Banking Distress and the Erosion of Public Confidence in the Nigerian Banking System

Ugwuanyi, Georgina Obinne
Department of Accountancy, Michael Okpara University of Agriculture Umudike, Abia State, Nigeria.
ginaugwuanyi2010@yahoo.com

Abstract
In the Nigeria banking industry, corrective policies have been inevitably applied to punctuations occasioned by systemic distresses which tend to grossly erode the trust and confidence reposed on the banking system. The CBN in 2005 embarked on reforms targeted at increasing banks capital base which will in turn make banks withstand shocks as well as distresses. The 2005 reform having been implemented, this study examined the extent to which the reforms have been able to encourage savings in terms of deposit liabilities for the entire banking firms in Nigeria. The variables for the study captured the deposit liability of the Nigerian banking industry which was decomposed to demand, time, savings as well as total deposit liability of the Nigerian banking industry. No individual bank or a sample of banks was selected to be studied since the entire population of the banking industry investigated. The models were structured to capture the growth or decline trends of the deposit liability (demand, savings, time, and total deposit liabilities) of the Nigerian banking industry before and after the 2005 banking sector reforms. From our findings, essentially, the post reform average growth rates are higher than the pre reform growth rates although the differences between the two periods are essentially lower than 10%. The findings are suggestive that the 2005 concluded banking reform has corrected the erosion of public confidence witnessed before the reform.
Keywords: Bank distress; demand deposit; savings deposit; time deposit; total deposit liabilities.

1. Introduction

The banking system is the engine of growth in any economy given its function of financial intermediation, provision of an efficient payment system and facilitating the implementation of monetary policies. In intermediation, banks mobilize savings from the surplus units of the economy and channel these funds to the deficit unit, particularly private business enterprises. In operating the payments mechanism, the banking system liabilities serve as a medium of exchange. In the execution of monetary policies, banks serve as agents through which these policies are implemented. Hence, an efficient and effective banking sector is essential not only for the promotion of efficient intermediation, but also for the protection of depositors, encouragement of healthy competition, maintenance of confidence and stability of the banking system. All those are pursued in a bid to protect the system against systematic risk and collapse.

In Nigeria, the ability of the banking industry to play its role has been periodically punctuated by its vulnerability to systemic financial distress and macroeconomic volatility, making policy fine-tuning inevitable (McKinnon and Shaw 1973). These punctuations by systemic distresses have eroded grossly the trust and confidence reposed on the banking sectors of the world and Nigeria in particular. Historically, Nnanna (2005) notes that the Nigerian banking industry has evolved in four stages as regulators try to engender trust in the system. The first stage can be best described as the un-guided laisez faire phase (1930 – 1959) during which several poorly capitalized and unsupervised indigenous banks failed in their infancy. The second stage was the control regime (1960 – 1985) during which the Central Bank of Nigeria ensured that only "fit and proper" persons were granted banking license, subject to the prescribed minimum paid-up capital. The third stage was the post Structural Adjustment Programme (SAP) or de-control regime (1986 – 2004), during which the neo-liberal philosophy of "free entry" was over stretched and banking licenses were dispensed by the political authorities on the basis of patronage. The emerging fourth stage is the era of consolidation (2004 to a foreseeable future), with major emphasis on recapitalization and proactive regulation based on risk-based or risk-focused supervision framework. All these stages were characterized by one form of reform or the other to ensure stability of the sector. Prior to the fourth stage, (the era of consolidation) many banks were not operationally sound. In fact, the rating of licensed banks by the Central Bank of Nigeria using the CAMELS parameters shows that many banks were operating marginally while some were completely unsound (CBN, 2004). Furthermore, CBN (2004) in a surveillance report pointed out that 62 banks out of 89 existing banks were classified as sound/satisfactory, 14 as marginal, while the position of unsound banks had deteriorated from 9 (nine) at the end of December, 2003 to 11 in 2004. The report further indicated that 2 of the banks failed to render statutory returns during the period (CBN, 2004). Adeyemi (2005) states such weaknesses of these banks as under-capitalization and/or insolvency, illiquidity, weak/poor assets quality, weak corporate governance, boardroom squabbles, dwindling/poor earnings, over-dependence on public sector deposits and government revenue collection, and in some cases, loss making.

The unhealthy competition that existed in the market was engendered by the relative ease of entry as a result of the low capital base. This necessitated some banks going into rent-seeking and non-banking businesses, which are not related to core banking functions. Some of the banks were preoccupied with trading in foreign exchange, government treasury bills and sometimes, indirect importation of goods through surrogate companies. Hence, most depositors found it difficult to put their money in the banks as there was large scale lack of confidence in the system. These among others adversely affected deposit mobilization and capital formation.

Mindful of the deteriorating condition of the industry, the regulatory authorities decided to streamline the regulatory framework and strengthen its supervisory capacity in order to forestall the re-emergence of systemic distress and promote public confidence in the system. In a bid to also facilitate the attainment of the vision of strong, competitive and reliable banking markets that meet international best practices, the Central Bank of Nigeria on July 6, 2004 announced a 13 Point Agenda to reform and repositions the Nigerian banking industry. Amongst the reform agenda was the requirement that the minimum capitalization for commercial banks should be twenty five billion naira (N25 billion) from a previous capital base of N2 billion (two billion naira), and consolidation of banking institutions to be achieved through mergers and acquisitions, with full compliance been before the end of 31st December, 2005. Soludo (2004) states specific reasons for the reform to include the following:-

- To halt the incessant bouts of distress;
- To promote competitiveness and transparency in the sector;
- To enable the sector effectively play its developmental role in the economy;
- To strengthen the sector to become an active participant in the regional and global financial system; and
- To enhance public confidence in the banking system.

The fact that banks take deposits from the public constitutes one of the specific reasons of the 2004/2005 banking reform to enhance public confidence in the banking system. Given the 2004/2005 reforms, and about seven years after the reform, the research presented in this paper assesses the extent to which the 2005 banking reform has fostered confidence in the Nigeria banking sector in terms of deposit mobilization and liability. The rest of the paper is streamlined as follows: following the introduction is the review of related literature; the research design and data issues were the concern of section three; the findings were discussed in section four while section five concludes the paper.

2.1 The Nigerian Banking Sector and the Need for Reform.

Conceptually, reforms are undertaken to ensure that every part of the economy functions efficiently in order to ensure the achievement of macroeconomic goals of price stability, full employment, high economic growth and internal and external balances. Thus, banking reform in Nigeria is an integral part of the country-wide reform program undertaken to reposition the Nigerian economy to achieve the objective of becoming one of the 20 largest economies by the year 2020. As part of the vision, the banking sector is expected to effectively play its actual role in intermediation and for the banks to be among global players in the international financial markets. The various reforms were targeted at making the system more effective and strengthening its growth potentials. Particularly, in view of the fact that banks take deposits from the public, there is a need for periodic reforms in order to foster financial stability and confidence in the system. The recent experience from the global financial crisis as the world economy was hit by an unprecedented financial and economic crisis in 2007-2009 that resulted in a global recession has further underscored the imperatives of countries to embark on banking reforms on a regular basis. This crisis led to the collapse of many world-renowned financial institutions and even caused an entire nation to be rendered bankrupt. In Nigeria, the economy faltered and was hit by the second round effect of the crisis as the stock market collapsed by 70 per cent in 2008-2009 and many Nigerian banks sustained huge losses, particularly as a result of their exposure to the capital market and downstream oil and gas sector. Therefore, the CBN had to rescue 8 of the banks through capital and liquidity injections, as well as removal of their top executives and consequent prosecution of those who committed some infractions. These actions became necessary to restore confidence and sanity in the banking system.

A holistic investigation into what went wrong in Nigeria leading up to the banking crisis in 2008 found eight interrelated factors responsible. These were macroeconomic instability caused by large and sudden capital inflows, major failures in corporate governance at banks, lack of investor and consumer sophistication, inadequate disclosure and transparency about the financial position of banks, critical gaps in the regulatory framework and regulations, uneven supervision and enforcement, unstructured governance & management processes at the CBN/ and weaknesses in the business environment. Each of these factors is serious in its own right. Acted together they brought the entire Nigerian financial system to the brink of collapse. The Nigerian economy has huge potential for growth. To realize this potential, it is imperative that lessons were learnt from the crisis and steps taken to not only fix the problems, but to also introduce measures to establish financial stability, a healthy evolution of the financial sector and ensure the banking sector contributes to the development of the real economy.

As a result, the Nigerian banking system has steadily evolved, following wide and far-reaching reforms embarked upon by the regulatory authorities. Following the banking crisis of 2008, the Central Bank of Nigeria articulated a blue print known as "The Project Alpha Initiative" for reforming the Nigerian financial system in general and the banking sector in particular. The reforms were aimed at removing the inherent weaknesses and fragmentation of the financial system, integrating the various ad-hoc and piecemeal reforms and unleashing of the huge potential of the economy.

2.2. Review of Related Reform Literature.

Reforms in the banking sector not attributed to Nigeria alone. Banking economies of countries of the world have been engaged in one form of reform or another. These are empirically captured below. Oladejo and Oladipupo (2011) noted that the banking sector in any economy serves as a catalyst for growth and development and is therefore so sensitive and sacrosanct to the economy in term of stability and growth that must not be let loose by the Government. Therefore, it is not surprising in the light of this fact, that governments the world over attempt to evolve an efficient banking system, not only for the promotion of efficient intermediation, but also for the protection of depositors, encouragement of efficient competition, maintenance of public confidence in the system, stability of the system and protection against systemic risk and collapse. Economists differ on the level of government intervention in the economy, particularly on regulation imposed on the financial intermediaries. While some believe that many regulations are necessary in order to protect the depositor's funds, other believes that the banks are over regulated. Therefore Oladejo and Oladipupo (2011) explored various implications of capital regulation on the performance of the Nigeria banks with a view to proffer solutions to problems. Oladejo and Oladipupo (2011) adopted largely an exploratory methodology and submitted that though reforms of banks becomes necessary, there is a limit to which banks should be regulated on the issue of capital adequacy. Oladejo and Oladipupo (2011) argued that consolidation arising from the recapitalization of banks brought about lots of problems that may mar the aim of the reform if not properly approached.

Umoren and Olokoyo (2007) pointed out that the banking reform pronounced on the 6th of July, 2004 had been a major wave towards a diversified, strong and reliable banking sector in Nigeria. Umoren and Olokoyo (2007) examined the mega banks by evaluating their performance four years after the consolidation exercise, the impact of consolidation on performance, and considers if there had been considerable improvement on their profitability, liquidity and solvency. In this study, Umoren and Olokoyo (2007) analyzed the performance ratio of a sample of thirteen (13) mega banks while using correlation analysis to test the impact of the consolidation on the performance measurement parameters. They found that, on average, bank consolidation resulted into improved performance. Umoren and Olokoyo (2007) therefore suggest that the bank management should embrace broad product strategies, which could help in generating more income for the banks as well as embrace diversification and financial innovation in order to produce new products and services.

Balogun (2007) focuses specifically on the recent Soludo's banking sector reforms and noted that the Soludo's reforms focused on strengthening the financial systems through banking sector consolidation, foreign exchange market stabilization, interest rates restructuring and the pursuit of stabilization as against structural adjustment policies for monetary and inflationary controls. In Balogun (2007) review of theoretical qualifications to the Soludo's reform, the review showed that in thoughts, it is rooted in the Classical traditions of Say's Law, acts monetarist, but expects a Keynesian outcome that money can stimulate expansion in aggregate domestic output. In order to test empirically the likely effects of increases in total assets, capital and reserves of banking sector on credit to the production and/or real sector of the economy, Balogun (2007) applied a pair wise correlation matrix. The result shows that in line with theoretical expectation that there is significant and positive correlation between banking sector total assets, capital and reserves and total credit as well as production credit granted by the banks during the period. However, when compared to the relative share of production in total credit, there is a strong but negative correlation between this variable and that of total assets, capital and reserves. This suggest that rather than stimulating increases in credit to production activities, increases in capital base has been associated with relatively less credit to the real sector. This tended to confirm the fear that the current recapitalization exercise may have tended to fuel speculative activities. In conclusion, Balogun (2007) pointed out the need to adopt an interest rate operating procedures for monetary policy in addition to moving the economy consciously towards the 'law of one market and one price' for the domestic and foreign money markets.

Okpanachi (2011) noted that mergers and acquisitions in the Nigerian banking sector are reform strategies recently adopted to reposition the banking sector to achieve improved financial efficiency, forestall operational hardships and expansion bottlenecks. Okpanachi (2011) made a comparative analysis of the impact of mergers and acquisitions on financial efficiency of banks in Nigeria using gross earnings, profit after tax and net assets of the selected banks as indices to determine financial efficiency by comparing the pre-mergers and acquisitions' indices with the post-mergers and acquisitions' indices for the period under review. Okpanachi (2011) found that the post-mergers and acquisitions' period was more financially efficient than the pre-mergers and acquisitions period. However, to increase banks financial efficiency, Okpanachi (2011) recommend that banks should be more aggressive in their profit drive for improved financial position to reap the benefit of post mergers and acquisitions bid.

Adegbaju and Olokoyo (2008) points out that the resultant effect of financial liberalization which opened up the Nigerian economy to global financial markets has exposed the fragility and vulnerability of her financial system. Consequently, a defensive measure to strengthen the existing banks and put the new ones on a good start up is needed, hence the 2004/2005 banking sector reform and it's introduction of a new capital base of N25billion. Adegbaju and Olokoyo (2008) investigated the impact of previous recapitalization in the banking system on the performance of the banks in the country with the aim of finding out if the recapitalization is of any benefit. In the study, data obtained from NDIC annual reports were analyzed using both descriptive and analytical techniques and(Adegbaju and Olokoyo, 2008) found that the mean of key profitability ratio such as the Yield on earning asset (YEA), Return on Equity (ROE) and Return on Asset (ROA) were significant meaning that there is statistical difference between the mean of the banks before 2001 recapitalization and after 2001 recapitalization. The study recommends that Nigerian banks should improve on their total asset turnover and diversify their funds in such a way that they can generate more income on their assets, so as to improve their return on equity.

Pedro et. al. (2008) pointed out that the Spanish banking industry has experienced an unprecedented wave of mergers and acquisitions (M&As) along the past two decades, particularly intense in the savings banks sector over the period 1989-1993. Pedro et. al. (2008) analyzed the effects of M&As on the performance of the Spanish savings banks industry in terms of their market power, risk, and efficiency. With that aim, a statistical analysis is carried out comparing the evolution of a set of ratios widely used in the literature for both merged and non-merged savings banks before and after M&As. Their results indicate that, with the only exception of the capital ratio, M&As have not had a significant impact on the financial performance of Spanish savings banks. On the contrary, the changes in the economic and market conditions, affecting the whole banking industry, seem to be the main driving forces of savings banks' performance. This evidence, broadly consistent with the previous literature, provides important implications for public policymakers, bank managers, and bank customers on the primary determinants of the performance of Spanish savings banks in the sense that M&As have less impact on performance than expected a priori Pedro et. al. (2008) concluded.

Using descriptive statistics and Vector Autoregressive Model, Taiwo and Anthony (2011) investigated the impact of financial sector reforms on the performance of the Nigerian economy. The paper is justified given the need to provide empirical evidence on the effectiveness of financial reform in promoting saving, investment and growth. Taiwo and Anthony (2011) found that the means of performance indicators - saving rate, investment ratio and growth of real GDP, were very low relative to pre-reform period and their correlation with financial indicators were mostly low or negative under reform. Evidence from the VAR analysis also showed that shocks to financial indicators either had negative or insignificant positive effect on the saving rate investment and growth during reform. Complementing financial reforms with structural reforms, therefore, is necessary to promote growth in Nigeria Taiwo and Anthony (2011) concluded.

Ezirin and Muoghalu (2004) examined the effect of financial sector reforms on commercial banks operations in Nigeria by comparing two decades: 1976-1985 and 1986-1995. In their paper, various indices of firms performance such as return on equity investment (ROE), return on total assets (ROA), deposit assets ratio (DAR), total deposit ratio (TDR), total investment ratio (TINVR), etc., were used. The paper concluded that the performance of commercial banks was significantly different under deregulated regime compared with regulated one. Specifically the study indicated that the period of financial reform (1986-1995) is more favorable to commercial banks in Nigeria than the pre-reform period (1976-1985).

Balogun (2007) reviewed the perspective of banking sector reforms since 1970 to 2007. He noted four eras of banking sector reforms in Nigeria, viz.: Pre-SAP (1970-85), the Post-SAP (1986-93), the Reforms Lethargy (1993-1998), Pre-Soludo (1999-2004) and Post-Soludo (2005-2006). Using both descriptive statistics and econometric methods, Balogun (2007) tested three sets of hypothesis: firstly that each phase of reforms culminated in improved incentives; secondly that policy reforms which results in increased capitalization, exchange rate devaluation; interest rate restructuring and abolition of credit rationing may have had positive effects on real sector credit and thirdly that implicit incentives which accompany the reforms had salutary macroeconomic effects. The empirical results confirm that eras of pursuits of market reforms were characterized by improved incentives. However, these did not translate to increased credit purvey to the real sector. Also while growth was stifled in eras of control, the reforms era was associated with rise in inflationary pressures. Among the pitfalls of reforms identified by the study are faulty premise and wrong sequencing of reforms and a host of conflicts emanating from adopted theoretical models for reforms and above all, frequent reversals and/or non-sustainability of reforms. In concluding, Balogun (2007) noted the need to bolster reforms through the deliberate adoption of policies that would ensure convergence of domestic and international rates of return on financial markets investments.

Fadzlan and Muhd-Zulkhibri (2007) investigated the efficiency changes of finance and merchant banking institutions in Malaysia, during and post-consolidation periods by applying the non-parametric Data Envelopment Analysis (DEA). The evidence suggests that pure technical efficiency is more related to overall efficiency than scale efficiency. On average, 28.7% of finance and merchant banking institutions are operating at

CRS, while the majority are scale inefficient. Their results from the Tobit regression analysis further confirmed that the level of equity capital is positively related with the level of efficiency gain. Financial institutions with higher ratio of loans to assets are related to higher level of efficiency. This might reflect the degree of market power exists in the loan markets compared to the other product markets with institutions developed their strategic niche within the market Fadzlan and Muhd-Zulkhibri (2007) concluded.

Rasidah and Mohd (2011) investigated the impact of bank-specific factors which include the liquidity, credit, capital, operating expenses and the size of commercial banks on their performance, which is measured by return on average assets (ROAA) and return on average equity (ROAE). This study uses income statement and balance sheet of commercial banks of Malaysia and People's Republic of China which are extracted from the Bank Scope database for the period 2001 to 2007. Their empirical analysis is based on panel data fixed effect model that incorporates balanced annual data series of Malaysia and China. The results imply that ratios employed in this study have different effects on the performance of banks in both countries, except credit and capital ratios. Operating ratios influence performance of banks in China, but this influence is not true for Malaysian banks regardless of the measure of performance.

Sawada and Okazaki (2004) pointed out that in recent years, there has been a wave of bank consolidations that has spread across the world, and bank consolidation has been one of the major issues of the research on banking and finance. They explored the role of government in bank consolidations, using the data on prewar Japan. The data on prewar Japan are useful, because not only there were numerous bank consolidations, but also we can identify consolidations promoted by the government policy (Sawada and Okazaki, 2004). The Bank Law of 1927 set the minimum capital criterion for banks, which came to be a powerful measure for the government to promote consolidations. Sawada and Okazaki (2004) identified policy-promoted consolidations referring to the minimum capital of the bank, and examined the effects of policy-promoted consolidations in comparison with other consolidations. It was confirmed that policy-promoted consolidations mitigated the financial crisis by enhancing the ability of the bank to collect deposits, under the condition that the financial system was exposed to serious negative shocks. On the other hand, policy-promoted consolidations had negative aspects. They were accompanied by large organizational costs, and decreased bank profitability.

3.0 Methodology.

Onwumere (2005) defined a research design as a kind of blueprint that guides the researcher in his or her investigation and analysis. Therefore, this is an Ex Post Facto research design because it involved events which have taken place. Basically, the nature and sources of data for the analysis presented in this paper were gathered from the Central Bank of Nigeria statistical bulletin for an eleven year period (2000 to 2010). This is because it is ideal in answering our research questions and to empirically test our research hypotheses. In choosing our variables, care was taken not to deviate from our set objectives. This study covered the entire Nigerian banking industry since data for the chosen variable, deposit liability already exist.

The variables for the study are therefore structured to capture the deposit liability of the Nigerian banking industry. This enhanced the measuring of the restoration of public confidence in the banking industry in relation to customers' deposits in the banks without the fear of loss of fund due to bank failures. The deposit liability of the banking industry was decomposed to demand deposit; time deposit; the savings deposit; and the total deposit liability of the Nigerian banking industry. Therefore, no individual bank or a sample of banks was selected to be studied since the entire population of the banking industry is under investigation.

The models for this work were structured in a way that it showed the growth or decline trends of the deposit liability variables (demand, savings, time deposit, and total deposit liabilities) of the Nigerian banking industry. The ratios used are stated and defined thus:

To calculate the growth rates in demand, savings, and time deposits before and after the 2005 banking sector reforms, the followings were applied:

GR_{DD} = [(Current year$_{DD}$ - Previous year$_{DD}$) / Previous year $_{DD}$] x 100% ………………..(1)

Where

GR_{DD}= Growth Rate Demand Deposit.

DD = Demand Deposit.

GR_{TD} = [(Current year$_{TD}$ - Previous year$_{TD}$) / Previous year $_{TD}$] x 100% …………………..(2)

Where

GR_{TD} = Growth Rate Time Deposit.

TD = Time Deposit.

GR_{SD} = [(Current year$_{SD}$ - Previous year$_{SD}$) / Previous year $_{SD}$] x 100% …………………..(3)

Where

GR_{SD} = Growth Rate Demand Deposit.

SD = Savings Deposit.
GR_{TDL} = [(Current year $_{TDL}$ - Previous year $_{TDL}$) / Previous year $_{TDL}$] x 100% ……………..(4)
Where
TDL = Total Deposit Liability of the banking industry in Nigeria.

AGR = [(GR Y1 + GR Y2 …………… GR Yn) / n] …………………………………….(5)
Where
AGR = Average Growth Rate
GR Yn = Growth Rate of a given year n.

4.0 Findings.

We report our findings in this section which starts with the reporting of the deposit liabilities of the banking industry of Nigeria before the reform. The periods we compared were divided into two periods of pre and post reform of 2001 to 2005 as pre reform and 2006 to 2010 as the post reform period. Table 4.1 below presents the deposit liability for the pre reform period in millions of naira.

Table 4.1: Pre Reform Deposit Liability of the Nigerian Banking Industry (N' Million).

Period	**Demand Deposit**	**Time Deposit**	**Savings Deposit**	**Total Deposit**
2001	448,021.4	235,453.7	216,509.4	947,182.9
2002	503,870.4	300,140.1	244,064.1	1,157,111.6
2003	577,663.7	324,676.4	312,368.9	1,337,296.2
2004	728,552.0	401,080.6	359,311.2	1,661,482.1
2005	946,639.6	498,952.4	401,986.8	2,036,089.8

Source: CBN Annual Report (2003; 2005).

The table above displays the disaggregated deposit liability of the Nigerian banking industry. The components of total deposit liability for the industry include demand deposit, savings deposit and time deposit others include foreign currency deposit. The collapse of a bank or a distress in the banking industry usually results in runs on the individual bank or banks in the industry, but a glance at table 4.1 above reveals an increasing trend in individual deposit liabilities as well as total deposit liability throughout the period. The table shows steady increases in deposit liabilities but a calculation of growth rates for the decomposed deposit liabilities and to total deposit liability presented in table 4.2 shows dynamic characteristics.

Table 4.2: Pre-Reform Growth Rates in Demand, Time, Savings and Total Deposits(%).

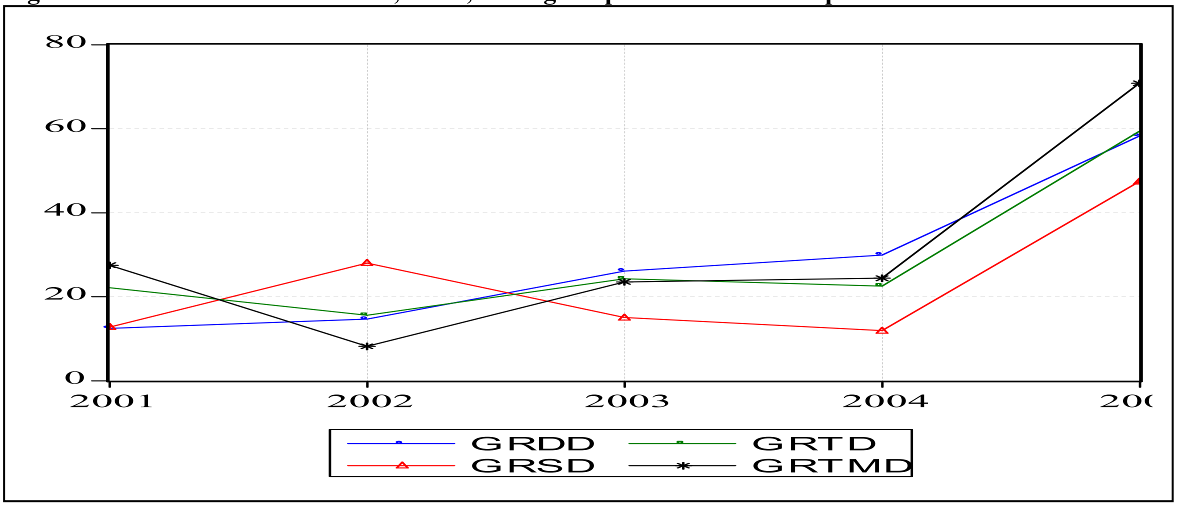
Period	GRDD	GRTD	GRSD	GRTDL
2001	12.4657	27.47309	12.72679	22.16348
2002	14.64529	8.174949	27.98642	15.57193
2003	26.12044	23.53242	15.02784	24.24189
2004	29.93438	24.40203	11.87705	22.5466
2005	58.2338	70.82951	47.39659	59.38179
Average	28.27992	30.8824	23.00294	28.78114

Source: Author's Calculations.
Where:
GRDD = Growth rate in demand deposit
GRTMD = Growth rate in time deposit
GRSD = Growth rate in savings deposit
GRTD = Growth rate in total deposits.

The growth rates in the pre-reform period recorded a considerable increase especially during and by the end of the reform period, 2005. All the deposit components (demand, savings, time and total deposits) had whooping increases from 2004 to 2005 from 29.93%, 24.40%, 11.87% and 22.54% to 58.23%, 70.82%, 47.39%, 59.38% for demand, time, savings and total deposits respectively. These shows that the differences between 2005 and 2004 growth rates were so huge standing at 28.3%, 46.4%, 35.52%, and 36.64% demand, time, savings and total deposits respectively than the previous years. Given that years 2004 and 2005 were during the reform period, this implies that public confidence in the industry was at it's peak as evidenced by fig. 4.1 below with a sharp rise in curves for all the variables.

European Journal of Business and Management
ISSN 2222-1905 (Paper) ISSN 2222-2839 (Online)
Vol.6, No.9, 2014

Fig. 4.1: Growth Rates in Demand, Time, Savings Deposits and Total Deposit



Source: Table 4.2.

Fig 4.1 is a representation of table 4.2 which clearly shows that deposit liabilities in the Nigerian banking industry peaked in 2005. This scenario is suggestive of adequate restoration of public confidence during the banking reform between July 2004 to December 2005.

However, the post-reform (2006 – 2010) seems to be an opposite report of the pre-reform period given that increases in deposit liabilities were not huge and steady as expected.

Table 4.3: Post-Reform Deposit Liability of the Nigerian Banking Industry (N' Million).

Period	Demand DEP	Time Deposit	Savings Deposit	Total Deposit
2006	1,497,903.7	852,358.0	592,514.8	3,245,156.5
2007	2,307,916.2	1,465,281.5	753,868.8	5,001,470.5
2008	3,650,643.9	2,293,605.8	1,091,812.2	7,960,166.9
2009	3,386,526.5	3,147,266.3	1,171,917.8	9,150,037.7
2010	3,830,282.0	2,858,793.6	1,589,175.4	9,784,542.5

Source: CBN Annual Report: (2007; 2010).

The demand deposit in year 2009 recorded a decline from year 2008, the time deposit in year 2010 recorded a decline from year 2009 while the savings deposit had an increase all through the period. Though, this resulted into an increase in total deposit all through the period but the growth rates as presented in table 4.4 shows dynamic characteristics.

Table 4.4: Post-Reform Growth Rates in Demand, Time, Savings and Total Deposits

Period	GRDD	GRTMD	GRSD	GRTD
2006	54.076	71.9092	27.232	54.12
2007	58.179	56.53	44.828	59.16
2008	-7.235	37.2191	7.3369	14.95
2009	13.104	-9.1658	35.605	6.934
2010	NA	NA	NA	NA
Average	29.531	39.1231	28.75	33.79

Source: Author's Calculations.

Where:

GRDD = Growth rate in demand deposit

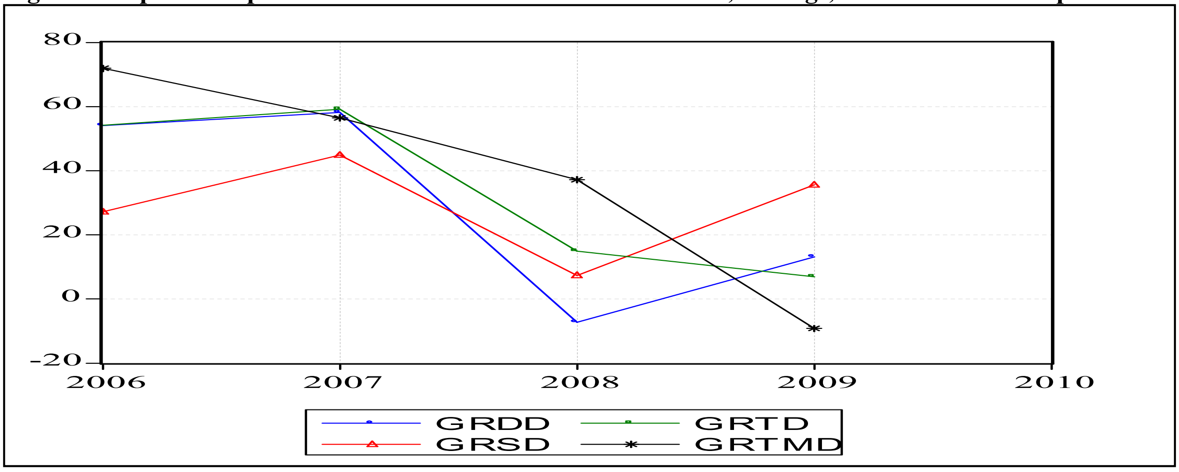
GRTMD = Growth rate in time deposit

GRSD = Growth rate in savings deposit

GRTD = Growth rate in total deposits.

Apart from the growth rate in time deposit of about 1.1% from 70.8% in 2005 to 71.9% in 2006, demand, savings and total deposits recorded decline in growth rates for 2006. There were no values for year 2010 due to unavailability of 2011 figures but it is glaring that declines surfaced in growth rates in the post reform period as represented in fig.4.2. To this extent, the growth rates for demand deposit were -7.23% in 2008, -9.16% for time deposit in 2009, and positive but at a paltry 7.33% for savings deposit in 2008. However, these periods are all during the economic crises of the world. This caused growth rate for total deposit falling from 59.16% in 2007 to 14.95% in 2008 to 6.93% in 2009 as depicted in fig 4.2 below.

Fig. 4.2.Graphical Representation of Growth Rates for Demand, Savings, Time and Total Deposits.



Source: Table 4.4.

The average in growth rates for the pre and post reform periods are as presented in table 4.5.

Table 4.5: Average Growth Rates in Demand, Time, Savings and Total Deposits in %.

Period	GRDD	GRTMD	GRSD	GRTD
Pre Reform	28.2799	30.8824	23.00	28.78
Post Reform	29.531	39.1231	28.75	33.79
Differences	1.252	8.2407	5.75	5.01

Source; Tables 4.2 and 4.4.

Table 4.5 enhanced a comparative interpretation of the growth rates in the pre and post reform periods of the Nigerian banking industry on an average basis. Obviously, the post reform growth rates are higher than the pre reform growth rates although the differences between the two periods are essentially lower than 10%. Demand deposit had the least growth rate of 1.252% while time and savings deposit had the high differences of 8.2407% and 5.75% respectively.

5.0 Conclusion.

In Nigeria, the ability of the banking industry to play its role has been periodically punctuated by its vulnerability to systemic financial distress while making corrective policies inevitable. These punctuations by systemic distresses have eroded grossly the trust and confidence reposed on the banking sectors Nigeria. To avoid total collapse of the banking industry, the CBN in 2005embarked on reforms targeted at increasing banks capital base which will in turn make banks withstand shocks as well as distresses. The 2005 reform having been implemented, this study examines the erosion of trust in the banking industry and to what extent the reforms have been able to enhance deposit liabilities for the entire banking firms in Nigeria. From our findings, essentially, the post reform growth rates are higher than the pre reform growth rates although the differences between the two periods. The findings are suggestive that the 2005 concluded banking reform has stopped the erosion of public confidence witnessed before the reform.

However, an efficient payment system been an integral function of the banking industry, we therefore, recommend that the banks pursue excellence in its deployment of IT channels for an efficient payment system. This will greatly enhance the pursuit of a cashless Nigeria while making more deposits available for the banks for onward lending to the deficit sector.

References

Adegbaju, A. A. and Olokoyo, F. O. (2008). "Recapitalization and Banks' Performance: A Case Study of Nigerian Banks". *African Economic and Business Review* Vol. 6 No. 1, Spring.

Adeyemi, K.S. (2005). "Banking Sector Consolidation in Nigeria: Issues and Challenges".*Union Digest.* Vol. 9 No. 3 & 4 December.

Balogun, E. D. (2007). "Banking Sector Reforms and the Nigerian Economy: Performance, Pitfalls and Future Policy Options".*Munich Personal RePEc Archive MPRA* Paper No. 3804.http://*mpra.ub.uni-muenchen.de*/3804

Central Bank of Nigeria, (2004).*"Annual Reports and Statement of Accounts"*. A Publication of Central Bank of Nigeria, www.cenbank.org.

Ezirim, C. B. and Muoghalu, M. I. (2004). "Financial Reforms and Commercial Banks Operations in Nigeria: A Comparison of Two Decades". *Union Digest,* Vol. 8 No. 2, June: 62-81.

Fadzlan, S and Muhd-Zulkhibri, A. N. (2007). "Consolidation and Efficiency: Evidence from Non-Bank Financial Institutions in Malaysia". *Munich Personal RePEc Archive.MPRA* Paper No. 12128 http://mpra.ub.uni-

muenchen.de/12128/.
Mckinnon, R. I. (1973). "*Money and Capital in Economic Development"*.Washington D. C.: Brookings Institution.
Nnanna, O. J. (2004). *"Beyond Bank Consolidation: The Impact on Society"*. A Paper presented at the CBN 4th Monetary Policy Conference. Abuja, 18th - 19th November.
Okpanachi, J. (2011). "Comparative Analysis of the Impact of Mergers and Acquisitions on Financial Efficiency of Banks in Nigeria". *Journal of Accounting and Taxation* Vol. 3 (1), May. http://www.academicjournals.org./JAT
Oladejo, M. O. and Oladipupo, A. U. (2011). "Capital Regulation and the Performance of the Nigerian banks: Need for Review". *Journal of Emerging Trends in Economics and Management Sciences* (JETEMS) 2 (3): 215-224.
Onwumere, J. U. J. (2005). *Business and Economic Research Methods*. Lagos: Don Vito Limited
Pedro, L. C. et al. (2008). "Effects of M&As on the Spanish Savings Banks". *European Journal of Economics, Finance and Administrative Sciences.* Issue 10.http://www.eurojournalsn.com. Accessed 28/06/2013.
Rasidah, M. S. and Mohd, H. T. (2011). "Performance and Financial Ratios of Commercial Banks in Malaysia and China". *International Review of Business Research Papers* Vol. 7.No. 2. March: 157-169
Sawada, M. and Okazaki, T. (2004). "Effects of bank consolidation promotion
policy: Evaluating the Bank Law in 1927 Japan". *RIETI Discussion Paper Series* 04-E-004.The Research Institute of Economy, Trade and Industry.http://www.rieti.go.jp/en.
Soludo C. C. (2004). *"Consolidating the Nigerian banking Industry to meet the development challenges of the 21st century*". An address delivered to the special meeting of the Banker's committee, held on July 6 at the CBN Headquarters, Abuja.
Taiwo P. O. and Anthony E. A. (2011). "Financial Sector Reforms and the Performance of the Nigerian Economy".*The Review of Finance and Banking.* Volume 03, Issue 1: 047- 060.
Umoren, A. O. and Olokoyo, F. O. (2007). "Merger and Acquisition in Nigeria: Analysis of Performances Pre-and-Post Consolidation".*Lagos Journal of Banking Finance & Economic Issues.* Vol. 1, No. 1, July.