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THE EFFECT OF RECAPITALIZATION ON THE PERFORMANCE OF DEPOSIT MONEY BANKS IN NIGERIA.

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ABSTRACT

This study evaluates the effect of recapitalization on the performance of deposit money banks in Nigeria, (2001 - 2015).The specific objectives were to establish the effects of total Assets on banks performance, to ascertain the effect of shareholders' fund on banks performance and the effect of CAR on the performance of banks.The study employed secondary data obtained from NDIC annual reports. The data were analyzed using the Ordinary Least Square (OLS) regression analysis which was performed after the test of stationarity. The key findings showed that recapitalization policy has significant and positive effect on deposit money banks performances in Nigeria which have enhanced their potential to fundbigger project, higher shareholders' returns, increased financial deepening, increased foreign investment and build public confidence. This research work concludes that bank recapitalization positively influence the profit maximization of the deposit money banks in Nigeria. It was recommended that the regulatorybodies in Nigeria should use banks recapitalization as policy for intensifying the economic responsibilities of banks in the diverse region of the nation.

Keywords: Recapitalization, Performance, Stationarity, CAR, NDIC and OLS.

INTRODUCTION

The concept of recapitalization is a world-wide practice which was also adopted in Nigeria as a means of rescuing the collapse of the banking industry through the initiation of diverse reform programs.Banking reforms refer the changes or shifts in deposit money bank structure which is bindingon them by the regulatory bodies. It has been a usualepisodeboth in emerging nation and developed world since 1980. In Nigeria, thestructural adjustment programme (SAP) which was established in 1986 brought about the 1987 reduction of government powers in major sectors of the economy and opened the way for a high level competition and uncontrolled expansion especially in the financial industry. This has been attributed to the provision of incentives in terms of size and number of banks in operation [1].

Consequent upon this era of deregulation, coupled with political instability and financial policies defects, the Nigerian banks witnessed a lot of challenges in the areas of unethical practices, poor performances and decline in profitability. According to Aregbeyen et al (2011), [2], banks started taking excessive risks which led to frequent bank failures and related financial shocks in the economy, in a bid to survive and maintain adequate profit level in the ensuring political and policy instability in the Nigerian economy. They maintained that the major reform programme of central bank of Nigeria (CBN) in July 6, 2004, was to help the deposit money banks in Nigeria to drastically decrease their cost of operation and boost their competitiveness both locally and globally.

At the time of this Recapitalization, Nigeria had eighty nine (89) banks which later came down to twenty five (25) because of the demand for mandatory minimum capital requirement of twenty five billion naira (₦25bn) for a bank, as against the initial two billion naira (₦2bn). Apart from the belief that the recapitalized banks would be strong, sound and reliable, it was expected that the newly emerged banks would increase customer’s confidence, increase profitability, increase performance and of course increase the returns (dividends) to the shareholders.

The evidence that so many banks in Nigeria were distressed became more open or visible with increasing long queues at many banking halls across the country; persistent illiquidity, inability to pay bills and cheques on short notice, inability to grant loans coupled with obvious growing indebtedness and incessant lay-off of staff.Consequently, the responsibility was on the Central Bank of Nigeria to bring sanity to this once thriving industry and restore public trust and confidence on banks' ability to secure customer's deposit, grant loans and advances without hindrance, as well as reduce the stress of waiting endlessly on queue in the bank to cash cheques. Adegbaju and Olokoyo (2008), [3], while commenting on this deplorable situation, stated that, Banking sector reforms and recapitalization have caused deliberate policy response to impact on apparentbanking industry crisis. They added that the major causes for bankfailure include weakness in banking method as a resultcontinual illiquidity, increasing rate of non-performing loans, insolvency, insufficient capitalization, feeble corporate governance among others.

The Central Bank of Nigeria (CBN) recent banking reforms were justified when Soludo (2004), [3], as cited by Nwankwo (2013), [5], identified that illiquidity, poor asset quality and unprofitable operations are the major problems facing most of the banks in Nigeria. He decried the situation whereby the deposit money banks in Nigeria depended largely on government. Such dependence renders the banks resources inadequate to add to the development of the financial industry reforms.The main purpose of the banking sector reforms was captured in Soludo (2005), [6], when he suggested that the reforms will increase intermediation process, ensure financial sector stability, promote economic growth, increase the capital base of banks, enhance liquidity and capitalization of stock market, enhance expansion of shareholders base to promote good corporate governance, facilitate evolution of strong and safe banking system, ensure efficiency in risk management and to ensure healthy domestic and cross border competition. Therefore, the major purpose of this study is to evaluate the effect of recapitalization of Nigerian banks on their performances.

METHODOLOGY

Research design is a plan that depicts the strategies and direction to be followed in carrying out a research work. The research was carried to evaluate the effect of recapitalization on the performance of deposit money banks in Nigeria. The research design adopted was ex-post facto. According to Asika (2005), [7], who highlighted the importance of an *ex post* facto research states that it provides a systematic and empirical solution to research problems, by using data which are already in existence.

The study therefore, employed secondary data which were obtained from the NDIC annual reports and spans a period of fifteen years from 2001 to 2015. This data over this period will be used to determine the effect of recapitalization on financial performance of deposit money banks.

The criteria for the variables and model utilization in this study were based on well-known theoretical associations, their use in past studies alongside with data availability.

The Ordinary Least Square tool was employed to analyze the behavior of the focal variables. Koutsoyiannis (1985), [8], Wannocott and Wonnocott (1972), [9] and Nyong (1993), [10], as cited in Alajekwu and Obialor (2014), [11], emphasized that the Ordinary Least Squares Theorem is the Best Linear Unbiased Estimator (BLUE), thus the multi-linear relationship specifiedin the symbolic form below was adopted to elucidate the effect of recapitalization on bank performances.

$PBT_t = f\ (SHF, CAR, TA)_t$ ………………………………………………………………(1)

Where;

PBT = Profit before tax

SHF = contribution by shareholders fund

CAR = contribution by capital adequacy ratio

TA = contribution by Total Asset

f = Functional Relationship

The econometric form of the equation (1) is represented as:

$PBT_t = \beta_0 + \beta_1 SHF_t + \beta_2 CAR_t + \beta_3 TA_t + \mu it$……………………………………… (2)

TESTING FOR STATIONARY

A variable is seen to be non-stationary if its calculated value is less than the critical value hence the justification for the existence of a unit root. On the other hand, a variable is considered stationary if its calculated value is higher than the critical value and this confirmed the absence of unit root. Hence, before running the regression analysis, the properties of the time series were checked for unit root problems using the Augmented Dicky Fuller (ADF) test statistic and the result of the test are presented in the table below:

Table 1: Analysis of Stationarity Test

	Test Critical values					
Variable	**1%**	**5%**	**10%**	**ADF**	**Status**	**d(y) ADF**
PBT	-1.520087	-1.522067	-1.600263	-1.200154	1(1)	-5.638381
SHF	-1.453638	-1.437532	-1.510293	-1.213422	1(1)	-4.535738
CAR	-1.175234	-1.056263	-1.057859	-1.020332	1(1)	-4.101817
TA	-1.123407	-1.221623	-1.238387	-0.726380	1(1)	-5.015321

Source: Author's Eviews output.

From the above diagnosis, the null hypothesis of a unit root is H0: a = 0 versus the alternative: H1: a < 0. The ADF unit root test result presented above shows that profit before tax, shareholders funds, capital adequacy ratio and total asset are having unit root problems which means that they are not stationary at level. However, by differencing, the non-stationary time series became stationary at 1st difference as their ADF test statistic is greater than their critical values at different levels of significance.

RESULTS AND DISCUSSIONS

Table 2: Least Square Regression Results

Dependent Variable: PBT				
Method: Least Squares				
Date: 06/22/16 Time: 08:29				
Sample: 1 15				
Included observations: 15				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C SHF CAR	2.337477 10.7489	0.213820 2.384418 4.569616	10.93198 4.508017 4.521152	0.0000 0.0055 0.0279
TA	11.026300	2.784746	3.959535	0.0028
R-squared	0.787810	Mean dependent var		2.526409
Adjusted R-squared	0.632720	S.D. dependent var		0.751779
S.E. of regression	0.739377	Akaike info criterion		2.320491
Sum squared resid	10.93357	Schwarz criterion		2.419676
Log likelihood	-23.52540	Hannan-Quinn criter.		2.343856
F-statistic	4.710372	Durbin-Watson stat		1.318525
Prob(F-statistic)	0.020571			

Source: *Authors' Eview Output.*

The table 2 above indicates the adjusted coefficient of multiple determinations which shows that 63.27% of the variations in the dependent variable financial performanceproxied by profit before taxwere accounted for by the recapitalization indicators which was clearly explained by our model. At F-statistic of 4.71% our model is significant as the probability of the F-statistic which is 0.020< 0.05 significant value.

The table also reveals that the shareholders' fund, capital adequacy ratio and total asset with the following coefficient (10.75, 20.66 and 11.03) respectively, have significant and positive relationship with financial performances of deposit money banks in Nigeria.This is evidenced as all the values for the respective explanatory variables are less than 0.05 levels of significance as indicatedin the table.This implies that an increase of the capital of deposit money banks will lead to an increase in their financial performances which will boost the economy and at the same time help in funding the vital sectors of the economy in Nigeria. This statistics also implies that the performance of deposit money banks in Nigeria remained stronger after the recapitalization practice.

CONCLUSIONS

The study has investigated the effect of bank recapitalization on the performance of deposit money banks in Nigeria. The recapitalization policy has really help the banks performances in Nigeria. This achievement was attained when the central bank of Nigeria imposed the policy on all banks in Nigeria and this drastically reduced the number of banks from 89 to 25. These banks maintained a sound corporate governance and effective risk management system which strengthen the expectations of the diverse stakeholders in thefinancial industry.

The results arising from the analysis have shown that the bank recapitalization exercise have significant and positive effect on profits of banks in Nigeria. This exercise has equipped the banks with more liquid money at their disposal which tends to escalate their profitability as these funds are being loaned out to customers.

The study thus concludes that bank recapitalization have positive effect on the profit maximization of the deposit money banks in Nigeria.Hence, based on the envisage findings, this study has recommended that the regulatory bodies in Nigeria should use banks recapitalization as strategies for equipping deposit money banks and enhancing their economic roles to the various sectors of economy.The regulatory authorities should also establish capital adequacy ratio that determines high and moderate capitalized banks and time frame for which any computed CAR remains operative.

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