AN ANALYSIS OF WEAKNESSES IN THE OPERATIONS OF BANKS IN NIGERIA, 2009-2018.

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ABSTRACT

This study covers the decade, 2009-2018. Its principal intendments are to find out: the different types, number, occurrence frequency and the most prevalent reported Weakness(es) in the operations of Deposit Money Banks (DMBs) in Nigeria, the half-decade (2009-2013 or 2014-2018) that incidences of Weaknesses were better controlled, highlight the implications of the Weaknesses in the operation of the banks and make informed recommendations. For ease of appreciation, understanding and conviction, descriptive method of analysis was utilised in the study. The findings show that, DMBs in Nigeria had thirty (30) different types of reported Weaknesses. They include Non-Compliance with banking laws, rules and regulations, Extreme weak corporate governance practices, Loan and Deposit concentration, non-Performing insider credits, Poor risk management practices and Poor internal controls. Four Weaknesses were found to be prevalent but the most prevalent was "Non-compliance with banking laws, rules and regulations". The number and frequency occurrence of Weaknesses in the first half of the decade studied, were more than in the second half thus, suggesting that there was better control in the second than in the first half. While a major implication of the Weaknesses was that they posed serious threats to the soundness, health and survival of the banks, a principal recommendation is that banks should urgently find and deploy appropriate and enduring

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solutions that will not only eliminate the 30 Weaknesses but also prevent any reoccurrence of Weaknesses in their operations going forward. Another is that an Annual Bank Weakness-Free Award, to be won by any bank or banks found to have operated free of Weaknesses, should be instituted by the CBN and NDIC, in collaboration with the Chartered Institute of Bankers of Nigeria (CIBN).

1.0 INTRODUCTION

The Nigeria Deposit Insurance Corporation (NDIC) is one of the regulatory and supervisory authorities in the Nigerian banking industry. It has the "sole responsibility of administering Deposit Insurance System (DIS) in Nigeria". It is also responsible for **Deposit Guarantee, Resolution of Bank Distress and Bank Liquidation in the Nigerian banking industry**.

The NDIC thus, conducts On-Site Examination and Off-Site Surveillance in banks. Under the On-site Examination, NDIC officials physically visit banks to assess their financial condition against some pre-determined parameters. Beyond financial condition, the Corporation tries to form an opinion about the overall health status of the banks by also assessing such things as the quality of: Board and Management oversight, Risk Management practices, Internal Control Systems, Level of Compliance with relevant laws, rules and regulations, Quality of Banks' Risk Assets, and Loan-loss provisions, among others.

In the case of Off-site Surveillance, NDIC makes requests on banks to avail it specified information. With the information provided, it performs a review and assessment of the banks' financial and other relevant conditions that also aid in understanding their health status.
At the end of each examination exercise, exception reports, especially in terms of observed "Weaknesses" that the examined bank needs to

redress, are made available to the Management of the bank. Annually, NDIC includes in its Annual Report and Statement of Accounts, highlights of the "Weaknesses" that were noted in examined banks, without mentioning the name(s) of the affected bank(s).

Whether or not the observed weaknesses in banks are eventually corrected remains a question that only the regulators and supervisors (Central Bank of Nigeria, CBN and NDIC) can answer.

Whatever "Weaknesses" NDIC discovers in examined banks have enormous implications for: **the continued existence of the banks as going concerns; quality of their assets and financial conditions; safety of depositors' funds; obligations of NDIC as the deposit insurer; and overall confidence of the public in the banking and financial system in Nigeria.**

The observed "Weaknesses" by NDIC in operations of banks are scattered in the Corporation's various Annual Report and Statement of Accounts. Despite the fact that such Weaknesses portend grave risks to banks, the banking system and the economy, there has not been any attempt to collate, analyse and closely study the development with a view to discovering, among other things, the types and extent of the Weaknesses as well as their implications.

It is such important issues as these, among others, yearning for determination that have provided the opportunity and given the impetus for this study which principal objectives are stated in the next section of this paper.

1.2 OBJECTIVES OF THE STUDY:

The Objectives of this study are to, for the ten-year period, 2009 - 2018, provide insights on:

i) the number of deposit money banks in operations and the number examined (where the Weaknesses were discovered) by NDIC.
ii) the different types and number of Weaknesses found by NDIC in the examined banks.
iii) the frequency of occurrence of all the types of Weaknesses discovered.
iv) the prevalent (most common) type(s) of Weakness(es);
v) the number of different types of Weaknesses found relative to or compared with the number of examined banks.
vi) the year(s) when no different type of Weakness was found as well as when the highest and lowest number of different type(s) of Weakness(es) was/were discovered by NDIC.

Further from the above, the study also seeks to:

a) group the types of Weaknesses along their operation areas with a view to finding out the number per group, the group with the highest and lowest number of types and frequencies of occurrence of Weaknesses; and
b) compare the incidences of different types of Weaknesses and frequencies of occurrences between the half decades (2009-2013 and 2014-2018) within the period of the study; and
c) highlight some implications of the Weaknesses found in operations of banks.

The ultimate objective or essence of this study is to, from the findings, make informed recommendations that may lead to decisions and actions towards significant reduction or putting to a complete stop the issue of Weaknesses in deposit money banks in Nigeria.

1.3 NATURE AND SOURCE OF DATA FOR THE STUDY:
Published (Secondary) data are sourced from NDIC's various Annual Report and Statement of Accounts (2009-2018) to facilitate the study.

1.4 METHODOLOGY AND LIMITATIONS OF THE STUDY

The data collected and collated are descriptively analysed in search of answers to the stated objectives of the study which is limited to Weaknesses uncovered in the operations of deposit money banks (DMBs) in Nigeria by NDIC during On-Site Examinations. In other words, Weaknesses that might have been discovered and highlighted by NDIC during Off-Site Surveillance of deposit money banks and both On-Site Examinations and Off-Site Surveillance of Primary Mortgage Banks (PMBs) and Micro-Finance Banks (MFBs), do not form part of this study. The focus on only DMBs is essentially because they constitute the largest component in Assets and Liabilities of the banking sector in the country and if anything, negative should happen to them, the impact will be horrendous not only for the banks and the banking system but also the entire economy. Besides, the study is intended to be compact.

2.0 NUMBER OF BANKS EXAMINED BY NDIC VIS-A-VIS THE NUMBER OF BANKS IN OPERATION.

The number of deposit money banks (DMBs) in operation and those that were examined by NDIC in each of the ten (10) years, 2009-2018, are as shown in **Table 1** below.

The total number of DMBs in operation in the ten years was 237. However, on per annum basis, the number ranged from the lowest, 20 in 2011 and 2012, to the highest, 27 in 2018. In each of the five (5) years 2009, 2010, 2013, 2014 and 2015, the number was 24 while the number was 25 in each of years 2016 and 2017. On average, for the ten years, the number of banks in operation per annum was about 24.

On the other hand, the total number of DMBs examined by NDIC from 2009-2018 was 197 with an annual average of about 20. On yearly basis however, it was 11 and 12 in 2009 and 2010, respectively. In 2011 and 2012, 16 were, respectively examined. While 20 banks were examined in 2013, 24 were examined in each of years 2014 and 2015. The numbers examined in each of the remaining three years, 2016, 2017 and 2018 were 23, 25 and 26. Within the ten-year period reviewed, the lowest number of banks examined per annum by NDIC was 11 which was in 2009 while the highest number, 26 occurred in 2018.

Consequent upon the foregoing, out of an annual average of 24 banks in operation within the period, about 20 or 83.3% of them were examined.

As can still be noted from **Table 1,** the minimum rate of examination coverage took place in 2009 when only 11 or 45.8% of the 24 banks in operation were examined. In 2010, 50%, that is, 12 of the 24 banks in operation were examined. In 2011 and 2012, 80% or 16 of the 20 banks in operation in each of the years were examined. In the three years, 2013, 2016 and 2018, the examination coverage rates of banks in operation were 83.3%, 92% and 96.3%, respectively. While these records can be recognised as very good, the best can be observed in years 2014, 2015 and 2017, when a 100% of all the 24, 24 and 25 banks in operation in the respective years were examined. However, for the entire ten (10) years under review, the rate of examination coverage of banks in operation was about 83.1% (197 out of 237 banks). In other words, only 40 or 16.9% out of the 237 banks in operations within the period were not examined. This performance can be adjudged to be very good.

TABLE 1: NUMBER OF BANKS IN OPERATION, NUMBER EXAMINED, NUMBER OF TYPES OF WEAKNESSES AND FREQUENCY OCCURRENCE OF WEAKNESSES (2009-2018)

		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	TOTAL
A	Number of DMBs in Operation	24	24	20	20	24	24	24	25	25	27	237
B	Number of DMBs Examined	11	12	16	16	20	24	24	23	25	26	197
C	Number of Types of Weaknesses	10	10	4	2	-	1	3	-	-	-	30
	B/A%	45.8	50	80	80	83.3	100	100	92	100	96.3	83.1
	C/B%	90.9	83.3	25	12.5	-	4.2	12.5	-	-	-	15.2

SOURCE: NDIC, ANNUAL REPORT AND STATEMENT OF ACCOUNTS, 2009-2018/EXTRACTIONS FROM THE APPENDIX.

3.0 DIFFERENT TYPES, NUMBERS AND FREQUENCIES, ETC OF WEAKNESSES DISCOVERED IN EXAMINED BANKS, 2009-2018

Thirty (30) different types of Weaknesses were discovered and reported by NDIC. They are shown in the **Appendix** where they have been classified into four different groups, namely: **Corporate Governance, Credits/Loans, Risk Management and Internal Control**. As earlier pointed out, the number of the different types of Weaknesses that occurred in each of the ten years reviewed has been summarised and shown in **Table 1**. However, in **Table 2** below, attempt has been made to indicate the number of Weaknesses and their occurrence frequencies in each of the groups.

3.1 Types of Weaknesses Found Per Group:

Under **Corporate Governance Group**, there are twelve (12) different types of Weaknesses found. They include: Non-Compliance with banking laws, rules and regulations; Poor/Extreme Weak Corporate Governance Practices; Failure to implement some recommendations in Examiners Reports; and Inadequate Capital in some banks. The others are shown in the **Appendix**.

Among the eleven (11) constituent different types of Weaknesses in the **Credits/Loans Group** are: Poor Loan Underwriting and Administration; Loan and Deposit Concentration; Non-Performing Insider-related Credits; and Declining Asset Quality.
The others are shown in the **Appendix**.

With regard to the five (5) different types of Weaknesses in the **Risk Management Group**, there are, for instance, Failure to Implement Effective Risk Management Framework; Poor Risk Management Practices (arising from inadequate manpower and training); and Absence of defined overall risk appetite by banks. The remaining two are shown in the **Appendix**.

In the fourth and last group - **Internal Control Group** - as shown in the **Appendix**, the two different types of Weaknesses found are: Poor Internal Control, and Inaccurate Financial Reporting.

3.2. Number of Weaknesses Found Per Group:

As evident in **Table 2,** of the 30 different types of Weaknesses, twelve (12) or 40% of them fall within the Corporate Governance group while eleven (11) or 36.7% are within Credit/Loans group. Five (5) and two (2) types of the Weaknesses, respectively are identified with Risk Management and Internal Control groups.

TABLE 2: WEAKNESS GROUP TYPES: NUMBERS AND FREQUENCIES, 2009 - 2018.

		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total Freq.
A	No. of Weakness Frequency	10	10	8	5	6	5	8	8	8	8	76
	A/76%	13.2	13.2	10.5	6.6	7.9	6.6	10.5	10.5	10.5	10.5	100
B	No. of Banks Examined	11	12	16	16	20	24	24	23	25	26	197
	A/B%	90.9	83.3	50.0	31.3	30.0	20.8	33.3	34.8	32.0	30.8	38.6

SOURCE: EXTRACTED FROM THE APPENDIX.

From the foregoing, it is clear that during the ten years covered by the study, the 30 types of Weaknesses discovered in banks were mostly accounted for by the failure in the handling of Corporate Governance and Credit/Loans-related issues. The two areas of banking accounted for 23 or about 76.7% of the 30 types of Weaknesses reported. This is against the 7 or 23.4% joint contribution by Risk Management and Internal Control-related groups. Consequently, banks need to pay more attention to Corporate Governance and Credit/Loans aspects of their functions.

3.3 Group Frequency Occurrence of the Weaknesses:

With regard to frequency of occurrence of the Weaknesses, it is shown in **Table 2** that the 30 Weaknesses generated seventy-six (76) frequencies, meaning that, on average, a Weakness happened about 3 times (i.e 2.53) in the ten-year period, 2009-2018. Weaknesses associated with Corporate Governance and Credit/Loans groups accounted for thirty-two (32) or 42.1% and twenty seven (27) or 35.5%, respectively of the 76 frequencies. Thus, together, Corporate Governance and Credit/Loans Weaknesses accounted for as high as 59 or 77.6% of all the 76 frequencies. Risk Management and Internal Control groups had 12 (15.5%) and 5 (6.6%), respectively, giving a total of 17 or 22.4% of the total 76. The signal still shows the need for banks to buckle-up in their Corporate Governance and Credit/Loans functions.

3.4 Control of Occurrence of Weaknesses:

Control of the occurrence of Corporate Governance-related Weaknesses was better in the second half (2014-2018) of the period with 14 or 43.8% than in the first half (2009-2013) with 18 or 56.3% of the total 32 frequencies (**please, see Table 3**).

In terms of Credit/Loans, a compartmentalisation of the ten years into two halves (that is, 2009-2013 and 2014-2018), shows clearly that 12 or 44.4% of the Weakness occurrences took place in the first half while 15 or 55.6% happened in the second half. This suggests that banks' control of Credit/Loans-related Weaknesses was better by as much as11.2%, in the first half (2009-2013) than in the second half of the period (2014-2018). Thus, there is the need for banks to intensify their efforts in the control of Credit/Loans-related Weaknesses.

With respect to Risk Management-related Weaknesses, of the twelve (12) occurrences, 8 or 66.7% took place in the period 2009-2013 (first half) while 4 or 33.3% occurred within 2014-2018 (second half). Consequently, banks' performance in controlling Risk Management-related Weaknesses was better in the second than in the first half of the period under review.

Banks' efforts at arresting Internal Control-related Weaknesses was worse in the second half (2014-2018) of the ten-year period studied when 4 or 80% of the 5 reported Weakness occurrences took place than in the first half (2009-2013) that only one (1) or 20% was reported. The evidence challenges banks to pay more attention to check-mating Internal Control-related Weaknesses in their operations. As may be observed from the immediate four (4) preceding paragraphs, banks' control of Corporate Governance and Risk Management-related Weaknesses in the ten years studied was better in the second half of the period than in the first half. On the other hand, banks' control of Credit/Loans and Internal Control-related Weaknesses was better in the first than in the second half of the period. These outcomes beckon on banks to improve their operations if Weaknesses will become a thing of the past in the Nigerian banking industry.

3.5 Annual Frequencies:

The annual frequencies of Weaknesses for the period, 2009-2018, are summarised in **Table 3.** As obvious from the Table, the years with the highest frequencies are 2009 and 2010 that recorded ten (10) each and contributed 13.2% each of the 76 total frequencies. The second position is occupied by years 2011, 2015, 2016, 2017 and 2018 that recorded eight (8) or 10.5% each of the entire 76 frequencies in the period. Year 2013 recorded six (6) frequencies or 7.9%. The years, 2012 and 2014 had the lowest frequencies of five (5) each or 6.6% of the total frequencies in the ten years covered by the study.

TABLE 3: ANNUAL GROUP FREQUENCIES OF WEAKNESSES, 2009-2018.

	Weakness Group Types	**No. of Types in Group**	**% of Total**	**Frequency Per Group**	**% of Total**
1.	Corporate Governance	12	40	32	42.1
2.	Credits/Loans	11	36.7	27	35.5
3.	Risk Management	5	16.7	12	15.8
4.	Internal Control	2	6.7	5	6.6
	Total	30	100	76	100

SOURCE: EXTRACTED FROM THE APPENDIX.
NOTE: S/TL = Sub-Total; TL% = Per cent age of Total.

Given a compartmentalisation of the frequencies in the ten years into two halves, the performance of the banks shows that a total of 39 (51.3%) frequencies out of 76 occurred in the first half, that is, 2009-2013. The second half, 2014-2018 contributed 37 (48.7%) of the total (see also Section 5, paragraph 3). The difference of 2 frequencies or 2.6% in performance, in favour of the second half, is very marginal and may indeed, be considered to be negligible. Nevertheless, it is a pointer that banks need and should be made, to work harder towards ensuring they operate free from Weaknesses.

It is important to observe that, in the ten years studied, there was no year that banks were found to have operated without recording Weakness frequencies. This is certainly worrisome, and it should be a source of serious concern to both the banks, their regulators and supervisors.

3.6 Number of Different Types of Weaknesses Discovered Vis - a - Vis the Number of Banks Examined:

As evident from both **Table 1** and the **Appendix**, 30 different types of Weaknesses, on the whole, were discovered from a total of 197 banks examined out of the 237 in operation in the ten (10) years studied. This gives an average of three (3) different types of Weaknesses found from an average of about 20 examined banks per annum. This translates, on average basis, to one different type of Weakness being discovered from about seven examined banks.

As further shown in **Table 1,** ten (10) different types of Weaknesses were discovered in both 2009 and 2010 from 11 and 12 examined banks, respectively. In years 2011 and 2012 only 4 and 2 were respectively found from the 16 examined banks apiece. When 24 banks were examined in each of years 2014 and 2015, one (1) and three (3) different types of Weaknesses were respectively discovered. In the remaining four years, 2013, 2016, 2017 and 2018, no different type of Weakness was found from any of the examined 20, 23, 25 and 26 banks.

Further review of **Table 1** indicates that, out of the thirty (30) different types of Weaknesses, 26 or 86.7% of them occurred in the first half (2009-2013) of the ten years under study while only four (4) or 13.3% took place in the second half (2014-2018). This seems to be a pointer to the possibility that banks improved in the control of occurrence of different types of Weaknesses in their operations in the second than the first half of the ten years reviewed.

3.7 Total Number of Banks Examined Vis - a - Vis Total Frequency Occurrence of all Weaknesses, 2009-2018.

In the ten (10) years, 2009-2018, the number of times the 30 different Weaknesses were reported to have occurred in the 197 examined banks was 76 times. The year-by-year frequency figures are also shown in **Table 1**.

A review of the data in **Table 1** indicates that, of the 11 and 12 banks examined in 2009 and 2010, respectively, 10 Weakness frequencies were found in each year. In 2011 and 2012 that 16 banks apiece were examined, the number of Weakness frequencies unearthed were 8 and 5, respectively. While the Weakness frequencies discovered in the 20 and 24 banks examined in 2013 and 2014 were 6 and 5, respectively, the number discovered in the 24, 23, 25 and 26 banks examined in four years, 2015-2018 was 8 per annum.

Relative to the number of examined banks, the year that recorded the highest reported rate of occurrence of weaknesses (90.9%) was 2009 when 10 Weaknesses were found from the 11 examined banks. It was followed by year 2011 with the rate of 83.3% when 10 Weaknesses were discovered from 12 examined banks. However, the lowest rate, 20.8% was in 2014 when only 5 Weakness occurrences were discovered from the 24 banks that were examined that year.

It is interesting to observe that, of the 76 total occurrences of the all the Weaknesses in the ten years reviewed, 39 (or 51.3%} were discovered in the first five years, 2009-2013 while 37 (or 48.7%) were discovered in the second five years, 2014-2018. These indicate that fewer Weaknesses occurred in the second half of the period under study and suggest that banks controlled the occurrence of Weaknesses better in the second than in the first half of the period. This may be ascribed to banks' improved handling of their responsibilities. It is especially welcome given that more banks (122) were examined in the later years than in the earlier ones (75) and yet the number of Weaknesses declined, though, marginally by two (2) or 2.6%.

3.8 Most Prevalent Type(s) of Weakness(es) Discovered:

The frequency of occurrence of the thirty (30) different types of Weaknesses evidenced in the **Appendix** clearly indicates that, four (4) of them occurred in a majority of the ten years. The Weaknesses are: "Non-compliance with banking laws, rules and regulations" (which occurred in 8 out of the 10 years covered by this study); "Poor/Extreme Weak Corporate Governance Practices" (occurred in 7 out of 10 years); "Failure to implement/Non-implementation of some recommendations in Examiners' Reports" (occurred in 7 out of 10 years); and "Loan and Deposit Concentrations" (occurred in 7 out of 10 years).

A frequency occurrence of 4 was attained by each of the following five types of Weaknesses: Non-Performing Insider Loans, Failure to Implement Effective Risk Management, Poor Risk Management and Poor Internal Controls. While the Weakness "Declining Asset Quality" occurred in 3 of the 10 years, each of the following four Weaknesses-Inadequate Capital, Increase/Large Volume of Non-Performing Loans, Concentrated Lending and Absence of defined overall Risk appetite, occurred in 2 of the 10 years. It is noteworthy from the **Appendix** that as many as 16 or 53.3% of the 30 different types of Weaknesses occurred only once in the 10 years reviewed.

Consequent from the foregoing, it can be stated without contradiction that, of all the 30 different types of Weaknesses, the most prevalent was "Non-compliance with banking laws, rules and regulations". The more prevalent types were three, viz:

"Poor/Extreme Weak Corporate Governance Practices"; "Failure to implement/Non-implementation of some recommendations in Examiners' Reports" and "Loan and Deposit Concentrations".

As can be noticed, the most prevalent, "Non-compliance with banking laws, rules and regulations" and two of the three more prevalent Weaknesses "Poor/Extreme Weak Corporate Governance Practices"; and "Failure to implement/Non-implementation of some recommendations in Examiners' Reports", featured under Corporate Governance Group while one of the more prevalent ones, "Loan and Deposit Concentrations", is of Credits/Loans Group. The Weaknesses that were reported to be within Risk Management Group and Internal Control Group, respectively are not regarded to be more or most prevalent because their frequencies of occurrence were not above five times or 50% of the ten-year period covered by the study - a criterion set by this researcher.

It is important to also note from the Appendix, that the four (4) more and most prevalent Weaknesses recorded a collective frequency occurrence of 29 or 38.2% of the total 76 frequencies for all the 30 types of weaknesses. On the other hand, the remaining twenty six (26) others had a collective frequency of 47 or 61.8% of the total 76. While each of the four more and most prevalent weaknesses contributed 3.2 of the 29 associated frequencies, each of the 26 others contributed only 1.8 of the 47 associated frequencies. This shows that the four (4) frequently reported weaknesses must have made greater negative contributions in banks. The Regulatory and Supervisory Authorities need to urgently do something that will ensure that banks back-down from carrying on these Weaknesses.

4.0 FINDINGS FROM THE STUDY

From the foregoing analysis, clear-cut findings have been made from the study. They are presented as follows:

i) the total number of banks in operation within the period was 237. On per annum basis, the number ranged from the lowest of 20 in 2011 and 2012, to the highest of 27 in 2018. On average, about 24 banks, per annum, were in operation.

ii) The number of banks examined by NDIC was 197 or about 83.1% of the 237 banks in operation. The highest number of banks examined in a year was 26 which is about 96.3% of the 27 banks in operation in that year, 2018. On the reverse, the lowest number examined was only 11 or 45.8% of the 24 banks in operation in 2009. With an annual average of about 24 banks in operation, 20 or 83.3% on average were examined. It is noted that, in the three years 2014, 2015 and 2017, all the 24, 24, and 25 respective banks in operation were 100% examined. These performances can be adjudged to be very good.

iii) The different types of Weaknesses discovered include: Non-Compliance with banking laws, rules and regulations; Abuse and fraudulent use of subsidiaries; Inadequate Capital in some banks; Deliberate falsification of income; Credits in excess of Single Obligor Limits; Inadequate Collaterals; Ineffectiveness of Board's Risk Management control functions; and Inaccurate financial reporting, among others.(See the attached Appendix for all the different types of Weaknesses).

iv) The number of different types of Weaknesses noted in banks and reported by NDIC, for the ten years studied was thirty (30), spread into four groups of: Corporate Governance (12 or 40%), Credits/Loans (11 or 36.7%), Risk Management (5 or 16.7%) and Internal Control (2 or 6.7%). Thus, Corporate Governance Weaknesses led the pack, followed by Credits/Loans.

v) The frequency occurrence of the reported thirty (30) Weaknesses, within the study period, was seventy six (76) times. While the highest annual frequency of 10 or 13.2% took place in each of the two years, 2009 and 2010, the lowest of five (5) or 6.6% was recorded in each of the two years, 2012 and 2014. Each of the five (5) years - 2011, 2015, 2016, 2017 and 2018 - recorded eight (8) weakness frequencies or 10.5% of the total while in 2013 six (6) frequencies or 7.9% of the total were recorded.

vi) The **prevalent types of the reported Weaknesses** were "Non-Compliance with banking laws, rules and regulations" that recorded a frequency of 8 times or 80% in the 10 years analysed; "Poor/Extreme Weak Corporate Governance Practices"; "Failure to implement/Non-implementation of some recommendations in Examiners' Reports"; and "Loans and Deposit Concentrations" each of which occurred 7 times or 70% in the ten years.

It is important to note that three of the four prevalent Weaknesses, i.e. Non-compliance with banking laws, rules, and regulations; Poor/Extreme weak Corporate Governance practices; and Failure to implement some recommendations in Examiners' Reports, belong to the Corporate Governance Group while one - Loan and Deposit concentrations- belongs to Credits/Loans Group.
It is also important to note that the **most prevalent** of all the Weaknesses found was "Non-compliance with banking laws, rules and regulations" while the **more prevalent ones** were the other three ("Poor/Extreme Weak Corporate Governance Practices"; "Failure to implement/Non-implementation of some recommendations in Examiners' Reports"; and "Loans and Deposit Concentrations").

vii) The number of different types of Weaknesses discovered relative to the number of banks examined showed inverse but healthy trends. While the number of banks examined progressively increased from 11 in 2009 to 26 in 2018, the number of discovered different types of Weaknesses per annum dropped from the height of 10 in 2009 and 2010, to zero in 2013, 2016, 2017 and 2018. On average, three (3) different types of Weaknesses were discovered per annum from an average of about 20 banks examined per annum in the ten years, 2009-2018.

viii) The years with the highest number of different types of Weaknesses were 2009 and 2010 with each recording ten (10). However, the lowest number (1) type was recorded in 2014 although none (zero) was recorded in the four years, 2013, 2016, 2017 and 2018.

ix) The Groups of types of Weaknesses found were four (4), made up of: Corporate Governance Group, Credits/Loans Group, Risk Management Group, and Internal Control Group.

x) The number of Weaknesses recorded per Group are as follow: Corporate Governance Group (12); Credits/Loans Group (11); Risk Management Group recorded (5); and Internal Control Group (2). The Group with the highest number of types of Weaknesses is Corporate Governance (12) while the lowest number (2) is recorded by Internal Control.

As may be appreciated, Corporate Governance and Credit/Loans Groups jointly accounted for (23) or about 76.7% of the entire 30 types of Weaknesses in all the four Groups. On the other hand, Risk Management and Internal Control Groups accounted for (7) or 23.3% of the total (30).

xi) The Group with the **highest frequency of Weaknesses** was Corporate Governance Group that recorded thirty two (32) or 42.1% of the seventy six (76) frequencies. The **higher frequency Group** that recorded 27 or 35.5% of the total was

Credts/Loans. The Group that recorded the **lowest frequency** was, Internal Control with five (5) or 6.6% of the total (76).

xii) A comparison of the number of different types of Weaknesses that occurred in the two half decade periods, 2009 - 2013 and 2014 - 2018 indicates that while 26 or 86.7% of the total (30) was in the first period, 4 or 13.3% occurred in the second.

In terms of frequencies, 39 (51.3%) occurred in the first while 37 (48.7%) was recorded in the second period. Both trends show that performance in the control of Weaknesses (in number and frequency) was better in the second half than the first half of the period studied.

xiii) A comparison of banks' performance in controlling the occurrence of Weaknesses in each group shows that, banks' performance in controlling Corporate Governance Group of Weaknesses was better in the second half (14 or 43.8%) of the ten years studied than in the first (17 or 56.3%); in relation to Credits/Loans Group of Weaknesses, performance was worse in the second (15 or 55.6%) than in the first (12 or 44.4%) half of the periods; as for Risk Management Group of Weaknesses, control was better in the second half with 4 or 30.8% against 9 or 69.2% in the first half; as regards Internal Control-related Group of Weaknesses, control was better in the first half (1 or 20%) than in the second (4 or 80%).

xiv) In all the ten years studied, there was no year that banks were found to have operated free from Weaknesses. In other words, Weaknesses were discovered in banks in all the ten years (2009-2018). However, no different type of Weakness was found in years 2013, 2016, 2017 and 2018.

5.0 IMPLICATIONS OF THE FINDINGS FROM THE STUDY FOR BANKS AND THE BANKING SYSTEM/ECONOMY

Expectedly**,** findings from this study ought to or should throw up some implications. Quite rightly they have multiple and diverse implications for the banks, the banking industry, customers of banks/ the banking public and of course, banks' regulators and supervisors.

With respect to banks, most of the 30 different types of Weaknesses found in their operations that evidenced negativity in their corporate governance, risk asset quality, credit/loans and internal control indicate, to say the least, that they have not learnt lessons from what happened in the days of massive bank distresses and failures of the 1990s. Consequently, they were unable to guide against slipping neck deep into committing the same types of Weaknesses that were found to have been the critical sources and causes of bank distress in and failure of banks. Thus, the implications for banks lie in the threats the Weaknesses pose to their overall soundness and health as well as what they must do to avert crystallisation of the threats. In particular with the lowering of the quality of their assets, higher exposure to risks and weak corporate governance, the threats to survival are higher. It should, therefore, be of serious concern for the banks to find pragmatic, enduring and sustainable ways to overcome further or continued manifestation of the Weaknesses in their operations. In other words, there is the need for banks to find solutions to the various multiple Weaknesses in the operations.

With threats to the survival of the banks, the health and soundness of the banking system are also at stake. There is no way the system will remain healthy and sound if either some banks become distressed or fail. In the least case, the banking system will witness a reduction in the number of banking institutions, the volume and value of assets and the capacity to provide the needed and important services for the entire economy. Once the sustenance is negatively affected, the impact will be seriously felt in the economy, especially as financial intermediation will be hampered with adverse consequences for socio-economic expansion, growth, and development. Needless to state that the integrity and image of the industry will also be jeopardised. It also has adverse implications for the stability of the banking sector as well as the entire financial system.

The next area that the findings have implications is not only the provision of services to the customers of banks but also the sustainability of consumer and public interests and confidence in the banks and by extension, the banking system. For example, whatever threatens banks' soundness and health has severe negative implications for the provision of quality and consistent services to bank customers and the banking public. Beyond direct negative implications for services to customers, there is also the impairment of the on - going much desired national financial inclusion in the country.

Perhaps, the implications are more obvious, and challenging among the regulatory and supervisory institutions (CBN /NDIC) in the banking industry. Although NDIC's level of On-Site Examination coverage of banks within the period studied showed a very good performance 83.1% but the number of different types of Weaknesses discovered in the examined banks is indicative of the fact that NDIC still has much to do in causing banks to eliminate all forms of Weaknesses in their operations. In recognition of the negative effects of the weaknesses in banks and the banking system, the regulators and supervisors should have the key responsibility of causing banks to operate free from Weaknesses. As a matter of fact, given the finding that some banks fail to implement some recommendations in Examiners Reports, the authorities are challenged to ensure that whatever recommendations they make to banks for implementation are carried out timely failing which appropriate sanctions become merited and should be actualised. It is essential to point out that the outcome of the study has a unique implication for the NDIC as the deposit insurer in the banking system. That is, the Corporation will have the unenviable burden of fulfilling its responsibilities of not just liquidating any failed bank but also settling claims of depositors whose funds may be trapped in any failed bank (s). This is a very grave and expensive implication for NDIC and indeed, the banking system. To delimit the possibility of failure of banks, the regulators and supervisors of banks must up their games via aggressive human capital training and development, effective constant monitoring of activities and operations of banks and delivering of deterrent sanctions whenever the need arises.

6.0 RECOMMENDATIONS

Arising from the foregoing are the following recommended ways forward:

1. Managements of Deposit Money Banks (DMBs) in Nigeria should:

a) immediately embark on elimination of all the thirty (30) forms of Weaknesses in their banks. There is no reason why they cannot eliminate them except, of course, the banks are profiting, in one form or another, from harbouring the Weaknesses.

b) pay more attention to the handling of Corporate Governance and Credits/Loans operations to significantly address the issues of prevalence of Weaknesses in banks.

c) embark on aggressive human capacity building and development of their employees.

2 The Regulators and Supervisors of banks in Nigeria (CBN/NDIC) should:

a) stop the practice of just making “recommendations" to banks for the purpose of addressing observed Weaknesses during

On-Site Examinations since evidence has shown that banks' managements disregard or disobey the recommendations. NDIC and CBN should rather give firm directives to managements of banks for compliance within a specified time failing which they should face severe penalties.

b) immediately ensure that all the Weaknesses detected, especially the ones with the highest frequencies of occurrence in the period (that is, the most prevalent ones - Non-compliance with banking laws, rules and regulations; Poor/Extreme weak corporate governance practices; Failure to implement some recommendations in Examiners' reports; and Loan-deposit concentrations), are resolved by management of banks without further delay, in order to free the banks and the industry from negative impacts.

c) strive to find out the reasons behind banks perpetrating and sustaining Weaknesses in their operations and the banking industry (even after the Weaknesses had been pointed out and recommended by the Supervisors for resolution). The outcome of such inquiries will greatly assist in finding lasting solutions to the presence of Weaknesses in deposit money banks in Nigeria.

d) closely monitor and examine deposit money banks more frequently to ensure, not only that they do not take undue advantage of the banking system but also the focus on the protection of depositors' funds.

e) cause banks to address the obvious need for human capacity building in banks, especially in the areas of Corporate Governance; Credits/Loans; and Risk Management, if incidences of Weaknesses must be significantly reduced or indeed, eliminated.

3. The Bankers Committee in collaboration with the Chartered Institute of Bankers of Nigeria (CIBN) or just CBN/NDIC in

collaboration with CIBN should, in order to encourage and motivate banks to operate free of Weaknesses, institute a suitable **Annual Weakness-Free Performance Award**, to be won by any bank or banks that will be found to have conducted its/their operations Weakness-free in a year.

7.0 CONCLUDING REMARKS

This study has clearly shown that although, there were some instances of improvement in the reduction of annual number of Weaknesses reported against deposit money banks, the general situation points to the need for serious improvement in all the four groups of identified Weaknesses viz, Corporate Governance, Credits/Loans, Risk Management, and Internal Control.

The reason banks should voluntarily and steadfastly address Weaknesses arising from the way and manner they handle their operations, duties and responsibilities in these areas is not far-fetched - they are the foremost drivers of banks into distress and/or failure. As has been well documented in: A CBN/NDIC Collaborative Study of Distress in the Nigerian Financial Services Industry (1995, p.58), major sources/causes of bank distress and/or failure include bad loans and advances, fraudulent practices, under capitalisation, rapid changes in government policies, bad management, lack of adequate supervision, undue reliance on Forex. Furthermore, at a Public Hearing on the Developments in the Banking System, convened in 2001 by the House of Representatives Committee in Banking and Currency, Ogunleye (2001) identified abuse of ownership, insider abuse, weak corporate governance, weak risk asset management practices and inadequate capital as some of the main causes of persistent bank distress and failure in the Nigerian banking industry. Many more "underpinning causes" of bank distress and failure are exposed in, Case Study of Bank Failures in Nigeria, published by the Nigeria Deposit Insurance Corporation (NDIC).

Most of the Weaknesses that were discovered in this study are among the ones highlighted in the above stated reports, papers and book, as causes and/or sources of bank distress and failure in this country. It is therefore, emphasised that, given what has been revealed in this study, if nothing serious is expeditiously done to remedy the situation, it should not be any surprise if another round of bank distress and failure envelop the Nigerian banking industry in no distant time from now.

Consequently, the CBN/NDIC have the responsibility to cause banks to, at all times, comply with laws, rules and regulations as well as practices that guide proper governance and management of operations of banks. A situation where banks are found not complying with laws, rules and regulations should be unacceptable and ought to attract serious attention and if need be, maximum sanctions. Quite surprisingly and unbelievably, in the portion of NDIC's various Annual Report and Statement of Accounts where Weaknesses found in banks were reported, no mention was made of sanctioning defaulting banks.

We also wonder about the reasons behind Regulators and Supervisors of banks making “recommendations" to banks for implementation which the banks either disregarded or disobeyed. If there is anything that forbids or constrains CBN/NDIC from giving 'directives' to banks for compliance, the time to find statutory solution has come, in order to elicit compliance or imposition of punitive sanctions upon disobedience. It is when banks begin to fully comply with laws, rules, regulations and directives of their Supervisors and Regulators that the aims of Banking Supervision to ensure that depositors are adequately protected and that the banking system remains safe and sound, can be realised and guaranteed.

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