THE NATURE AND PROBLEM OF DISTRESS IN NIGERIAN BANKS

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PROJECT REPORT

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ABSTRACT

The current distress in the Nigerian Banking Industry has been a cause for concern to bank operators, bank regulators/ supervisors and the general public. The poor state of health of banks is the visible expression of a complex set of interrelated problems. As noted by Sheng (1991), the causes of bank distress are usually attributed to one or a combination of two factors: microeconomics factors (changes in relative prices, poor economic policies or external shocks).

This study examined the nature and problem of distress in Nigerian Banks. It started with identifying some major problems which are associated with distress in the industry. The financial condition of banks is being adversely affected by the depressed economy as many banks are unable to make significant debt recoveries from major customers who are in turn affected by the economic recession. The situation is made worse by the fact that competent and dedicated managers to address the issue of distress has been difficult to source and are presently in very short supply.

Shareholders have also been reluctant to give management free hand to run their banks while political interference especially in the Federal Government and State Government banks continue to be a serious threat.

Of importance also is the fact that Government policy shocks do not give the banking industry enough room for long-term planning. The regulatory authorities have also not been very effective and efficient in their examination and supervisory activities and action on banks. The problem of early diagnosis of symptoms of distress by management of banks as well as supervisory authorities was critically examined, while considerations borne more out of politics rather than economics is delaying the resolution of the problems of some distressed banks in the industry.

Based on the problems identified, the study set out to examine the major causes of distress and consequences in the industry and also investigate the validity of the claims. Two hypothesis were formulated and three research questions answered in this study. The statistical tools adopted in the analysis are the difference of mean for two sample and the student chi-square. The statistical test shows that Government participation in the ownership of banks contribute significantly to the incidence of distress in such banks and that distress in the banking industry significantly affect banking habit.

Past examination reports of insured banks especially those in distress, and in particular those already liquidated reveal that the problem in many banks derived from the inefficiency of the board and management or wrong choice of personnel who rather than being committed to the progress of these institution were selfish and greedy. The deterioration in the financial conditions of banks especially those already liquidated, began with poor lending practices. For example managements lack of attention to the details of the loan functions, concentration of credits extended to directors/shareholders and related companies opened the door to credit weakness and left many banks vulnerable to economic changes.