Nigeria's Banking Sector Reforms: The Journey So Far

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The global financial crisis which began with the United States sub-prime mortgage problems in 2007 brought to fore the central and cross-cutting role of financial sector activities in a nations economic wellbeing. The crisis appears to vindicate strident calls for financial sector reforms to enthrone sound financial practices and good corporate governance as means to ensuring sustainable economic growth and development. It is indeed true that financial sector reforms have been undertaken in one form or the other in various countries prior to the current global financial crisis, but the ferocity of the crisis and its pain on the global community has led many to wonder what actually went wrong. Many have questioned the manner and essence of financial reforms, whether they have gone far enough to have avoided the current global crisis or if the problem is with the manner and spirit of reform implementation.

In the light of the foregoing, many policy makers in Nigeria who appeared caught napping in the belief that Nigeria's emerging market status would significantly moderate the impact of the crisis on its fortunes, have also begun to address their minds to the direction of motion of the banking sector reforms. This is especially in the realisation that the oil-income dependent nature of the Nigerian economy does not afford it the same shock absorption platform as those of the Chinese and other diversified emerging market economies. It is thus appropriate in the current adverse global economic circumstances to determine the direction of the banking sector reforms. Given that banking reform is a process rather than an event (Sere-Ejembi, 2008: 12), it would be necessary to take a look at the journey so far in order to determine the dept and reach of the reform and how far they have met expectations.

To achieve the foregoing objectives, section two of the paper provides a conceptual platform for understanding the nature of activities in the financial sector. The various reasons offered for banking sector reform in Nigeria are laid out in section three. Section four discusses the history and content of banking sector reforms in Nigeria prior to 2004, while section five lays out the nature of the banking reform in 2004 and beyond. Other sections are: the costs and benefits of the reforms (in section six) and Post consolidation challenges and the lessons leant (in section seven). The paper is concluded in section 8 with a gaze into emerging issues ahead.

Conceptual Framework: Banking and Other Financial Sector Activities

What is referred to as the financial sector comprises financial market institutions and insurance companies whose activities are at the heart of any modern economy. The financial market consists of various exchanges, brokerage houses and financial institutions which are now connected into what has in recent years become a global financial market. The financial market can be broken into three segments- money market, capital market and derivative market (Ryan, 2004: 438-452):

The money markets exist for the purchase and sale of money in the form of foreign exchange (FOREX) and financial securities that have less than one year until maturity. Money market securities are generally referred to as 'bills' such as treasury bills and certificates, commercial papers, bankers acceptances, certificates of deposits, bankers unit funds, and time and call money (Ovwielefuoma, 1993: 296).

The capital markets exist for the purchase and sale of financial claims which have a term to maturity, when issued, of greater than one year. The capital market is divided into a number of subordinate markets the most important being the market for fixed interest securities (bonds) and equities. Within each market there is a 'primary market' where the user of capital (government, firms or other institutions) issues securities to the market to be taken up by either private or institutional investors and a secondary market, where issued securities are subsequently traded.

Derivatives markets exist for the purchase and sale of securities 'derived' from the value of other financial securities. Such derivatives include swaps, futures and options upon both capital market and money market securities. The derivatives markets are important for two reasons: first they allow investors to manage the risk associated with their holdings of securities. Second, in perfectly competitive markets, the prices of the derivative securities should exist in a clear relationship to the price of the principal securities concerned. This allows us to develop pricing models both for derivatives and for their underlying securities based upon the law of 'one price'.

It is evident that commercial banks constitute the most visible institution in the financial market. This is due to the very nature of banks whose failure is viewed to have greater effect on the economy than the failure of other types of businesses (Ogunleye (2005: 3). Along with the traditional banks, Non-Financial Institutions (NBFIs) also play intermediation role in the financial system by accepting deposit from surplus units and lending to deficit units, and through the buying and selling of securities. Thus, NBFIs create assets and liabilities different from banks which tend to influence the supply of money and at times precipitate monetary neutrality (Jhingan 2005: 629).

It should also be recognised that reforms in the banking industry have benefited immensely from the collaborative effort of the regulatory agencies of other financial sub-sectors. As noted by Ogunleye (2005: 8), the need for cooperation among the regulatory agencies led to the establishment of the Financial Services Regulation Coordinating Committee (FSRCC[2]). This body has provided a forum for the financial system regulators to collaborate and eliminate regulatory arbitrage, and consequently enhance the effective supervision of the financial system.

An important issue then is whether financial sector reforms should be left to the regulatory authority of each sub-sector of the financial system to pursue, or whether interventions should be done in concert with all the regulatory agencies working together to prescribe and implement complementary policies. It is evident that a successful financial sector reform in Nigeria would require coordinated interventions by the CBN, SEC, NSE, NAICOM and PENCOM acting in conjunction with important agencies like the Nigerian Customs, NNPC, FIRS, amongst others.

Arguments for Banking Reform in Nigeria

Over the past five decades, banking reforms have been articulated as means to ensuring the stability of the banking system, deepening of the entire financial system and, ultimately, the attainment of economic growth (Onodje and Olaniyan: 2008). Reform policies in forms of directed recapitalisation, directed credit and other guidelines on portfolio composition have been justified as means to increasing confidence in the banking system and broadening access to long-term credit, especially in the real sector of the Nigerian economy, where long-term credit has typically been scarce. Directed recapitalisation policies were a quest for local and global market dominance and improved stakeholders' confidence. Directed credit policies were aimed at development of vital sectors of the economy and employment generation, amongst others. Guidelines on portfolio composition appeared to be directed at achieving efficiency and effectiveness of the payment system, safety and soundness, effective supervision, good corporate governance amongst others (Sanni: 2007, 70-75).

The inadequacies of Nigerian banks identified by the CBN included low capital base, large number of small banks with relatively few ranches, poor rating of some of the banks, weak corporate governance including inaccurate reporting and non-compliance with regulatory requirements, declining ethics and huge non-performing insider-related credits. Others included over-dependence on public sector deposits and foreign exchange trading. The desire to remedy these inadequacies provided the impetus for the reforms (Soludo: 2004). According to Agba and Enofe, 2007: 117-120), banking reform has the benefits of checking distress, promoting depositors confidence, providing better funding for economic activities, increasing the capacity of banks to engage in cross-border businesses, increasing returns to investors and reducing overall cost of banking operations. Sere-Ejembi (2008), equally notes that many saw the reforms as necessary to bring about a strong and reliable banking sector that will ensure safety of depositors money, play active developmental roles in the Nigerian economy and become competent and competitive players both in the African and global financial systems.

According to Ogunleye (2005: 2), the Nigeria banking sector, prior to the 2004 reform had only made minimal contributions to the nation's economic development, while the stability of the banking sub-sector continued to be threatened. He adduced this to the fact that the subsisting structure and capitalisation of the sub-sector had been inadequate to meet the needs of the economy, especially, the need to finance large developmental projects that the nation critically required. He saw the system as largely made up of small banking firms, which were highly vulnerable to shocks.

The prevalence of weak small banks at those times gave room to other problems identified by Akingbola (2006: 14-15) as absence of internally focused management plans and budgets, myopic management, prevalence of sole ownership, poor credit culture, lax licensing regime, weak professional capacity, weak internal controls and weak judicial system, etc. Thus, at the inception of the reform in 2004, the CBN argued that reforms were needed to usher in a sound banking system able to facilitate economic development, provide a platform for sound monetary policy implementation as well as ensure price stability (Soludo: 2004). One way of achieving the stated vision of CBN and strengthening local banks to positively impact the real sector and grow the Nigerian economy is to allow in foreign banks, as argued by Onodje and Olaniyan (2008: 10). They were of the view that financial reform by way of foreign bank entry will aid economic competitiveness benchmark against international best practices, and increase international capital inflows. Financial reforms through foreign bank entry would generate economic growth by way of increased pool of funds, reduced investment risks and enhanced productivity of investment projects.

Risk based capital standards have also been proffered as an effective means of strengthening banks against distress and is the basis of the Basel I and II accords (Arua N., 2006: 63-68). The standards require banks to hold sufficient capital and reserves to insulate them form unforeseen losses. Basel I and Basel II are widely recognised as international benchmarks that banks in both developing and developed countries are required to comply with. Although, these standards of supervised capital adequacy are easier to adopt as simplified quantitative restrictions, and the underlying procedures and the supervisory skills required are harder to acquire (World Bank: 2001), they have nevertheless been voluntarily accepted and implemented by more than 100 countries in their banking reforms. The accord has been implemented in one form or the other to comply with these international regulatory standards as they can provide legitimacy to the country's financial market and banks.

However, it has been argued that the adoption of Basel standards is insufficient, especially since they fail to consider institutional weaknesses in developing countries, when they emphasise role of internal ratings and supervision. Supervisors are unlikely to be completely independent where banks are owned by powerful business elements.

Historical Development of Bank Reforms in Nigeria Prior to the 2004 Reform

Reforms have been a regular feature of the Nigerian banking system and have been crafted in various kinds of regulatory frameworks. According to Oke (1993), Nigerian banking regulatory system developed initially in response to financial crisis and other historical, political, and economic events. The period, 1892 to 1952, was regarded as laissez-faire with neither licensing requirement nor any regulatory control on the establishment and operation of banks. However, the failure of many banks and the attendant losses suffered by depositors led to the setting up of the Patton's Commission in 1948 to enquire into the nature of banking in Nigeria with a view to ascertaining the nature of regulations and controls that should be introduced to ensure stability of banks.

The Patton's Commission led to the enactment of the banking ordinance of 1952 with the following provisions:

- Holding of a valid license prior to the set up of a banking business
- Laid down standards and procedures for conducting banking business
- Prescription of minimum capital and reserve structure for banks.
- Existing banks were given 3 years to comply with the main provisions of the ordinance.

Nevertheless, reforms introduced by the Patton's Commission could not forestall the failure of about 17 new indigenous banks that were established in a rush between 1951 and 1954 on the unfounded rumour that a pending piece of legislation would inhibit the development of indigenous banks. The massive crash of banks in the period profoundly shocked the Nigerian banking public and led to loss of confidence in the banks.

In order to deepen and strengthen bank regulation, the CBN Act of 1958 and the banking ordinance of 1959 were introduced. The CBN Act of 1958 gave an apex bank status to the Central Bank of Nigeria with powers to control and supervise Nigerian Banks, including inspection of books, accounts and other related affairs of the banks as they affect their stability and corporate governance.

By 1969, government saw the need to further strengthen banking regulation with the enactment of the 1969 Banking Act, which consolidated all bank legislations since 1952 and introduced some important new provisions such as:

- Non-bank financial intermediaries like discount houses, acceptance houses and other financial institutions were added into the definition of bank.
- The minimum paid up capital of commercial banks was raised
- A licensed bank should not allow it's paid up capital and statutory reserves to fall below 10% of its deposit liabilities
- Every licensed bank should transfer 25% of each year's net profit to its reserve fund, when the fund is less than the paid up capital. But 12.5% of each years net profit should be transferred to reserve fund when the fund is equal to or greater than the paid up capital
- The maximum amount of credit a commercial bank may extend to each customer was raised from 25% to 33.33% of the sum of its paid up capital

- In addition to specified liquid assets, banks may be asked to hold minimum cash reserves, special deposits and stabilisation securities as specified by the CBN
- No bank may open or close office anywhere in and outside Nigeria without the consent in writing of the CBN, and
- Prior approval must be sought from the CBN for amalgamation or reconstitution of banking institutions.

The foregoing provisions notwithstanding, there was still the need to bring together in each of the preceding laws the numerous amendments and the desire of government that the banking sector act as a catalyst of economic development of the country. Also, it was the desire of government that financial sector reforms should be ongoing in order to engender healthy competition and ensure market efficiency. To achieve these desires, the 1991 CBN act number 24 and the Banks and other Financial Institutions Act number 25 of 1991 were enacted. The aim was to ensure that the CBN achieved effective supervision of banks and control of monetary policy, along with adequate enforcement of prudential regulations. The 1991 CBN act number 24 contains various provisions for the use of market based instruments for monetary control and management as the banks powers to obtain financial information from and issue monetary policy directives to economic agents and financial institutions were strengthened by the act.

In light of the foregoing, the history of banking reforms in Nigeria shows that variety of laws, regulations and supervisory practices introduced were usually driven by perceived economic, political and social challenges of the times. As was the case with the 2005 reform, legislations were introduced either as proactive measures both to strengthen the banking system and prevent systemic crisis or in response to the challenges posed by such factors as systemic crisis, deregulation, globalisation and needs imposed by technological innovation.

The Banking Sector Reforms in 2004 and Beyond

Drawing from its powers under the CBN Act of 1991 as amended, and the Banks and Other Financial Institutions Act of (BOFIA)[1] 1991 as amended, the CBN anchored the banking sector reform on a 13-point agenda involving (CBN, 2005: 16) Minimum bank capital base of N25 billion that must be met on or before 31st December, 2005:

- Consolidation through mergers and acquisition,
- risk-focused and rule-based regulatory framework,
- zero tolerance for weak corporate governance, misconduct and absence of transparency,
- accelerated completion of the Electronic Financial Analysis and Surveillance Systems (e-FASS),
- strict enforcement of the contingency planning framework for systemic banking distress,
- promotion of the enforcement of dormant laws
- to prevent non-performing loans (NPLs) of the banking system from posing a big challenge to the restructured institutions, the CBN initiated the establishment of an Asset Management Corporation (AMC), which would purchase such NPLs.

In this first phase of reform, the former transaction and compliance based supervisory approach of banks in Nigeria was considered too narrow in scope and uniformly applied irrespective of the peculiar nature of each supervised institution. With the reform, an attempt was made to adopt a robust, proactive and sophisticated supervisory process, which would essentially, be based on risk profiling of emerging big banks in line with the Basel Accord.

It was also expected that the development of a web-based information-tracking system otherwise known as electronic financial analysis and surveillance system (eFASS) would greatly assist the implementation of the intended supervisory approach.

The second phase of the reform tagged "market induced consolidation", was seen by Akingbola (2006) as coming too late because of the seeming complacency of sole owners of the banks who were content to be 'local champions'. The second phase has taken the form of most banks raising additional funds from the capital market to further beef up their capital base in the quest for market dominance (BGL Ltd., 2007: 6).

In recent times, the CBN introduced other measures to strengthen the gains of the reforms and minimise problems associated with the global economic meltdown.

In the early part of 2008, the CBN saw the need for a common year end for banks and for the redenomination of the Naira in order to strengthen for eventual convergence as required by the West African Monetary Union and the drive for a common currency in the West African Sub-region. Unfortunately, the move was thwarted by powerful interests who were apprehensive of the uncertainties surrounding the proposed reforms; however, the harsh realities of a plummeting naira value in the face of an unrelenting global economic meltdown forced government to renege on its policy of naira redenomination. With effect from 31st December, 2009, it is now mandatory that the annual financial year of Nigerian banks should end on the 31st of December. This move, which was unanimously agreed to by the Bankers' Committee[4], has been seen as a drive to get Nigerian banks to reinforce the position of banks on full disclosure or compel them to make full disclosure of their exposures to risks if they are yet to satisfactorily do so. In light of the global economic crisis, the measure is especially to encourage banks to disclose their exposure to margin facilities and other losses in the wake of the financial crisis. Disclosure is to be done through the various channels of communication open to the banks, such as annual reports and facts behind the figures.

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The issues of margin loans[5] and stability of exchange rate have also been addressed by the CBN to ensure continued soundness of banks and overall macroeconomic stability. In the wake of the global meltdown, banks had to recall margin loans to curtail exposures that rose to 10 percent of banking system credit towards the end of 2009. The recall, coupled with the massive withdrawal of funds by foreign institutional investors, led to bearish trading and huge losses in the Nigerian capital market. To ward off derailment of gains of reform which this development portended, the CBN rolled out the following measures (CBN: 2009):

- Reduction of the Monetary Policy Rate (MPR- from 10.25 percent to 9.75 percent)
- Reduction in the Cash Reserve Requirement (CRR- from 4 percent to 2 percent)
- Reduction in the Liquidity Ratio (LR- from 40 percent to 30 percent)
- Directive to banks to explore the option of restructuring margin loans up to 31st December, 2009
- Expansion lending facilities to banks up to 360 days
- Introduction of an expanded discount window facility[6]
- Suspension of liquidity mop-up from September, 2008.

Furthermore, a Presidential Advisory Team on Capital Market was set up in August 2008 to brainstorm on ways to reverse the dwindling fortunes of the Nigerian capital market, which is threatening other segments of the financial sector. The result of that move was the reduction of fees by SEC, NSE and the other regulatory authorities by 50 percent. In particular, the NSE reviewed its trading rules and regulations as follows (CBN: 2009):

- Harmonisation of 1 percent downward limit and 5 percent upward limit in daily price movement in the stock market to 5 percent either way, as from October, 2008
- Strict enforcement of NSE listing requirements with zero tolerance for infraction.
- Maximum share buy-back limit of 15 percent
- Delisting of 19 moribund companies.

The CBN also reintroduced the Retail Dutch Auction System (RDAS) and dropped the Whole Dutch Auction System (WDAS) introduced in 2006. This was done to eliminate some observed market abuses and sharp practices perpetrated by banks, strengthen market stability and ensure strict adherence to foreign exchange dealing rules. The WDAS framework had allowed banks, as authorized dealers, to buy foreign exchange on their own and resell to customers. But many banks round tripped, engaging in various market infractions. In the reintroduced RDAS, banks buy foreign exchange strictly on behalf of their customers, thus checkmating speculative arbitrage. Under the RDAS framework, the following policies became applicable:

- Management of the exchange rate within a band of +/-3 percent in the time being,
- Difference between the CBN buying and selling rates shall not be more than 1%; those of banks and the Bureau de Change shall not be more than 1 percent and 2 percent respectively around the CBN rate.
- Irrespective of the source of foreign exchange, the authorised dealers should buy strictly for their customers and not for inter-bank transaction.

The CBN has also appointed resident bank examiners, which have been posted to the banks along with the introduction of a technological interface (eFASS), to closely monitor the banks and ensure they comply with the requirement of timely rendition of various reports.

Cost and Benefits of the 2004 Reforms

The 2004 banking sector reform has come at great price to the banks, the regulatory authorities and government. The banks and the CBN faced some tough reform challenges such as skill redundancy following the identification of duplicated skills and expertise. Such categories of staff were paid off in line with their terms of engagement and best practices in the industry. Others included inexperience on large-scale consolidation, non-performing loans that were capable of distorting the balance sheet of the consolidated banks, problem of asset stripping, and the enormous cost of consolidation. The CBN had to support some of the merged banks to the tune of over N40 billion in debt forbearance, in addition to the enormous amount of time and energy it had to put in to midwife the reform to its logical conclusion. There was general fear of the possibility of inflow of toxic funds into the banking system in the face of inadequate supervisory capacity. Strong government involvement in some banks and its implication for corporate governance in the consolidated banks was also a problem. Viewed from the perspective of family ownership of banks, the cost of reform included huge dilution of or total loss of control.

On the other hand, it is evident that strong capital base, coupled with the adoption and effective implementation of a code of sound corporate governance in the industry not only have impacted positively on the operational ability of each bank to continue as a going concern, but also have stimulated growth in the Nigerian economy. One of the immediate benefits of the reform is astronomic rise in aggregate capitalisation of the Nigerian banking system to N755 billion from N327 billion, prior to the introduction of the consolidation programme. It is reported (CBN: 2007, Sere-Ejembi, 2008) that the twenty five banks that emerged from the consolidation exercise attained mega status. Their mega status is underscored by the fact that they accounted for 93.5 percent of the deposit liabilities of the entire banking system. At the end of December 2007, all the existing 24 banks met the required minimum shareholders' funds of N25 billion. Viewed in terms of a risk-weighted assets level of N8.2 trillion, the resultant total banks' qualifying capital of N1.7 trillion represented a capital adequacy ratio (CAR) of 20.9 percent. This position was regarded satisfactory by the CBN, when compared to the required minimum CAR of 10 percent.

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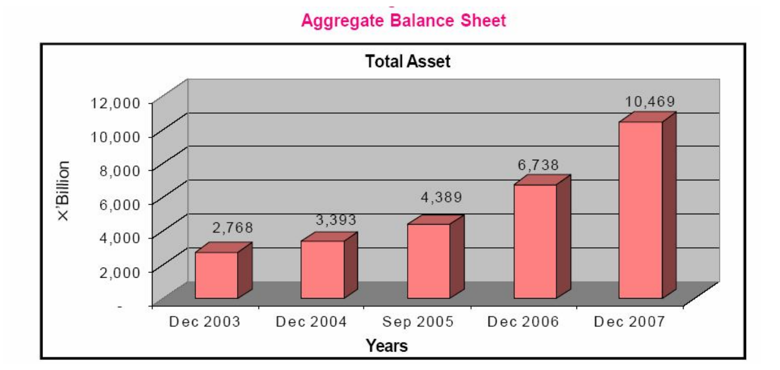
Thus, the consolidation in the Nigerian banking system promoted the emergence of financial conglomerates, engaged in cross-border and cross-sector operations. Nigerian banks have begun to participate effectively in financing large transactions and it is expected that they would become attractive to multinational companies operating within the commanding heights of the economy – Oil & Gas, Telecommunications, Aviation, and hence, help to meet their needs for loan capital. The reform also led to the raising of N406 billion from the Nigerian capital market in the quest to meet the minimum capital requirement. However, only N360 billion of the N406 billion raised was verified and accepted by the CBN. Foreign Direct Investment (FDI) inflow as a result of the consolidation came to a total of US$652 billion and GBP162 thousand.

The financial indicators as at end June 2007 showed that the GDP increased from about N10.2 trillion in 2004 to over N20.2 trillion in 2007, with total assets of the banking system, increasing from about N3.21 trillion to over N8.39 trillion within the same period. This implies that total bank assets to GDP ratio increased from 29.73 percent in 2004 to 39.2 percent as at June 30, 2007. In percentage terms, total assets of the banking sector increased, by 55.37 percent or N3.73 trillion, from N6.74 trillion in 2006 to N10.47 trillion in 2007 as shown in figure1.

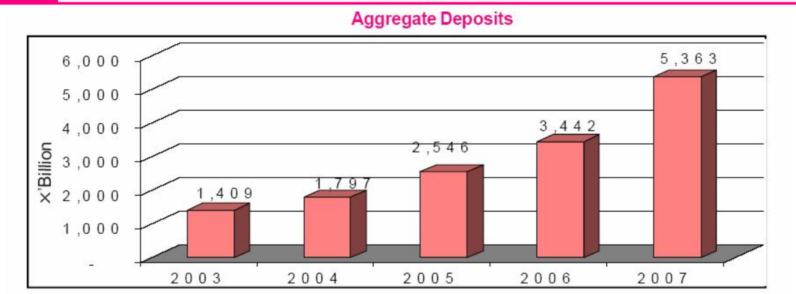
In the same vein, shareholders' funds of the banking system, which was N327 billion as at end June, 2004 significantly rose to N1.085 trillion as at end June 2007. Using profitability index, the total banking system profitability increased from N22 billion as at end June 2004 to N68 billion as at end June 2007, depicting an increase of over 209.09 percent. Also, aggregate deposits in the banking sector rose from N2.5 trillion in 2005 to N5.4 trillion in 2007,

Figure 1: Banking System



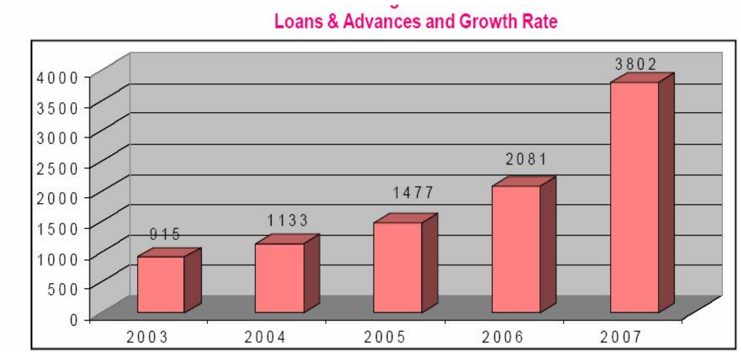
Source: CBN 2007 Annual Report.

Figure 2: Banking System



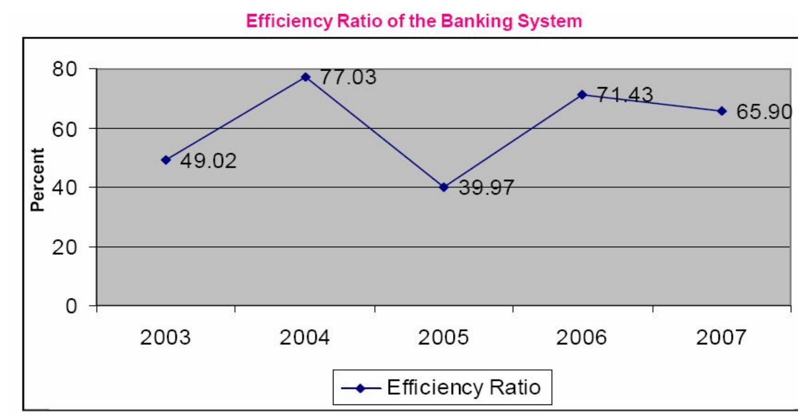
Source: CBN 2007 Annual Report.

Figure 3: Banking System



Source: CBN 2007 Annual Report.

Figure 4



Source: CBN 2007 Annual Report.

a growth rate of 55.8 percent in 2007 as against 41.7 percent in 2005, as indicated in figure 2.

Total bank credit growth rate was 82.7% in 2007 as against 30.4% growth rate in 2005 as shown in Figure 3.

The ratio of non-performing credits to total credits fell from the 21.6 percent and 18.12 percent respectively recorded in 2004and 2005, to the figure of 8.44 percent recorded in 2007. Also, the cost efficiency ratio[7] for the banking system was 65.9 percent in 2007 as against 39.97 percent in 2005 as indicted in figure 4.

Based on the foregoing positive post banking sector consolidation indices, it was not surprising when the first ever Bank Systemic Risk Report (BSRR) on the Nigerian banking system issued at end of September 2007 categorised Nigeria under MPI '1'.[8] The rating indicated low potential vulnerability of the banking system to systemic stress. Other benefits of the banking 2004 reform as reported by the CBN (2007) include:

- **Emergence of Larger Banks with Potential for Wider Branch Network:**

The 89 banks in Nigeria as at the end of May, 2005, had a total of 3,382 branches. The existence of a relatively few number of bank branches has grave implications for economic development. Consolidation has resulted in fewer but bigger banks with large capital base, which has put great pressure on the banks to embark upon branch expansion.

- **Greater Capability to Partner Internationally:**

Consolidation has strengthened Nigerian banks such that the quantum of international commercial and financial transactions that passed through them has increased and more banks now have greater access to credit line from foreign banks.

- **Predominance of Listed Banks:**

Almost all of the 25 banks which emerged from the consolidation are quoted on the stock exchange. Not only has this resulted in the dilution and wider spread of ownership, it has also reduced the presence of family-owned and controlled banks with its attendant insider abuses. Without suggesting that the existence of family controlled banks or other controlling shareholders in a bank is in itself inappropriate, I am of the view that this development will have a salutary effect on corporate governance.

- **Good Corporate Governance:**

The CBN, during the consolidation programme, released a draft code of corporate governance for banks in Nigeria to the industry and the general public for their inputs. It was expected that the code would assist banks in enhancing their corporate governance frameworks. Similarly, it was expected to assist regulators in assessing the quality and efficiency of those frameworks in banks.

Post Reform Challenges and the Lessons Learnt.

The Challenges

One of the challenges arising from the 2004 banking reforms is the issue of proper integration of the merging parties. The emergence of large-sized banks through mergers and acquisitions posed challenges of integration, acculturation, skill building, service delivery, and boardroom and management squabbles. There was thus, the need to fashion out ways of fusing the individual entities that came together into coherent corporate entities and tapping the synergies from the mergers. A pervasive mind set has been that 80 percent of mergers usually fail to produce the desired results; there was need to do away with this entrenched mentality. A strong corporate governance culture in the emerged banks could be enhanced through the issuance of code of ethics for banks and sustained periodic monitoring by the CBN.

Another challenge, which the reform sought to tackle, was how to best raise Nigerian banks to the position of global players. As noted by Akingbola (2008), being a global player goes beyond establishing physical presence in key locations internationally, to such critical issues as adopting and conforming to best practice in corporate governance, upgrading operations in line with international standards especially through the deployment of cutting-edge information technology infrastructure, and adopting best practice in brand management such that Nigerian banks do not appear as mere satellites of their better established international counter-parts. According to Onodje and Olaniyan (2008), Nigerian banks can be globally competitive if aggressive branding and re-branding strategies are adopted, coupled with provision of the right kind of legal environment and enforcement of rules.

The management of stake-holders' expectation is a challenge to the merged banks. As noted by the CBN (2007) forecasts in banks' prospectus for public issues during the reform period, banks created high shareholder expectations of bumper dividend payments and capital appreciation. Profit and dividend payout motives, therefore, rose to uncomfortable heights. The inability of some banks to meet these expectations in the short-run began to create shareholder disaffection, while there was undue pressure on banks to out-perform one another and pay unsustainable dividends as promised during the consolidation period.

Another challenge was how to reduce the high overheads of most banks, which had tend to hamper the post consolidation gains, and reduced credit cost to customers. Indeed, the Manufacturers Association of Nigeria has argued that the big size of post consolidated banks ought to reflect economies of scale and low cost of capital, the existing interest rate regime has not supported the manufacturing sector. Although, the CBN has always pointed out that interest rates should be market determined under a deregulated regime, it is noteworthy that regulatory authorities in the United States and Europe have had to cut interest rates several times (some almost to zero level) to spur demand, critical to investment and growth. Thus, creative strategies need to be devised to reduce credit cost so as to unlock the immense potentials of the real sector, especially small scale businesses in the informal sector. Ancillary to this is reducing the prohibitive transaction costs associated with the capital markets and stripping away the mind numbing bureaucracy that hampers banking business activity.

The need for continuous capacity building and official support to sustain and deepen the gains of the reforms are also important challenges to tackle. There is serious skill shortage such as leadership, risk management, operations, and strategy and information technology. To fill these important skill gaps, effort should be directed at aggressive search for and development of human capital. The recent downward trend of the Naira appears to negate earlier post consolidation trend of consistent macro-economic stability. Creative ways would need to be devised to sustain disciplined fiscal management in the face of adverse political pressures.

Some Lessons Learnt

There are various useful lessons arising from the 2004 banking reform, which if applied, will assist the emergent banks to be stable, strong and competitive locally and globally. One lesson is that Nigerian banks can only ignore good corporate governance and be myopic to their peril- there must be transparency and accountability. The boards of banks must be made of people of credible character, who are conversant with the nuances of banking business. Bank managements must look beyond their shores and benchmark against international best practices; in which case, they cannot afford to be the one-eyed king in the city of blind men.

There must be legal backing in form of up to date legislations to empower enforcement of rules and regulation. Banks must build capacity and bring in new people who would inject new blood and ideas into the system as shown by the entrance of Professor Soludo into CBN. They must also diversify shareholders' base to attract low cost capital and improve their product pricing ability to remain competitive. The reforms have also demystified the notion that "small is beautiful". It is now evident that the bigger the bank, the more stable and competitive it will be. A big bank will be able to withstand shocks induced by internal and external threats better.

Concluding Remarks

Banking reforms in Nigeria are not new phenomena, as they date back to colonial times. As has been shown in the paper, there were various reforms from 1952 to 1991, before the last major reform effort in

2004. These include those introduced by the Patton's Commission in 1948, the CBN Act of 1958 and the Banking Ordinance of 1959, the 1969 Banking Act which consolidated all bank legislations since 1952 and introduced new provisions, and the 1991 CBN Act number 24 and the Banks and Other Financial Institutions Act number 25 of 1991, which aimed to ensure that the CBN achieved effective supervision of banks and control of monetary policy, along with adequate enforcement of prudential regulations.

What is evident is that the dept of the reforms and their effect on the economy increased at each stage. The 2004 banking sector reform has been especially viewed as an economic miracle. This is because the exercise has placed Nigerian banks on the global financial market with 5 Nigerian banks being rated among the top 500 world wide. Nigerian banks are now the main visible transnational corporations with branch networks in over 22 African and 5 OECD nations (CBN, 2009: 48). However, the current reform has not been without challenges and costs; much has been achieved in creating a solid platform for the long awaited appreciable and sustained impact of the banking sector on the Nigerian economy. Already, the CBN is looking ahead to involving all stakeholders in the Nigerian financial sector in the match towards making Nigeria a financial hub of the African continent as articulated in the "Financial System Strategy 2020" (FSS 2020) document. The document is expected to take the reform to the next level from what Akingbola (2008) called 'vertical consolidation' to 'horizontal consolidation', involving all manner of financial service providers. Realising its pivotal role in the development of the Nigerian financial sector, the CBN took up the challenge of leading the financial sector regulators to bring about the required regeneration of the sector to make it stronger, more resilient and capable of playing a more significant role in boosting national development, and making Nigeria the financial hub of Africa. It came up with a strategic blueprint tagged "Financial System Strategy 2020" (FSS 2020), which embodies a vision of creating the safest and fastest growing financial system among emerging markets and the mission of driving rapid and sustainable economic growth in Nigeria and Africa. The objectives of FSS 2020 include the following (Soludo: 2007, CBN 2007):

- development of a shared vision and an integrated strategy for the nation's financial system;
- development of market and infrastructure strategies that would align fully with the strategic intent of the overall system;
- creation of a performance measurement framework and evolution of a partnership of all key stakeholders to implement the strategy; and
- establishment of a harmonious and collabo-rative environment for the development and delivery of the strategy.

The future direction of the reform, as enthused by Akingbola (2006), is a move away from vertical integration within the banking sector to a horizontal integration across all industries of the Nigerian financial system. This is where the reform journey appears to be heading in the coming years, judging from the above stated objectives in the FSS 2020. It is therefore, the hopeful expectation of ardent watchers of the reforms that the journey takes all stakeholders to the desired destination - a strong and vibrant economy that is accorded due regard and respect amongst the comity of prosperous nations. epr

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[2] The Financial Services Regulation Coordinating Committee (FSRCC) comprises the CBN, Securities and Exchange Commission (SEC), National Insurance Commission (NAICOM) and National Deposit Insurance Corporation (NDIC), National Pension commission (PENCOM), amongst others. The CBN, in its pivotal role in the financial system, chairs FSRCC.

[3] The BOFIA 1991, as amended, brought the activities of a myriad of financial institutions- deposit money banks (DMBs), finance companies, discount houses, primary mortgage institutions, bureau de change, community banks as well as the specialized non-deposit taking banks (development finance institutions -DFIs)- under the regulatory and supervisory control of the CBN.

[4] The Bankers' Committee comprises the managing directors/CEOs of banks including top members of the Central Bank of Nigeria (CBN) and the Nigeria Deposit Insurance Corporation (NDIC) and is chaired by the CBN Governor.

[5]A margin loan is credit granted to individuals, brokers and other capital market participants for the purchase of securities, especially shares.

[6] A discount window allows commercial banks discount treasury bills with the CBN to ameliorate liquidity challenges. The recent inclusion of commercial papers and bankers acceptances as eligible traded instrument gave rise to an expanded discount window. The expansion became necessary to obviate possible credit crunch in the banking system.

[7] The cost efficiency ratio is a measure of the ratio of operating expenses to operating income

[8] MPI 1 indicates Low Potential Vulnerability The assessment was based on three years annual data with a trigger in any of the three years being relevant to a country's MPI score. The three-year horizon was designed to be long enough to take account of the time it could take for banking system stress to emerge.

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