Effect of Global Financial Crisis on the Nigerian Banking Industry (A Case Study of Access Bank and First Bank)

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ABSTRACT

The purpose of this study is to analyze the effect of the global financial crisis on the Nigerian banking Industry. The research work adopted ordinary least square method of econometric techniques to evaluate whether or not their existed a negative, positive or neutral relationship among variables of interest. The study was carried out in two banks in Lagos state and employed secondary data. Specifically, it holds that the global financial crisis had a negative or reverse effect on the Nigerian banking sector. Hence, the research concluded by suggesting economic policies that could restore the economy to full stability as well as adequately insulate the economy against future financial crisis. The study recommends that policy makers should evolve comprehensive measures to address the crisis at the national level and in any case to bring about a return to stability in the international financial system.

KEYWORD: *Financial crises, causes of financial crises and effect of financial crises*

CHAPTER ONE INTRODUCTION

1.1 Background of the Study

INTRODUCTION

Before the consolidation exercise, the Nigerian banking industry witnessed a lot of stress. This eroded the confidence of the general public which used to be a great asset of the banking sector in the past. In addition, investor's and depositor's funds were not guaranteed, thereby making many of the banks to come under stress due to capital inadequacy. These problems greatly impaired the quality of the bank's assets as non-performing assets became unbearable and became huge burdens on many of the banks. The financial intermediation role of the banks became heavily impaired while the macroeconomic activities seriously slowed down. It was against this background, that the Central Bank of Nigeria (CBN) announced a major reform in the entire Nigerian banking industry. The recapitalization of the capital base of banks constituted the first phase of the reform policy in the entire banking sector of the Nigerian economy. The major issues in the consolidation exercise, according to Adeyemi (2005) include a minimum capital base of 25 billion naira with a deadline of 31st December 2005; consolidation of banking institutions through mergers and acquisitions; phase withdrawal of public sector funds from banks, beginning from July, 2004; adoption of a risk-focused and rule-based regulatory framework; zero tolerance for weak corporate governance, misconduct and lack of transparency; accelerated completion of the Electronic Financial Surveillance system (e FASS); the establishment of asset management companies; promotion of the enforcement of dormant law; revision and updating of relevant laws; and closer collaboration with the Economic and Financial Crime Commission (EFCC) and the establishment of the financial intelligence unit. The primary objective of the reform initiative was to have an efficient and effective banking industry that could guarantee rapid economic growth and development for the entire nation. But the current global economic crisis, which started as financial crisis in America and Europe and later spread to other parts of the world, has eroded the confidence of depositors, investors and the general public. The Nigerian Stock Market (NSM), which is supposed to function as fund buffer, was not left out of the crisis.

Financial crisis refers to a condition in which financial institutions experience a rapid depression as a result of scare on the banks. This situation leads to disposal of assets and mass withdrawal of money from their accounts due to the belief that the value of these assets will depreciate if they are left in care of the financial institutions (Investopedia, 2014 and (Pstebayeva, 2012) This definition is further substantiated by (Kindleberger & Aliber, 2005) as they assert that the term “financial crisis” is applicable to a range of circumstances in which the nominal value of some financial assets suddenly depreciate. In the same manner, (Onyukwu, 2009) appropriately describes financial crisis as a condition in which some financial institutions or assets suddenly experience a drastic run-down of their value. These situations according to them were often associated with banking alarms, stock market crashes, currency crises, sovereign defaults as well as the bursting of other financial bubbles.

However, before a situation such as a financial crisis that originated within a local construct can become global in nature, there has to be some level of mutual interaction and interdependency between countries and nations in general. In recent interviews by (Naude & Sen, 2008) in (Shah, 2008), it was revealed that, the complex economic linkages between different countries has created a framework for interdependencies between all nations. It was observed that countries of the world have over thousands of years progressed through travel, trade, migration, spread of cultural differences and dissemination of knowledge and understanding. This interdependency is premised on the concept of globalization which involves increase in flow of capital, goods, resources and knowledge across national divides in order to create a sustainable and complementary sets of organizational structures to manage the expanding network of international economic activities and transactions (Alcorta & Nixson, 2011).

Statement of problem

The current global economic crisis started as a financial crisis in the United State of America in 2007. It has it root in credit reduction in the banking sector due to certain laxities in the US financial system. The crisis later spread to Europe and now has become a global phenomenon. The financial crisis at the early stage manifested strongly in the sub-prime mortgages because households faced difficulties in making higher payments on adjusted mortgages (Soludo, 2009). This development led to the use of credit contraction by financial institutions in the US to tighten their standards in the light of their deteriorating balance sheets. In addition, financial institutions stopped lending and recalled their credit lines to ensure capital adequacy (Aluko, 2009). Since the use of credit contraction by foreign banks began, the Nigerian banking system has seriously been entangled in a financial crisis. At the moment, the banks are unable to carry out their statutory functions in the Nigerian economy. In addition, the crisis has eroded the confidence of the general public in the entire Nigerian banking industry. This research study therefore will examine the effect of the current global financial crisis on the Nigerian banking industry. Data from both qualitative and quantitative sources will be used to gain an insight understanding and knowledge of the Nigerian banking industry.

Significance of the study

This study amongst other reasons is being conducted with a view to determine the transmission channels of the global financial crisis. With this, policy makers and regulatory agencies/bodies in the country would be well equipped to guard and guide against future occurrence. Therefore, this study is highly significant now because it would help to proffer measures, critically analyze and identify sustainable strategies that would be adequate to manage any future occurrence.

RESEARCH QUESTIONS

For proper investigation of the subject matter, the following research questions are used to guide the researcher

1. What are the causes of this global financial crisis?
2. What are the effect on the banking sector of our economy?

Scope of the study

The research is meant to study the effect of global financial crisis on Nigeria especially the banking industries of the economy. Some selected banks in Nigeria will guide us to achieve that.
This study is limited to Access bank plc and First bank all operating in Nigeria banking industries of the economy.

Limitation of the study

Though the study is focused on the Nigerian Banking, conduct of a comprehensive research to determine the effect of the global financial crisis on the banking industry is an enormous task.
Therefore, the researcher is employing the qualitative approach to research

CHAPTER TWO

LITERATURE REVIEW

This chapter reviewed related literature under the following sub-headings:

- Conceptual framework
- Theoretical framework
- Empirical Review
- Summary of Literature Review

Conceptual framework

Financial Crisis

Financial crisis is an unexpected fall in the worth of financial assets or in financial organizations in charge of the assets. A financial crisis may be initiated by series of circumstances, but the circumstance is mostly caused by unfavorable investments. This crisis usually brings about unpalatable cycles which cause investors to be discouraged from investing. It further brings panic to other investors and causes them to also withdraw their money and generally causing declines in asset values, (Yusuf, 2013). Financial crisis is also connected to various settings whereby some financial establishments or assets unexpectedly default in their worth, (Adamu 2010). Sanusi (2010) in his own view explained that financial crisis is a juncture where all financial system and markets unexpectedly becomes wrecked to the point where it may totally fail. Therefore, a financial crisis can be simply put as a situation where there is a huge loss in the value of a financial institution which may result in investors wanting to sell off all their assets. The global financial crisis in 2008 had a great impact on the global economy at large.

This unfavorable situation had been developing over the years but the consequence was largely felt in 2008. All over the globe, stock market values have largely declined with big financial institutions greatly falling or being sold off except for wealthy countries which have no choice than to save some of these big institutions from crashing so as to protect their finances. On the contrary, it is often argued that the institutions rescued are the major cause of the crisis. Moreover, the global financial crisis certainly will affect everyone as the world progressively turns to a global village, (Anup, 2013). In the early period of the financial crisis, there was a popular notion that the effect of the crisis on Africa nations would not be felt as much as imagined. African nations had little interconnection with complex financial products. Nonetheless, Ramlall (2009) disagreed with this by giving an example of the stock markets of Mauritius- a developing Africa country which had come to be more responsive to the dynamism in the international stock markets. Moreover, he referred to the situation in which foreigners decreased their investments during the crisis and the impact felt on the weakened international portfolio. Notwithstanding, as the crisis kept on progressing resulting to an economic downtrend, the risk could also rise even as the banking sector is still susceptible to income decrease, debt servicing and low funding potentials together with the challenges encountered by other sectors which are the main support to the economy.

According to Unugbro (2010), global financial crisis is a disturbance to the financial market that disrupts the market capacity to allocate capital with financial intermediation and investment consequently grinding to a halt. It occurs when there is a disorderly contraction in money supply and wealth in an economy. Such crisis is often demonstrated by a credit crunch which occurs when participant in an economy lose confidence in having loans repaid by debtors (Marglin, 2007). The global financial crisis did not happen in a vacuum, it was as a result of consumers agreeing to over extend their available resources which was miss-calculated or forecasted by financial experts (Osaze, 2010). The financial meltdown became prominently visible in September 2008 with the failure, merger or conservatorship of several large United States-based financial firms (Osaze, 2010). According to Torbat (2008) responded that with failures of large financial institutions in the United State, it rapidly evolved into a global crisis resulting in a number of European bank failures, declines in various stock indexes, and large reductions in the market value of equities and commodities worldwide. The leading was in the third quarter of 2007 when banks like UBS and Merill Lynch released their second quarter result and huge losses were revealed arising from asset base securities linked to subprime loans. But sometime around September 15, 2008 the day Lelunan Brothers went under and Merill Lynch disappeared-the containing well around Wall Street disintegrated and toxicity began leaking into the global financial system. Accordingly, Jickling (2008) common view is that disruptions in financial markets rise to the level of a crisis when the flow of credit to households and business is constrained and the real economy of goods and services is adversely affected. The term financial crisis is applied broadly to a variety of situations in which some financial institutions or assets suddenly lose a large part of their value. However, the online business dictionary defines financial crises as a situation in which the supply of money is out paced by the demand for money. This means that liquidity is quickly evaporated because available money is withdrawn from banks (called a run) forcing banks either to sell other investment to make up for short fall or to collapse.

Major Causes of Financial Crisis:

The main literature specifies causes of financial meltdown will be briefly looked into as follows:

Mismatch on Assets and Liability

This is a situation in which the risk associated with institutions' debt and assets were not appropriately aligned. This mismatch can be seen in the use of short term commercial banks deposit to finance long term loans to business and home owners. In the international context, emerging nations get involved in asset-liability mismatch when they are unable to sell bonds denominated in their own currencies and therefore sell bonds denominated in dollars instead. Thus, generating a mismatch between the currency denomination of their liabilities (their bonds) and their assets (their local tax revenues) so that they run a risk of sovereign default due to fluctuations in exchange rates.

Regulatory Failures

Some financial crises have been blamed on insufficient regulation and have led to changes in regulation in order to avoid a repeat while excessive regulation has also been cited as a possible cause of financial crises. While insufficient regulation was blamed for the 2008 financial crises, excessive regulation has been cited as a possible cause of Financial Crunch.

Uncertain Herd Behaviour

High profiles of financial crises seem to be driven by the herd behavior and the mentality of the investors who follow the investment decisions of another investor who seem to have profiled from a particular investment. Then still, more others may follow their example, driving the price even higher as they rush to buy in hopes of similar profit. Such herd behavior causes prices to spiral up far above the true value of the assets, and thus, a Crash may become inevitable. If for any reason, the price briefly falls, so that investors realize that further gains are not assured, the spiral may go into the reverse, with price decrease causing a rush of sales, reinforcing the decrease in prices.

Strategic Complementarities

Strategic complementarities is a guessing what other investor will do. In many cases investors have incentives to coordinate their choices. An example is given of someone who thinks whenever other investors want to buy lots of U.S Dollars he may expect the Dollar to rise in Value and therefore has an incentive to buy Dollar too. Likewise a depositor in a bank who expects other depositors to withdraw their funds may expect the bank to fail, and therefore has an incentive to withdraw too. Economists call an incentive to mimic the strategies of other investors' strategic complementarities.

Fraudulent Acts

Empirical finding has shown that fraud is one of the ways financial upheaval can come to place, owing to the role it has played in the collapse of some financial institutions. Typical cases of fraudulent financial practices that have the propensity to precipitate financial crises includes situations when companies attract depositors or investors through misleading claims about their investment strategies or false picture about company profile and/or financial performance indicators and then embezzling the resultant income from investment. Some examples of financial fraudulent practices that had devastating effects includes, the Charles Ponzi scam in early 20th Century in Boston, the collapse of the MMM investment fraud in Russia in 1997, as well as the collapse of Madoff Investment Securities in 2008. Many fraudulent market participants have been known to engineer large losses at financial institutions in order to cover up some questionable conduct or illegal acts. In the same vein Mortgage financing were also used to perpetuate financial fraud said financial Analysts, (Federal Bureau of Intelligence (2008).

The 2008 subprime mortgage crises were attributed to fraudulent Acts. Anao & Osaze (1999) also iterated that fraudulent acts cause corporate failure when individuals entrusted with the funds of a company misappropriates such funds for their own benefits and to the detriment of the company. It is pertinent to mention that while the collapse of a company is not the same thing as a financial crisis in a wider context; the collapse of financially influential company may create uncertainties in many others in the industry and thus lead to the possibility of financial crisis.

Leverage Tendency

Leverage which involves borrowing to finance investment is frequently cited as a contributor to financial malpractices which results to crises. When a financial institution, an individual or any business organizations borrows in order to invest more, it can potentially earn more from its investment, but it can also lose more than all it has. Therefore, leverage magnifies the potential returns from investment, but also creates a risk of bankruptcy. It has been noted that the average degree of leverage in the economy often rises prior to financial crises.

Contagion Ideas

Chari & Kehoe (2004) refers to contagion as an idea that financial crises may spread from one institution to another or from one country to another, as when currency crises, sovereign defaults or stock market crashes across countries. A systemic risk results when the failure of one particular financial institution threatens the stability of the Thai crises in 1997 to other countries like South Korea. However, a major issue that has been the subject of debate among financial and economic experts is whether the outburst of crises in many countries around the world at the same time is, truly a consequence of contagion issue from one market to another, or whether it is, instead, caused by similar underlying problems which would have affected each country individually even in the absence of international linkages.

Recessionary Tendency

According to Adrian & Chin (2008), recession refers to a difficult time for the economy of a country when there is less trade and industrial activity than usual. It is the movement backwards of something from a previous position. Thus economic recession can be conjectured as the movement from an optimum position of a general economic indicator to a less than optimum position.

Effect of Global Financial Crisis on Nigerian Finance Sector

Prior to the effect of global crisis on the banking sector of Nigeria, the banks had gone through series of modification and restructuring policies introduced by the Nigerian government. The modification gave banks many confronting issues. Some of these confronting issues include level of return on investment, human capital integration and recapitalization among others (Peter, 2009). Sanusi (2012) claimed that before the global financial crisis, there were exactly 89 banks in the country with 3,282 branches. Many of those banks were with low capital base and poor asset quality that were not acceptable. He further claimed that majority of the banks were illiquid and insolvent simultaneously with adverse cases of non-compliance to professional ethics. There were inadequacies in corporate governance as well as reliance on low production of credits which altogether could not enhance economic development.

Theoretical framework

Learning and Herding Models

According to Banerjee (1992) many models seek to explain the position of asset values and iterated that the asset value may spiral excessively up or down as investors learn from each other.
Banerjee noted that purchase of an asset by a few agents often prompts other buyers to invest in that same asset, and not because the true value of the asset actually increases during buying periods, but because investors come to believe that the true value of the asset is high when they observe others purchasing them. Banerjee call the later," Strategic complementarily" which he refers to "these models that seek to explain asset value by a few agent".
Accordingly, Chari and Kahoe (2004) fined that an important fact about Herding Models is that investors although fully rational, only have access to partial information about the economy. In this model when a few investors buy some type of assets, it implies that they have some Positive information about that asset and this increase the rational incentive of others to buy the asset too. The duo noted that although this is a fully rational decision, it may sometimes lead to mistakenly high asset values and a subsequent market crash, given that the first investors may, by chance have made a mistake. According to Cypriani and Guarino (2008) in adaptive learning or adaptive expectations models, investors are assumed to be imperfectly rational, basing their reasoning on recent experience only. On the basis of such reasoning if the price of a given asset rises for some period of time, there is a tendency for investors to believe that its price always rises. Consequently, their tendencies to buy increase and thus drive up the price further. By the same token, observing a few price decreases may give rise to a downward price spiral. However, in a model of this kind, large fluctuations in asset prices may occur on the basis of adaptive learning expectations.

In his words, Unigbro (2011) observed that financial repression (meltdown) is correlated with sluggish growth in developing economies. Osaze (2011) further asserted that such economies are characterized by high and volatile inflation and distorted interest and exchange rate structures low savings and investments and low level of financial intermediation. Financial deepening which runs counter to financial meltdown implies the ability of financial institutions to effectively mobilized savings for investment purposes. Nnanna and Doga (1998) purported that financial deepening represents a system free from financial repression (meltdown). Their findings established the fact that negative real interest rates did not encourage greater investments but rather encouraged the bank to be more risk averse and more hesitant to lend.

Minsky and Marxist Theories

In Minsky and Maxist theories separate opinions, Osaze (2011) hold that Hyman Minsky proposed a post-Keynesian explanation that is most applicable to a closed economy. In their relatives, financial fragility is a typical feature of any capitalist economy and that the degree of fragility has implication for the occurrence of a financial crisis. He iterates that high fragility leads to a higher risk of a financial crisis. Minsky further identified three approaches to financing which firms may choose, depending on their tolerance of risk. They include, Hedge Finance, where income flows are expected to meet financial obligations in every period, including the principal and interest on loans; Speculative Finance, in which a firm is expected to roll over its debt because income flows are expected to cover only interest costs, with none of the principal paid off, and Ponzi Finance, where expected income flows will not even cover interest cost. Furthermore, the firm is forced to borrow more or sell off assets in order to service its debt with the hope that either the market value of asset or income will rise high enough to pay off interest and principal.

Empirical review

Olaniyi and Olabisi (2011) assessing the causes and impact of global financial crisis on performance of Nigerian banks adopted the performance ordinary least square method of multiple regressions for testing the variables. They employed the F- test in testing hypothesis. They used secondary data, which comprises of data relating to loans and advances, customers deposits and investment in securities. The findings from their study revealed that the global financial crisis had a negative impact on the performance of Nigeria's banks despite high liquidity possessed by these banks. They recommended that banks should desist from financing other banks investments in securities to avoid multiplier effect syndrome while Nigeria's government should find alternative ways to fund their budget deficit.

Ande (2014) while evaluating the impact of global financial crisis on a developing economy (an instrumental variable approach) used secondary data obtained from World Bank indicators and the national bureau of statistics. He used the Zivot Andrew test to check the strongest point of the structural growth and instrumental variable regression to test the significance of the crisis. The results suggested that 2009 was the structural breakpoint using Zivot Andrew test and he further opined that the global financial crisis affected economic growth, consumption and investments negatively but its significance was only on investments and not significant on consumption and gross domestic product (GDP).

Study by Ajibade (2014) showed that crude oil and stock prices were both increasing before the crisis and decreased during and after the crisis. It was also observed that the inflation rate was increasing. He recommended that Nigeria should adopt a sustainable planning framework characterized by long term perspective plan on the annual budget and the government should put policy intervention to track certain structural reforms to mitigate the impact on the real economy which will boost demand and reduce inflationary pressure.

Study by Augustine et al. (2010) found that the Nigerian capital market was seriously hit by the crisis. The prices of shares in the market nose-dived and investors lost huge sums of money. The crisis also crept into banking sector as a result of excessive expo-sure to the capital market and oil sector. They employed statistical tools such as the simple random technique and chi-square for analysis. From the findings from their study, they recommended that the capital market regulator must undertake swift reforms, which will restore public confidence and protect investors. They noted that further neglect of capital market has the implication of stifling the long term ends of the financial system, which will make the financial system atrophied, thus hindering economic growth. Result of finding by Ashamu and James (2012) showed that the financial crisis has caused depression in Nigeria capital market and drop in the quality of credit extended by banks for trading in the capital market, exchange rate risk, tightening of liquidity, greater loan –loss provisioning, slower growth rate of banks balance sheet in response to the crisis and higher provisioning of lending to lower profitability among others. It was recommended that the federal government should implement the 7 point agenda, put up proactive measures to conserve the foreign reserves and timely injection of liquidity into banking system.

According to Ngwube and Ogbuagu (2014) the economic crisis provided an opportunity and rational to move more quickly to address overdue reforms in areas as diverse as financial regulation and public sector improvement in the Nigeria economy. In their contribution, Omike and Amana (2013) found that there was co-integration between the consumption of the economic unit and significant dispersion from the economic growth. They recommended that federal government should give out aid packages to banks to improve their liquidity positions, which would ultimately transcend to other corporate and private entities of the economy.

Peter (2010) evaluating the impact of the global financial crisis on the Nigeria banking sector found that the global financial crisis manifested strongly in liquidity crisis due to the withdrawal of credit lines by foreign banks. The findings also revealed that lend-ing and deposit rates have increased since the global financial crisis began. He recommended that the Nigeria government should find alternative ways to fund her budget deficit so as to reduce the pressure of financing projects in real sector of the Nigerian econ-omy by banks.

Adamu (2009) found that the global financial crisis had caused decline in export, lower portfolio and FDI inflows. It was recommended that the federal government should come up with intervention policies that will minimize these effects and kick-start the economy. It also recommended that business operators should learn to use resources at their disposal to develop and expand at manageable level to stem from the tide of crisis.

Floro et al., (2010) assessing the impact of global economic crisis on women's well-being and empowerment used questionnaire to source for information. The result of their findings showed that the global financial crisis is having harsh and multidimensional effects on women in the developing countries. They recommended that government actions should become more gender aware, unless they may even worsen gender inequalities, leading to further disempowerment of women.

Chaudbury (2011), examined the behavior of stock prices using daily returns of thirty one major US stocks and S and P 500 over the 2007/08 periods. The results of the analysis showed that unconditional mean daily returns fell to negative levels, unconditional volatility surged more than 200%. Correlation between stocks weakened, and the risk reduction benefit of portfolio diversification rose.

Ladislav (2013) examining the fractal markets hypothesis and the global financial crisis used the continuous wavelet transform analysis and the valet power spectra which gave crucial information about the variance distribution across scales and its evolution in time. The result of the analysis showed that fractal market is thus able to describe events of global financial crisis in a more satisfying way than the main-stream efficient market hypothesis.

Lunogelo et al. (2009) assessing the global financial crisis in Tanzania, the effects and policy responses gave a snap shot of the economic, financial and social effects of the current global down turn and summarized the policy responses at national level to res-cue the economy from eroding the past achievements reached. Some of their policy responses include a two-year economic res-cue plan which was instituted (for FY 2009/10 to 2010/10). Secondly to apply for a loan amounting to USD 336 million from the IMF under the exogenous stock facility (ESF) to fill the gap in the balance of payment. Furthermore, under the central bank of Tanzania, the government has intensified surveillance of both domes-tic and international capital financial market to oversee the performance of all financial institutions.

Laura & Maggie (2010) in their study examined the differential response of establishment to the global financial crisis with particular emphasis on the role of foreign direct investment in determining micro channels through performance. They explored three distinct channels through which FDI affects establishment performance; production linkages, financial linkages and multinational networks. The result of the analysis showed that while multinational owned establishment performed on average batter than their local competitors, there is considerable heterogeneity in the role of FDI. First, multinational located in countries that experience sharper declines in aggregate output, demand and credit conditions displayed a greater advantage over local firms. Secondly multinationals that engaged in activities with vertical production linkages or stronger compared to local firms. Finally, being part of a large multinational network also led to superior economic performance.

CHAPTER THREE

METHODOLOGY

Research design

The study adopted ex-post-facto type of survey research design in gathering the required data. Kellinger (1970) defines ex-post-facto-research as that in which independent variable or variables have already occurred and in which the researcher starts with the observation of a dependent variable or variables. That is, the researcher is thus examining retrospectively the effects of a naturally occurring event or a subsequent outcome with a view to establishing a causal link between them. In this study, using Kerllinger's view point, it is assumed that the productivity (independent variable) of academic lecturers is assured (certain) if the dependent variables (of motivation, environment and demography) are properly monitored controlled and moderated.

SOURCES OF DATA

For this research to be effective and successful, information about the topic must be available and at the same time reliable. However, during the course of data collection, facts both past and present were taken into cognizance. A combination of desk research and oral interview methods were employed in obtaining information from the stockbrokers and investors selected for the study. Data source were classified into primary and secondary.

Primary Sources: Primary data, which are firsthand information obtained directly from respondent (through questionnaire), were gathered for this research work to gain an insight into the research topic. Personal interviews were equally carried out especially with officials of the banks under study. Expert opinions on the subject matter were also gathered through oral interviews.

Secondary Sources: The secondary data for the study was extracted from the following sources: textbooks, business journal, newspapers, internet, annual reports and accounts of the Nigerian Stock Exchange and past works relating to the subject topic.

AREA OF THE STUDY

This study was carried out in Agege and Alimosho all in Lagos State.

POPULATION OF THE STUDY

A population is made up of all conceivable elements subjects or observation relating to a particular phenomenon of interest to the research subject. The population of the study is made up of all the institutions. The sample of the study is banking industries in Nigeria

DESIGN AND ADMINISTRATION OF QUESTIONAIRE

Taken into cognizance of the difference in assimilation of various respondents, the questionnaire was designed in a very simple way to ensure ease of answers. Also, some of the questions were designed in such a way that gave room for the respondents to answer in the affirmatives, “Yes, No or No Idea”.

SAMPLE SIZE DETERMINATION

In determining the sample size, two factors were put into consideration.

a) The larger the sample size, the more adequate, qualitative and precise will be the information given about the population logically.

b) Above a certain size, extra information is given by increasing the size. Given the above factors, the researcher was of the opinion that a sample size need only be large enough to reasonably represent the population. In view of this, 50 persons were initially used for a pilot study. The need for pilot programme was to determine the willingness of the respondents in attending to the questionnaire. The effect was that (39) thirty nine out of the 50 were willing to respond while 11 were unwilling, thus given in percentage as follows:

$$\frac{39}{50} \text{ X } \frac{100}{1}$$

= 83%, while 17% declined

In determining the sample size therefore, the formula as given in Asika (1991:59) will be adapted at 5% confidence level.

Thus, $Ns = \frac{Z2\times p\ \times q}{e2}$

Where

Ns = Sample size

Z = Constant value (1.0462)

p = positive response

q = negative response

e2 = Tolerable error

Therefore, $Ns = \frac{(1.0462)\times 0.83\ \times 0.17}{(0.05)2}$ = 60

SAMPLING TECHNIQUE

The researcher adopted the random sampling technique in order to avoid bias. The population however, shows that a good number of those who have a stake in the Nigerian Stock Exchange were virtually present for valid conclusion purpose of this work.

Validity and reliability of instruments

The purpose of validation is to determine the extent to which the instruments measure what they are expected to measure (Nworgu, 1991). The instrument had gone through face validity check by the researcher's supervisor. Their criticisms on the instruments and the conceptual model have helped to improve the work so far.

Moreover, the advice of statisticians and system analysts were sought to improve the face validity of the instrument. Content validity was also enshrined through the conduct of a trial test (pilot study) which was conducted in two private institution of higher learning.

Reliability of Instrument:

Chi-square test can be defined as a goodness of fit test used to determine whether a significant different exit between an observed (or actual) number of objects, subject or responses. Falling in each category and expected number based on the null hypothesis. Chi-square is the best analytical tool used in social sciences since the research deals with human beings and their actions.

Since human beings are involved in this research, the most reliable statistical method of analysis as the chi-square which is used to test the hypotheses.

METHOD OF DATA ANALYSIS

The collected data were analyzed in tables and percentages, while the hypotheses were tested using the chi square technique. It's thus applied as follows:

$$x^2 = \frac{(O-E)2}{E}$$

Where,

x^2= Chi square calculated

O = Observed frequency

e = Expected frequency

Source: (Ayanwu, 2000)

Consequently, a significant level of 5% was applied while the degree of freedom was ascertained by:

Where,

d.f = (m-1)(n-1)

d.f = degree of freedom

m = number of rows

n = number of columns

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

INTRODUCTION

In this chapter, the data collected are analyzed and interpreted for valid conclusion purpose of this work. Recall also that in the first chapter of this study, two hypotheses were formulated in the null format. However, in this chapter, both the null and alternative hypotheses shall be considered using the Chi-square analysis as earlier stated.

PRESENTATION AND ANALYSIS OF DATA:

Presentation of data:

the responses of the sample surveyed from the questionnaire used, and trust of observation made from this study are summarized in tables as we progress.

Data Analysis:

This refers to the segregation of data into parts with relevant comments and best of judgments. In other words, it means breaking down and putting in order, the qualitative information gathered through the research exercise. It also involves comparing and contrasting the events, patterns and relationships. As earlier stated in chapter three, the data collected for this study are carefully analyzed in simple percentage and tables, while chi – square statistical technique was used to test the hypotheses. The following are the questions and responses in the questionnaire.

Table 4.1: Responses as to the sex of respondents

SEX	RESPONSES	PERCENTAGE
FEMALE	35	60
MALE	25	40
TOTAL	60	100%

Source: Field Survey, 2019

From table 4.1 above, 35 respondents representing 60% were female, while 25 representing 40% were male. It's obvious here that greater percentage of the respondents were female.

Table 4.2: Respondents answer on causes of global financial crises on Nigerian banking industries.

CATEGORY	DISTRIBUTION	PERCENTAGE
YES	38	63.33
NO	22	36.67
TOTAL	60	100

Source: Field survey, 2019

From the above data, 38 (63.33%) of the respondents were of view that there any significant relationship between the global financial crises and the position of Nigerian banks before the crises, while 22 (36.67%) declined.

Question One: How has this economic meltdown affected your bank?

Table 4.3: Responses on whether the global financial crises affected negatively on the Nigerian banking industries.

CATEGORY	DISTRIBUTION	PERCENTAGE
YES	46	76.67
NO	14	23.33
TOTAL	60	100

Source: Field survey, 2019

From the above responses, 76.67% of the respondents say that the global financial crises impacted negative on the Nigerian banking industries while 23.33% hold a contrary opinion.

TEST OF HYPOTHESES

Predominantly, before testing these hypotheses, it’s very important to note that:

a) The greater the value of the calculated chi-square, the lower the chance of its occurrence.

b) The probability of chi-square of any given figure depends upon the number of degrees of freedom.

In consideration of the above, the chi-square computation method is thus shown below.

Expected frequency (E) = $\frac{R\,XC}{G}$

Where:

R = Total on each row

C = Total on each column

G = Grand total In other words,

Expected value = $\frac{Row\ Total\ x\ \ Column\ Total}{Grand\ Total}$

While, Xc2 = $\frac{\sum(O-E)2}{E}$

Degree of freedom (d.f) = (m-1)(n-1)

Where,

m = number of columns

n = number of rows

Decision Rule

If Xc2 > Xt2, reject Ho and accept H1

If Xc2 < Xt2, accept Ho and reject H1

Where,

Xc2 => Chi-square calculated

Xt2 => Critical value or Chi-square tabulated

TEST OF HYPOTHESIS 1

Ho2: There is no significant effect on the global financial crises of Nigerian banking industry.

Ho2: There is a significant effect on the global financial crises of Nigerian banking industry.

Table 4.4: Observed frequency.

CATEGORY	DISTRIBUTION	PERCENTAGE
YES	46	76.67
NO	14	23.33
TOTAL	60	100%

Table 4.5: Contingency table

Variable	Oi	Ei	Oi - Ei	(Oi- Ei)2	$\frac{(Oi - Ei)2}{Ei}$
YE	46	30	16	256	8.53
NO	14	30	-16	256	8.53
TOTAL =2	60				17.06

Xc2 = 17.06, while Critical value = 3.841

Decision: From the chi-square computed above, it is observed that the computed value of Xc2 is greater than the critical or table value at d.f = 1, thus, we accept the alternative hypothesis, which says that financial crises has effect on Nigerian banking industries.

TEST OF HYPOTHESIS 2

Ho2: There is no significant relationship between the global financial crises and the Nigerian banking industry before the crises.

Ho2: There is a significant relationship between the global financial crises and the Nigerian banking industry before the crises.

Table 4.6

: Observed frequency

CATEGORY	DISTRIBUTION	PERCENTAGE
YES	38	63.33
NO	22	36.67
TOTAL	60	100

Source: Extracted from Table 4.4

Table 4.5: Contingency table

Variable	Oi	Ei	Oi - Ei	(Oi- Ei)2	$\frac{(Oi - Ei)2}{Ei}$
YE	38	30	8	64	2.13
NO	22	30	-8	64	2.13
TOTAL =2	60				4.26

Decision

Based on the computed value of Xc2 = 4.26 and the table value of 3.841 at d.f = 1, we reject the null hypothesis and accept the alternative hypothesis which says there is a significant relationship between the global financial crises and the Nigerian banking industry.

CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATION

In this chapter, summary of findings, conclusion and recommendation will be enumerated. The sub areas of the chapter are made up of the following.

Summary of findings
Conclusion
Recommendation
Limitations of the study
Suggestion for further research

5.1 SUMMARY OF FINDINGS

The global financial crisis affects depositors' funds and confidence in the Nigerian banking sector. The effect negatively impacts on the credit quality of commercial banks. This is evidenced on the responses in table 1 with 46 or 76.6% of the respondents strongly agreeing to it. The study noted slower growth rate of banks balance sheet in response to the crisis with higher provisioning, leading to lower profitability. This in effect led to greater loan loss provisions due to capital market exposures and decline in growth of economic activities.

On the causes of the global financial crisis, the study noted that inability of insurance companies to pay for claims on banks delinquent loan does not contribute to the global financial crisis. This is shown by the responses of majority of the respondents representing 38 or 63.33% disagreeing to that as stated on table 2.

The study further notes that the global financial crisis is occasioned by banks imprudence, too high/excessive compensation packages to banks executives, reckless bank lending, lose regulatory regimes and several unregulated financial markets and products. In determining the solutions to the global financial crisis, the study observer that sound regulatory framework, interventions by the government, prudence and cost management initiatives, drastic reduction of compensation packages for banks executives and constant monitoring of operations would contribute in finding solutions to the global financial crisis.

5.2 CONCLUSION

There is no gain saying the fact that Nigerian economy is not immune to the current global economic meltdown Nigerian economy as a sub-system of the global economy is witnessing what other sub-systems (other nations-economy) are experiencing.

But from the findings of the research, it shows that Nigerian banks for now can still withstand the global meltdown as a result of the last consolidation of the banks carried out previously.

Nevertheless, the effect cannot be totally avoided, efforts should be made to reduce it to the bearest minimum.

5.3 RECOMMENDATIONS

Having seen the findings of this research, the following recommendations are postulated to help reduce the problem and prevent future occurrence.

1. The economy of the country should be diversified this will ensure the development of other sectors of the economy and more Nigerian away from being a mono-economy.

The activities of the commercial banks in Nigeria should be adequately checked to present mismanagement such as lending money to friends and relatives without securities

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