

## Nigerian Banks and Global Challenges: Further Evidence

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### Abstract

This paper X-rays the Nigerian banking sector as well as the various reforms embarked by the Central Bank of Nigeria to strengthen Nigerian banks. Ranking of Nigerian banks among the top 1000 world banks was also examined. The paper is of the view that for Nigerian banks to compete favourably with her peers globally, they need to embrace good corporate governance, put customers' on the drivers' seat, embark on innovative approaches to business designs, application of sharply focus technology among others.

**Keywords:** Nigerian Banks, Global Challenges, Ranking.

### 1. Introduction

The role of banks in the economy is best appreciated against the backdrop of the important functions, which they perform. The most important role of banks is intermediation in the savings – investment process. Banks through their credit policy act as lubricants and promote growth in different sectors of the economy by paying attention to the priority sectors of the economy. (Ojo, 2010).

In addition, they are also fundamentally important for the development of modern economic structures. For example, the Augusburg trading house of Fuger had been one of the leading sources of finance for kings and merchants in both Germany and Europe since the end of the middle ages. Today, banks enable their customers to invest their savings safely and profitably and they lend the money required for new investments and for modernizing the economy. (Imala, 2005)

This paper is divided into five parts. The first part deals with introduction. The second part examines the development of banking activities in Nigeria. The third part x-rays the reforms embarked by the Central Bank of Nigeria between 2004 and 2009. The fourth part examines Nigerian banks and global challenges. The fifth, which is the final part, concludes the paper.

### 2. Development of Banking Activities in Nigeria

Commercial banks are the first banking system to emerge in the Nigerian banking sector. The first commercial bank to be established in Nigeria was African Banking Corporation (ABC) which opened its branch in Lagos in 1892 (Adekanye, 2010). It was a foreign owned bank established by Elder Dempster Company in Britain. Another bank, known as Bank of British West Africa (BBWA) also British owned was established in Nigeria in 1894. These first two banks later merged together in 1894 as Bank of British West Africa.

Some other foreign owned banks such as Barclays Bank Dominion Colonial Overseas opened a branch in Lagos in 1917, British and French Bank Limited in 1949 among others (Ojo and Adewunmi, 1981). In other words, foreign commercial banks dominated the Nigerian banking scene until 1929 when indigenous banks started to emerge.

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However, successful indigenous banks started to emerge in 1933 with the establishment of National Bank of Nigeria. Since then Nigerians have started to establish their own banks. In fact today most of the banks in Nigeria are Nigerian owned.

However, development of banking activities in Nigeria can be classified into five periods, namely, the period before independence, (i.e. before 1959), the independence period (1960-1985), the structural adjustment programme period (1986 to 1993/95), the consolidation period, (July 6, 2004 to Dec 31, 2005) and the reform period (August 2009 till date).

The pre-independence period was characterized by uncertainty, lack of regulation and a foreign dominated financial system. This period could be regarded as the period of arm-chair banking in which there was no marketing of banking services (Oke, 1989)

The independence period coincided with the birth of the Central Bank of Nigeria. The new political status of the country coupled with the operations of the Central Bank of Nigeria brought a great impact on the development of commercial banks after independence. (Ajayi and Ojo, 1981)

#### **2004 Banking Consolidation in Nigeria**

This period is also known as the consolidation period. In an address presented by the governor of the Central Bank of Nigeria on July 6, 2004 to the bankers committee, the Central Bank of Nigeria governor in his assessment of Nigerian banks as at March ending 2004 classified 62 banks as sound/satisfactory, 14 as marginal and 11 as unsound while 2 of the banks did not render any returns during the period.

From the above review according to Soludo (2004) it could be deduced that the performance of the banking industry is fairly good especially when the assessment is done in isolation of other sectors of the economy and or in isolation of what obtains in other emerging economies.

However, when the nation's banking industry financial condition and performance is assessed against its expected role in the economy and or when compared with the banking sectors of the emerging economies, the Nigerian banking sector could be rightly described as fragile, poorly developed, extremely small and have a weak capital base on which the minimum equity requirement was ₦1.0 billion or \$7.53 million for existing banks and ₦2.0 billion or \$15.06 million for new banks. For instance, only one bank in South Africa, Amalgamated Bank of South Africa (ABSA) has assets larger than all of Nigerian 89 banks while 8 banks in South Korea have about 4,500 branches.

In a similar vein, Singapore (with a population of about three million people), consolidation gave rise to three banks with the second largest having a capital base of \$67 billion. Also in Malaysia, banks were required to raise their capital to \$526 million in one year as about 80 banks in that country consolidated to 12 banks. In Nigeria, many out of the 89 banks have capital base of about \$240 million compared to \$526 million for the smallest bank in Malaysia (Soludo, 2004).

It was as a result of the weak capital base mentioned above that the Central Bank of Nigeria through the address presented by the governor of the Central Bank of Nigeria to the special meeting of the bankers committee held on July 6, 2004 increased the capital base of banks from ₦2 billion to ₦25 billion. The address tagged "consolidating the banking industry to meet development challenges" required banks to increase their capital base to ₦25 billion and banks were given 18 months to comply with the directive.

The consolidation exercise resulted in the reduction in the number of banks from 89 to 25 (now 20) through merger/acquisition involving 75 banks which altogether accounted for 93.5 percent of the deposit share of the market. A total sum of ₦406 billion was also raised and ₦360 billion was accepted by the Central Bank of Nigeria including foreign capital inflow of \$654m and £161,993m. However 14 out of the 89 banks were not able to shore up their capital base to ₦25 billion and hence declared distressed.

The structural adjustment programme period brought about great innovations into the Nigerian banking system with the establishment of new generation banks such as Zenith Bank Plc, Guaranty Bank Plc, Access Bank Plc, among others. This period which commenced in 1986 led to the upsurge in the number of banks

from 55 to 120. This period also resulted in the aggressive marketing of banking services in the Nigerian banking sector unlike the periods before it.

### **2009 Banking Sector Reform**

In 2009, a new central bank governor was appointed in Nigeria and he addressed a press conference on August 14, 2009 on the developments of the Nigerian banking system. According to him, Nigerian banks mainly due to huge concentration in their exposure to certain sectors such as capital market, oil and gas of which the latter is more prominent but due to a general weakness in risk management and corporate governance have continued to display signs of failure.

Sanusi (2009) opined that, some of the banks show serious liquidity strain and had to be given financial support by the Central Bank in form of an "Expanded Discount Window" (EDW) where the Central Bank of Nigeria extended credit facilities to these banks on the basis of collateral in the form of commercial paper and bankers' acceptances, sometimes of doubtful value. As at June 4, 2009, the total amount outstanding at the expanded discount window was ₦256.57 billion, most of which were owned by five banks. A review of the activity in the EDW showed that four banks had been almost permanently locked in as borrowers and were clearly unable to repay their obligations. A fifth bank has been a very frequent borrower when its profile ordinarily should have placed it among the net placers of funds in the market.

The Central Bank of Nigeria in conjunction with the Nigeria Deposit Insurance Corporation carried out a comprehensive review on the 24 deposit money banks in Nigeria as at that time and find out that the problems of the banks include high level of non-performing loans, poor corporate governance, and poor risk management among others.

It should be noted that the period coincided with the global financial crises of which many banks collapsed across the globe. As a result of the aforementioned problems, the Central Bank of Nigeria bailed out the troubled banks to the tune of ₦620 billion (about \$4 billion).

At the end of the special examination of the deposit money banks, the Central Bank of Nigeria categorized the banks into sound or fit, distressed/troubled and to recapitalize banks. The categorization is stated below:

#### **Sound or Fit Banks**

Access Bank Plc, Citibank Nigeria Limited, Diamond Bank Plc, Ecobank Nigeria Plc, Fidelity Bank Plc, First City Monument Bank Plc, Guaranty Trust Bank Plc, Skye Bank Plc, Stanbic IBTC Bank Plc, Standard Chartered Bank Limited, Sterling Bank Plc, United Bank For Africa Plc and Zenith Bank Plc.

#### **Distressed/Troubled Banks**

Afribank Plc, Bank PHB, Equatorial Trust Bank, Finbank Plc, Intercontinental Bank Plc, Oceanic Bank Plc, Spring Bank Plc and Union Bank Plc

#### **To Recapitalize Banks (Before June 30, 2010)**

Unity Bank Plc and Wema Bank Plc

N.B: Banks listed apparently in alphabetical order.

### **3. Nigerian Banks and Global Challenges: Further Evidence**

In one of my articles, (Ogundina, A. 2009) published in the Journal of Development Administration, Vol. 2, No.1 of August 2009, titled "Nigerian Banks and Global Challenges in the Next Decade" I opined that the Nigerian banking system in the next ten years will be globally different from what it is today as a result of the development of cutting-edge technology for banking solutions, intense competition for leadership, a stricter global regulation to check fraud and unethical practices.

In that article, I asked the question "are Nigerian banks prepared to meet the above challenges". I answered the question in an affirmative manner. Hence this paper attempts to dwell further on Nigerian banks and global challenges with an updated data thereby compare it with the 2007 data on which my former article stated above was based. Below are the rankings of Nigerian banks in 2007, 2012 and 2013 by the Banker Magazine, a subsidiary of the Financial Times of London.

**Table 1.1: The Top 10 Banks in Nigeria in 2007**

Bank	World Ranking	Capital
Intercontinental	355	\$1.277bn
Union Bank	507	\$783m
Zenith Bank	527	\$738m
First Bank	689	\$465m
GTB	740	\$406m
IBTC Chartered	852	\$308m
Oceanic Bank	875	\$297m
UBA	876	\$296m
First Inland Bank	895	\$282m
Spring Bank	928	\$267m

Source: The Banker Magazine (2007)

**Table 1.2: The Top 10 Banks in Africa in 2012**

World Ranking	Regional Ranking	Names	Countries	Tier of Capital \$
112	1 <sup>st</sup>	Standard Bank Group	South Africa	9,842
121	2 <sup>nd</sup>	First Rand	South Africa	8,471
178	3 <sup>rd</sup>	National Group	South Africa	5,123
280	4 <sup>th</sup>	Investec	South Africa	2,896
286	5 <sup>th</sup>	Group Banque Populaire	Morocco	2,859
308	6 <sup>th</sup>	Attijawaja Bank	Morocco	2,556
322	7 <sup>th</sup>	Zenith Bank	Nigeria	2,398
338	8 <sup>th</sup>	First Bank of Nigeria Plc	Nigeria	2,262
378	9 <sup>th</sup>	National Bank of Egypt	Egypt	1,956
424	10 <sup>th</sup>	BMCE Bank Group	Morocco	1,624

Source: www.the banker database.com (2012)

**Table 1.3: The Top 10 Banks in Nigeria in 2012**

World Ranking	Nigeria Ranking	Names	Tier of Capital \$
322	1 <sup>st</sup>	Zenith Bank Plc	2,398
338	2 <sup>nd</sup>	First Bank of Nigeria, Plc	2,262
455	3 <sup>rd</sup>	Guaranty Trust Bank	1,478
541	4 <sup>th</sup>	Access Bank	1,054
563	5 <sup>th</sup>	United Bank of Africa (UBA)	1,003
618	6 <sup>th</sup>	Fidelity Bank	867
710	7 <sup>th</sup>	First City Monument	683
721	8 <sup>th</sup>	Skye Bank	665
759	9 <sup>th</sup>	Diamond Bank	587
N/A	10 <sup>th</sup>	Stanbic IBTC Bank	460

Source: www.the banker database.com (2012)

**Table 1.4: World Ranking of Top 5 Nigerian Banks in 2013**

World Ranking	Nigeria Ranking	Names	Tier of Capital \$
287	1	Zenith Bank Plc	2,398
367	2 <sup>nd</sup>	First Bank of Nigeria, Plc	2,262
417	3 <sup>rd</sup>	Guaranty Trust Bank	1,478
506	4 <sup>th</sup>	Access Bank	1,054
553	5 <sup>th</sup>	United Bank of Africa (UBA)	1,003

Source: The Punch (2013)

In making a comparative analysis of the above three years, (2007, 2012 and 2013) on the ranking of Nigerian banks, it could be deduced that Nigerian banks have improved in their rankings among the top 1000 world banks.

For instance in the 2007 ranking by the Banker Magazine, the best Nigerian bank then was Intercontinental Bank (which has now been taken over by Access Bank Plc) was ranked 355 in the world but within a space of five years, the best Nigerian bank in 2012, Zenith Bank Plc was ranked 322 in the world.

In the same vein, a comparative analysis of the ranking of Nigerian banks among the top 1000 world banks between 2012 and 2013 shows that the best bank in Nigeria, Zenith Bank Plc moved 35 places from 322 in the world in 2012 to 287 in 2013; First Bank moved from 338 to 367, Guaranty Trust Bank Plc moved to 417 from 455; Access Bank Plc moved to 506 from 541, United Bank for Africa Plc moved to 533 from 563 (The Banker, 2013).

From the above analysis, the improvement in the ranking of Nigerian banks testify to the soundness of Nigerian banks as well as the robust reforms embarked by the Central Bank of Nigeria although more still needs to be done in order to make Nigerian banks rank among the best 100 in the world.(Aminu, 2013)

The ranking is usually based on the definition of Tier -1 capital as set out by the Basel's Bank for International Settlements (BIS). The percentage change in the Tier-1 capital, which underlines the strength of banks, for Zenith Bank for 2013 increased by 23.82 percent over that of 2012 (The Sun, 2013)

In addition, in examining the capital asset ratio of soundness parameter among the Nigerian banks, Zenith came top with 17.70 percent, followed by Guaranty Trust Bank, 16.23 percent among others (The Banker, 2013).

From the above, it could be deduced that there is a great improvement in the ranking of Nigerian banks among the top 1000 world banks as thirteen of them made it up to the top 600 in the world in 2013.

However, for Nigerian banks to improve their rankings and compete favourably with their peers globally so as to be among the 100 top world banks they need to embrace the following among others:

- Sharpening of Customer Service Capabilities- Attention to customer service is a sine qua non for any bank that wants to compete favourably with her peers globally as banks that pay greater attention to customer care will gain market advantage and also build loyalty among the customers as customers are now being sophisticated and thereby patronize banks that can reduce waiting times for transaction processing and requests.

- Sharply Focus Technology- For Nigerian banks to compete favourably with their peers globally they need to be technology driven by bringing innovations in banking software application. Although there has been an improvement in this trend, efforts should be intensified in this area so that majority of bank customers will avail themselves of electronic banking transactions.

- Innovation – For Nigerian banks to be among the top 100 world banks, they need to be innovative and hence offer more innovative products and services

○ Establishment of Offshores- Banks that extend their frontiers outside their shores will definitely be able to diversify their income sources and thereby increase their profitability hence such bank will be able to compete favourably with her peers globally, Although some Nigerian banks such as First Bank Plc, Zenith Bank Plc, Guaranty Trust Bank have established branches in some countries, other Nigerian banks need to take a cue and establish offshore branches.

○ Corporate Governance- A bank that incorporate corporate governance with the best international practices will be able to stand the test of time and hence be able to compete favourably hence Nigerian banks should speed up their effort to embrace good corporate governance.

○ Training - Training is highly essential for banks that want to compete favourably with their peers globally and this can be on the job or outside the job. Nigerian banks have already identified training as an essential ingredient through the establishment of training schools coupled with the sending of some of their workers on refresher courses outside the country.

○ High Marketing Skills- For Nigerian banks to compete favourably with her peers globally they need to employ special marketing skills so as to cater for discerning customers. Innovative approaches to business designs should be employed.

○ Continuous Increase in Capital Base- Nigerian banks must embrace continuous increase in their capital base and hence bring about mega banks. They should also embrace self regulation.

○ Challenging the Dominance of South African Banks in the Continent- South African banks still occupy the best five banks in the African continent hence Nigerian banks must wake up to challenge the South African banks through aggressive mobilization of financial services both within and outside Africa.

#### 4. Conclusion

This paper critically examines the Nigerian banking sector since the inception of banks in Nigeria in 1892 till today and dwelt extensively on the various reforms embarked by the Central Bank of Nigeria especially the 2004 bank consolidation and the 2009 banking reform.

The paper also examines the ranking of Nigerian banks globally among the 1000 top world banks using the 2007, 2012 and 2013 ranking by the Banker Magazine and noted the marked improvements in the rankings among the Nigerian banks.

Finally, for Nigerian banks to improve their world rankings and be among the best 100 world banks they need to take into consideration some of the identified challenges that are noted in this paper such as sharpening customers care capabilities, embrace corporate governance, technology driven among others.

On a final note, the future of Nigerian banks are bright if they take into consideration the identified challenges in this paper among others and imbibe them into the Nigerian banking environment.

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