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Assessment of the Impact of Universal Banking on Bank Performance in Nigeria

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Abstract
This paper assessed the impact of universal banking on the performance of the banking sector in Nigeria within the period 2001-2010. The main objective of this paper was to determine the extent to which universal banking affected the performance of banks in Nigeria within the period of study. The paper employed survey research technique and regression analysis to ascertain the impact of universal banking on the performance of the banking sector in Nigeria within the study period. The study population was made up of the 24 banks in operation during the period. Two (2) respondents were selected from each of the banks making a sample size of 48. The sample size was determined using purposive sampling technique. Evidence from the study showed that universal banking enhanced real sector funding, reduction in bank failure and enhanced performance of banks in Nigeria during the study period. The paper concluded that universal banking was a major innovation in the banking sector in Nigeria. Though the system had many prospects, it was also confronted with many challenges. The paper recommended, among others, that banking reforms should be predicated on needs and sufficient time should be allowed for adjustments and workability.
Keywords: Universal, Banking, Bank, Performance.

1. Introduction

The banking system in Nigeria has been undergoing tremendous reforms. These reforms relate to the capital base, number of institutions, ownership structure and the depth and breadth of operations. These changes were occasioned largely by the challenges posed by deregulation of the financial sector, globalization of operations, technological innovations and adoption of supervisory and prudential requirements that conformed to international standards.

The sector has shifted focus from the traditional borrower and lender to a more differentiated and customized product or service provider. It has moved from regulation to liberalization and from planned economy to a market driven economy. This transformation results from economic reforms and liberalization which allowed banks to explore new business opportunities rather than generating revenues through the conventional borrowing and lending. The change in the financial sector created the platform for universal banking in Nigeria.

The adoption of universal banking in several countries may be attributed to changes in laws and regulations. These changes were responses to the pressure mounted by banking institutions to be allowed to expand their activities. In France, a number of legislative changes in the 1960s prepared the ground for universal banking. In the USA, following the rapid changes in the financial structure, including the initiatives taken by some financial institutions to expand their scope of services, the Depository Institutions Deregulation and Monetary Control Act of 1989 was passed. The Act sought to improve monetary control and also to remove impediments to competition and equalize the cost of monetary control among deposit institutions.

In Nigeria, the banking laws and regulations tended to make the operations of commercial and merchant banks uniform. In 1979, the amendment to the repealed 1969 decree made wholesale banking and medium-term lending the main functions of merchant banks. The Banks and Other Financial Institutions Act (BOFIA) of 1991 was silent on the roles of merchant banks in wholesale banking and medium-term lending. Furthermore, the prescribed proportion of loans to medium and long-term enterprises was reduced from 50 percent in 1979 to 20 percent in 1991. This was, however, abolished in 1996. Similarly, the prescribed minimum deposit accepted by merchant banks was reduced from ₦50,000.00 in 1992 to ₦10,000.00 in 1994. These legal and regulatory changes continued until the adoption of universal banking principle in Nigeria in 1999.

The objective of universal banking is to make the banks a one-stop shop for all financial needs of their customers. The purpose is to produce a financial conglomerate that could maximize economies of scale and scope by building the production of financial services organization. Universal banking enhances the emergence of financial conglomerates and large banking groups. The defining factor in this new market is the size of a bank's capital. Banks which are well capitalized will have the capacity to compete freely in the market, acquire the relevant technology and retain skilled and well-motivated staff that can effectively and efficiently harness the full benefits of universal banking.

Obviously, the small size of banks operating in Nigeria made them vulnerable to market shocks and rendered them ill-equipped to perform any meaningful developmental roles. Thus, the minimum capital base of banks operating in Nigeria was raised to ₦25 billion. This financial revolution heralded the emergence of a new banking landscape in Nigeria.

Thus, the main objective of this paper is to assess the impact of universal banking on the performance of the banking sector in Nigeria. The major research argument is that universal banking has no significant impact on the performance of banks in Nigeria within the period 2001 and 2010.

2. Statement of the Problem

The emergence of Mal. Sanusi Lamido Sanusi as the Governor of the Central Bank of Nigeria (CBN) in 2009 occasioned significant changes in the Nigerian banking landscape. Many of these changes are reversals of the Soludo era banking consolidation policies. One of the reversals of past banking policies is the phasing out of the universal banking after its implementation for about ten (10) years. There is need to examine how much universal banking has contributed to the performance of banks in the country within its period of implementation.

The adoption of universal banking principle in Nigeria became necessary to remove the challenges confronting banks in terms of number, ownership structure, the depth and breadth of operations. It was also necessary in strengthening them to stimulate the economy and remove the dichotomy between merchant and commercial banks. Consequently, the extent to which universal banking has affected the performance of the banking sector in Nigeria needs to be assessed.

Oni (2001) notes that universal banking enhances competition from sources hitherto considered unusual, including insurance, financial intermediation services and, eventually, foreign participation in the industry. The extent to which universal banking has enhanced competition and foreign participation in the industry requires investigation.

The commencement of universal banking raises a desperate need for adequate infrastructural capacity and a degree of professional competence that must be markedly different from and clearly superior to the methods of the past. The human resource issue is critical in this respect. It is, therefore, necessary to determine the level of infrastructural capacity and human capital development in the industry.

3. Literature Review

Banks are recognized as vital in the development of a nation's economy. They stimulate economic growth through their intermediation function and rendering of other services. Fohlin (2009) states that the banking functions increase the share of the economic resources directed to productive investment which is achieved through capital mobilization. Continuous capital mobilization is enhanced by inducing savers to purchase deposits or shares and locating borrowers to use the acquired funds. In this regard, CBN (2000:1) define banking business in Nigeria as "the business of receiving deposits on current, savings or other accounts; paying or collecting cheques drawn or paid by customers; provision of finance, consultancy and advisory services relating to corporate and investment matters; making or managing investment on behalf of any person; and the provision of insurance marketing services and capital market business or such other services as the Governor of the Central Bank of Nigeria, may, by gazette, designate as banking business."

Capital mobilization, therefore, forms the core activity of most financial institutions which indicate their role in the expansion of the economy. CBN (2000) makes it free for banks to choose which activity or activities to undertake (money or capital market activities or insurance marketing services or a combination thereof) and are expected to comply with the guidelines specified for such activity or activities. Consequently, conventional banks desirous to practice Universal Banking were licenced to do so. However, non-conventional banks like the development and specialized institutions would continue to perform their specialized roles.

Universal banking became inevitable to salvage the banking sector from distress because inflation and the devaluation of the Nigerian currency (the Naira) greatly reduced the capital base of banks operating in Nigeria. Uyagu (2011) notes that the combined capital of all commercial banks in Nigeria amounted to only that of five (5) banks in South Africa. Nigeria could not be a major participant in international business, cross-continental investments and portfolio management due to poor and deteriorating asset quality and liquidity problems. Thus, universal banking was designed to ensure a diversified, strong and reliable banking sector that would actively contribute to the development of the Nigerian economy, ensure the safety of depositors' and investors' funds and vigorously participate in both Africa and global financial systems.

Universal banking generally refers to the combination of commercial banking and investment banking. It is a supermarket for both wholesaler and retailer financial services as it offers a wide range of financial services (Anonymous, 2010). Sanders and Walter (1994) see it as the conduct of a range of financial services comprising deposit taking and lending, trading of financial instruments and foreign exchange (and other derivatives), underwriting of new debt and equity issues, brokerage, investment management and insurance.

Alegieuno (2000) corroborates this but expanded its scope. He sees universal banking as the business of receiving deposits on current, savings or other accounts; paying or collecting cheques drawn or paid in by customers; provision of finance, consultancy and advisory services relating to corporate and investment matters; making or managing investment on behalf of any person; and the provision of insurance marketing services and capital market business or such other services as the Governor of the Central Bank of Nigeria (CBN) may regulate or designate as banking business. Under this concept, banks are free to choose which activity or activities to undertake (money or capital market activities or insurance marketing services or a combination thereof) and are expected to comply with the guidelines specified for such activity or activities.

The universal banking system allows banks to operate in all sectors without differentiation as merchants, commercial or mortgage banks. In this respect, Jimoh (2010) defines universal banking as a system where banks are allowed to provide a variety of services to their customers. Through the system, commercial banks are encouraged to operate and extend their primary mandated financial functions and incorporating along other operations such as Mutual Funds, Merchant Banking, Factoring, Insurance, Credit Cards, Retail Loans, Housing Financing, Trusteeship and Allied Services, Stock broking.

Thus, the difference between banks in terms of function and activities will only exist as a matter of choice rather than by reason of regulatory barriers. Universal banking provides financial and commercial linkages such that banks can either be owned by, or own commercial concerns. This dismantles the statutory and regulatory dichotomy between commercial and merchant banking activities. Banks can, therefore, undertake insurance business such as agency and brokerage services in the same place. However, other related aspects of insurance such as underwriting, loss adjusting, reinsurance and retrocession services can be conducted through a subsidiary.

Chizea (2000) avers that institutional, structural as well as supervisory factors have continued to deny us the full benefits of universal banking enjoyed in other countries where it is applicable. In highly developed financial systems such as Britain, Switzerland, Germany and, to some extent, United States of America, the boundaries between commercial and merchant banking activities have been removed which makes it possible for operators to choose areas of operational focus provided the guidelines are strictly adhered to. This implies that universal banking allows freedom of the market to mould operators into either a private bank, international bank, savings and loans bank, mortgage bank, or even a combination of all these under a single roof.

Universal banking would result in a huge financial conglomerate where any or all of these services may be offered: retail (commercial) banking, cheques clearing, funds management, investment (merchant) banking services, financial advisory services including financial consultancy, unit trusts, mutual funds, mortgage finance, securities trading including derivates, underwriting business, insurance (life and general), trusteeship accounts, pension funds and credit cards. Ogiemwonyi (2010) observes that the aim of universal banking was to put similar financial businesses into a platform that will allow it gain size and sell its services across the platform and its customers while gaining more insight into its businesses and therefore more diversified and better able to withstand risks.

With the commencement of universal banking, Oni (2001) states that the industry streams along two broad paths:

- Financial products and services incorporating banking products, project financing, SME financing directed at institutions and schemes that deal with basic production processes and financial advisory services including corporate financial restructuring.
- Capital market products, especially long-term debt, export credit, insurance and working capital guarantees.

The commencement of universal banking raises a number of issues. These include skills in the financial industry; change management; customer relations and service levels; investor relations; and corruption, ethics and corporate social responsibility. These issues require appropriate management to be able to face the challenge of competition in the industry.

The management of banks asset portfolios also remains a challenge in today's economic environment. Loans are banks' primary asset category and when a loan quality becomes suspect, the foundation of a bank is shaken to the core. Declining asset quality has been a major challenge confronting financial institutions in Nigeria. This is due majorly to the lax attitude some banks adopted and arm-chair banking regime previously enjoyed. These culminated in the reduction of regulatory oversight of banks resulting in undetected problems and crave for cost reduction leading to inadequate employee training.

Restructuring of the banking sector, therefore, became necessary consequent upon the real sector reform process in 1992. The reform created opportunities and challenges for the real sector. It, however, enabled banks to operate in a global market place without limitation. Thus, to harness the benefits of globalization, there was need for an efficient financial sector to support the structure reforms taking place in the real sector.

Banking reforms predated Nigeria's independence in 1960. There have been six major reforms since 1892 when Africa banking corporation of South Africa opened a branch in Nigeria. The reforms, as Udendeh (2009) notes, are the Free Banking Era (1892-1951), Regulatory Era (1952-1991), Liberalized Regulation Era with specialist roles (1991-2000), Liberalized regulation era with universal roles (2000-2005), Regimented regulation/consolidation (2005-2009) and Regimented regulation/ownership solution (2009 - date).

Reforms are part of a change which becomes imperative for any organization or system. However, these changes must be predicated on need basis. Reforms should be sustained for a reasonable period of time to realize the full benefits of such reforms before further changes are initiated. The last two reforms in the banking sector in Nigeria (from 2005-2009 and from 2009 to date) appear too hasty. This is predicated on the fact that the economy was still at its cradle and too fragile to absorb the ₦25 billion capital base requirement. The merchant banks were barely four years in universal banking and needed more time to stabilize and compete with First Bank of Nigeria Plc, United Bank for Africa Plc, Union Bank of Nigeria Plc and other banks that had been operating for some time. It must be noted that not every bank legitimately needed the ₦25 billion. For instance, legacy banks such as Marina International Bank Ltd, Investment Banking and Trust Corporation Ltd (IBTC) were small but viable to the tastes of their owners. Also, there was the danger of powerful families consolidating their hold on the banks using huge unregulated funds in their hands through public offers.

It was alleged that universal banking was the main factor responsible for the 2009 banking crisis in Nigeria. According to Jimoh (2010), the CBN governor, Sanusi Lamido Sanusi, claimed that the emergence of universal banking helped corrupt managing directors of banks to channel funds from one subsidiary to another, thus creating the impression that there was a big hole. However, the Finance Minister, Segun Aganga, argued that it was not the adoption of universal banking that caused the regulatory deficit in the financial system. He noted that the system has helped to deepen Nigeria's financial system and has created more job opportunities in the economy. By contributing to the rapid deepening of the financial system, universal banking has undoubtedly, assisted the monetary authorities to further enhance monetary policy transmission mechanism in the macro economy.

The universal banking regime exposed banking business to greater risks that challenged the stability of the financial system. The rapid expansion of banks led to the notion that banks were 'too big to fail' with all the attendant information asymmetry problems (Anonymous. 2010). The banks also abandoned the core business of banking and focused on ancillary services that yielded higher rates of returns. Banks also resorted to aggressive marketing strategy to differentiate themselves from one another.

Several studies attest to the positive and negative impact of universal banking on the performance of banks in both developing and developed countries (Wall & Eisenbeis, 1984; Boyd, Graham & Hewitt, 1993; Rime & Stiroh, 2003; Overfelt & Jan, 2007 and Osamuonyi & Emeni, 2007). The experience hitherto with universal banking in Nigeria has not been beneficial. This is affirmed by the finding of Uyagu (2011) that Nigerian deposit money banks did not perform well in terms of capital adequacy ratio, return on assets, assets quality ratio (non-performing loans) and liquidity ratio because of their compliance to universal banking scheme. Banks easily abused the process and used it as a conduit for the diversion of depositors' funds from the banks as equities into subsidiaries that became channels for siphoning funds. The magnitude of the abuse implied that there was negligence of oversight or connivance of the regulatory authority.

The effectiveness and regulatory capacity of the regulatory authority were imperative to stem the possible migration of risks across different segments of the bank's business. It was also necessary to reduce the susceptibility of the whole banking system to crisis that may emanate from non-banking segment of the banking business. Since the various segments were regulated by different agencies, it implied that there must be proper coordination among the regulatory agencies and a uniformly high standard of regulatory capacities across the regulatory agencies. Any weak link in the discharge of its regulatory oversights by any of the agencies would pose some problems for the entire system.

The era of universal banking, fuelled by bank consolidation, led to the rapid expansion in the size of the average Nigerian bank (Anonymous, 2010). It was an era characterized by increase in financial innovations, number of financial products and aggressive incursion of banks into insurance, mortgage and capital markets. The period also allowed banks to perform the roles of commercial banking, investment banking and to participate in other allied activities. Banks, therefore, carried out a wide range of banking and non-banking services, which included insurance, investment advisory, asset management services, stock-broking, etc (CBN, 2010).

It must be noted that without a sound and effective banking system in Nigeria, it cannot have a healthy economy. The banking system in Nigeria should be hassle free and should be able to meet new challenges posed by technology and other environmental factors.

4. Methodology

The paper employed survey research technique. Data were obtained through both primary and secondary sources. Questionnaire and documentary techniques were used as data collection instruments. The study population constituted the 24 operating banks during the study period. 2 respondents were selected from each of the banks making a sample of 48. The sample size was determined using purposive sampling technique. Both descriptive and inferential statistical tools were used for the analysis, while regression analysis was employed to ascertain the impact of universal banking on the performance of the banking sector in Nigeria within the study period.

5. Results and Discussion

The results obtained are presented and discussed.

Table 1: Impact of Universal Banking on the Economy in Nigeria

Variables	Response	Percentage
Wider specialization in banking activities	4	8.3
Globalization	10	20.8
Adequate funding for the real sector	18	37.5
Reduction in banks failure	16	33.3
Total	**48**	**100**

Source: Field Survey 2012

Table 1 shows that universal banking contributed positively to the economy by generating adequate funding for the real sector and reduction in the failure of banks in Nigeria. Jimoh (2010) noted that the development created employment opportunities for thousands of Nigerians. Besides, under a roof, corporate bodies could shop for loans and other services, while individuals could deposit and also borrow money. The universal banking system effectively positioned banks in Nigeria to globally increase their scope of operations.

Table 2: Impact of Universal Banking on the Banking Sector

Variables	Response	Percentage
Impressive capital base and good conduct	21	43.0
Sound financial statement	9	19.0
Adequate infrastructural capacity and human resource development	9	19.0
Sound trade record of businesses	9	19.0
Total	**48**	**100**

Source: Field Survey 2012

Table 2 reveals that 43.0% indicated that the ₦25 billion capital base requirements strengthened the operation of universal banking in Nigeria. 19.0% of the respondents confirmed that the impressive capital base enhanced sound financial statement and trade record of businesses and adequate infrastructural and human resource development in the banking sector in Nigeria during the study period. The operation of universal banking required banks to have adequate human and infrastructural capacities to effectively coordinate all the activities in the various segments of their businesses.

Table 3: Contribution of Universal Banking to Bank Performance

Variables	Response	Percentage
Business diversification	10	20.8
Improved quality service	20	41.7
Efficient service delivery	12	25
Ease of transaction	6	12.5
Total	**48**	**100**

Source: Field Survey 2012

Universal banking contributes positively towards improved quality service, business diversification and efficient service delivery in the banking sector in Nigeria. The implication is that the synergy of integration associated with multi-purpose banking as well as the economies of scale attained through business combinations have greater effect on performance of banks in the country. This agrees with Osamwonyi and Emeni (2007) who found that there was a positive relationship between universal banking and effective customer service and growth in the Nigerian banking sector. The study concluded that universal banking has a positive impact on the Nigerian banking sector and the larger Nigerian economy.

Table 4: Effect of Universal Banking on the Banking Sector

Variables	Response	Percentage
Encourage good conduct	20	41.7
Enhanced long-term funding of capital projects	11	22.9
Guaranteed safety of customers' funds	11	22.9
Increased export-based economic activities	6	12.5
Total	**48**	**100**

Source: Field Survey 2012

Table 4 reveals that the universal banking policy positively enhanced good conduct in the banking sector in Nigeria during the study period. This implies that sufficient supervisory or monitory structure was adopted to enhance the scope of operations of banks thus ensuring compliance with policy reforms and enhanced capital base of banks in Nigeria.

Table 5: Measuring Impact of Universal Banking on Bank Performance

Variables	X	Y	XY	X^2	Y^2
Economies of scale	10	20.8	208.0	100	432.64
Broader financial products	14	29.2	408.8	196	852.64
Access to international financial market	14	29.2	408.8	196	852.64
Risk reduction	10	20.8	208.0	100	432.64
Total	48	100	1233.6	592	2570.56

Source: Field Survey 2012

$$XY = \frac{n\left(\sum xy\right)-\left(\sum x\right)\left(\sum y\right)}{\sqrt{\left[n\left(\sum x^2\right)-\left(\sum x^2\right)n\left(\sum y^2\right)-\sum(y)^2\right]}}$$

$$= \frac{4(1233.6)-(48)(100)}{\sqrt{\left[4(592)-(592)4(2570.56)-(100)^2\right]}}$$

$$= \frac{134.40}{405.85}$$

$$= 0.33$$

The test statistic of 1233.6 is greater than the critical value of 0.33. This implies that universal banking had significant impact on bank performance in Nigeria during the period under review. Evidence from the study showed that universal banking offered a variety of services to customers; improved service delivery; enhanced real sector funding; increased banking scope and reduction in bank failure. These enhanced performance of banks in Nigeria during the period of study. This agrees with Jimoh (2010) and Anonymous (2010) who stated that universal banking contributed to the rapid deepening of the financial system, created more job opportunities in the economy, increased financial innovations and financial products; and led to the expansion in the size of the average Nigerian bank.

6. Conclusion and Recommendations

Universal banking, as a global system of banking, is a major innovation in the banking sector in Nigeria. The scheme was introduced by the CBN in Nigeria to guarantee the safety of depositors' and investors' funds, protect the interests of stakeholders and ensure that banks in Nigeria meet international standards. It was designed to ensure a diversified, strong and reliable banking that would stimulate the economic growth of the nation. The adoption and implementation of universal banking system and other reforms that accompany it would herald rapid and sustainable development and economic growth in the country. Universal banking has many prospects as well as challenges confronting it. Though the experience with universal banking in Nigeria has not been beneficial, efforts should be made to maximize the prospects and minimize the challenges.

To enjoy the benefits of universal banking, a good capital base for banks is essential. There is need for capital adequacy given the complexity of the banking system and the size of the Nigerian economy. It is, therefore, necessary to maintain the ₦25 billion minimum capital base in order to reduce the risk of bank failures should there be economic and financial crises in the future.

The CBN and other regulatory agencies should invest in the upgrade of both human and non-human capacities to be able to manage the ever changing and complex financial systems. Consolidated and integrated supervision is also needed for a continuous operation of universal banking. It must be noted that the recent reforms in the banking sector appeared to be too hasty considering the fissure between them. Though reforms are necessary, they should be predicated on needs and sufficient period be allowed for adjustments and workability.

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