

Review

The challenge of risk management in Nigerian banks in the post consolidation era

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Many empirical literature showed several attempts at explaining and measuring risk-taking behaviour in banks to incentives created by safety-net programmes such as the fixed-rate deposit insurance system which though arguably, engenders cross-subsidization by creating avenues to take on risk inefficiently; the so-called moral hazard problem. The moral hazard view of risk taking in banks assumes that shareholders make the lending and investment decisions and therefore take a risk to maximize the value of insurance if they so desire. The foregoing discussion becomes even more imperative with the on-going reforms in the Nigerian banking industry. This paper attempts to provide an overview of risk management practices in insured banks in Nigeria. As we are now in the post consolidation era, consistent with the efficiency argument of a market economy, the need to foster healthy competition amongst fewer, mega banks becomes pertinent. Amongst the host of risks envisaged, those risks considered most important are identified, and their management and mitigating factors are analyzed. The risks relating to mergers and acquisitions (M&As) were also mentioned. The study employed trend analysis of variables to derive its results and concluded by pointing to some steps that would help to preserve the banking system and sustain its impact on our fragile economy.

Key words: Risk management, post-consolidation, mergers and acquisition, banking, moral hazard, insurance.

INTRODUCTION

Banking crises in Nigeria have shown that not only do banks often take excessive risks but the risks differ across banks. Some banks engage in more risks than their capital could bear. Other banks are more prudent and would be able to contain a banking crisis. As a way to stem the tide, the Central Bank of Nigeria (CBN) on July 6, 2004, introduced measures to make the entire banking system a safe, sound and stable environment that could sustain public confidence in it. According to the Bank's Governor at the time, Charles Chukwuma Soludo, "it is now time to set up a structure that creates a strong base relatives to the kind of economy we are operating where banks become channels to do proper intermediation (The Obasanjo Economic Reforms on the Banking Sector, 2005)."

As a follow-up, the CBN further announced a 13-point agenda to stabilize the base of the banking industry. The key elements in the agenda included the compulsory re-capitalization requirement of N25 billion for a commercial bank operating in the country (this requirement, it stressed, must be complied with by December 31, 2005). The essence of the reform policy was to consolidate the banking institutions through mergers and acquisitions (The Obasanjo Economics Reforms, 2005). While initially the policy seemed to have raised some dusts and generated some debates among different strata of the Nigerian society, it is to be seen that at the end of the day, 25 of the 89 commercial banks operating in the country emerged consolidated through re-capitalization to the tune of N25 billion. More than 50% of the new banks came to their present position through mergers and acquisitions.

It may be necessary, at this point, to stress that since the emergence of 25 consolidated commercial banks in

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Nigeria in 2005, the industry players and other stakeholders have been faced with how best to manage the post-consolidation challenges, that confront the Nigerian banking industry and the economy. This perhaps is the compelling reason operators of the banking system in Nigeria are challenged to take more seriously the important issue of risk acceptance/rejection, which is often the point at which bankers fall into or escape the trap of greed (Adedipe, 2005). The end of risk management for operators is risk mitigation, which emphasizes the protection of the bank's assets and by extension depositors' funds and capital. Our effort in this paper is directed at discussing the risk that bankers face and how such risks are managed as well as those risks associated with consolidation.

A REVIEW OF RISKS IN BANKING

The banking business by its nature is a high risk environment. It is risky in the sense that it is the only business where the proportion of borrowed funds is far higher than the owners' equity. A high level of financial leverage is usually associated with high risk. This can easily be seen in a situation where adverse rumours, whether founded or precipitated financial panic and by extension a run on a bank. According to Umoh (2002) and Ferguson (2003) few banks are able to withstand a persistent run, even in the presence of a good lender of last resort. As depositors take out their funds, the bank hemorrhages and in the absence of liquidity support, the bank is forced eventually to close its doors. Thus, the risks faced by banks are endogenous, associated with the nature of banking business itself, whilst others are exogenous to the banking system.

The risks that arise in the course of business which bankers should be able to control include, amongst others, credit risk, liquidity risk, reputation risk, legal risk, operational risk, customer satisfaction risk, leadership risk and information technology risk. On the other hand, the risks that are exogenous to the banking system which tend to pose the greatest control problem to bankers include regulatory risk, industry risk, government policies risk, sovereign risk and market risk. Other important ones, as added by Umoh (2002), include competition risk, human resources risk and fraud risk.

Credit default risk

Available statistics from the liquidated banks clearly showed that inability to collect loans and advances extended to customers and directors or companies related to directors/managers was a major contributor to the distress of the liquidated banks. At the height of the distress in 1995, when 60 out of the 115 operating banks were distressed, the ratio of the distressed banks'

non-performing loans and leases to their total loans and leases was 67%. The ratio deteriorated to 79% in 1996; to 82% in 1997; and by December 2002, the licences of 35 of the distressed banks had been revoked.

In 2003, only one bank (Peak Merchant Bank) was closed. No bank was closed in the year 2004. Therefore, the number of banking licences revoked by the CBN since 1994 remained at 36 until January 2006, when licences of 14 more banks were revoked, following their failure to meet the minimum re-capitalization directive of the CBN. At the time, the banking licences were revoked, some of the banks had ratios of performing credits that were less than 10% of loan portfolios. In 2000 for instance, the ratio of non-performing loans to total loans of the industry had improved to 21.5% and as at the end of 2001, the ratio stood at 16.9%. In 2002, it deteriorated to 21.27%, 21.59% in 2003, and in 2004, the ratio was 23.08% (NDIC Annual Reports- various years).

In a collaborative study by the CBN and the Nigeria Deposit Insurance Corporation {NDIC} in 1995, operators of financial institutions confirmed that bad loans and advances contributed most to the distress. In their assessment of factors responsible for the distress, the operators ranked bad loans and advances first, with a contribution of 19.5%. The relevant question now is: What lesson can be learned from the experiences of the liquidated banks in this regard? To answer this question, one needs to examine the administration of loans and advances which contributed to the crisis as well as possible mitigation that could have been applied. Banks are expected to have credit policies which should guide the bank in credit administration. Section 18(1b) of the Banks and Other Financial Institution Act (BOFIA) of 1991, as amended, forbids a bank from granting any advance, loan or credit facility to any person, unless it is authorized in accordance with the rules and regulations of the banks. The section also directs a bank to obtain adequate securities for advances, loans or credit facilities. In addition, section 18(1a) of the Act prohibits a manager or any other officer of a bank from having "personal interest in any advance, loan or credit facility; and if they do, such shall be declared.

Available evidence has, however, showed that most of the liquidated banks' officers flouted these provisions with impunity and some still in operation are allegedly not obeying these provisions (Umoh, 2002). Loans were granted without collateral; when taken, not adequate and when adequate, not perfected. Such officers of the liquidated banks are known to have faced the Failed Bank Tribunals for loans granted improperly with the result that the loans were irrecoverable. Furthermore, loan disbursements in many instances were known to have been effected even before conditions precedent to draw down were met. Some banks were (and some are still) reckless in disbursing facilities before loan applications and /or acceptance letter were received. How can such customers be made to repay if the simple

but important contract documents were not executed at the onset of a credit relationships? Section 20{1} {a} of BOFIA as amended seeks to limit the credit exposure of banks to single obligors as a means of avoiding undue credit concentration thereby mitigating credit risk.

Evidence from the liquidated banks is that most of the banks violated 20% of shareholders' funds unimpaired by losses limit. Although, the guidelines on Universal Banking that were issued by the CBN have raised the limit to 35%, some banks are known to have been exceeding the limit without seeking approval from the CBN as required by law. Such practice does not indicate that the affected banks have learned any lessons in this regard from the experiences of the failed banks. By wantonly exceeding the limit without approval, such banks have unwillingly laid foundations for distress, in addition to the stigma of being labelled as non-compliant. Directors of banks are also not permitted to have outstanding unsecured loans, advances or unsecured credit facilities in their names and/or in the name of associated companies without "prior approval in writing of the bank {CBN}", (BOFIA). The code of conduct for directors of licensed banks issued by the CBN and endorsed by every bank director warns that a director shall "be disqualified if any of his loans in a bank is classified lost by the Bank Examiners of The Regulatory Authorities". The provision of the Act and those of the conduct are intended to keep directors above board in their banks' credit administration. The directors are expected to be shining examples in this important aspect of banking operations.

However, available evidences are to the contrary. In the Liquidated Financial Merchant Bank Limited for example, all the loans in the bank were insiders-related. In Group Merchant Bank Limited, also liquidated, 80% of the loans were extended to directors and in the liquidated Credit Bank Nigeria Limited; the ratio was 76%. To the extent that such loans were not performing, it would have been a miracle for the banks to survive. In view of the importance of credit allocation in a bank and the potential risks associated with credit, most banks have credit committees with the board having the highest level, but short of the banks' single obligors limit. Unfortunately, in some banks the board credit committees had been chaired by the board chairmen until the CBN stopped the practice in August, 2002. Such an arrangement amounted to the board chairmen reporting to them, and to a great extent, it effectively compromised the independent appraisal of credit that the committee would have given the board. In spite of the major reason of speed of credit approval adduced to justify the practice, it could not have been in the best overall interest of the banks that had the practice. Senior management oversight of the leading function, involving regular and periodic loans review, done independently of the lending officers, is a good credit risk litigant. Such credit review can reveal weaknesses inherent in outstanding facilities

and could allow for quick intervention or remedial measure to prevent loan losses or at worse, minimize such losses. Although, many banks set up credit review committees, nothing concrete is known to have been done to implement the committee's recommendations. As a matter of fact, rather than make provisions for loan losses as prescribed by the committees, many banks are known to have sidelined such recommendations in favour of year-end profits.

The credit risk management bureau of the CBN, that provides information on prospective borrowers can be a viable medium for credit risk mitigation. The information from the bureau is intended to assist lending officers in forming opinions as to the credit worthiness of intending borrowers. Unfortunately, some banks have refused to avail themselves of the services provided by the medium. Similarly, such banks fail to provide credit information to the bureau. It is obvious that the services provided by the bureau, which in any case is owned by bankers, are to assist banks to fight the menace of 'professional' borrowers who move from bank to bank securing credit facilities with no intention to repay. There is also the use of risks quality ratings of both internal and external rating systems to provide some information on the risk quality of bank borrowers. Internal rating systems entail ranking customers in accordance with information available to the banker about the credit quality of the customer, whereas external rating usually relies on published information. With the proposed implementation of the New Basel Capital Accord, credit rating agencies will need to be actively encouraged in Nigeria.

Besides, the new capital accord expects every bank to ultimately establish an internal rating-based approach, to the measurement of capital requirement. In that regard, it would be each bank's responsibility to determine the rating to be given to every credit booked, subject, of course, to a supervisory review process. Banks are, therefore, advised to begin to put in place necessary tools for the establishment of reliable internal rating systems which would enable them to determine the riskiness of their credit portfolio and the set asides for risk weighted capital ratio. The BASEL 11 Accord provides for an arrangement that allows for demands for loan supervision and proactive credit dispute management system as the lifeblood to effective credit management. Perhaps the most widely used method of credit risk mitigation is asset securitization. Asset securitization is a process that involves the packaging of individual loans and other debt instruments, converting the package into security or securities, and enhancing their credit status/rating to facilitate their sale to third-party investors. A critical element of asset securitization is the creation of a special entity called the special purpose vehicle (SPV) to purchase loans and issue asset-backed securities on their collateral. The SPV may be a subsidiary of the originator of the loan or, of the investment bank that underwrites and distributes the securities. The whole

essence of an SPV is to create a clean and legal break in the transaction for it to be regarded as asset sale without recourse.

The practice, till date, appears not to be well understood in Nigeria and those who understand it, appear to blatantly misapply it. For example, some bankers simply repackage their loans as Bankers' Acceptances (BA) or Commercial Papers (CPs). Or "Asset Sale" matches them with equal amount of deposit and transfers same off balance sheet. Thus, they have not transferred the credit risk on such loans but have only succeeded to illegally understate the volume of loans and deposits of their banks. Nigerian banks have been enjoined to seek ways of setting up SPVs for the dual benefit of credit risk mitigation and deepening the financial market (Umoh, 2002). It has now become fashionable for banks to place huge sums of money with discount houses for on-lending or investment in commercial papers. Such placements are sometimes presented as off-balance sheet engagements by the discount houses. One implication of such accounting treatment is that the discount houses are not the primary obligors but the banks. In the event of default, the bank would be in trouble because it would not have direct access to the obligors. A way to mitigate such risk is to set limits to placements with a discount house, if such placement is not supported by treasury bills. The bank can also beef up its capital base, if it wants to expand its credit profile instead of doing it through a third party who, though carrying no risk, derives huge income benefit.

Operational risk

This is the risk of direct and indirect loss resulting from inadequate or failed internal processes people and systems or external threats generate. Operational risk may include frauds. By this we mean a situation where customers and/or bank staff intentionally falsify information or present forged documents. It may also include technology risk which refers to the risk of inadequate or ineffective operating and information technology infrastructure to support the business of the bank. Other examples are system failures, losses due to natural disasters, and accidents involving key management staff of the bank. But the question may arise as to how well banks prepared to meet the challenges of operational risk in the post-consolidation era, especially now that master forgers present and obtain value on cheques with the same characters like genuine ones issued to customers? What are banks doing to address the problems of insiders' frauds, weak internal controls and unprotected IT systems? Besides, how many banks recall their data tapes that are stored in off-site locations for regular revalidation and testing to ensure that such data can be relied upon at times of emergency?

One of the manifestations of high operational risk in Nigerian banks is the volume of frauds and forgeries. In compliance with the requirement of sections 39 and 40 of the NDIC Act No.22 of 1988 (as amended), banks render monthly returns on frauds and forgeries and also notify the corporation about terminations and dismissals of staff (Table 1). Similarly, in compliance with Section 32 of the Act, insured banks are expected to provide fidelity bond insurance to cover frauds and forgeries committed by banks' staff. During the year 2004, the average number of reporting banks stood at 77 as against 79 for the previous year. Reported cases of fraud have increased significantly over the year and stood at a total of 1,133 in 2004, showing about 33.29% increase relative to the 2003 figure which totaled 850.

Post consolidation experience

Operational risk became more pronounced in the post-consolidation era as losses are now running into about three billion naira in each case (Table 5). These losses arise principally from weak internal controls and the retention of staff with high propensity for fraudulent practices. Invariably, banks with high volume of losses from frauds tend to have these two factors and often the weak internal control manifests in such ways as preponderance of un-reconciled items, non-segregation of active from dormant balances, lack of dual control of strong room, lack of online auditing for banks that are online, etc. An analysis of the types of frauds and forgeries perpetrated showed that the commonest types were the following:

- a. Presentation of forged cheques;
- b. Granting of unauthorized credits;
- c. Posting of fictitious credits;
- d. Fraudulent transfers/withdrawals;
- e. Cheque and cash defalcation;
- f. Loss of money to armed robbers; and
- g. Outright theft of money.

The frequency, amount of money involved and expected losses are presented in Tables 2a and 2b. It is pertinent to note that the greater percentage of those involved in frauds and forgeries are in the higher echelon of the management\cadre. In fact, as shown in Table 4, increasing number of managers is entrapped in this crime. The fidelity insurance policy, as required by Section 32 of the NDIC Act No. 22 of 1998 (as amended), covers frauds and forgeries committed by staff of insured banks. The insurance policy is intended to reduce the adverse effect of insiders' frauds and forgeries on the banks. In this wise, therefore, all insured banks are expected to take up the fidelity insurance cover and renew same on an annual basis. The required minimum coverage for each bank is fixed at 15% of its paid-up capital as at 31st December of the preceding year. Table4 shows banks' response to the insurance coverage

Table 1. Returns of commercial banks frauds and forgeries.

Quarter	Year	Average no. of banks rendering returns	Total no. of fraud cases	Total amount involved (N'm)	Total expected loss (N'm)	Proportion of total expected loss to amount involved (%)
1st	2004	78	235	989.69	238.06	24.05
	2003	79	238	2,144.68	104.72	4.89
	2002	78	165	6,556.32	235.25	3.59
	2001	75	297	5,313.9	251.60	4.73
	2000	67	45	381.41	37.62	9.79
2nd	2004	70	247	2,477.01	511.17	20.64
	2003	78	218	1,221.45	311.54	25.51
	2002	77	233	1,224.2	471.94	3.86
	2001	74	176	612.90	111.1	18.13
	2000	66	156	360.48	124.17	34.44
3rd	2004	84	366	3,133.99	524.16	16.72
	2003	81	263	1,146.65	213.39	18.61
	2002	78	266	4,596.73	410.69	8.93
	2001	77	229	1,572.65	273.4	17.38
	2000	67	151	1,459.70	738.75	50.01
4th	2004	76	285	1,709.14	531.06	31.07
	2003	76	131	4,870.89	277.81	4.67
	2002	73	132	872.3	181.51	2.08
	2001	75	241	3,744.49	270.2	7.22
	2000	64	51	653.75	180.03	27.54

Source: NDIC Annual reports and accounts – various years.

Table 2a. Types of Major Frauds and Forgeries Up to 2007.

General nature of fraud	Frequency of expected loss occurrence	Amount involved (N'm)	%	N'm	%
General unauthorized loans/overdrafts	25	702.97	11.32	59.15	3.28
Presentation of forged cheques	368	1,759.90	28.33	547.02	30.31
Posting fictitious credit	58	311.10	5.01	88.75	4.92
Loss of money to armed robbers	55	33.87	5.37	296.39	16.42
Fraudulent transfers and withdrawals	309	2382.48	38.36	560.45	31.06
Outright theft	49	188.45	3.03	45.56	2.52
Suppression of cash/cheques	201	532.57	8.57	207.10	11.48
Total	1,065	6,211.34	100.00	1,804.42	100.00

Source: NDIC Annual reports and accounts – various years.

guideline.

According to the proposal in the new Basel Capital Accord, banks are required to provide capital for operational risk. This requirement must have been part of what spurred the Nigerian Regulatory Authority to raise the minimum capital base for banks. Banks are enjoined to develop viable internal approaches to the measurement of operational risks and to put in place operational risk management and control processes, which should cover the design, implementation and review of operational risk methodology. The banks' internal audit groups are expected to conduct regular

reviews of the operational risk management involvement of the board of directors, and senior management of banks are expected in risk management. In the final analysis, the most important factor in mitigating operational risk is good management. A good management team would ensure that the internal control process in the bank is effective. Offences such as rendering of false returns to supervisory/regulatory authorities, manipulating customers' accounts on month-end and non-rendition of VAT/Withholding tax to government would have the moral high ground to sanction staff engaged in malpractices to the detriment of

Table 2b. Frauds and forgeries as per totals for 2001 – 2007.

Year	Frequency of occurrence	Amount involved (N'm)	Expected loss (N'm)
2007	1,553	10,000.00	2,870.00
2006	1,193	8,000.00	2,700.00
2004	1,065	6,211.34	1,804.42
2003	773	8,377.93	857.46
2002	696	8,291.23	1,299.19
2001	714	3,616.22	847.55

Source: NDIC Annual reports and accounts – various years.

Table 3. Banks' staff involved in frauds and forgeries between 2000 and 2007.

Rank	No	%	No	%	No	%	No	%	No	%
Supervisor and managers	132	26.8	55	36.18	16	18.80	25	23.58	157	40.99
Assistant	101	20.5	60	39.47	48	56.50	41	38.68	129	33.68
Clerks and cashiers	137	27.8	30	19.74	13	15.30	25	23.58	61	15.93
Typists, technicians and stenographers	20	4.1	-	-	-	-	-	-	18	4.70
Messengers, drivers, cleaners, security guards and stewards	81	16.4	5	3.29	4	4.70	7	6.60	15	3.92
Temporary staff	8	1.6	2	1.32	4	4.70	8	7.55	3	3.78
Uncategorized staff	14	2.8	-	-	-	-	-	-	-	-
Total	493	100.0	152	100	85	100	106	100	383	100

Source: NDIC Annual reports and accounts – various years.

the bank.

Reputational risk

There is no doubt that trust and confidence are crucial factors in banking and the chance or probability that the public may lose these essentials in a banking institution constitutes reputational risk. Where a bank faces reputational risk, such a bank will have difficulty attracting and keeping deposits. Its dealings with other banks will also suffer, and in a matter of time, the bank would be out of business. Consequently, banking institutions are expected to cultivate and safeguard the confidence reposed in them by the public. However, such trust and confidence is bound to suffer, if any or all of the following take place:

- The bank levied excessive charges on customers;
- Customers are unduly delayed in the course of effecting deposits/withdrawals and other transactions;
- The staff of the bank are rude towards customers;
- The bank has known incidents of frauds, forgeries and unwholesome insider dealings;
- There is publicized instability in the board and management of the bank; and
- The bank is known not to be a good corporate citizen obeying laws and regulations.

Whilst the list cannot be said to exhaust all possible reasons for a bank's loss of trust and confidence, the list, however, includes some of the major reasons in the Nigerian banking environment. Some of the items on the list deserve further comment. In an effort to reduce deposit insurance premium, meet required liquidity ratio, capital adequacy, some banks, have been found to engage in unwholesome practices that are capable of denting their image before the regulatory authorities and the public. Such banks have been found to repackage non-performing credits as Banker' Acceptances (BAs) and Commercial Papers (CPs) then reporting them as Off Balancing sheet Engagements (OBS). Sometimes, the items are not reflected in the bank's books except in memorandum records. Some other banks are known to adopt the practice of crediting debtors' accounts whilst the corresponding debits are warehoused in impersonal accounts in a bid to reduce non-performing loans and hence required provision on such credits. Still, some banks take deposits from customers and rather than record same in their books as deposits, convert them to investment in CPs and treat them as contingent liabilities.

In addition, some banks capitalize as fixed assets such items as hotel, travel and training expenses in a bid to spread such expenses over time and thus enhance current profit through reduced expenditure. Given the increased demand for foreign exchange (forex), and the

Table 4. Banks response to NDIC fidelity insurance cover guideline.

Year	No. of Banks in operation	No of Banks that responded	% of total
2007	24	3	10
2006	24	3	10
2004	89	29	32.58
2003	89	56	63.0
2002	90	74	82.2
2001	90	81	90.0
2000	88	17	19.1

Source: NDIC Annual reports and accounts (various years).

Table 5. Post consolidation experience.

Year	Reported frauds and forgeries	Actual loss in N
2006	1,193	2.7bn
2007	1,553	2.87bn

drive by some banks to make billion naira profits, a number of banks had been found by the regulatory authorities to have engaged in unwholesome practices. For example, the banks needed their customers' names to bid for forex without the knowledge of such customers and the forex so acquired were sold in the parallel market. Such a malpractice, generally referred to as "round-tripping", was frowned at by the authorities, which quickly suspended the affected banks from the foreign exchange market. Although, such banks had since been recalled to the market only to be involved again in forex malpractices, the stigma of the suspensions remains and cannot be said to be healthy for a bank in a competitive environment. It is difficult to alter a first impression.

In spite of the provisions of Section 41 of the NDIC Act, which prohibits rendition of false returns to the authorities, some banks willingly pay penalties rather than render accurate returns. Even when onsite bank examiners ask for certain information which should allow the examiners determine the true condition of an examined bank, some banks' management is known to have denied the examiners the requested information. Again, such bank managers would willingly pay penalties for the infraction. These situations are clearly undesirable and do not portray such banks as law-abiding. Before the new millennium, the absence of ethics and professionalism in some banks was a serious matter of concern to the public, bank customers, the regulatory authorities and the Bankers' Committee. However, on 19th December 2000, the Bankers' Committee established a sub-committee on Ethics and Professionalism "to sanitize the practice of banking and finance in Nigeria and instill discipline in the profession." The sub-committee has since come up with a Code of Conduct which is to enable all operators and supervisors

"know in clear terms what acts, conducts, omissions and practices are considered unethical, and the appropriate sanctions that would apply for non-compliance with the code". It is hoped that this step to instill sanity will continue in the post consolidation period.

Human resources risk

This is the risk that a bank may not have adequate human resources in terms of number, qualification and experience, to pursue its mandate. The risk should also cover losses to the bank occasioned by errors of commission and omission by staff. In addition, it includes losses to the banks arising from outright theft, frauds and forgeries. Human resources risk in the Nigerian banking industry caught the attention of many people, perhaps for the industry in 1987. In the course of deregulation, the issuance of banking licences was liberalized. The newly licensed banks had to compete for staff with the many finance houses in particular, that were similarly licensed. The result was high staff turnover in the existing banks. Management quality also deteriorated. It was no surprise, therefore, that the distress plagued the industry, culminating in the liquidation of 34 banks between 1994 and 2000 as a result of the poor quality of management in the affected banks.

In addition to the CBN/NDIC (1995) study on the distress already cited, an NDIC research team conducted a manpower survey of the banking industry in 1991. That survey found out dearth of skilled manpower, high labour turnover, staff poaching and recruitment of inexperienced staff as responsible factors. In the commercial banks surveyed, professional staff defined as those who were members of professional bodies such as the Chartered Institute of Bankers of Nigeria (CIBN) and the Institute of

Chartered Accountants of Nigeria (ICAN) represented only 1.8% of total staff, whilst in the merchant banks the proportion was high as 10.4%. Similarly, staff with degrees was only 9.3% of total staff in the commercial banks surveyed, whilst in the merchant banks the proportion was as high as 34.7%. Thus, over ambitious young bankers as well as those with proven bad records are allegedly recycled into the system. No doubt, this practice does not augur well for the industry. The management of banks has a responsibility to assist the regulatory authorities to sanitize the banking industry in this regard for the benefit of all (NDIC, 1991).

Risks associated with mergers and acquisition (M&A)

M&A entail both risks and opportunities for banks. With regard to risks, three aspects are relevant. First, M&A entail an operational risk owing to the difficulty of integrating different risk management systems as well as different accounting and control procedures. Second, the problem of reconciling the different corporate cultures, including difference in work cultures and practices among the staff and business units of the two or various entities, entail the risk of a loss of key employees and/or clients. Third, there is the risk of failing to achieve the expected rationalization gains owing to the complexity of the operation as well as for other reasons, including labour market rigidities (Agbakoba, 2005). In this context, there is the risk that the structure of financial services groups may become less transparent. Besides, there may emerge initial skepticisms amongst merging entities as well as incoherent business activities too difficult to manage.

SUMMARY AND CONCLUDING REMARKS

There is obviously much concern in banks for return (profitability) without as much concern for risk even though the latter necessarily accompanies the former. A better understanding and appreciation of risk are desirable in banking business where one transaction or series of transactions can put the bank out of business as the Barings case and similar other exposures had shown. Nonetheless, enshrouded in this thick mist of argument is the issue of adequate legal and institutional framework that facilitate consolidation and risk management and by extension the health of the banking and financial sector. This is self-evident as we consider the emerging practice, the Basel II Accord on credit risk management, the issue of corporate governance, etc. as earlier observed, and the practice of securitization being a vital element in mitigating credit risk in an impoverished Nigeria. It sometimes could take a year to perfect an average mortgage agreement. This is the situation with other credit securitization processes. The credit Risk Management Committee of the Basel Accord had

suggested that in order to protect credit through securitization, title should pass effectively and the process of recovery must be efficient.

Other legal inadequacies include lack of a comprehensive insolvency/bankruptcy law that is effective as well as lack of seamless credit information sharing amongst banks. Also, mortgage is non-existent and the mortgage institution Act has little or no relevance to today's housing reality. In addition, there is little to say about leasing. These are the very bases upon which a modern credit structure is built; the absence of these has continued to hamstring the efforts of banks to capitalize adequately. These loopholes are continuously usurped by "system viruses". The Basel Committee listed some of the responsibilities expected of the regulators under the new Accord to include amendments to existing banking legislations, supervisory policies and guidelines; increased monitoring of the banks; re-training for supervisors and bank examiners on the new requirements of risk management. These should be *primus* in the reform process.

In Nigeria, it is common for bankers to overlook some risks and even ignore regulatory guidelines meant to mitigate such risks. A good number of banks have failed and some are in distress, because of management's poor attitude towards risk, particularly credit default risk. Bankers have a responsibility to identify their key risks, their source and then map out strategies towards their mitigation. The risk management structure and culture should be well understood and imbibed by all, starting from the board of directors. It is, of course, not enough to have a structure in place but there must be enough courage and will to implement the structure efficiently and effectively. The result might not be mega profits but the survival of the banking institution in an increasingly competitive industry. The regulatory structure should, in addition, incorporate close monitoring of the banks to avoid the emergence of different monsters that engage in unwholesome activities to stifle competition or create non-beneficial oligopoly. Sectoral consolidation and reduction in competition suggest no immediate benefits for customers or employees who find themselves in the frontline rationalization and having to bear the brunt of costs.

Consistent with the findings of many experts, a study by the Bank for International Settlements (BIS) reports the experience of the majority of mergers as "disappointing", with organizational problems almost inevitably underestimated and most acquisitions overpriced, noting the creation of bank "too big to fail". These banks eventually become complacent and overconfident and still face insolvency.

On the issue of employment, it would appear that a merger in many ways invalidates the employment contract thereby exacerbating human resources risk: the worker is now working for someone else, but without having taken any steps to change employers. It brings

home in the most emphatic manner the one-sidedness of the employment relationship and the fact that workers have no control over the decision of their employer.

Mergers and Acquisitions have sometimes been described as a legitimate means for breaking implicit contracts in order to restructure (Agbakoba, 2005). Given this description, the firm is seen as a nexus of implicit and explicit contacts, which only work on the basis of trust between managers and workers; it is underpinned by beliefs and assumptions regarding mutual responsibility between the employer and the employee (the "psychological contract"). Job security derives more from assumptions which M & A have the effect of disrupting. We must rise up now to tackle the trickle effect of the new structures we nurse today in order to forestall stillbirths.

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