GLOBAL JOURNAL OF SOCIAL SCIENCES VOL 6, NO. 1, 2007: 31-36
 ISSN 1596-6216

UNIVERSAL BANKING AND THE NIGERIAN BANKING SECTOR

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(Received 18 November 2006; Revision Accepted 21 March 2007)

ABSTRACT

In this study we propose that there is a positive relationship between the variables (growth, effective customer service, size of a bank) and universal banking in Nigeria. In support of this proposition, we employed empirical evidence in the investigation. From the result, it was discovered that the size (net assets and market share) has little or no bearing with universal banking. On the other hand, a positive relationship was established between universal banking and effective customer's service, and growth in the Nigerian banking sector. The conclusion was that, universal banking has a positive impact on the Nigerian banking sector and the larger Nigerian economy.

KEYWORDS: Growth, Effective Customer Service, Size of a Bank, Universal Banking.

INTRODUCTION

Banking in Nigeria dates back to the establishment of the Bank of British West Africa Limited (BBWA) in Lagos in 1894, which took over the operations of the African Banking Corporation, established two years earlier in 1892 (Olashore, 1991). Eight commercial banks were established in the country between 1959 and 1962 and no banks were established until 1970. However, it was observed in the 70s that the banking arrangement in the country was not conducive to rapid improvement of the banking sector. For instance, the lopsided nature of the banking system meant that banking facilities in the country were inadequate and inaccessible and inconvenient for the masses of the people. Further, the inadequate services, under-capitalization and illiquidity of the banks, particularly the indigenous ones, meant that banks often defaulted in their obligations particularly before the 1952 ordinance, and this was not conducive to the development of the banking system as it undermined public confidence in the system (Olashore, 1991).

Measures were then adopted to tackle the problem of lopsided banking system through the encouragement of more banking institutions and engendering competition in banking. From the seven banking companies in operation when the ordinance establishing the Central Bank of Nigeria was passed in 1958, the number reached seventeen by the close of 1962. Another aspect of the lopsided banking development was paucity of bank branches. Before 1977 nothing positive and effective was done about this. The 1952 ordinance was surprisingly silent on the question of opening and closing of bank branches and this continued to be the case until the promulgation of Decree No 1 of 1969. However, following the report of the committee on the financial system, the federal government in 1977 directed the CBN to draw up a master plan for commercial banks to set up more branches throughout the country in order to extend banking services to the majority of people, particularly in the rural areas (Adekanye, 1986).

In 1986, the federal government deregulated the financial sector and thus, liberalized the banking and insurance industry. This made entry into the banking industry easy; this led to expansion and stiff competition among the existing banks and new entrants. The agitation for universal banking began when some merchant banks sought permission from CBN to convert to commercial banks in response to what they perceived as skewed structure of the banking industry (Unugbro, 1998).

In year 2000, the apex bank granted approval of universal banking in the economy. Since the central bank (CBN) issued guidelines liberalizing bank activities in January to particular niches have gotten licences and expanded their operations. However, with the introduction of universal banking in Nigeria, the question that readily comes to mind is, what will be its impact on the Nigerian banking sector. Therefore this research work seeks to give answer to the following questions.

1. Would universal banking lead to growth in the Nigerian banking sector?
2. Will the system of universal banking be a barrier to effective customer services?
3. Would universal banking affect the size of a bank in terms of its market share and net assets?

The following hypotheses were formulated for this study. They were subjected to statistical test to ascertain whether they are to be accepted or not.

1. There is a positive relationship between universal banking and growth in the Nigerian banking sector.
2. There is a positive relationship between universal banking and effective customer services.
3. There is a positive relationship between universal banking and the size of a bank.

LITERATURE REVIEW

The Nigerian Banking Sector

The Nigerian banking sector currently comprises 25 banks with a national charger licensing them to undertake universal banking business with no restriction on the type of banking businesses (retail or wholesale) that they could undertake (Oboh, 2005). The caveat to this is the existence of four merchant banks, which are niche institutions dealing only in investment banking and related operations. In both scenarios, for them to provide other financial services such as capital market and insurance services, the depth of involvement would determine whether it could be undertaken directly under the same roof or through an incorporated subsidiary.

According to Oboh, (2005); the universal banks constitute the mainstream banks and account for about 70 percent of the total assets of the financial sector as at end of fiscal year 2003. A few players dominate the banking sector, as the ten largest banks account for about 55 percent of the industry's business in terms of mobilized deposits and credits granted. Thus, the banking industry in Nigeria can be described as oligopolistic in structure. The second main category of banks in the country is called the Micro-finance banks. These are unit banks with licence to undertake limited banking activities and are restricted to their host communities.

As at the end of year 2003, there were 774

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category of banks is the mortgage institutions numbering 81 as at 2003 which are allowed to take savings deposits like the mainstream banks but their activities are restricted to the mortgage sub-sector. The Nigerian banking market is vibrant, deregulated and open to foreign competitors who can meet the licensing requirement in addition to company registration. Following the deregulation of the economy in mid-1986, the banking sector was also deregulated and bank licensing liberalized. The consequent upsurge in the number of operators heightened competition, which eventually led to the liquidation of some 35 banks from 1994 to date. (Ebhodaghe, 1997)

Using Porter's five forces model (1996), two very compelling factors which emanated from the developments in the domestic financial sector and which unleashed competitive pressures on banks in Nigeria were the increase in the number of direct competitors and close substitute financial products. Increased direct competition arose from the upsurge in the number of mainstream banks and other deposit-taking financial institutions following deregulation and liberalized entry and exit policy. On the other hand, the engendered economies of scope and the increased variety of substitute financial products flooded the market with the elimination of barriers to cross selling between segments of the financial market following the adoption of universal banking policy (Oboh, 2005).

Universal Banking In Nigeria

The concept of universal banking is relatively new in Nigeria and other developing economies of the world but in Britain, United States and other developed nations, universal banking has assumed a household name. In Nigeria, the emergence of universal banking can be traced to the liberalization policy of the federal government of Nigeria with its attendant increase in the number of licenced banks in Nigeria. (Akingbola, 2000).

The period witnessed an unregulated government policy of free entry and free exit. With this upsurge, there was a cutthroat competition, which saw banks deviating from their traditional functions. The regulatory authorities however added impetus by formulating policies that make it possible for commercial banks to delve into areas that were hitherto the exclusive reserve of merchant banks. Coupled with the distress problem and failure of other financial institutions, it became imperative to break down the barriers or restrictions or the types of services a particular type of bank can offer.

According to Saunders (1994), Universal banking is the conduct of a range of services comprising deposit taking, lending, trading of financial instruments and other derivatives, underwriting new debt and issues, brokerage services, investments management and insurance. Universal banking simply connotes collapsing the various regulatory divides that separate commercial and merchant banking activities. Creating a level playing field for both commercial and merchant banks. The concept of universal banking is an expansion of the traditional function of bank to make it fluid and limitless. With this arrangement, banks can be involved with their traditional function of deposit taking, in addition to providing insurance services, merchant banking operations as well as the services of financial analyst. The practice of universal banking however differs from one economy to another.

In Britain, there are no statutory restrictions or demarcations in the services provided by commercial banks, merchant banks, building societies, finance houses, discount houses and saving bank. The activities of the aforementioned financial institutions are similar in all respect that it is extremely difficult to differentiate one from the other. For example, building societies offer nationwide flex account, which is akin to the conventional bank current account. (Kaufman, 1996).

In the United States, prior to the great depressions of the 1930s, banking was somehow universal but there was a mass protest of fraudulent dealings by banks and their security affiliates which many criticized as the cause of the depression. This resulted in the 1933 Glass-Steagall Act, which demarcated clearly between commercial and merchant banking activities. But with time, waivers by congress and the federal reserves stem saw banks gyrating into other areas such as insurance brokerage, securities account and even undertake real estate brokerage. In Germany, banks combine the function of insurance, real estate businesses with the traditional banking function. The range of services covered by universal banking includes credit creation, deposit taking, investment services, securities placement, and brokerage insurance services and real estate development. (Ilaboya, 2005)

From the foregoing, it is obvious that the concept of universal banking lacks a precise definition. It varies from country to country and any variant to be adopted must be viewed in relation to the country's prevailing economic circumstance, level of sophistication of the financial system and the regulatory operatives in place. A milestone was achieved in 1986 when the federal government deregulated the financial sector and thus, liberalized the insurance and banking industry. This made entry easier into the banking industry and varieties of financial institutions were set up. This deregulation led to expansion and stiff competition among the existing banks and new entrants. (Imala, 2000).

The agitation of universal banking began when some merchant banks sought permission from CBN to convert to commercial banks in response to what they perceived as skewed structure of the banking industry, which in most cases favoured commercial banks. The banking sub-sector of the economy is presently operating under certain regulatory restrictions. Legislations specify that banking institutions should operate as either commercial banks, but not as both. Under this principle, merchant banks cannot participate in the clearing house and as such they must keep accounts with, and clear their cheques through commercial banks which has cost implications and makes banks better of It is also important to note that, originally merchant banks were licenced to transact investment-banking business. For sometime now, bankers have been complaining of insufficient banking business for the remaining merchant banks (Oboh, 2005).

METHODOLOGY

The population for this study includes all customers and management staff of banks listed on the Nigerian stock exchange as at 31st December, 2005. The sample used in this study consists of ten banks randomly selected from the quoted Nigerian banks. The blue print for data collection is the survey design. The stratified random sampling method is employed. Using this method, the research population is organized into two homogenous groups with heterogeneity between the groups, the first group consists of commercial banks, which are engaged in retail banking while the second group consists of merchant banks, which are engaged in wholesale banking, prior to the advent of universal banking Five banks were selected randomly from each of the groups in order to ensure that each part of the banking sector is adequately represented. In this study, data was processed by use of both the descriptive and inferential statistics.

Analysis of Data and Results

A total of ninety copies of questionnaires were administered. Seventy-five (83.3%) were returned, while fifteen (16.7%) were not returned. The results of respondents responses are contained in appendix 1.

Questionnaire analysis: Questions 1 to 5 in the questionnaire presents that, 86.7% of the respondents are aware of the practice of Universal Banking in the Nigerian banking sector while, 13.3% of the respondents are not aware. 80% of respondents are of the view that universal banking has a positive impact on the banking sector. Ninety-three percent of the respondents posited that the system of universal banking will not be a barrier to effective customer services, rather there will be competition among the banks in the strive to deliver effective customer services. Sixty-eight percent of the respondents posited that universal banking would engender significant economies of scale for the banking industry Seventy-three percent of the respondents opined that, the introduction of universal banking will deepen the banking practices and make future banking crisis and distress more controllable.

While responses to questions 6 to 9 showed that, 70.7% of the respondents were of the opinion that universal banking would affect the smaller banks efficiency and profitability because the large and capitalized banks will dominate the banking sector through its multi-purpose banking arrangement. 82.7% of the respondents posited that universal banking will accelerate the development of the banking sector which will in turn ensure stability in the sector. 78.7% of the respondents posited that universal banking will reduce frequent occurrence of bank failure and liquidation, which characterized the Nigerian banking sector, through combination of the traditional banking services and other non financial services such as insurance and real estate business. 80% of the respondents opined that the practice of universal banking would boost up customer's confidence in the banking industry.

On the other hand, response to questions 10 to 14 revealed that, 77.3% of the respondents believed that universal banking would generate healthy competition among the banks in the strive to provide qualitative customers services while 22.7% of the respondents believed that universal banking does not generate healthy competition among the banks in the strive to provide qualitative customers services. 84% of the respondents posited that it is necessary to develop the manpower needed to contend with the varied and complex services of universal banking while 16% of the respondents opined that it is not necessary 86.7% of respondents think that the practice of universal banking depends on the size of the bank because the bigger banks have edge over the smaller banks in terms of capital base and profitability. 22.7% of the respondents posited that the practice of universal banking has a positive impact on the smaller bank, 77.3% of the respondents say it has a negative impact on the smaller banks. 73.3% of the respondents posited that Universal banking would yield greater internal returns and larger market share for the big banks than the small banks.

Hypotheses Testing

Hypothesis 1. Applying the t-test at 95% confidence interval, the assumption that there is a positive relationship between universal banking and growth in the Nigerian banking sector was accepted as the t^* (t critical one- tail = 2.13185) was less than the t (t calculated = 10.1288).

Hypothesis 2: The hypothesis that there is a positive relationship between universal banking and effective customer services was also accepted at 5% level of significance using t-statistic because t^* = t critical one- tail = 2.353) is less than t (t calculated = 9.615)

Hypothesis 3: The hypothesis that there is a positive relationship between universal banking and the size of a bank was rejected because t^* (t critical one- tail = 2.353) is greater than t (t calculated = 0.9523).

Findings

At the end of this research, the following evolved.

1. There is a positive relationship between universal banking and growth in the Nigerian Banking sector. This is explained by enlarge business scope and horizontal integrations.

2. There is a positive relationship between Universal Banking and effective customer services. There is no doubt that the practice of universal banking in Nigeria will generate healthy competition among the banks in the strive to provide qualitative customers services, which will ensure efficiency in bank's response to customer needs. The integrated approach to service delivery outlined by universal banking will produce staff with complete expertise knowledge in their various field of endeavour The strive towards qualitative services that would enhance competitive strength can only be achieved with the requisite human resources. Universal banking will also boost customers' confidence in the banking sector

3. There is no positive relationship between universal banking and the size of a bank in terms of net assets and market share. This is inconsistent with the accepted position in literature, indicating therefore that there must be other important variables for the Nigerian banking sector such as management competence and integrity

CONCLUSION

There are predominant linkages between Universal Banking and the banking sector Universal banking, amongst other factors will ensure the growth of the banking sector and effective customer services, as banks can undertake or conduct a range of financial services without statutory restrictions.

In literature, it was thought that, the size of a bank has positive effect on universal banking, and smaller banks in terms of net assets and market share would find it difficult to survive under universal banking regime However, the result of this research shows that smaller banks just like their bigger counterparts will be able to carry out universal banking because through effective customer services and quick response to customers needs they can build stakeholders confidence in them

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APPENDIX 1: DATA PRESENTATION

Table 1. Questionnaires Administered to Banks

Detail	Number	Percentage (%)
Copies sent out	90	100
Copies returned	75	83.3
Copies not returned	15	16.7

Source: Analysis of Questionnaires

Table 2: Analysis Of Bio Statistics

Variables	Respondents	Frequency	Result %
Age	18-30 years 31-40 years Above 40 years	42 18 15	56 24 20
		75	100

Variables	Respondents	Frequency	Result %
Educational Qualification	OND/NCE BSC/HND Ph.D Others	20 45 - 10	26.7 60 - 13.3
		75	100
Variables	Respondents	Frequency	Result %
Sex	Male Female	40 35	53.3 46.7
		75	100

Variables	Respondents	Frequency	Result %
Marital Status	Single Married	42 33	56 44
		75	100

Source: Analysis of Questionnaire

Table 3: Research Question 1:

Options	Responses	Percentages %
Yes	65	86.7
No	10	13.3
Total	75	100

Research question 2

Options	Responses	Percentages %
Positive	60	80
Negative	15	20
Total	75	100

Research question 3

Options	Responses	Percentages %
Yes	70	93.3
No	5	6.7
Total	75	100

Research question 4

Options	Responses	Percentages %
Yes	51	68
No	24	32
Total	75	100

Research question 5

Options	Responses	Percentages %
Yes	55	73.3
No	20	26.7
Total	40	75

Research question 6

Options	Responses	Percentages %
Yes	53	70.7
35	22	29.3
Total	75	100

Research question 7

Options	Responses	Percentages %
Yes	62	82.7
No	13	17.3
Total	75	100

Research question 8

Options	Responses	Percentages %
Yes	59	78.7
No	16	21.3
Total	75	100

Research question 9

Options	Responses	Percentages %
Yes	60	80
No	15	20
Total	75	100

Research question 10

Options	Responses	Percentages %
Yes	58	77.3
No	17	22.7
Total	75	100

Research question 11

Options	Responses	Percentages %
Necessary	63	84
Not necessary	12	16
Total	75	100

Research question 12

Options	Responses	Percentages %
Yes	65	86.7
No	10	13.3
Total	75	100

Research question 13

Options	Responses	Percentages %
Positive	17	22.7
Negative	58	77.3
Total	75	100

Research question 14

Options	Responses	Percentages %
Yes	55	73.3
No	20	26.7
Total	75	100

APPENDIX 2: HYPOTHESES TESTING

There is a positive relationship between universal banking and growth in the Nigerian banking sector

t-test: paired two sample for means		
	Variable 1	Variable 2
Mean	57.4	17.6
Variance	19.3	19.3
Observations	5	5
Pearson Correlation	-1	
Hypothesized Mean Difference	0	
Df	4	
t Stat	10.12883331	
P(T<=t) one-tail	0.000267409	
t Critical one-tail	2.131846486	
P(T<=t) two-tail	0.000534819	
t Critical two-tail	2.776450856	

There is a positive relationship between Universal banking and effective customer services

t-test: paired two sample for means		
	Variable 1	Variable 2
Mean	62.75	12.25
Variance	27.58333333	27.58333333
Observations	4	4
Pearson Correlation	-1	
Hypothesized Mean Difference	0	
Df	3	
t Stat	9.615414362	
P(T<=t) one-tail	0.001193658	
t Critical one-tail	2.353363016	
P(T<=t) two-tail	0.002387315	
t Critical two-tail	3.182449291	

There is a positive relationship between universal banking and the size of a bank

t-test: paired two sample for means		
	Variable 1	Variable 2
Mean	47.5	27.5
Variance	441	441
Observations	4	4
Pearson Correlation	-1	
Hypothesized Mean Difference	0	
Df	3	
t Stat	0.952380952	
P(T<=t) one-tail	0.205582468	
t Critical one-tail	2.353363016	
P(T<=t) two-tail	0.411164936	
t Critical two-tail	3.18244291	