volatile economy have led to bank failure in nations all over the world.

Soludo (2004) highlighted as follows the suggestions which would assist to reduce/eliminate the challenges of banks in Nigeria. (i) The requirement that minimum capitalization for banks should be ₦ 25 billion will be fully complied with before the end of December 2005. He maintained that the adoption of a risk focused, and rule – based regulatory frame – work would be enforced. In the interest of preserving the integrity of the banking system, transparency and probity, Central Bank of Nigeria will insist on the rules and regulatory frame work, in the interest of Nigeria and Nigerians. (ii) The need for the adoption of zero tolerance in the regulatory frame work especially in the area of data / information rendition/reporting. It would be made mandatory that all returns by banks must now be signed by the managing directors of the banks. The so-called 're-engineering' or manipulation of accounts especially in hiding of information under 'other assets/liabilities' and off – balance sheets will henceforth attract serious sanctions. (iii). Soludo promised that the automation process for rendition of returns by banks and other financial institutions through the electronic Financial Analysis and Surveillance System (e – FASS) will be completed expeditiously.

Further measures are the maintenance of the strict enforcement of the contingency planning frame work for systemic banking distress; working towards the establishment of an Assets Management Company as an important element of distress resolution in the banking industry; the revision and updating of relevant laws, and drafting of new ones relating to the effective operations of the banking system and Central Bank of Nigeria closer collaboration with the Economic and Financial Crimes Commission (EFCC) in the establishment of the Financial Intelligence Unit (FIU), and the enforcement of the anti – money laundering and other economic crime measures. Greater transparency and accountability will be the hallmark of the system.

Prospects of Banks in Nigeria

Elumelu (2005) in his paper titled Investment, Finance and Banking in Nigeria; Evolution and New Opportunities states the following as the prospects of banks in Nigeria:

The Opportunity to Create Mortgage Loans and a Market for Mortgage Backed Securities: Elumelu state that the opportunity fro banks in Nigeria to create mortgage loans and a market for mortgage backed securities have estimated market potential which is in excess of ₦18 trillion (US$ 136 billion).

Creating a Market for Consumer Finance and Micro Credit: According to Elumelu, the huge population of the country and the growing new middle class present a very viable opportunity to develop this market.

Creating and Developing a Market in Long Term Debt Instruments: Elumelu emphasized the importance of creating and developing a market in long term debt

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instruments and this includes government bonds, corporate bonds and asset-backed securities.

Syndication of Large Deals in the Oil & Gas, Telecommunications, Infrastructure and Energy Sectors: Elumelu stressed the importance of syndication of large ticket deals in the oil & gas, telecommunications, infrastructure and energy sectors.

Corporate and Project Finance Opportunities: Elumelu stressed the need for banks in Nigeria to exploit corporate and project finance opportunities in order to improve their profit and increase customers' patronage.

Venture Capital Business: Finally, Elumelu stressed the need for banks in Nigeria to venture into capital business in order to improve their profit and increase customers' patronage.

How to Actualize the Prospects of Banks in Nigeria

Soludo (2008) highlighted as follows how the prospects of Banks in Nigeria can be actualized:

1. Establishment of legal Reforms: - Soludo advocated the establishment of legal reforms to fast track markets/institutions for efficient credit system. This will encourage the creation of markets for consumer finance and Micro credit.
2. Governments to address critical Infrastructures: - Soludo advocated that government at all levels that is the Federal, state and Local Governments should make concerted effort to address deficiencies and carry out necessary repairs in respect of critical infrastructures relating to power, transport, ports and water. This will assist to reduce cost of funds for banks, improve their profit and encourage banks participation in venture capital business. It will also encourage banks deals in the oil and gas, telecommunications, infrastructure and energy sectors.

It should also be noted that when critical infrastructures that is power, transport, ports, water are addressed banks would be able to exploit corporate and project finance opportunities which will improve their profit and increase customers' patronage.

Creation of Mortgage and Consumer Credit Reforms: - Soludo advocated for the creation of mortgage and consumer credit reforms, it is expected that this measure would assist to improve banks opportunities to create mortgage loans and the market for mortgage backed securities.Continued Strengthening of Regulatory and Supervisory capacity of the banks by Central Bank of Nigeria and Nigeria Deposit Insurance Corporation. Soludo finally advocated for continued strengthening of regulatory and supervisory capacity of the banks by central bank of Nigeria and Nigeria deposit Insurance Corporation. It is expected that this measure will assist to develop the market in long term debt instruments.

Contributions of the Banking Industry to the Economy

Ibru (2008) highlighted as follows the contributions of banks to the economy. She said that the intervention of banks in the provision of funds for different stages of business pursuits is a boost for the economy.

Supporting the Private Sector: Ibru (2008) states that bank's key areas of support to private sector development are: - Provision of loan and overdraft; Private project financing; Investment promotion; Investment finance; and Offering technical support to individual enterprises.

Provision of Loan and Overdraft Loan

Anyaele (2002) defines loan as a bulk of money a bank gives to its customers that meet the requirements for such money. He states that it is 'easier for a customer to get a loan from a bank than another person or organization that has no accounted especially current account. He further emphasized that commercial banks demand collateral security from people or organizations that want this type of credit facility. The borrower pays interest on the loan which depends on the amount and the period the loan will last.

Overdraft

Anyaele (2002) sees overdraft as the type of credit facility that only those customers who operate current account can enjoy it. This facility allows a customer to withdraw an amount more than the amount he has in his account. Banks charge interest on overdrafts.

Private Project Financing

Ibru (2008), states that banks grant loans and overdrafts to private companies and individuals which assist in private project financing.

Investment promotion: Banks promote investments such as trade education and other types of investments by sponsoring trade fair/exhibitions of products of those companies.

Investment Finance: Banks through issuing of traveller's cheques and opening of letters of credit assist in investment finance.

Offering Technical Support to Individual Enterprises: Banks give technical support by sending experts in different skills to support individual enterprises to enable them achieve their goals of maximizing their profits and meeting up with customers needs.

Funding Small and Medium Scale Enterprises (SMES): Small and medium industries serve as growth and development precursors.

Ogunleye (2010) states that the World Bank considers small and medium scale enterprises as those with fixed assets (excluding land) plus cost of the investment project not exceeding ₦ 10 million in constant 1988 prices. Ogunleye (2010) further mentioned that this definition was adopted by the National Economic Reconstruction Fund (NERFUND), the agency saddled with the responsibility of financing SMEs.

Ogunleye (2010) states that in the industrial policy for the country small scale industries are defined as there enterprises with total investment of between ₦ 100, 000 and ₦ 1.0 million excluding the cost of capital but including working capital. Bank's involvement in SME funding through granting loans and overdrafts to them has led to the following incentives which has been gained. Ibru (2008) argues that bank funding has assisted in:

Employment Generation – Many qualified and skilled individuals have been employed into the small scale industries.

Increasing social entrepreneurial base – the social entrepreneurial base of most of the private owned companies has been increased, through the banks funding of small and medium scale enterprises.

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Boosting the use of local raw materials – through the banks funding of small and medium scale enterprises, the use of local raw materials by these small scale industries and economy are boosted.

Anyaele (2002) further highlight as follows other contributions of banks to the economy. Banks render financial expert advice to those that are involved directly or indirectly in economic development activities. Banks participation in the buying and selling of shares, stocks, and federal government treasury bills contributes in the development of money and capital markets that are vital ingredients to economic development. Banks offer employment opportunities to many citizens thereby contributing to manpower development. Banks assist to discount bills before their maturity dates thereby assisting to make money available for economic activities in a country.

Incessant Distresses in the Banking Industry and its Effect

Oxford Advanced Dictionary of Current English define distress as a state of great pain, discomfort or sorrow, suffering caused by want of money or other necessary things. It can also be described as a state of serious danger or difficulty. Okpara (2009) states that a CBN/NDIC collaborative study of distress in Nigerian financial institution in 1995 revealed that factors such as bad loans and advances, fraudulent practices, under capitalization, rapid changes in government policies, bad management, lack of adequate supervision, undue interference from board members are factors responsible for bank and other financial institutions distress. The result of their study on the major institutional factors and the extent to which they contributed to distress in the banking industry is presented in table 1 as follows:

Table 1: Financial Institutions' Assessment of the Causes of Distress in the Industry (Percentages)

Causes	All Financial Institutions	Commercial Banks	Merchant Banks	Community Banks	Finance Houses
Bad Loans & Advances	19.5	30.1	12.9	17.2	20 3
Fraudulent Practices	16.7	16.4	18.8	18.5	18.9
Under Capitalization	11.8	7.6	9.6	12.7	9.0
Rapid Changes in Govt Policies	10.8	9.8	5.5	16.9	13.5
Bad Management	17.9	13.1	21.7	14.0	16.4
Lack of Adequate Supervision	16.9	20.1	29.4	17.5	17.5
Undue Reliance on Forex	6.4	2.9	2.1	3.2	4.4
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: A CBN/NDIC Collaborative Study of Distress in Nigerian Financial Services Industry 1995: P 58.

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Okpara (2009) stressed that the general institutional factors that led to identified factors in the banking system can be discussed as insiders abuse, weak corporate governance, weak risk asset management and inadequacy of capital.

(a) Insiders Abuse: Due the reason stated above bank losses increased and management resorted to hiding the losses in order to buy time and remain in control. Okpara (2009) emphasized that many banks granted loans with no collateral or with little or no regard to the ability of the borrowers to repay the loans.

(b) Weak Corporate Governance: Okpara (2009) stress that as a result of insiders abuse of recruiting inexperienced and incompetent personnel to hold key positions in the bank, deterioration of management culture and weak internal control system instigated by the squabbles among the high rank management decision making team, and non compliance with laws and prudential standards, management seemed to play a major role in bank failure in Nigeria.(c) Weak risk assets management practices okpara (2009) emphasized that a number of banks had poor credit policies that loans are granted without securities and inability of the borrowers to pay back the loans granted to them. Odejimi (1992) noted that the major factors responsible for the precarious financial fraud of the banks were huge uncollectible loans and advances.

(d) Inadequacy of Capital: Okpara (2009) noted that capital inadequacy has been recurrent in the banking system and that from time to time the central Bank on Nigeria continues to articulate on the increase of the capital base o f the banking system. For instance, the recent N 25 billion Naira recapitalization exercise was meant to beef up the ailing banks capital base.

Measures to Combat Incessant Distresses in the Banking Industry

Ogunleye (2009) highlighted the following measures which should be put in place by government and regulatory agencies in order to combat the incessant distress in the banking industry. (a) Establishment of a very strong supervisory frame work: This will involve the enhancement of the supervisory capacity, adoption of risk based supervision, consolidated supervision, and strict enforcement of laws and regulations. (b) Establishment of an early warning system as well as an effective failure resolution structure. Ogunleye (2010) noted that the framework consists of policies and measures for the prevention, management and containment of banking crisis. The implementation of the plan will assist regulatory authorities to reduce the likelihood of the occurrence of systemic crisis and provide transparent and objective criteria for intervention there by reducing the incidence of regulatory forbearance. (c) Government ownership of banking institutions should be discouraged. When government ownership of banking institutions is discouraged the urge by government officials to appoint representative of political parties as board members of the bank who will ascribe their loyalty to the party members rather than the proper running of the bank itself would not be possible. (d) Better and stronger credit or borrower culture must be promoted and sustained: There must be better understanding between debtors and creditors that they have duties and responsibilities toward each other. The judicial process must also be supportive in this regard.

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Methodology and Research Design

The research design for the study is the historical backed up by empirical data. This is because all the data needed for the research are gathered from annual reports of the Central Bank of Nigeria, Federal Bureau of Statistics and NDIC for the period covering 1999 – 2011.

Method of Data Analysis

Multiple regression analysis was used to analyse and test the hypotheses of the study. The computation is done using SPSS 17.0.

Data presentation and analysis

Table 1: Banks Distresses, Gross Domestic Product and Unemployment

Year	Bank Distresses Parameters	Gross Domestic Product (million)	Unemployment
1999	115,620,000,000	3,194,014.97	9,179,658
2000	192,180,000,000	4,582,127.29	15,091,817
2001	182,230,000,000	4,725,086.00	16,156,894
2002	427,510,000,000	6,912,381.25	15,427,912
2003	477,210,000,000	8,487,031.57	18,670,621
2004	742,560,000,000	11,411,066.91	17,410,279
2005	NIL	14,572,239.12	15,910,539
2006	NIL	18,564,594.73	7,067,051
2007	NIL	20,657,317.67	7,530,374
2008	NIL	24,296,329.29	9,117,563
2009	NIL	24,794,238.66	12,440,517
2010	NIL	29,205,782.96	13,946,515
2011	NIL	31,305,882.98	15,452,513
Total	**N2,137,310,000,000**	**202,708,093.40**	**173,402,253**
	Source: Bank Returns Submitted to NDIC	**Source**: National Bureau of statistics	**Source**: National Bureau of Statistics. General household survey report (1999 – 2011)

Table1 above explains the data relating to banks distresses parameters from 1999 - 2011 which implies that there were cases of distresses from 1999 – 2004 while from 2005 – 2011 no such case was recorded. The table also shows the data relating to gross domestic product from 1999 – 2011 and data on unemployment from 1999 - 2011.

Table 2: Banks Distresses, Loans Default in Banks and Insider Abuse (Fraud) in Banks

Year	Bank Distress Parameters	Loans Default In Banks (₦)	Insider Abuse (Fraud) In Banks Total Expected Loss (₦) million
1999	115,620,000,000	25,414,106,647	2,730,000
2000	192,180,000,000	26,414,106,647	1,081,000
2001	182,230,000,000	27,772,747,838	906,000
2002	427,510,000,000	27,312,682,368	1,300,000

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2003	477,210,000,000	25,132,000,000	857,000
2004	742,560,000,000	24,651,000,000	2,610,000
2005	NIL	67,590,000,000	5,602,000
2006	NIL	64,676,000,000	2,769,000
2007	NIL	11,590,000,000	2,871,000
2008	NIL	162,276,000,000	17,543,000
2009	NIL	175,945,000,000	7,549,000
2010	NIL	157,153,000,000	11,679,000
2011	NIL	159,160,000,000	11,684,000
TOTAL	**N2,137,310,000,0000**	**N955,086,643,500**	**N69,181,000**

Source: Bank Returns submitted to NDIC (1999 – 2011)

Table 2 above also shows the data relating to banks distresses parameters from 1999 – 2011 which implies that there were cases of distresses from 1999 – 2004 while from 2005 – 2011 there were no cases of bank distress. However table 2 also indicates the data relating to loans default in banks from 1999 – 2011 and data on insider abuse (fraud) in banks from 1999 – 2011.

Test of Hypothesis 1

Ho: Banks distresses have no positive and significant effect on the nation's Gross Domestic Product and unemployment.

Decision rule: Since the p-value 0.153 is greater than 0.5, (see appendix A) we accept Ho and concludes that there is no significant relationship between unemployment, bank distresses and Gross Domestic Product at 0.05 level of significance.

Test of Hypothesis 2

Ho: Loans default and insider abuse (fraud) do not have significant effect on banks distresses in Nigeria.

Decision rule: Since the p-value 0.165 is greater than 0.05 (see appendix B) we accept Ho and conclude that there is no significance relationship between loan default, insider abuse (fraud) and banks distresses at 0.05 significance level.

Summary of Findings

This study revealed the following findings: -

- That from the regression analysis, there is no significant relationship between unemployment, bank distress and Gross Domestic Product (GDP).
- That from the regression analysis, there is no significant relationship between loan default, insider abuse and bank distress.
- That the banking industry as a central nervous system of an economy performs distinctive roles which help to improve the economy.
- That the banking industry is faced with many challenges which create impediments towards contributing its quota in the economy.
- That the banking industry has some prospects which need to be explored for the growth of the economy.
- That the banking industry has in many areas contributed to the economy.

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- The result from personal interview with some members of the banks shows that some other reason could be attributable to bank distress other then insider abuse and loan default. They highlighted the following reasons: weak corporate governance; non-compliance with regulatory requirements; falling professional ethic; and de-marketing of other banks in the industry

Conclusion

The study concludes that banking industry in Nigeria has played some roles in the economy of the country and that the banking industry through the use of banks has performed functions that aided economic and social activities in the country. In addition, the banking industry as a central nervous system of an economy has made significant overall economic contribution to the Nigerian Economy based on the summary of findings highlighted above.

Recommendations

The following recommendations are made:

- Central Bank of Nigeria and other government financial agencies should urgently compel all the banks management to address the weak corporate governance which exist in most banks in Nigeria in order to correct the inaccurate reporting and non-compliance with regulatory requirement, falling professional ethics and de-marketing of other banks in the banking industry.
- Central Bank of Nigeria should sanction defaulting banks discovered to be involved in late or non-publication of annual accounts of banks that obviate the impact of market discipline in ensuring banking soundness.
- Central Bank of Nigeria should continue to frequently send its staff to all banks in order to check gross insider abuses by most banks in Nigeria which has resulted in huge non-performing insider related credits.
- The Government and Central Bank of Nigeria should discourage banks by not giving the banks government or public sector deposits and encourage them to concentrate more on small and medium class savers.
- The Government and Central Bank of Nigeria compel the banks management to institute information technology drive culture in all their operations as the introduction of more sophisticated computer equipments will improve the customer’s service and operations of the banks.
- Despite the fact that the bank distress is not having strong relationship with insider abuse, its continuous occurrence in the banking industry will certainly contribute to the problem of bank distress. Therefore, the management of banks should not relent their efforts in the continuous check of the problem of insider abuse.
- The banks management should take proactive measures that will assist to check the incidence of loans default with the view to drastically reduce it to the bearest minimum.

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APPENDIX A

Regression analysis for the impact of Bank distress and Unemployment on the GDP

Table 4.1.1 A

Descriptive Statistics

	Mean	Std. Deviation	N
GDP	1.5593E7	9.85121E6	13
Bank_Distress	1.6441E11	2.40487E11	13
Unemployment	1.3339E7	3.88193E6	13

The above table depicts the descriptive Statistic which shows the mean and the standard deviation of the variables

Table 4.1.1 B

Correlations

		GDP	Bank_Distress	Unemployment
Pearson Correlation	GDP	1.000	-.554	-.274
	Bank_Distress	-.554	1.000	.610
	Unemployment	-.274	.610	1.000
Sig. (1-tailed)	GDP	.	.025	.183
	Bank_Distress	.025	.	.013
	Unemployment	.183	.013	.
N	GDP	13	13	13
	Bank_Distress	13	13	13
	Unemployment	13	13	13

The above table depicts the partial correlation of the variables. GDP and Bank distress are inversely related with negative correlation of -0.554, GDP and Unemployment are also inversely related with negative correlation of -0.274, why Bank distress and unemployment has a direct relationship with a strong positive correlation of 0.610.

Table 4.1.1 C

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.559[a]	.313	.176	8.94506E6	.313	2.277	2	10	.153

a. Predictors: (Constant), Unemployment, Bank_Distress

The above table depicts the model summary, from the table R=0.559 tells us that Bank distress, and unemployment has a moderate, direct relationship with GDP. The value of R^2 (Known as coefficient of multiple determination) = 0.313 means that 31.3% of the variation in GDP could be explained by the Bank distress, and Unemployment.

The remaining 68.7% could not be accounted for due to the error of variance.

Table 4.1.1 D

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	P-value.
1	Regression	3.644E14	2	1.822E14	2.277	.153[a]
	Residual	8.001E14	10	8.001E13		
	Total	1.165E15	12			

a. Predictors: (Constant), Unemployment, Bank_Distress

b. Dependent Variable: GDP

We use the ANOVA table above to test the following hypothesis at 5% significance level.
H_0 : There is no significant relationship between Unemployment, Bank distress and GDP
Vs
H_1: There is a significant relationship between Unemployment, Bank distress and GDP

DECISION RULE
Accept H_0 if the p-value is greater than 0.05 (5%), reject H_0 if otherwise.
Since the p-value (0.153) is greater than 0.05, we accept H_0 and conclude that; There is no

Table 4.1.1 E

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Correlations		
		B	Std. Error	Beta			Zero-order	Partial	Part
1	(Constant)	1.630E7	1.030E7		1.583	.145			
	Bank_Distress	-2.521E-5	.000	-.616	-1.861	.092	-.554	-.507	-.488
	Unemployment	.258	.839	.102	.307	.765	-.274	.097	.081

a. Dependent Variable: GDP

significant relationship between Unemployment, Bank distress and GDP at 0.05 significance level.
The table above depicts the multiple regression describing the impact of Bank distress and Unemployment on GDP, The multiple linear regression equation is given below:

$Y_{GDP} = 1.630E7 – 2.521E\text{-}5_{\text{Bank distress}} + 0.258_{\text{Unemployment}}$

We deduced from the equation that GDP decrease by 2.521E-5 for every 1 unit increase in the Bank distress, and increased by 0.258 unit for every 1 unit increased in Unemployment.

APPENDIX B

Regression Analysis for the impact of Loan default and Insider abuse on the Bank distresses

Table 4.1.2 A

Descriptive Statistics

	Mean	Std. Deviation	N
Bank_Distress	1.6441E11	2.40487E11	13
Insider_Abuse	5.3232E6	5.28938E6	13
Loan_Default	7.3468E10	6.46378E10	13

The above table depicts the descriptive Statistic which shows the mean and the standard deviation of the variables

Table 4.1.2 B

Correlations

		Bank_Distress	Insider_Abuse	Loan_Default
Pearson Correlation	Bank_Distress	1.000	-.510	-.547
	Insider_Abuse	-.510	1.000	.883

	Loan_Default	-.547	.883	1.000
Sig. (1-tailed)	Bank_Distress	.	.037	.027
	Insider_Abuse	.037	.	.000
	Loan_Default	.027	.000	.
N	Bank_Distress	13	13	13
	Insider_Abuse	13	13	13
	Loan_Default	13	13	13

The above table depicts the partial correlation of the variables. Bank distress and Loan default are inversely related with negative correlation of -0.547,
Bank distress and Insider abused are also inversely related with negative correlation of -0.510, why Loan default and Insider abused has a direct relationship
with a strong positive correlation of 0.883.

Table 4.1.2 C

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics: R Square Change	F Change	df1	df2	Sig. F Change
1	.550[a]	.302	.163	2.20063E11	.302	2.165	2	10	.165

a. Predictors: (Constant), Loan_Default,
Insider_Abuse

The above table depicts the model summary, from the table R=0.550 tells us that Loan default, and Insider abused has a moderate, direct relationship with Bank distress. The value of R^2 (Known as coefficient of multiple determination) = 0.302 means that 30.2% of the variation in Bank distress could be explained by the Loan default, and Insider abused.
The remainin69.8% could not be accounted for due to the error of variance.

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	P-value
1	Regression	2.097E23	2	1.049E23	2.165	.165[a]
	Residual	4.843E23	10	4.843E22		
	Total	6.940E23	12			

a. Predictors: (Constant), Loan_Default, Insider_Abuse

b. Dependent Variable: Bank_Distress

We used the ANOVA table above to test the following hypothesis at 5% significance level.

H_0 : There is no significant relationship between Loan default, Insider abused and Bank distress
Vs
H_1: There is a significant relationship between Loan default, Insider abused and Bank distress

Decision Rule Accept H_0 if the p-value is greater than 0.05 (5%), reject H_0 if otherwise. Since the p-value (0.165) is greater than 0.05, we accept H_0 and conclude that; There is no significant relationship between Loan default, Insider abused and Bank distress at 0.05 significance level.

Table 4.1.2 E

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Correlations		
	B	Std. Error	Beta			Zero-order	Partial	Part
1 (Constant)	3.139E11	9.455E10		3.320	.008			
Insider_Abuse	-5614.863	25634.863	-.123	-.219	.831	-.510	-.069	-.058
Loan_Default	-1.628	2.098	-.438	-.776	.456	-.547	-.238	-.205

a. Dependent Variable: Bank_Distress

The table above depicts the multiple regressions describing the impact of Loan default and Insider abused on Bank distress, the multiple linear regression equation is given below:

$Y_{\text{Bank distress}} = 3.139E11 – 1.628_{\text{Loandefault}} -5614.863_{\text{Insiderabused}}$

We deduced from the equation that Bank distress decrease by 1.628 for every 1 unit increase in the Loan default, and decreased by 5614.863 unit for every 1 unit increased in Insider abused.