AN ANALYSIS OF THE PERFORMANCE OF COMMERCIAL BANKS IN NIGERIA

A CASE STUDY OF THREE OLD GENERATION BANKS

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ABSTRACT

This project is aimed at analyzing the performance of commercial banks in Nigeria. Commercial Banks are financial institutions whose business is basically that of deposit mobilization from the surplus end of the economy and lending to the deficit end among other things . A look at the history of banking in Nigeria shows that the initial banks established were aimed at meeting the needs of the colonial masters. Because the needs of the Nigerians were not considered when these banks were set up it was very difficult for them to have access to their services especially in the area of loans. The Nigerians therefore decided to found their own banks when credit needs where not met by the expatriate banks. Rather discriminatory attitudes were shown to them using rigid rules in the assessment of their credit risks.

Another perspective of the banking era came when independent African governments legislated to nationalise bank shares wholly or partly in order to influence banking policies and management with a view to securing large bank lending for productive sectors of the economy. This brought about what is now called the Universal banking system in Nigeria. Through the homogenization Decree of 1972 and 1977 all banks in the country became indigenously owned-mixed or purely indigenous.

Commercial Banks in Nigeria now operate the Universal Banking system whereby they carry out both commercial and merchant banking services to the populace. Because of the various reforms that have taken place in the last two decades in the banking sector most banks are now publicly owned as against a time in the history of the country when the government had

substantial shares in the banks. Government involvement in the banking sector was initially as a move to save them from collapse due to lack of proper management.

The banking system has a lot to offer in the Nigeria economy. Until such time as all of the financial institutions in Nigeria have been thoroughly studied, it will not be possible to assess the significance of the banking system in a precise manner. What follows is therefore impressionistic and tentative and may well have to be modified when additional information becomes available.

There is not in Nigeria a wide range of options available to the potential borrower. The various development agencies offer very little competition to the banks as they usually have fairly rigid limitations to their lending ability which effectively limit their potential clientele to small groups with limited overlap between them. Their loans are the most part long-term and many have at present committed all of their available resources.

Finally, it is clear that borrowing within the indigenous sector cannot be done on a scale large enough to meet the needs of any but the smallest of firms. All of these factors tend to increase the importance of the banking system in the economy and the indigenous banks particularly.

The banking system is therefore, of great significance in the Nigerian economy because it represents the principal sources of short-term finance to all sectors of the economy. Financing is of paramount importance for the movement of trade within the country, and bank financing is gaining importance as banks provide more finance for manufacturing , importation and exportation. The prospect for economic development in Nigeria depend, to a large extent, on credit being supplied to the real sector of the economy at a reasonable rate. The supply of a credit at an 'optimum' rate is both the task of a banking system as a whole and the subject matter of this study. Of course, as economic development proceeds, other institutions should develop and compete so that the relative importance of the banking system may become more humane. It would be wrong to conclude from the foregoing that the influence of the commercial banking system is all-pervasive. Its direct influence is limited to the more modernized sectors of the economy so the effects of, say, a direct credit squeeze on the average Nigerian would be direct. As the monetisation and the modernisation of the economy proceeds, however, the commercial banking system should compete to have a much more immediate effect on the average citizen.