

**APPRAISING THE ROLES OF CENTRAL BANK OF NIGERIA OVER  
OTHER COMMERCIAL BANKS**

**BY**

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**TITLE PAGE**

**SCHOOL OF MANAGEMENT & INFORMATION TECHNOLOGY,**

**FEDERAL UNIVERSITY OF TECHNOLOGY, YOLA**

**TOPIC: APPRAISING THE ROLES OF CENTRAL BANK OF NIGERIA  
COMMERCIAL BANKS**

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**A these submitted to the Department of Management of Technology,  
Federal University of Technology, Yola in partial fulfillment of the  
Requirement for the Award of MBA – Finance Degree**

**APPROVAL PAGE**

This thesis entitled "Appraising the roles of Central Bank of Nigeria over other financial Institutions" by Yusuf Bashir Olomoro Meets the regulations

governing the award of (MBA) – Financial Degree of the Federal University of Technology (FUT) Yola and is approved for its contribution to knowledge and literary presentation.

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I carried out the Research personally and the work has not been submitted  
anywhere before. All references in this research are dully acknowledged to  
the best of my ability.

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### **DEDICATION**

This thesis is dedicated to my Mother Hajarat B. Olomoro and my entire  
family.

## **ABSTRACT**

This thesis made a study on appraising the roles of CBN over financial institutions. The research work tried to approve the roles of CBN over financial institutions. To determine the effectness of in carrying out the roles, to determine the difficulties encountered by the CBN in its supervision roles and to proffer possible solutions. The researcher consulted a lot of books comprising the CBN and reports, the CBN briefs, CBN Bulletin,

CenBank News, Journals etc, CBN on line was also consulted for source of materials.

Having done all of this, the researcher thought that there is need for policing the CBN role of the Banking system guiding agents' negative expenditures associated with Bank fullness.

Based on the findings of the study, the researcher that the commercial Banks should properly follow up as result of the supervision and inspection from CBN and more time from that will enable the bank to do good job.

In spite of this the Central Bank Nigeria (CBN) puts forward a lot of avenues to curb the distress in the sector. However, the research tried to determine the effectiveness of CBN in executing its role over the financial institutions, to examine the difficulties encountered by CBN in its operations, and to proffer possible solutions to the problem.

The researcher consulted a lot of books comprising the CBN annual reports, the CBN briefs, the CBN bullion, *Cenbank* news, journals, etc. A total of 181 questionnaire s were developed and administered, out of which 151 were analyzed using the simple percentage method. While chi-square is used to test hypothesis.

Finally the study outlined the problems encountered by CBN in its supervisory roes and thus proffered solutions.

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## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1. BACKGROUND OF THE STUDY**

The role of the Central Bank is pivotal in the management of the nation's economy. Its role is not only to regulate and monitor the Commercial Banks but also to ensure development, prevent financial distress in the Commercial Banks and other financial institutions which could determine confidence in the system as well as fruitilate sustain growth. The pervasive role of the Central Bank (CBN) is in fact, appreciated in the right of its continuous monitoring of the domestics and infonatural economic. Its knowledge of the economic environment is the major source of the information for economic planning, which the trends in economy. The rightly or wrongly attributed to the actors of the central Bank of Nigeria.

The Nigerian banking sectors has undergone remarkable charges over the years, in terms of the number of institutions, ownership structure as well as the department and breadth of operators. These changes have been influenced largely by the challenges posed by the deregulation of the sector, globalizations of operators, technological innovators and adoption of supervising and prudential requirements that conform to international standards.

Furthermore, CBN's surveillance role on commercial banks recently revealed determination is banks overall performance, base on CAMEL parameters. Against the background the researcher funds its necessary to appraise the role of CBN over commercial banks.

Some of the goals the researcher intends to achieve at the end of the research work included. They:

- (i) Recommending a sound and more secure banking system that depositor can trust
- (ii) Building domestic banks that investors can trust and rally expand the financial investment in the Nigerian economy.
- (iii) During down cast structure of banks.
- (iv) Meeting international benchmarks and minimum requirements for the integration of regional financial system.

## **1.2. STATEMENT OF THE PROBLEM**

The Central Bank of Nigeria (CBN) was established in 1958 with the purpose of the supervisory role to other financial institutions in Nigeria, therefore, a discussion on the roles of the Central Bank of Nigeria over other financial institutions need to be appraised to find out the problem bedeviling the financial institutions that is leading to distress in banking and in other aspect of the Nigerian financial system.

In spite of this, the Central Bank of Nigeria (CBN) puts forward a lot of avenues to curb the distress in the sector. For example, the mergers and acquisition in the Banking sector the raising of the minimum capital requirement for a bank to operate, the adjustment of the Monetary Price Rate (MPR) to 13% controlling of finance etc. Despite all these, the Central Bank is still having problems dealing with financial misappropriation in the commercial Banking sector.

### **1.3. OBJECTIVE OF THE STUDY**

The general objective of this study is to appraise the supervisory roles of the Central bank of Nigeria (CBN) over other financial institutions/commercial banks, while specific objectives are as follows: -

1. To appraisal the supervisory role of the Central Bank of Nigeria (CBN) over commercial banks.
2. To determine the effectiveness the Central Bank of Nigeria (CBN) in executing its supervisory roles over Commercial banks.
3. To determine the difficulties encountered by CBN in its supervising role on commercial banks operators.
4. To proffer possible solutions to the problems to the commercial banks with emphases on its supervising role of the Central Bank of Nigeria (CBN).

### **1.4. SIGNIFICANCE OF THE STUDY**

This research will be useful to financial institutions and individuals especially students of higher institutions that may wish to undergo research in this aspect. More importantly to those individuals who would like to understand how Central Bank of Nigeria (CBN) is exercising its roles over other financial institution.

The study will also be of significant to the top echelon of commercial banks, because after the appraisal they will be able to identify why they are encountering such problems and the possible way forward. Because if a bank liquidate, the role of the Central Bank of Nigeria should be base on two (2) premises: (a) it is whether the CBN does not do it's work properly or (b)

whether the commercial bank refuse to adhere to the CBN rules and regulations.

Thus, after the critical appraisal of the roles of the Central Bank of Nigeria, the staff also of the CBN will also benefit from it. Because it's a kind of a contribution towards the upliftment of the assignment bestowed on the CBN by the CBN Act of 1959. Moreso, the study will significantly enable individuals or banks to know the weaknesses and strength that is where the CBN is performing and where it is not performing, where the commercial banks are adhering to the roles or where they are not.

### **1.5. HYPOTHESIS**

For the purpose and importance of this research hypothesis, the following hypothesis will be formulated and tested in order to provide reasonable answer to the question.

**Hypothesis: 1.** CBN does perform its supervisory role satisfactorily over commercial banks.

**Hypothesis: 11.** The commercial Banks adhere to CBN established supervisory Rules and Regulations.

**Hypothesis: 111:** CBN supervisory role has increased the performance of commercial Banks.

**Hypothesis: IV.** CBN is creating a sound and more secure banking system that depositors can trust.

### **1.6. SCOPE OF THE STUDY**

Although this study is covering the role of Central Bank of Nigeria over other financial institutions in Nigeria. For the purpose of this study,

however, the research will want to limit himself towards the North-East zone of the Central Bank of Nigeria. This is to workout easy administration and return of research questionnaires early and timely.

Moreover, the research is also referring to rules of CBN over other financial institutions. But for the purpose of this study or research work, the researcher will like to limit its scope to commercial banks only. That is selecting 4 mega banks in the commercial banking sector to ease the administering of research questionnaires. Therefore, strictly this research is only going to cover the roles of the Central Bank of Nigeria over 4 mega commercial banks in the Nigerian financial system. The study will be restricted only for that purpose and for only that. The roles of CBN over those mega commercial banks.

### **1.7. LIMITATION OF STUDY**

As in the case with many researchers, the researcher was hampered by constraints varying from lack of enough materials due to inaccessibility of enough material and information. Also financial constraint was also a factor because of inadequacy of fund, which was a Herculean task financially.

The study covers the period of pre-consolidation and post consolidation of commercial banks by the Central Bank of Nigeria (CBN).

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1. THE ROLE OF THE CENTRAL BANK OF NIGERIA.**

The principal role of the Central Bank in an economy is to mature on efficient financial system through the application of appropriate instruments to influence the levels of the monetary and credit aggregates in the pursuit of low inflation, economic growth and balance of payment. In developing countries, central banks usually go beyond these traditional roles to engage in developmental activities in order to speed up the economic development process and enhance the environment for the performance of their primary role.

The Central Bank of Nigeria (CBN), as spelt out in the CBN Act (1958), and subsequent amendment in (1991, 1998, 2007) CBN Briefs 2004 – 2007 edition.

- (a) Issuance of legal tender currency notes and coins in Nigeria.
- (b) Maintenance of Nigeria's external reserves to safeguard the international value of the legal currency
- (c) Promotion and maintenance of monetary stability and a sound and efficient financial system in Nigeria.
- (d) Acting as banker and financial adviser to the federal government
- (e) Acting as a tender of last resort,
- (f) Acting as a stabilizer if the Nations exchange rate and

- (g) Latterly acting as a supervisory body in charge of the Nation's economy.

Consistent with this mandate, the Bank is charge with the responsibility of administering the Banks and other financial institutions (BOFI) Act (1991), as amended (1997 and 1998), with the sole aim of ensuring high standards of banking practices and financial stability through its surveillance activities as well as the promotion of an efficient payments and clearing systems.

The Central Bank of Nigeria engages in currency issue and distribution within the economy. The bank assumed these important roles since 1959 when it replaced the WACB pound then in circulation with the Nigerian pound. The decimal currency denominations Naira and Kobo were introduced in 1973 in order to move to metric system, which simplifies transactions. In 1976, a higher denomination note of N20 joined the currency profile. In 1984, a currency exchange was carried out whereby, the colours of existing currencies were swapped in order to discourage currency hoisting and forestall counter feiting. In 1991, a currency reform was carried out which brought about the phasing of 2 kobo coins, while the 1k, 10k and 25k coins were redesigned. In addition, the 50k and ₦1 notes were carried, while ₦50 note was put in circulation in the quest to enhance the payments systems and substantially reduce the volume and cost of production of legal tender notes. The ₦100, ₦200, ₦50 and ₦1000 were issued in December 1999, November, 2000, August 2006 and December 2005 respectively.

However, the CBN introduces the new face of ~~₦5~~, ~~₦10~~, ~~₦20~~, ~~₦50~~, which were redesigned and put into use and circulation in February 28<sup>th</sup>, 2007. More recently the currency CBN Governor, Professor Charles C. Soludo attempt to place out the use of some currencies and raising the value of the naira by moving two digits to the left. But consequent to the announcement by the CBN Governor without informing the President and CINC, the President intended to suspend the Naira redomination until further notice.

In order to safeguard the international value of the legal tender currency, the CBN is actively involved in the management of the country's debt and foreign exchange. The CBN manages its domestic debt and services external debt on the advice of the FMF. On the domestic front, the Bank advises the federal government as to the timing and size of new debt instruments, advertises for public subscription to new issues, redeems matured stocks, pays interest and principal as and when due, collects proceeds of issues for and on behalf of the federal government and sanitizers the government on the implications of the size of debt and budget deficit among others. On external debt service, the CBN also cooperates with other agencies to manage the country's debt. The primary responsibility was formally transferred to the D.N.O. in 2000.

As regards promotion and maintenance of monetary stability and a sound and efficient financial system's role, the effectiveness of any Central Bank in executing its roles brings crucially on its ability to promote monetary stability. Prince stability is undependable for money to perform

the role of medium of exchange, store of value, standard of different payments and unit of account. Attainment of monetary stability rests on a Central Banks ability to involve effective monetary policy and to implement it's effectively. Since June 30<sup>th</sup>, 1993 when the CBN attended the market-based mechanism for the conduct of monetary policy. OMO has constituted the primary tool of monetary management, supported by reserve requests and discount window operations for enhanced effectiveness in liquidity management. Specifically, liquidity management by the Central Bank of Nigeria involves the routine control of the legal of loyalty in system. Periodically, the CBN determines target growth rates of money supply, which are compatible with overall policy goals.

The CBN rules as the financial adviser to the federal government, it undertakes most of federal government banking business within and outside the country. The Bank also provides banking services to the state and local government may act as banker to institutions, funds or corporations sect up by the federal, state and local governments. The CBN also finances government in periods of temporary budget shortfalls through ways and means advances subject to limits imposed by law, the bank advices on the nature and size of government debt instruments to be issued, while it acts as the issuing house on behalf of government for the short, medium and long term debt instruments. The Bank coordinates the financial needs of government in collaboration with the treasury to determine appropriately the term, timing of issue and volume of instruments to raise funds for government.

The Bank maintains current accounts for deposit money banks. It also provides clearing house facilities through which instruments from the banks are processed and settled. Similarly, it undertakes trade finance functions on behalf of bank customers. Finally, it provides temporary accommodation to banks in the performance of its function as a lender of last resort.

Consistent with its support for growth and development in the Nigeria economy, the central bank of Nigeria has been involved in developmental activities since its inception to date in all the sectors of the economy. Some of these activities are: -

- (a) Promotion of the growth of financial markets, which comprise the money, capital and foreign exchange markets. In order to develop the money market, which is the market for mobilizing short-term funds, the CBN introduced money instruments such as Treasury Bills (TBS), Treasury Certificates (TCS) and Eligible Developmental Stocks (EDS). To deepen the activities of the money market, particularly the secondary segment.
- (b) Promotion of wholly owned Nigerian enterprises, introduction of the rural banking scheme and the promotion of agricultural and manufacturing activities nationwide through its monetary policy.
- (c) Establishment of special schemes and funds to enhance economic development. These are in the form of agricultural finance; export promotion, small and medium scale

enterprises and collaborative research/services to third parties.

Under the establishment of special schemes and funds, the CBN performs the following roles:

- (i) The Agricultural Credit Guarantee Scheme (ACGSF)
- (ii) The Refinancing and Rediscounting Facility (RRF) and the foreign input facility (FIF)
- (iii) The small and medium a scale enterprises (SME) Apex unit loan scheme.
- (iv) Small and medium industry equity investment scheme (SMIEIS)
- (v) Refinancing scheme for medium and long Gestation Agricultural Projects;
- (vi) The monetary policy forum was established in 2000 to create a channel for public enlightenment and cross fertilization of ideas between the monetary authorities and other stakeholders. The form was created in recognition of the fact monetary policy works best in an environment in which the views of the key stakeholders are taken into consideration in both its formulation and implementation. This initiative is consistent with the general move towards greater transparency and openness in monetary policy making by central banks worldwide. The forum also services as a medium for educating the public on the statutory functions of the Bank, which is necessary for the substance of the autonomy and credibility.

(vii) Finally, the Bank's services to third parties are largely routine, interspersed with ad-hoc/special studies directed at addressing specific and contemporary economic problems. The routine services include organizing/participating at seminars, data gathering through surveys and releases of the Bank's publications comprising weekly, monthly, quarterly, half yearly and annual report.

The monetary management role of the CBN is appreciated in the light of the need to maintain macro economic stability, which is a necessary condition for the achievement of sustainable growth. This is borne out of a strong empirical evidence of the inverse relationship between money supply, inflation and long term growth. Although there are other factors that are associated with the rise in the general price level, however, inflation is basically considered as a monetary phenomenon in the sense that it cannot last without an accommodating monetary policy. Lessons of experience have shown that an appropriate rate of monetary growth over a period will lead to low and positive interest rate, which will foster exchange rate stability, enhance savings, investment and output.

The CBN has responsibility for formulating and implementing monetary policy, aimed at maintaining money supply growth at a level that is consistent with the absorption capacity of the economy. The term's monetary policy refers to actions taken by the CBN to affect monetary and other policy objectives of price stability, sustainable

output growth and a healthy balance of payments. The discretionally control of the money stock involves the expansion or conjunction of money and influencing interest rates (cost of credit) to make money change or more expensive, depending on the prevailing economic conditions and thrust of policy.

Since most of the factors that influence money supply (e.g. inflow of foreign assets and government borrowing/expenditure) are not amendable to control by the monetary authorities, attempts are made to influence banks credit operations. The rationale for this stems from the fact that banks create money through their excess reserves. Thus, increases in reserves enhance banks, credit creating capacity. In order to minimize the impact of credit generation in the money stock and to restrain inflation as well as stabilize the exchange rate, the CBN influences bank reserves in the desired direction through various techniques/policy instruments.

Following the adoption of market-based or indirect approach to monetary control to open market operations (OMO) has, since 1993, become the dominant instrument of liquidity management, with discount rate and reserve requirement as the main adjustment instruments. The bank also implemented a policy framework for the development and promotion of a deregulated, competitive and sound money market. This involved the deregulation of interest rates and strengthening of the legal and institutional framework for the conduct of monetary policy. The banks however, determine its Minimum

Rediscount Rate (MRR) to indicate the direction of interest rate charges, given the responsiveness of other rate of interests to the MRR. Under OMO framework, bank reserves constitute the operating target. With OMO, reserves are supplied or drained from the market to keep inter-bank rate within the desired range. The market thus determines interest rates and allocates credits. OMO had been conducted weekly up to October 2005. Effective November 2003, the CBN introduced the daily OMO to entrance liquidity management. The use of indirect installments promotes greater use of financial systems resources, encourages competition, and tends to prices capital according to its scarcity.

Furthermore, the instrument autonomy granted to the CBN conferred on the Bank the power to introduce its own monetary policy instrument. To this end, the Bank introduced the CBN certificate and uses it in times of need. Meanwhile, at the instance of the Bank, the Federal Government has approved the National saving certificate (NSC), a savings instrument, which would, complements CBN's efforts in promoting growth in domestic savings and address the problem of excess liquidity in the banking system on a sustainable basis.

In recognition of the fact that monetary policy impacts on the ultimate objectives with a substantial lay, the CBN, in 2007 adjusted a medium term framework for the conduct of monetary policy. The shift from annual to a two-year programme was designed to free momentary policy implementation from the problem of time

inconsistency and over reaction owing to temporary stocks. The CBN has been involving in the promotion of the growth of the financial markets, namely, money markets, Capital and Foreign Exchange markets. The bank nurtured the money market through the introduction of market instruments, such as treasury bills, treasury certificates and eligible development stocks. To deepen the market, the CBN granted licenses to discount house and some stockbrokers to participating in trading in government securities.

The bank also fostered the growth of the capital market through the issuance of federal government development stocks to stimulate the market for enhanced patronage and accommodation of governments' images form financial requirements.

The CBN is a major player in the foreign exchange markets and has carried out various reforms in the management of the market and the exchange rate in a deregulated financial environment. As a matter of deliberate policy, the CBN was instrumental to the establishment of some specialized financial institutions and special schemes and funds, aimed at channeling long-term financial resources to specific sectors of the economy, in support of the growth objective of government. Examples of such institutions are the erstwhile Nigerian Agricultural and Cooperative Bank (NACB, 1993); and the Agricultural Credit Guarantee Scheme (ACGS, 1977) for Agricultural Nigerian Industrial Development Bank (NLDI, 1964 and Nigerian Bank for Commerce and Industry (NBCL, 1993) for industry; Federal

Mortgage Bank of Nigerian (FMBN, 1977) for residential housing construction; Urban Development Bank (UDB, 1992) for the development of urban dwelling, mass transportation and public utilities; and Nigerian Export-import Bank (NEI) for exports. Some of these institutions have been restructured in order to make them more effective in the delivery of financial resources and advisory services to enter prices and thereby makes them relevant to the developmental aspirations of the Nigerian economy. The item 1 in the literature review has examine the role of the CBN in the financial system and has brought into focus the banks' pervasive and changing roles from the global perspective, which revolve around the maintenance of price and financial stability.

The enhanced operational autonomy of the CBN has provided a unique opportunity for the Bank to reposition itself for the challenges of the future. The merit in the instrument autonomy is that the Bank cannot deal promptly and decisively with emergence challenges in the financial system without un due political pressure. In the context of that autonomy the CBN has taken steps to restructure and re-engineer its work processes in order to enhance professionalism and transparency in its operations.

Consistent with the general move towards transparency and openness by central banks across the world, and in the spirit of consensus building, the CBN introduced a quarterly monetary forum to which key government officials, financial market operators, academics

as well as other stakeholders in the private and public sectors of the economy, are invited for the exchange of ideas. The CBN also published monthly, key monetary and exchange rate policy decisions reached at its monetary policy committee meetings, in order to inform the public (stakeholders and operators) about its policy objectives, including the rationale for its decisions. These initiatives are intended to minimize information asymmetry, improve the workings of the financial markets, and foster market confidence, which is essential for macro economic stability, and enhancement of the Bank's credibility.

## **2.2. HOW EFFECTIVELY THE CBN EXECUTES ITS SUPERVISORY OVER BANKING INSTITUTIONS**

The Nigerian banking sector has undergone remarkable changes over the years, in terms of the numbers of institutions, ownership structures as well as the depth and breadth of operations. These changes have influenced largely by the challenges posed by the deregulation of the sector, globalization of operations, technological innovations and the adoption of supervisory and prudential requirements that conform to international standards. The deregulation of the sector by the CBN, which began during the period of 1986 – 1990, was followed by a flood of new banks. The existence of so many banks coupled with the non compliance with market regulations by majority of the players, poor management, poor credit policy inside dealings/abuses, economic recession etc led to high incidence of distress in the banking industry in the 1990's.

The CBN as the Apex regulatory body of the banking industry and in order to determine its effectiveness on the role of the Banking Institutions. Furthermore, CBN commence surveillance on banks recently revealed deterioration in bank's overall performance based in Camel parameters. Banks performance rating in 2004 showed that 10 banks were rated as satisfactory, marginal and unsound, respectively. Against this background, the CBN in July 2004 rolled out a 13 point reform agenda at consolidating the banking sector and preventing the occurrence of systemic distress. In order to determine how effective the CBN execute its role on the Banking institutions, two major elements were analyze in the reform package as thus; that the minimum capitalization for banks should be N25 billion with effect from end December 2005 and that the consolidation of the banking institutions through mergers and acquisition should be initiated. Some of the goals the CBN intends to achieve by consolidating the Nigerian banking sector include: -

- (a) Creating a sound and more secure banking system that depositions can trusts;
- (b) Building domestic banks that investors can rely upon to finance investments in the Nigerian economy;
- (c) Encouraging industry consolidation and reducing systemic risk;
- (d) Fighting corruption and white-collar crimes through improved transparency and accountability, and insisting on sound corporate governance practices in the financial services sector;

- (e) Driving down cost structure of banks, improving banks efficiency and encouraging competition with the goals of lowering interest rates and providing change credit to the economy; and
- (f) Meeting international bench markers and minimum requirements for the integration of regional financial systems.

Business consolidation through mergers and requisition has become a global phenomenon to achieve economics of scale and high productivity. The need for financial institutions to merge becomes even more imperation in the face oaf the onslaught of greater competition arising from globalization and the pressure. For this reason, many Countries are moving towards consolidating their banking system and Nigeria cannot be an exception. A member of reasons have been advanced on why firms are consolidating or merging and some important factors during consolidation have been identified, but one should note that much of the same photocopy and rationale for bank mergers applies to other industries as well. Two primary factors affecting the need for banks to remain competition are technology and regulation. Whilst technology has blurred the lines of specialization among financial intermediaries, deregulation has significantly changed the way banks do business and where they do business.

The justification for consolidation and enhanced capital requirement for Nigerian banks has in the weakness and distressed condition of the banking sector. In addition, there were a large number of small players that could not operate profitably in a narrow margin market. Several of

then were unable to support the real sector of the economy because of their small size, and hence the tendency to resort to sharp practices in order to make ends meet. Finally, several of the banks operated under a weak corporate governance structure, reflecting rudimentary, initiated by the CBN were designed to ensure a diversified, strong and reliable banking sector that will ensure the safety of depositions' money, as well enable the banks play active developmental role in the Nigerian economy, and competitive plays in the regional and global financial system. The reforms were carried at creating a strong banking system, while consolidation was expected to address the problems of distress and technically insolvent institutions without resorting to liquidation option.

However, in order to ensure by the Central Bank of Nigeria (CBN) in executive its role over other financial institutions the Apex bank CBN solely introduce the settlement bank arrangement on 1<sup>st</sup> April, 2004 was to, among other things; improve the general procedures and infrastructure of refund payments in order to enhance the overall efficiency of the payments system. Other objectives of the new settlement arrangement include:

- (a) To foster a safe and smooth functioning banking system devoid of collateral stocks and disruption.
- (b) To subject all market players to market discipline, and eliminate incidences of overdrawn accounts through the cheque clearing system.

- (c) To effectively monitor liquidity and credit problems of banks with a view to promptly addressing them and reduce major pressure on interest and exchange rates usually triggered by systemic risk and crises, and
- (d) Strengthen the integrity of the payment system under the new arrangement, these banks that met the collateralized and not set criteria by the CBN for direct participation were known as "settlement Banks while other; were the "Non settlement Banks"

Over the years the Central Bank of Nigeria (CBN) has taken remarkable strides at modernizing and enhancing the payments system. Nevertheless, the challenges facing the system remain enormous, prominent of which is the continuing use of large sums of cash in financing of transactions, despite all efforts made to encourage the use of cheques. Since the commencement of the settlement bank arrangement in 2004, the payment system has, however, witnessed remarkable improvements. Not only has it encouraged the use of cheques among bank customers, it has also eliminated the overdrawn position of banks accounts with the CBN. By so doing, the exposure of CBN and unsolicited injection of high powered money into the economy has completely removed. With continuing sophistication of settlement bank arrangement.

A number of programmes, facilities, legal provisions, roles and regulations has been put in place to enhance on efficient and reliable payments arrangements in Nigeria.

In order to ensure a viable payments system, the CBN Act 1958 (Section 29, subsection I) provides that "the Bank may; provide the establishment of bank clearing systems and give facilities for the conduct of clearing business in premises belonging to the bank". Also, section 42 of the Acts states that "the CBN shall assume duty of the Bank to facilitate the clearing of cheques and latter credit instruments for banks carrying on business in Nigeria. For this purpose the bank shall, at any appropriate time and in conjunction with other banks, organize a clearing house in Lagos and in such other place or places as may be desirable in premises provided by the bank". It was against this background that in May 1961, the CBN established the first clearing house as part of the Bankers' clearing system. The CBN provides the facilities and established rules, regulations and procedures for orderly continue of clearing business.

Over the years, the central bank of Nigeria (CBN) had monitored the developments in the financial system and in collaboration with the Banker's committee, made proposals and/or introduced measures to improve the Nigerian payments system. Most recently, the CBN introduced a new cheque clearing and settlement arrangement, which is based on selected principal banks. The principal settlement banks were selected on the basis of set objective criteria e.g. the volume and value of clearing transactions, which must exceed in prescribed threshold, ability to deposit N15 billion as collateral etc. Under the new arrangements, non-settlement banks are required to clear their cheques through the settlement banks. With this arrangement, settlement and clearing risk have reduced significantly, and

the CBN has ceased to be the lender of the 'first resort'. The new clearing arrangement together with the institution of wide area network has reduced the cycle time for inter-bank settlements.

Dr. K. S. Adeyemi (Central Bank bulletin Vol. 32 No. 1 Journal in 2008. In its continued efforts at improving the payments system, the CBN concluded the implementation of the Real Time Gross Settlement (RTGS) system in 2004, while the GloBus banking application, which is to a centralized account for banks and an on line real-time settlement to securities settlement on delivered versus payment (DVP) basis, progressed to advanced stage during the year.

The Central Bank of Nigeria (CBN) still faces a lot of challenges in the payment processing by commercial banks in Nigeria. In this regard, it will be necessary to ensure that the development of RTGS embarked upon by the CBN is fully implemented. This would facilitate individual payments across the settlement accounts of deposit money banks at the central bank as they progress from the sending bank to the receiving bank. The full RTGS for high value, time critical payments is an important element for establishing safe and effective settlement arrangements, which will translate to efficient and effective liquidity management in the country.

Another challenge is the subsisting pockets of distress in the financial sector, which erodes public confidence in the system. In 1998 for instance, 26 units had their licenses revoked due to distress conditions. Most of the distressed banks had inadequate capital base. Thus, the CBN in July 6, 2004 raised the capital base of banks to N25.0 billion effective end

December 2005 in order to strengthen the banks and enhance their competitiveness.

Another major challenge of the CBN is the high incidence of frauds in the banking system. One of the critical areas is in the area of electronic fund transfer. Unfortunately, it has been difficult to check this fraud, mainly because of inefficient system of crime investigation and the weaknesses in the law enforcement agency.

Furthermore, there is the challenge of the country being under-branched. Given the limited number of bank branches absence of banking facilities in many places especially, the rural areas, access to banking services is practically impossible for a large section of the people. Therefore, the need to fashion out programmes and strategies aimed at eliciting more private involvement in payments processing is fundamental and return prompt action.

The Central Bank of Nigeria (CBN) has an important role in ensuring an efficient and effective payments system given its commitment to establishing a regulatory framework that will facilitate payment finality and enhance the transmission mechanism of money policy.

It has been observed that lack of timely information on the CBN's balance sheet and the balance sheet of deposit money banks makes it difficult to set-to-day targets correctly for effective liquidity management. Steps taken so far by the Apex bank to reposition the payments system for effective liquidity management include: -

- (a) Installation of appropriate MICR equipments in all CBN branches, for centralized processing for all banks.
- (b) Installation of Real Time Gross Settlement (RTGS) system for inter-bank funds transfers and other large value payments, nationwide.
- (c) Centralized settlement and operations accounts for banks
- (d) GLOBUS system for on-line real-time trading in government securities to achieve delivery versus payment (DVP) basis on real-time basis.

Specifically, the Central Bank of Nigeria has made considerable progress in the implementation of the RTGS, GLOBUS, E-FASS and e-Money networks. It has made progress in the area of providing the enabling regulatory and supervising environment. It is expected that challenges posed by fraud, distress and globalization would be substantially confirmed under the current reform measure embarked by the central bank of Nigeria (CBN) in the Nigerian banking industry.

The supervisory role of the Central Bank of Nigeria (CBN), which is aimed at promoting a safe and sound financial system, has been expanded to cover non-bank financial institutions. The banks and other financial institutions Act (BOFI) of 1991 (as amended) conferred on the Bank the power to license and supervise banks. Through the banking supervision, Bank Examination and other financial institutions departments, the CBN monitors financial institutions compliance with existing laws and regulations. Activities of all regulatory and supervisory authorities in the Nigerian

financial sector, including the CBN, the (NDIC), the (NAICON) and (SEC) are coordinating through the financial sector regulation coordinating committee (FSRCC) for enhanced efficiency and effectiveness.

In line with international best practices, the CBN has adopted the core principles of the Basle Committee on Banking Supervision, including the prudential guidelines for licensed banks to promote banking soundness and financial sector stability. It is important to note that, the role of market discipline is being enhanced through the enforcement of necessary disclosure requirements that ensure timely publication of credible information that would guarantee safe and sound banking practices in Nigeria.

The CBN will sustain efforts at enhancing surveillance of the financial sector and also ensure that operators play according to the rules of the game, through appropriate supervisory intervention and the encouragement of self-regulation in the financial services industry.

### **2.3. THE DIFFICULTIES ENCOUNTERED BY THE BANKING INSTITUTIONS IN ITS OPERATIONS DESPITE THE EFFECTIVE ROLE PLAYED BY CBN:**

The structure and efficient management of the domestic financial sector will continue to play a significant role in the developing economy like Nigeria. A sound banking system, comprising a well-capitalized industry, sophisticated risk management systems and effective corporate governance schemes will mean the local financial sector will not suffer the negative effects of internationalization as some other emerging economics have. This

is because a sound financial system imports a level of immunity to the developments of the banking industries, where banking crises in developing countries have been for more severe than those in industrialized countries.

The implication or difficulties facing the banking sectors or the financial services sectors and its regulators such as the Central Bank of Nigeria (CBN) would include the following: -

The first implication or difficulty is that we have to acquire, improved and further enhance our skills and capabilities. We need to improve risk management skills in the banking sector considering that the nature of risk is changing very fast with new technology and products.

With the recent developments in the Nigerian banking sector the challenges and difficulties for banks and other financial institutions are as thus;

The heightened competition among players in the financial services sector that will require players to make the basic strategic decision. As financial modernization going forward, players will be forced to decide what kind of institutions they want to be. Banks and other players need to figure out where they want to be in terms of a whole spectrum of activities whether they want to be a commercial merchant or universal service provides with insurance and other services integrated; and the geographic space in which they compete be it local, regional or global.

The second challenge of risk mitigation and risk intermediation. We have to ask how do we keep our risk management skills have enough to deal with the world of high tech and sophisticated finance. It is believed

that the nature of the risk is changing, it's changing because the products and services are also changing in a more sophisticated way, that means the ability to recognize risk, measure risk, manages risk, is of utmost importance for a financial institution.

Dr. K. S. Adeyemi (Central Bank bulletin Vol. 32 No. 1 Journal in 2008. The third challenge is the process of financial deepening, which affects market structures, complicating the task of regulatory oversight in several ways. As financial instruments become more complex, the boundaries between different types of financial market activity (leading, trading, insuring) become blurred; more claims become securitized and will be exchanged in markets as traded instruments; and much financial activity become international in nature, burring boundaries of responsibility among regulatory activities. The role of deposit money banks in on economy is very crucial in the process of financial intermediation. This is primarily, because they are the institutions, which hold money balances of or which borrow from individuals and other institutions in order to make loans to the investing public and organizations. Thus, banks serve as the pivoted for channeling funds from the surplus units to the deficit units in any economy. The deposit money banks are able to operate profitably because of the economics of scale in mobilizing funds fro0m many sources and making them available for loans at a price. In the process of funds mobilization however banks incur some costs, which generally influence the price or interests rate at which the funds are on-lent to their customers. Thus, lost being a major factor in the pricing of mobilized funds exerts a major

influence on bank's conduct or performance, including their pricing behaviour with regards to credits (loans) and deposits as well as their ability to serve as an effective channel for the transmission of monetary policy if the banking sectors followed it effectively. Over the years, Nigerian banks have been posting high cost of funds, which has in turn resulted in high lending ratio. Given the fact that interest rate is a key element in resource allocation in a market economy, the incidence of charging high (lending) rate by banks continued to be a disincentive to investments as reflected in the low credit to the economy.

The objective of this column is to enlighten the user on the issue of cost of funds and its role in interest rate determination as one of the problems encountered by the banking sector despite the effective and efficient role played by the Central Bank of Nigeria (CBN). A cursory look of banks average lending rates over the years revealed that the rate has been rising for most of the period. This upward trend serves as disincentive to investment and impairs real growth of the economy. On the other, the deposit rates which attendant distinctions to the interest rate structure in the economy. This wide spread between deposits and lending rates is harmful to the economy which one of the difficulties encountered by the financial institutions in Nigeria. It is so, because, low deposits rates cannot stimulate enough investible funds, which high lending rate discourages investment. This development has compelled the intervention of the CBN to ensure a proactive interest rate management, particularly to enhance savings and investment within the economy.

The Central Bank of Nigeria (CBN) recognizing that funds employed by banks in the discharge of their financial intermediation role are sourced through borrowing or mobilized funds, allowed for the total recovery of the interest expended on the sourced funds. However, in order to keep banks cost of funds at the optimum level, the CBN specified the items to be included in the computation of the cost of funds. There are three major components that are allowed by the monetary authorities for the competition of banks cost of funds.

#### **2.4. THE POSSIBLE WAY FORWARD FOR EFFECTIVE AND EFFICIENT BANKING INSTITUTIONS BY THE CBN**

In determining the possible solutions for the effective and efficient banking institutions by the Central Bank of Nigeria CBN, is to identify the key areas in the economy when the CBN made significant contributions towards the enhancement of the Banking Financial Institutions. Going down the contributions of the CBN comprising the improvement of the External reserves for effective management, improvement of effective payment system, exchanging Rate, Naira redomination, increase in capital base requirement to N25b etc.

Prince Anthony Olatunye Esq. laid framework for coming apt mgt. Central Bank bulletin. Vol. 30 No. 4. October- December 2008. The task of maintaining a sound and competitive financial system is an arduous one, particularly in developing economy like Nigeria. The CBN has taken proactive steps to strengthen the financial sector through various regulatory, prudential and contingency measures, aimed at ensuring the

soundness and stability of the sector. In this regard, the Bank has designed measures to enhance the capital base of banks and other strategies and promote professionalism in the financial services industry. It also encouraged the adoption of international best practices, including the new Basle capital record and uniform accounting standards.

The need to further strengthen the regulatory and supervisory framework of the CBN became more compelling with the adoption of universal Banking. Perhaps the most important aspect of banks market interaction is their role in the payments system. Operating within the payments system exposes banks and participants to various forms of risks, including credit risk liquidity risk operational risk and systematic risk. It is, thus, essential to modernize and standardize the operations of the system in order to achieve the desired efficiency.

According to S.N. Essien & N.S. Adeyemi (credit policies and private sector in Nigeria) Central Bank Bulletin Vol. 31 No. 3. Other aspect that requires adequate solutions is the financial sector liberalization and regulation has permitted banks to enter into new and unfamiliar areas of business, whereby they may insure increased exposure to credit foreign exchange and interest rate risk. Deregulation has also opened the domestic banking market to other financial institutions and foreign competition and puts pressure on the market share and profitability of banks. Market participants and supervisor; therefore face the challenge of managing liberalization and adjustment to the new environment. Adequate regulatory and prudential guidelines are necessary for monitoring the activities of the

financial institutions. Similarly, effective banking supervision is essential in order to ensure that regulations are enforced, and market discipline is adhered to. In this regard, regulatory/supervisory authorities are expected to play their roles in ensuring the soundness of the financial sector. It is, however, required that operators of the financial services industry should cooperate with the regulators authorities in order to forestall any regulatory shortage.

In essence, the institutional framework/arrangement for the regulation and supervision of the financial sector varies from country to country and over time and depends largely on the legal system the depth, structure and stage of development of financial markets and the stage of development of the economy as well as on political structures that guided economic and financial transactions in the country.

The CBN together with the NDIC may grant liquidity support to banks to assist them in meeting their financial obligations as and when due. Historically, this has achieved some measures of success, and has helped immensely in preserving public confidence. However, this approach has recently been abused with banks relying on the Central Bank of Nigeria CBN as items "lender of first resort" instead of "lender of last resort".

Several measures have been taken in recent years to stem the deterioration in the financial institutes of ailing banks with the ultimate arm of restoring confidence in the system. The measures time have varied from financial assistance, which is one of the roles of CBN over the banking sector, imposition of holding actions and supervisory intervention to out

rightly liquidation of some distressed banks. As a way of minimizing distress in the banking system, the CBN in 1990 introduced the prudential guidelines an early recognition of loan losses and accordingly required banks to make adequate provision for but and doubtful debts, a function which contributed to the insolvency of some banks. However, in other to reduce the adverse effects of the guidelines on banks' balance sheet, the CBN allowed banks to write off accumulated but and doubtful debts over a period of four years. This measure revealed the weaknesses of the accounting practices of banks, which hitherto was the basis for the declaration of huge proper profits. The specific measures adopted by the CBN and NDIC in resolution of bank distress are: -

- Financial Assistance
- Holding Action
- Assumption and control of management

O. J. Nagama Ph.D. Appraisal of Financial sector performance Central Bank bulletin vol. 27 No. 3 July – September, 2008. In order to sanitize the banking system and instill market discipline, the CBN had, in the past, suspended the licenses of some banks and some cases revoked the licenses completely. The measure is taken in very rare circumstances and usually, as a last resort.

To minimize the incidence of non-performing credits the central bank of Nigeria (CBN) established the credit bureau, to provide information on the system's exposure to individual borrowers in various banks, with this, the activities of multiple borrowers within the system are brought to focus as

the system provided a comprehensive report on \each individual's borrowing of N1 million and above, in all banks.

Arising from the systematic distress in the 1990's the CBN/NDIC jointly constituted a committee on problem banks, essentially with a view to resolving the crises in the system. By the year 2000, with the mandate of committee having been sustainably fulfilled, a refocused committee named "the CBN/NDIC committee in supervision" came into being. The committee had an expanded mandate and was charged with the responsibility of putting in place pro-active policies and guidelines for the banking system as distinct from reacting to market situations as they occur. The committee has its chairman the Deputy Governor of the CBN while the Managing Director of NDIC is the Vice Chairman. Some of the achievements of the committee include the issuance of the contingency planning framework for systematic distress in July 2002, the review of the capital adequacy computation format to bring it into full alignment with the Best Standard. This is responsible for the implementation of the capital Accord (Accord 11) which has since commenced operation by January 2007.

However, apart from the above measures, the CBN has continued to hold regular meetings with individual bank's board and management, to discuss issues relating to their operations and performance. In the same vein it has adopted the holding of periodic meetings with auditors of banks as a strategy for storing experience on developments in banks as well as to solicit their support to ensure a safe and sound financial system. With such close interaction, meaningful revelations have been made about the goings-

on in the financial system and this form the basis for proactive regulatory/supervisory action.

Technical assistance in the form of advisory services and secondment of staff is provided by the CBN/NDIC as and when the need arises.

Holding actors are measures designed by the CBN/NDIC and imposed on distressed banks with a view to preventing further deterioration in their financial condition and to enable them undertake self-restructuring measures. Some of the holding actor's stipulations include:

- Recapitalization through an immediate injection of foreign capital
- Aggressive debt recovery drive.
- Staff and branch rationalization with a view of reducing cost
- Embargo on further lending.

Holding Actions, however, reverts that the shareholders and management of distressed banks lack capacity and ability to implement the requirements of Holding Actions.

Owing to limited success in the application of Holding Actions, the CBN has had cause to assume control and management of some distressed banks.

**CHAPTER THREE**  
**RESEARCH METHODOLOGY**  
**INTRODUCTION**

In any research work an accredited plan on how the study is to be conducted is a vital necessity. For the purpose of this study, the researcher consulted a lot of books comprising the CBN Annual Reports, the CBN Briefs, the CBN Bullion, Cenbank news, journals etc, the researcher also went to CBN on line to source for materials for this study. The data used in the study which comprises North-east zone branches of the Central Bank of Nigeria. Thus, for the purpose of producing and presenting a coherent body of knowledge there is need for the research to be systematic. Under this study, the researcher's populations of interest are staff of central bank of Nigeria management cadre, senior manager cadre, middle staff cadre and also staff of the four (4) mega commercial banks; those are the researcher's population of the interest. The researchers sample size includes the Central Bank of Nigeria (CBN) North-east Zone offices and 4 mega commercial banks also in the zone to ensure efficient and effective distribution of questionnaires to the targeted population of interest.

However, the method used in drawing up the sample size of the study is by selecting an adequate number of staff from the CBN offices and the 4 mega commercial banks which is a truly representation of the larger population of study.

### **3.1. RESEARCH DESIGN**

Based on this research work, the researcher is trying to find out whether the central bank of Nigeria (CBN) is performing its role well over other financial institutions with emphasis on commercial banks. Thus, the researcher employs the descriptive research of this design, because descriptive research is concerned with the general nature of the problem and the variable attached to it, it enable the researcher an accurate description of the problem model or issue at hand. Any approach to data collection can be used in descriptive studies. Descriptive research shows the extent of association between two variables, descriptive research are characterized by a pre-planned and structured design with respect to sources of information and data collection procedures, descriptive studies rely heavily on survey research, because it deals with the studies of both small and large populations by studying the samples chose from the population to discover the relative incidence, distribution, and interrelation of different variable surveys are primarily concerned with the present but at times they consider past events.

### **3.2. POPULATION OF THE STUDY**

The population of study comprises of 500 respondents which include staff of both Central Bank of Nigeria (CBN) and staff of the four (4) Commercial Banks viz – aviz, First Bank Plc, UBA Plc, Zenith Bank Plc and Oceanic Bank Plc.

Thus, the population for CBN and each of the commercial banks is as thus, CBN 200, respondents, First Bank Plc 85 respondents, Oceanic Bank

Plc 65 respondents Zenith Bank Plc 70 respondents and UBA Plc 80 respondents respectively.

### **3.3. SAMPLE SIZE OF THE STUDY**

The sample size drawn for each of the commercial Banks comprises of the following, First Bank Plc, 40 staff, UBA Plc 35 staff, Zenith Bank Plc 30 staff, Oceanic Bank Plc 35 staff, central Bank of Nigeria (CBN) 41 staff respectively, totaling 181 as simple size of the study.

### **3.4. SAMPLING TECHNIQUES**

The sampling technique used by the researcher in carrying out his study is stratified sampling technique. Under this type of technique conscious subgroup in the population are also considered, it is an important technique used to ensure that all important subgroup under study will be represented to enhance efficient and effective research work. In such technique, each population elements has a specified likelihood or probability of being included in the sample. The stratified sampling is also called sample random sampling.

### **3.5. METHOD OF DATA COLLECTION**

For the purpose of this study, the sources of data is primary source because it is the most reliable sources of data, because the researcher himself is in a better position than any one else to understand and interpreted what he recorded and to know the conditions under which the date was obtained.

However, the techniques for data collection used by the researcher in collecting information from the population are correspondence

questionnaires and interview. It is so, because, correspondence questionnaires is the best technique to use for the purpose of this research under investigation. It is good to also note, that various technique for data analysis are as thus, observations, interviews and phone survey, but it depends on desirability and validly of each depends upon the information required and the researcher selects the correspondence questionnaires as his technique for collecting data.

### **3.6. TECHNIQUES FOR DATA ANALYSIS**

For the purpose of this study, the researcher intends to gather information through the use of correspondence questionnaires and he also intends to analyse and interpret the data gathered to support the research findings. Each question was asked with the intention of obtaining information necessary for proper analysis of the hypothesis.

However, the information that will be collected from administering of the correspondence questionnaires will be in analyzed, and chi-square will be used to text and analyse the hypothesis. The formula for computing the chi-square is as thus: -

$$X^2 = \frac{(F_o - F_e)^2}{F_e}$$

Where  $X^2$  = Chi-square

$F_o$  = observed frequency

$F_e$  = expected frequency

We also calculate the expected frequency by applying row and the columns on the table.

## CHAPTER FOUR

### DATA PRESENTATION AND ANALYSIS

#### 4.1. Data Presentation

This chapter deals with presentation and analysis of data collected from the use of questionnaires, which are analysed, interpreted and presented in a way that could be better understood. The analytical tool chosen for testing the research hypothesis is chi-square. The choice of this technique is necessitated by the fact that chi-square is used in testing the relationship that exist between two variables (CBN staff and Commercial Bank staff).

Furthermore, a total of one hundred and eighty one (**181**) copies of questionnaires, were developed, validated and administered to the staff of both Central Bank of Nigeria (CBN) and the staff of the (4) four selected commercial banks viz-a-viz First Bank plc, UBA Plc, Zenith Bank Plc and Oceanic Bank Plc. Out of the one hundred and eighty one (181) copies distributed only one hundred and fifty one (151) copies representing eighty percent (80%) of the total questionnaires administered were collected back and used for the analysis.

**Table 4.1. Number of Respondents**

<b>Personal</b>	<b>Returned</b>	<b>Unreturned</b>	<b>Total</b>
Commercial Bank staff	110	20	130
CBN staff	41	10	51
Total	151	30	181

**Source:** Field work, 2008

**Table 4.2. Analysis of Questionnaires distributed to the staff of First Bank Plc Yola Branch**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Top level Employees	9	28
Middle level Employees	13	41
Low level Employees	10	31
Total	32	100

**Source:** Field work, 2008

The table reveals that Nine (9) top level employees completed and returned the questionnaires which represented 28%. Then for the middle level employees only thirteen (13) questionnaires were completed and returned which represent about 41%, also of low level employees Ten (10) were completed and returned which also represent about 31%.

This can be attributed to their full knowledge of the roles of Central Bank of Nigeria (CBN) over commercial Banks.

**Table 4.3. – Commercial Banks adhering to laid down roles**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	27	84
No	5	16
Total	32	100

**Source:** Field work, 2008

Table 4.3 above shows the response from the respondents on whether the Commercial Banks adhered to the laid down rules and regulations of the

Central Bank of Nigeria (CBN). It indicates that 27 or 84% of the respondents were of the opinion that commercial banks adhered to those rules and regulations. While 5 or 16% of the respondents felt that it is not. The implication of this is that if the commercial banks did not adhere to the laid rules and regulations by (CBN), it will lead to many misappropriation of fund and hence leads to Bankruptcy.

**Table 4.4. – Merges and acquisition increases performance.**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	29	91
No	3	9
Total	32	100

**Source:** Field work, 2008

Table 4.4 above shows the response from the respondents on whether the merges and acquisition in the Banking Sector increase the performance of the commercial banks. The analysis from the response shows that 29 or 90% of respondents were of the opinion that the mergers and acquisition introduced by the CBN increase performance. While 3 or 9% of respondents felt otherwise. The implication of this is that with the mergers and acquisition in place it indeed increases the performance of the commercial Banks.

**Table 4.5. – Difficulties experienced in CBN supervisory role**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	4	12
No	28	88
Total	32	100

**Source:** Field work, 2008

From the analysis it can be seen that 12% of the respondents agreed that the commercial banks experienced difficulties due to CBN supervisory role. While 28 or 88% of the respondents of first Bank Plc did not agree with that. The implication of this is that the commercial bank do not experience any difficulty due to CBN supervisory role.

**Table 4.6 – Penalties on defaulted Commercial Bank**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	31	97
No	1	3
Total	32	100

**Source:** Field work, 2008

From the analysis, it can be seen that 97% of the respondents agreed that CBN place stiff penalties on any defaulted commercial bank. While in 3% of the respondents are of the opinion that Central Bank of Nigeria (CBN) does not do that. The implication of this is that if there is no penalty most of the commercial banks will operate outside the CBN regulatory framework and NDIC.

**Table 4.7- Money supply consistent with absorptive capacity of economy**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	25	78
No	7	22
Total	32	100

**Source:** Field work, 2008

From the analysis above, it can be seen that 25 representing 78% of the respondent agreed that (CBN) keeps the growth of money supply at a level that is consistent with the absorptive capacity of the economy. While 7 or 22% of the respondents felt otherwise i.e. they did not agree with that. The implication of this is that if the money supply with the economy is not enough, it will lead to inflation.

**Table 4.8 – Cordial Relationship between CBN & Commercial Banks Managers**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	29	91
No	3	9
Total	32	100

**Source:** Field work, 2008

Table 4.8 above shows the responses from the respondents on whether the relationship between the CBN management and that of the commercial Banks is positive. 29 or 91% of the respondents agreed with that. While 3 or 9% of the respondents have different opinion on that.

The implication of this is that the relationship between the staff of CBN and that of the Commercial Bank is positive.

**Table 4.9 – Has credit facility increases.**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	19	59
No	13	41
Total	32	100

**Source:** Field work, 2008

Table 4.9 above shows the response from the respondents on whether the credit facility of CBN increases as a result of the increase in the commercial banks capital base. 19 or 59% of the respondents agreed with that. While 13 or 41% of the respondents felt otherwise. The implication of this is that, indeed the credit facility has increased, because of the large capital base of the bank and a larger capital base because of the mergers and acquisition.

**Table 4.10 – adjustment Instrument for Commercial Banks**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	29	91
No	3	9
Total	32	100

**Source:** Field work, 2008

From the analysis it can be seen that 91% of the respondent agreed that CBN discount rate and reserve requirement are the main adjustment

instrument for commercial banks 29 or 91% of the respondents agreed. While 3 or 9% of the respondent did not agree.

The implication of this is that CBN discount rate and reserve requirements are the main adjustment instrument for commercial banks.

#### **4.2.2. Analysis of Questionnaire Distributed to the staff of UBA Plc – Yola Main Branch**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Top level employee	8	27
Middle level employee	13	43
Low level employee	9	30
Total	30	100

**Source:** Field work, 2008

From the analysis of questionnaires returned from UBA respondents. It reveals that eight (8) top level employees completed and returned the questionnaire which represented 27%. Then for the middle level employees only thirteen (13) questionnaires were completed and returned which represent about 43%, also for the low level employees Nine (9) questionnaires were completed and returned which also represent 30%. This can be attributed to the fact that the staff of UBA Plc are aware of the impact of the role of CBN over commercial Banks.

**Table 4.12 – Commercial Banks adhering to CBN laid down rules**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	27	90
No	3	10
Total	30	100

**Source:** Field work, 2008

Table 4.12 above shows the responses from the respondents on whether the commercial Banks really adhere to the CBN laid down rules and regulation. It indicates that 27 or 90% of the respondents agreed with that. While 3 or 10% of the respondents have a different opinion on the issue.

**Table 4.13 – Merges and acquisition increases performance**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	28	93
No	2	7
Total	30	100

**Source:** Field work, 2008

From the analysis on the table 4.13 above, it can be seen that 28 or 93% of the respondents are of the believe that mergers and acquisition of commercial banks by the Central Banks of Nigeria (CBN) increases their performance immensely. While 2 representing 7% has different opinion on the said issue.

**Table 4.14 – Difficulties experienced in CBN supervisory role.**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	3	10
No	27	90
Total	30	100

**Source:** Field work, 2008

From the analysis above, it can be seen that 3 representing 10% of the respondents are of the believe that the commercial bank encounter or experienced some difficulties due to CBN strict supervision. While 27 representing 90% of the respondents did not agree with that.

The implication of the analysis is that indeed the commercial banks did not experience any difficulties in CBN supervision.

**Table 4.15 – Money supply consistent with absorptive capacity of economy**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	26	87
No	4	13
Total	30	100

**Source:** Field work, 2008

From the table analysis above it shows that 26 representing 87% of the respondent agreed that the money supply by the CBN is consistent with the absorptive capacity of the economy. While 4 representing 13% were having different opinion towards that.

The implication of this is that yes the money supply by CBN is consistent with the demand of the economy.

**Table 4.16 – Positive Relationship between CBN/Commercial Bank Mergers**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	29	93
No	1	3
Total	30	100

**Source:** Field work, 2008

Table 4.16 above shows the responses from the respondents on whether there is positive relationship between (CBN) Management and that of the commercial banks. 29 representing 93% agreed with the opinion. While 1 or 3% did agreed with the opinion. The implication is that despite its supervisory role there is positive relationship within all cadre of staff.

**Table 4.17 – Has the credit facility increase.**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	25	83
No	5	17
Total	30	100

**Source:** Field work, 2008

Table 4.17 shows the respondent from the staff of UBA Plc Yola main branch on whether CBN credit facility has increase the credit facility of the commercial banks due to the raising of the capital Bank. 25 representing

83% of the respondents agreed with that, while 5 representing 17% of the respondents disagree with it.

The implication is that indeed the credit facility has increased.

**Table 4.18 – adjustment instrument for commercial Banks**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	28	93
No	2	7
Total	30	100

**Source:** Field work, 2008

From the analysis in 4.18, it can be seen that 28 or 93% had the opinion that (CBN) discount rate and reserve requirement are the main adjustment instrument for commercial banks. While 2 or 7% of the respondents felt otherwise.

The implication of the response from the respondents signifies that discount rate and reserve requirement are the main adjustment instrument of the commercial banks.

**Table 4.19 – Penalties on defaulted commercial Banks**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	30	100
No	0	0
Total	30	100

**Source:** Field work, 2008

The table analysis above shows that 30 staff of UBA Plc representing 100% of the respondent where of the believe that central bank of Nigeria (CBN) have stiff penalty for any defaulted commercial banks. While none of the respondents believed otherwise.

#### **4.2.3 – ANALYSIS OF QUESTIONNAIRES DISTRIBUTED TO THE STAFF OF ZENITH BANK PLC, YOLA MAIN BRNCH.**

**Table 4.20 – Data Analysis**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Top level employee	5	19
Middle level employee	14	54
Low level employee	7	27
Total	26	100

**Source:** Field work, 2008

From the Data Analysis of questionnaires returned from staff of Zenith Bank Plc respondents, it reveals that five (5) top level employees completed and returned the questionnaire which represented 19%. Then for the middle level employees only fourteen (14) questionnaires were completed and returned which represent 54%, also for the low level employees seven (7) questionnaires were completed and returned which also represent 27%.

This is an indication that the employees of Zenith Bank Plc are aware of the roles of CBN over the commercial Banks.

**Table 4.21 – Commercial Bank adhering to CBN rules**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	25	96
No	1	4
Total	26	100

**Source:** Field work, 2008

Table 4.21 above shows the response from the respondents on whether the commercial banks adhere to CBN laid down rules and regulations. 25 out of the respondents representing 96% agreed with the opinion, while 1 representing 4% has a different opinion on the statement.

**Table 4.22 – Mergers and acquisition increase performance**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	26	100
No	0	0
Total	26	100

**Source:** Field work, 2008

Table 4.22 above shows that 26 representing 100% of the respondents of Zenith Bank Plc were of the opinion that mergers and acquisition of the commercial Bank by the CBN increases their performance immensely. While none of the respondents of Zenith Bank believed otherwise.

The implication of this is that, yes mergers and acquisition of the commercial Banks increase performance.

**Table 4.23 – Difficulties encountered in CBN supervisory role**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	2	8
No	24	92
Total	26	100

**Source:** Field work, 2008

Table 4.23 analysis shows us that 2 of the respondents of Zenith representing 8% were of the opinion that the commercial Banks experience difficulties due to CBN supervisory roles. While 24 of the respondents representing 92% has a different opinion.

The implication of this, is that the commercial does not experience any difficulty due to central bank Nigeria (CBN) supervisory role.

**Table 4.24 – Penalty of defaulted Commercial Banks**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	23	77
No	3	23
Total	26	100

**Source:** Field work, 2008

From the analysis in table 4.24 above, it shows that 23 representing 77% of the respondents have the believe that there is stiff penalty by CBN for any commercial Banks or financial institutions that is found wanting. While 3 of the respondents representing 23% were having different opinion on the issue.

The implication of this is that really there is a penalty for finding any Bank wanting.

**Table 4.25 – Money supply consistent with absorptive capacity of economy.**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	21	81
No	5	19
Total	26	100

**Source:** Field work, 2008

Table 4.25 shows that 21 or 81% of the respondents were of the believe that money supply by the Central Bank of Nigeria (CBN) is consistent with the absorptive capacity of the economy. While 5 representing 19% of the respondents believed otherwise.

**Table 4.26 – Positive Relationship between CBN/Banks Management**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	22	85
No	4	15
Total	26	100

**Source:** Field work, 2008

Table 4.26 above shows the response from the respondent on whether there is positive relationship between CBN and Commercial Bank Management. 23 representing 85% of the respondents agree with that, while 4 representing 15% of the respondents did not agree.

**Table 4.27 – Has the credit facility increases**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	18	69
No	8	31
Total	26	100

**Source:** Field work, 2008

Table 4.27 shows that eighteen out of the respondents representing 69% have the opinion that CBN credit facility has increase due to the mergers in the sector. While eight representing 31% have different opinion.

The implication of this is that credit facility of the CBN has increase due to mergers in the sector.

**Table 4.28 – Adjustment Instruments for Commercial Banks**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	20	80
No	6	20
Total	26	100

**Source:** Field work, 2008

Table 4.28 above, shows that 20 of the respondents representing 80% were of the opinion that CBN's discount rate and the reserve requirement are the main adjustment instrument of the commercial banks. While 6 of the respondents representing 20% have a different opinion toward that.

**4.2.4. ANALYSIS OF QUESTIONNAIRE DISTRIBUTED TO THE STAFF OF OCEANIC BANK PLC, YOLA MAIN BRANCH.**

**Table 4.29 – DATA ANALYSIS**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Top level employee	7	32
Middle level employee	9	41
Low level employee	6	27
Total	22	100

**Source:** Field work, 2008

From the Data Analysis of questionnaires returned from staff of Oceanic Bank Plc, it reveals that seven (7) top level employees representing 32% completed and returned the questionnaires. Then for the middle level employees Nine (9) duly completed and returned the questionnaire which is 41%. Also for the low level employee six (6) questionnaires were completed and returned which also represent 27%.

This is to say that the employees of Oceanic Bank Plc are aware of the roles of CBN over other commercial banks.

**Table 4.30 – Commercial Bank adhering to CBN rules**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	19	86
No	3	14
Total	22	100

**Source:** Field work, 2008

Table 4.30 above shows the responses from the respondents on whether the (CBN) rules and regulations are being followed by the Commercial Banks. 19 out of the respondents representing 86% were of the opinion that the Commercial Banks adhere to the rules. While 3 or 14% of the respondents felt otherwise.

**Table 4.31 – Mergers and acquisition increase performance**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	20	97
No	2	13
Total	26	100

**Source:** Field work, 2008

The table above shows that 20 of the respondents representing 97% were of the opinion that mergers and acquisition of the CBN increases performance. While 2 of the respondents representing 13% have a different opinion. The implication is that yes indeed, mergers and acquisition increase performance.

**Table 4.32 – Difficulty experienced due to CBN supervisory role.**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	2	9
No	20	91
Total	26	100

**Source:** Field work, 2008

The table above shows that 2 or 9% of the respondents of Oceanic Bank plc were of the believe that the commercial Banks encountered or face

difficulties due to CBN supervisory role. While 2 representing 91% of the respondents disagree with that opinion.

The implication of this is that the commercial Banks does not face any difficulty whatsoever due to CBN supervisory role.

**Table 4.33 – Penalty on defaulted commercial Banks.**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	21	95
No	1	5
Total	22	100

**Source:** Field work, 2008

From the analysis in table 4.33 above, it shows that 21 representing 95% of the respondents believe that there is penalty on defaulted Commercial Banks by the Apex Bank i.e. CBN. While 1 representing 5% did had a different opinion.

The implications of the above responses shows that any commercial Bank found wanting, sometime the CBN withdraw its license or a fine. It depends on the degree of the offence.

**Table 4.34 –Money supply consistent with absorptive capacity of the economy.**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	18	82
No	4	18
Total	22	100

**Source:** Field work, 2008

The analysis above shows 18 or 82% of the respondent believed or have the opinion that money supply in CBN into the economy is consistent with the absorptive capacity of the economy. While 4 or 18% of the respondents have a different opinion.

**Table 4.35 – Positive Relationship between CBN/Commercial Bank Management**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	21	95
No	1	5
Total	22	100

**Source:** Field work, 2008

The table analysis above shows that 21 or 95% of the respondents have the opinion that there is cordial Relationship between the CBN and Commercial Bank Management. While 1 or 5% of respondents have a different opinion of the subject matter.

**Table 4.36 – Has the credit facility increase.**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	19	86
No	3	14
Total	22	100

**Source:** Field work, 2008

The analysis above shows that 19 or 86% of the respondents were of the opinion that credit facility of the commercial banks has increased due to the banks mergers. While 3 or 14% of the respondents have a different opinion.

The implication of this is that yes, credit facility of the commercial banks has increased.

**Table 4.37 – Adjustment Instrument for Commercial Banks**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	17	77
No	5	23
Total	22	100

**Source:** Field work, 2008

Table 4.37 above, shows that 17 or 77% respondents of Oceanic Bank Plc Yola main branch were of the opinion that CBN’s discount rate and reserve requirement are the main adjustment instrument of the commercial Banks. While 5 or 23% of the respondents have a different opinion towards that. They did not agree with it.

#### **4.2.5 – ANALYSIS OF QUESTIONNAIRE DISTRIBUTED TO THE STAFF OF CENTRAL BANK OF NIGERIA (CBN)**

**Table 4.38 – Number of Respondent**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Top level employee	14	34
Middle level employee	17	42
Low level employee	10	24
Total	41	100

**Source:** Field work, 2008

From the table analysis of the questionnaire returned from Central Bank of Nigeria (CBN) reveals that fourteen (14) top level employee completed and duly returned the questionnaire which represents 34%. Then for the middle level employee seventeen (17) questionnaires were duly completed and returned which represent about 42%. Also of the low level employees ten (10) questionnaires were duly completed and returned which also represent 24%.

**Table 4.39 – Satisfactory role of CBN over Commercial Bank**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	39	95
No	2	5
Total	41	100

**Source:** Field work, 2008

Table 4.39 above, shows that 39 or 95% of the CBN staff have the opinion that CBN performs its role satisfactorily over the commercial banks. While 2 representing 5% of the respondents have a different opinion.

The implication of this is that CBN performs its role satisfactorily over commercial banks.

**Table 4.40 – increase in performance due to supervision.**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	38	93
No	3	7
Total	41	100

**Source:** Field work, 2008

Table 4.40 above shows that 38 representing 98% of CBN respondents were of the opinion that increase in performance of the commercial banks is due to overall CBN supervision while 3 representing 7% of the CBN respondents have a different opinion.

The implication of the responses is that increases in performance of the commercial Banks is due to CBN supervision.

**Table 4.41 – Favourable Monetary Price Rate (MPR) to Central Banks.**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	40	98
No	1	2
Total	41	100

**Source:** Field work, 2008

The responses in table 4.41 above, shows that 40 representing 98% of the respondents were of the opinion that CBN monetary price rate (MPR) is favourable to the Commercial Banks. While 1 or 2% of the respondents decide otherwise, i.e. it is not favourable.

**Table 4.42 – Collateral Requirement for Granting Loan.**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	37	90
No	6	10
Total	41	100

**Source:** Field work, 2008

From the table analysis above, 37 representing 90% of the respondents were of the opinion that the CBN request for collateral from the commercial Banks to grant loan. While 6 representing 10% of the respondents believed otherwise.

**Table 4.43 – Problem Experienced due to CBN supervision.**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	29	71
No	12	29
Total	41	100

**Source:** Field work, 2008

The table analysis above shows that out of the whole respondents 29 representing 71% were of the opinion that commercial banks faces problem due to CBN supervision. While 12 of the respondents representing 29% have a different opinion.

**Table 4.44 – Supervision, rule and regulation enhance performance.**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	41	100
No	0	0
Total	41	100

**Source:** Field work, 2008

The table analysis above shows that 41 representing 100% of the CBN respondents have the believe that CBN supervision of the Commercial Banks enhances their performance. While none of the respondents believed otherwise.

The implication of this response is that CBN supervision enhances performance.

**Table 4.45 – Way forward for effective financial institutions**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	38	93
No	3	7
Total	41	100

**Source:** Field work, 2008

From the table analysis of questionnaire returned from the staff of CBN or table 4.45 reveal that 38 staff representing 93% were of the opinion that the CBN creates possible way forward for effective and efficient financial institutions. While 3 staff representing 7% of the respondents believed otherwise.

**Table 4.46 – CBN Supervise within legal framework.**

<b>Response</b>	<b>Respondents</b>	<b>Percentage (%)</b>
Yes	36	88
No	5	12
Total	41	100

**Source:** Field work, 2008

From the analysis of questionnaires returned from the staff of CBN or table 4.46 reveal that 36 staff representing 88% were of the believe that the CBN regulates; supervise the financial institutions within its legal framework. While 5 staff representing 12% of the respondents believed otherwise.

The implication of this is that CBN regulates and supervise the financial institutions within its legal framework. If not, the commercial Banks are of liberty to question the law that the CBN use to govern them.

### 4.3. TESTING OF RESEARCH HYPOTHESIS

**HYPOTHESIS ONE: CBN does perform its supervisory role satisfactorily over commercial banks.**

#### Number of Respondents

Response	Male	Female	Total
Yes	33	11	44
No	4	3	7
Total	37	14	51

**Source:** Field work, 2008

Using chi-square formula: -

$$\text{Chi-square} = \frac{(\text{Fo}-\text{Fe})^2}{\text{Fe}}$$

Where: Fo = observed frequency  
Fe = expected frequency

Now to calculate the expected frequency by applying the number of rows and columns below

$$\text{Fe for Cell}_1 = \frac{44 \times 37}{51} = 31.9$$

$$\text{Fe for Cell}_2 = \frac{7 \times 37}{51} = 5.1$$

$$\text{Fe for cell}_3 = \frac{44 \times 14}{51} = 12.1$$

$$\text{Fe for cell}_4 = \frac{7 \times 14}{51} = 1.9$$

Fo	Fe	Fo-Fe	(Fo-Fe) <sup>2</sup>	$\frac{(Fo-Fe)^2}{Fe}$
33	31.9	1.1	1.21	0.038
4	5.1	-1.1	1.21	0.24
11	12.1	-1.1	1.21	0.1
3	1.9	1.1	1.21	0.64
Total				1.0189

Calculated  $X^2 = 1.018$

$$DF = (c-1) (R-1)$$

$$DF = (2-1) (2-1)$$

$$DF = 1$$

Assume 5% significant level.

The calculated value of ( $X^2$ ) is 1.018. While the value of the Cut-off point of  $X^2$  for 1 degree of freedom from table iv is 3.841. Since the calculated value is less than the critical value of 3.841. We now accept the hypothesis that states that the Central Bank of Nigeria (CBN) does perform its role satisfactorily over the Commercial Banks, and reject the hypothesis that states that (CBN) does not perform its role satisfactorily over commercial Banks.

**HYPOTHESIS TWO:** - The Commercial Banks adhere to CBN established supervisory rules and regulations.

## NUMBER OF RESPONDENTS

Response	Male	Female	Total
Yes	37	9	46
No	3	2	5
Total	40	11	51

**Source:** Field work, 2008

Using chi-square formula: -

$$\text{Chi-square} = \frac{(\text{Fo}-\text{Fe})^2}{\text{Fe}}$$

Where: Fo = observed frequency

Fe = expected frequency

Now to calculate the expected frequency by applying the number of rows and columns below

$$\text{Fe for Cell}_1 = \frac{40 \times 46}{51} = 36.1$$

$$\text{Fe for Cell}_2 = \frac{11 \times 46}{51} = 9.9$$

$$\text{Fe for cell}_3 = \frac{40 \times 5}{51} = 3.9$$

$$\text{Fe for cell}_4 = \frac{11 \times 5}{51} = 1.1$$

Fo	Fe	Fo-Fe	(Fo-Fe) <sup>2</sup>	$\frac{(\text{Fo}-\text{Fe})^2}{\text{Fe}}$
37	36.1	0.9	0.81	0.0224
3	9.9	-6.9	47.61	4.8091
9	3.9	5.1	26.01	6.6692
2	1.1	0.9	0.81	1.1111
Total				12.6118

Chi-square calculated is = 12.6118

$$DF = (c-1) (R-1)$$

$$DF = (2-1) (2-1)$$

$$DF = 1$$

Assume 5% significant level.

The calculated value of ( $X^2$ ) is = 12. 6118. While the value of the cut-off point of  $X^2$  for 1 degree of freedom from table IV is 3.841. Since the calculated value is higher than the critical value i.e. the table value we now reject the hypothesis that states that is the commercial banks adhere to CBN established roles and regulations and accept the alternate hypothesis that state otherwise.

**HYPOTHESIS THREE:** - CBN is creating a sound and more secure banking system that depositors can trust.

### **Number of Respondents**

<b>Response</b>	<b>Male</b>	<b>Female</b>	<b>Total</b>
Yes	106	17	123
No	4	3	7
Total	110	20	130

**Source:** Field work, 2008

Using chi-square formula: -

$$\text{Chi-square} = \frac{(F_o - F_e)^2}{F_e}$$

Where:  $F_o$  = observed frequency

$F_e$  = expected frequency

Now using the chi-square formula to calculate the expected frequency ( $F_e$ ) by applying the number of rows and columns below

$$\text{Fe for Cell}_1 = \frac{110 \times 123}{130} = 104.1$$

$$\text{Fe for Cell}_2 = \frac{20 \times 123}{130} = 18.9$$

$$\text{Fe for cell}_3 = \frac{110 \times 7}{130} = 5.9$$

$$\text{Fe for cell}_4 = \frac{20 \times 7}{130} = 1.1$$

Fo	Fe	Fo-Fe	(Fo-Fe) <sup>2</sup>	$\frac{(Fo-Fe)^2}{Fe}$
106	104.1	1.9	3.61	0.0347
4	18.9	-14.9	222.01	11.7466
17	5.9	11.1	123.21	20.8831
3	1.1	1.9	3.61	3.2818
Total				35.9462

Calculated  $X^2 = 35.9462$

DF = (c-1) (R-1)

DF = (2-1) (2-1)

DF = 1

Assume 5% significant level.

The calculated value of ( $X^2$ ) is 35.9462. While this value of the cut-off point of  $X^2$  for 1 degree of freedom from table IV is 3.841. Since the calculated value is higher than the tabulated value. Statistically we reject the Null hypothesis  $H_0$  which states that CBN is creating a sound and more secure banking sector that the depositors can trust. And accept the Alternate hypothesis  $H_1$  which state otherwise.

**HYPOTHESIS FOUR:** - CBN supervisory role has increased the performance of the Commercial Banks.

## NUMBER OF RESPONDENTS

Response	Male	Female	Total
Yes	31	16	47
No	2	2	4
Total	33	18	51

**Source:** Field work, 2008

Using chi-square formula: -

$$\text{Chi-square} = \frac{(\text{Fo}-\text{Fe})^2}{\text{Fe}}$$

Where: Fo = observed frequency

Fe = expected frequency

Now to calculate the expected frequency by applying the number of rows and columns below

$$\text{Fe for Cell}_1 = \frac{47 \times 33}{51} = 30.4$$

$$\text{Fe for Cell}_2 = \frac{4 \times 33}{51} = 2.6$$

$$\text{Fe for cell}_3 = \frac{42 \times 18}{51} = 16.6$$

$$\text{Fe for cell}_4 = \frac{4 \times 18}{51} = 1.4$$

Fo	Fe	Fo-Fe	(Fo-Fe) <sup>2</sup>	$\frac{(\text{Fo}-\text{Fe})^2}{\text{Fe}}$
31	30.4	0.6	0.36	0.0118
2	2.6	-0.6	0.36	0.1365
16	16.6	-0.6	0.36	0.0217
2	1.4	0.6	0.86	0.2571
Total				0.4291

Calculated  $X^2 = 0.4291$

DF = (c-1) (R-1)

DF = (2-1) (2-1)

DF = 1

Assume 5% significant level.

The calculated value of ( $X^2$ ) is 0.4291. While  $X^2$  tabulated for table IV using a cut-off point of  $X^2$  using 1 degree of freedom from the same table is 3.841. Since the computed chi-square ( $X^2$ ) value is less < than the tabulated value, we accept the hypothesis that states that CBN supervisory role has increased the performance of the commercial Banks and reject the alternate hypothesis which state otherwise.

## **FINDINGS**

After the analysis of data above and having tested the four hypothesis, the researcher discovered that:

1. there is increase in the performance of the commercial banks due to CBN supervisory role,
2. that the financial institutions are strictly adhering to CBN laid down rules and regulations,
3. that the central Bank of Nigeria (CBN) are operating or supervising the commercial Banks within the operational and legal framework,
4. that the CBN is creating a sound and more secured banking system that the depositors can trust.

The researcher also discovered:

5. that the supervisory role of CBN, which is aimed at promoting a safe and sound financial system, has been expanded to cover non-bank institutions;
6. it also plays a primary role of providing payment services and fulcrum of monetary policy implementation.

However, the objective of supervisors is not to keep every problem financial institutions or bank alive at all cost, but rather to initiate an early and efficient exit of any bank that becomes severely under-capitalized.

In this summary the researcher has been able to put forward various ways involved in the presentation testing, finding and analysis of data collected through questionnaire is administered.

### **Major findings**

Based on the responses from the questionnaires and interviews, a thorough analysis was made. The major finding are: -

1. That there is need for protecting the central role of the banking system and guarding against the negative externalities associated with bank failures, especially when such failures are widespread
2. The extent to which the Bank is able to perform its role or function efficiently and effectively is a function of its statutory powers
3. That the NDIC has worked relentlessly with the CBN to stem the problems of distress in the banking industry and thereby ensure financial sectors soundness and stability in Nigeria.

4. that the CBN is creating a sound and more secure banking system that depositors can trust, and the CBN is performing its job satisfactorily over commercial banks.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

#### **5.1. SUMMARY**

The analysis and interpretation of data under the study shows that banking supervision is done or performed by the Central Bank of Nigeria (CBN). The structure and efficient management of the domestic financial sector will continue to play a significant role in the developing economy. A sound banking system, comprising a well capitalized industry, sophisticated risk management systems and effective corporate governance schemes will mean the local financial sector will not; suffer the negative effects of internationalization as some other emerging economics have.

The CBN will sustain efforts at enhancing surveillance of the financial sector and also ensure that the operator play according to the rules of the game, through appropriate supervisory intervention and encouragement of self-regulation in the financial services industry.

#### **5.2. CONCLUSION**

All around the world, there has be tremendous changes in technology, ways of doing business, quality of products, services, orientation and competition. Nigeria, as people and companies cannot afford to remain dormant. Three major's forces have propelled the changing world around us. Globalization, which does perforate major brands around the world; the second is a growing trend of adaptation of market liberalization that is first breaking down the tariffs to international trade. Third is technology,

information has erased the obstacles to the international stability of goods and services and the movement of capital.

The Nigerian banking sector has undergone remarkable changes over the years, in terms of the number of institution ownership structure as well as the depth and breadth of operations. These changes have been influenced largely by the challenges posed by deregulation of the sector, globalization of operators, technological and prudential requirements that confirm to international standards.

Furthermore, CBN's surveillance of banks recently revealed deterioration in banks overall performance, based on CAMEL parameters. Against this background, the CBN in 2004 rolled out a 13 point reform agenda aimed at consolidating the banking sector and preventing the occurrence of systemic distress.

The (CBN) as the supervisory Icon of the commercial Banks would also file some challenges including thus: -

1. Ensuring that provision of adequate safety nets and compensation packages are made by the merging banks to ameliorate for potential job losses.
2. Appropriate mechanisms for protecting possible disenfranchisement of small depositors who may not be welcomed by the emerging mega-banks.

Over the years, the central bank of Nigeria (CBN) has taken remarkable strides at modernizing and enhancing the payment system. Nevertheless,

the challenges facing the system remain enormous, prominent of which is the continuing use of large sums of cash in finality of transactions.

This project has examined the role of the central bank in the financial system and has brought into focus the bank's pervasive and changing roles from the global perspective, which revolves around the maintenance of price and financial stability.

The enhanced operational autonomy of the CBN has provided a unique opportunity for the Bank to reposition itself for the challenges of the future. The merit in the instrument autonomy is that the Bank can now deal promptly and decisively with emerging challenges in the financial system without on line political pressure. In the context of the autonomy the CBN has taken steps to restructure and re-engineer its work.

Consistent with the general move towards transparency and openness by Central Banks heroes the world.

### **5.3. RECOMMENDATION**

Based on the findings of this study the following recommendations were made to the management of both central bank of Nigeria (CBN) and Commercial Banks.

1. Are to the increase in the performance of the commercial Banks due to the CBN supervision, the Central Banks Nigeria (CBN) should formulate a policy strong enough to stabilize the financial sector and to ensure that the policy is adhered to by the financial Institutions and otherwise.

2. The Central Bank of Nigeria (CBN) should ensure that the Commercial Banks and other financial institution should be regulated only the established regulators erected, not outside that regulator, may be based on sentiment or otherwise.
3. The Financial Institutions should ensure logically that operates under the laid down rules and regulations established by the CBN and NDIC. Failure which will attract a stiff penalty from the regulating body.
4. The supervising role of the Central Bank of Nigeria has created a sound financial institute on the country. Thus, CBN should ensure also the sound financial institution is strictly maintained. The CBN should also ensure that no commercial Bank donate from the laid down roles or regulations.
5. Thee CBN should also provide a payment system that will be sophisticated from what we have to ensure total effectives and efficiency of the Nigerian Financial system.
6. Thee CBN should also try not to keep to themselves problem any financial institutions is facing. But to make public and made them to know due the supervising roles and proffer a solutions to the problem in question.
7. They should be proper follow up as a result of the supervision and inspection from CBN and more time frame that will enable the Banks to do a good job.

Department of Management Technology  
Federal University of Technology, Yola  
P.M.B. 2076.

26<sup>th</sup> January, 2005

Dear Sir/Madam

### **RESEARCH QUESTIONNAIRES**

I am a Post Graduate student of the Federal University of Technology, Yola. Management Technology Department with registration No. MBA/MI/05/0136. I am currently conducting a research on the topic "The roles of Central Bank of Nigeria (CBN) over commercial Banks.

Your are please requested to respond to the attached research questionnaire to enable me collect data for the study.

In view of this, I wish to assure you that all information given by respondents shall be confidentially used for the pu7rpose of the research work only.

Kindly respond to the question as appropriate

Thank you,

Yours sincerely,

***Olomoro Bashir Yusuf***  
***MBA/MT/05/0136***



## **SECTION A**

### **CBN STAFF**

#### **PERSONAL DATA**

Please tick the appropriate information on the space provided

Department:-----

#### **1. Rank**

(a) Junior Cadre [ ]

(b) Middle cadre [ ]

(c) Senior cadre [ ]

#### **2. Sex**

(a) Male [ ]

(b) Female [ ]

#### **3. Age**

(a) 25 32 [ ]

(b) 33 43 [ ]

(c) 44 55 [ ]

(d) 56 above [ ]

## **SECTION B**

### **INSTRUCTIONS**

From the items below, please tick the alternative responses provided for each question.

1. Do you think that CBN performs its role satisfactorily over commercial banks? Yes [ ] No. [ ]
2. Does CBN supervision increase the performance of the Commercial banks? Yes [ ] No [ ]

3. Does CBN Monetary Price Rate (MPR) favourable to your bank?  
Yes [  ] No [  ]
4. Does CBN require collateral from your organization i.e. your bank before granting you loan? Yes [  ] No [  ]
5. Does your Bank faces any problem as a result of CBN supervision?  
Yes [  ] No [  ]
6. Does CBN supervision, rules and regulation enhance the performance of the Commercial banks?  
Yes [  ] No [  ]
7. Have the CBN creates any possible way forward for effective and efficient financial institutions?  
Yes [  ] No [  ]
8. Does the CBN regulates and supervised the commercial banks within the legal frame work?  
Yes [  ] No [  ]

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