“Does bank reform under-bank Nigeria? Stylized facts”

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Does bank reform under-bank Nigeria? Stylized facts

Abstract

This paper studies the impact of financial sector reforms on the development of the banking sector and the growth of the Nigerian economy. Specifically, the paper examines the effects of various banking sector reforms undertaken in the country in the past few years with a view to finding out whether it has been able to impact the various indices of the banking sector and trigger the desired growth and development of the Nigerian economy. The study employs both descriptive and inferential statistics to carry out the data analysis. Empirical evidences suggest under-banking in Nigeria and being under-banked therefore implies that most firms and households cannot get credit. It was also found that the level of credit to the private sector as a result of financial reforms and banking sector consolidation have little significance on the economy as a whole. The paper recommends a reassessment of the level of banking penetration in view of the financial inclusion strategy for the purpose of tackling the issue of poverty and economic growth.

Keywords: bank reform, under-bank, financial inclusion, banking habit, financial access.
JEL Classification: D14, D92, G01, G21, G29.

Introduction

The banking system through its financial intermediation function plays a key role as the engine of growth in any economy. This function promotes payment mechanism, enhances monetary policy transmission process and ensures efficient credit allocation to key sectors of the economy like agriculture, mining and manufacturing sectors, among others (Adelegan and Oriavwote, 2014). These stimulate employment generation, increased production, improved capital formation and enhanced economic growth. However, in Nigeria, this role is noted by scholars to have been affected by the exposure of the banking sector to systemic distress and macroeconomic volatility, which inevitably engenders regular policy changes (Kama, 2006; Essien, 2012; Adeyeye and Migiro, 2015).

Different financial reforms have been packaged in the past in Nigeria by the Central Bank of Nigeria (CBN). Generally, the objective of such reforms is to produce a safe, sound, strong, reliable and diversified banking system capable of providing sustainable financial development for economic growth and equally ensuring that Nigerian banks play active roles in the regional and global financial system (Soludo, 2004; Adelegan and Oriavwote, 2014). Specifically, the recent bank consolidation exercise was designed to stimulate strong economic growth, increase efficiency in the financial system, ensure competition and safety of the system, promote market consolidation and higher concentration and facilitate international integration as well as encourage access to credit (Kama, 2006; Essien, 2012; Somoye, 2014).

Nigeria with the sixth most populated area in the world and currently estimated to have 178.5 million inhabitants (WPR, 2015) and GDP of $510 billion presently has just 24 banks to service its financial and economic activities. The drastic reduction in the number of banks from 89 (as at 2004) to its present figure was consequent upon the various financial reforms embarked upon in the recent past in which bank consolidation was a major component. With this figure, it becomes pertinent to look into the present size of Nigerian banks and their scope of operation with a view to determining whether it is now large enough to propel the desired development in the financial sector and stimulate growth of the economy. It is equally desirable to know the extent to which this development has affected access to financial services offered by the banking system.

Therefore, this paper examines the impact of financial sector reforms on the development of the banking sector and the growth of the Nigerian economy. Specifically, the paper looks into the effects of the various financial sector reforms with a view to finding out whether it has been able to impact the various indices of the banking sector and trigger the desired growth and development of the Nigerian economy. In other words, it aims at determining whether the reform has impacted banking habits and promote financial inclusion in the system. Thus this paper seeks to provide answers to the following probing questions:

1. Does bank reform under-bank Nigeria?
2. Does bank reform promote banking habit in Nigeria?
3. Does bank reform increase financial inclusion in Nigeria?

In this paper, the under-banked is defined as the proportion of the population or businesses that do not have good access to conventional financial services normally offered by commercial banks including traditional banking products like current accounts, savings account, fixed deposit accounts and loan facilities, to mention a few. This is slightly different from the unbanked that comprise

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of the proportion of the population that do not operate a bank account (Retsinas and Belsky, 2005). Many of those who fall in these two categories are known to rely heavily on informal financial services like *ajo, esusu,* cooperative societies and clubs, etc., to meet their financial needs; hence, they are regarded as informally financially included. In essence, financial inclusion means processes that allows the poor and the disadvantaged social individuals (or groups) to gain financial access in the financial system, both formally and informally.

Banking habit means an involuntary form of conduct or action that spurs people into using banking services and products. Note that using financial services is quite different from having access to financial services (Beck, Demirguç-Kunt and Peria, 2007). In this context, those who have an account with conventional banks (deposit money banks) are regarded as being banked; whereas, those people having an account at a bank or at other types of formal financial institutions like mortgage institutions, insurance companies, microfinance banks, pension schemes, etc. and also, who use such financial products like debit cards, credit cards, automatic teller machines (ATM), in their own name; receiving wages, government transfers, or payments for agricultural products are regarded as being formally financially included (Global Findex, 2014). Furthermore, those that are regarded as being financially served comprise of a combination of those that are formally financially included and informally financially included. In other words, those people in the society that do not fall under these two categories are regarded as being financially excluded. In essence, the financially excluded are the people that have no bank account at the same time possess no access to informal financial services, although they may have access to such benefits like loan/gift from friends or family and loan from employers, as well as remittances via a friend or family member (EFInA, 2014).

1. Review of literature

There is a growing acceptance of the proposition that financial institutions and in particular, banking institutions, occupy a central position in any nation's financial system apparently because of their expected significant contribution to economic growth and development (Levin, 2005). It has also been observed that growth in the financial industry, if transmitted well, would result in the growth of the real sector and the opposite is possible if the financial sector is repressed and inefficient (Cameron, 1972). In fact, financial and economic scholars have reached conclusion that there exists a symbiotic relationship between financial markets and economic growth, and indeed, that finance leads to economic growth (DeGregorio and Guidolti, 1992; King and Levine, 1993; Levine & Zervos, 1998). Evidence also shows that higher levels of financial development across countries are causally related to faster rates of physical capital accumulation and economic growth (Beck, Demirguç-Kunt and Levine, 2007; Somoye, 2014).

The financial inclusion literature suggests that the provision of a broad range of high quality financial products such as savings, credit, insurance, payment of pensions where applicable and financial empowerment of the low income segment are essential for financial development. Thus, given its socio-economic benefits, access to finance can be seen on a similar level as access to basic needs such as safe water, health services, and education (Peachey and Roe, 2004; Somoye, 2014).

Hence, an efficient financial system is a prerequisite to an effective functioning of a nation's economy. The stage of development of an economy is indicated by the state of development of its financial market. A nation's financial system, in addition to its intermediation role, links the local economy with the global financial system through the provision of various means of international financial settlements. The component of the financial system that is at the centre of the intermediation role and the greasing of the engine of economic growth and development is the banking sector (Somoye, 2014). Rajan and Zingales (2003) emphasized the importance of a larger population gaining access to finance (external finance inclusive) as essential ingredient for democracy and market economy to thrive.

It is in recognition of these strategic roles of the banking sector that a number of reforms were introduced by the CBN with a view to addressing issues that militate against its efficiency. But, according to Asekome and Ahikie (2014), past reforms in the banking sector, rather than being pre-emptive, had always been demand-driven and thus directed to address specific issues that arose from time to time. Thus they appeared not to be strategically holistic in approach making positive impacts of such reforms usually short-lived and unsustainable. The next section reviews the thrust of different past reforms in Nigeria.

2. Review of various banking reforms in Nigeria

2.1. The free banking era up to 1994. Legislation was absent in the Nigeria banking system from 1891 that marked the establishment of commercial banking in Nigeria to 1952 when the banking ordinance was enacted. These years which recorded tremendous failures in the banking system marked the era of free banking in Nigeria. The result of the lawless

situation was frequent failure of banks, disappointment of customers and its attendant negative impacts on the Nigerian economy as a whole. Many banks were established between 1893 and 1952 with a few surviving for a while, while some collapsed as soon as they were established, the reason due mainly to lack of control and supervision. In fact, Babalola (2011) noted that just four out of the 25 established indigenous banks of that era survived. Three of the banks that were still in existence as at 2006 when 64 banks lost their licenses were Union Bank, First Bank and United Bank of Africa (UBA). The three of them were initially foreign banks (Adekanye, 1983; Ayorinde, 2012).

The era of supervision, examination and control of banks in Nigeria (1952-1959) was necessitated by the Banking Ordinance of 1952 and subsequent amendments made especially with the establishment of Central Bank Nigeria (CBN) Act of 1958. The establishment of CBN created the platform for adoption of monetary management by indigenous personnel, stricter rules and regulations, and improved institutional facilities. Commercial banks predominate the Nigerian banking landscape between 1960 and 1970, as only one merchant bank operates in the economy during the period while more than ten commercial banks were in operation.

As at 1970, according to Asabia (1992), there were 14 commercial banks in Nigeria with 273 branches. By 1980, after a period of 10 years, the growth of banks was modest as there were 20 commercial banks and over 500 branches in Nigeria. Merchant banks then were only 6. By 1984, there were 27 commercial banks operating side-by-side with 11 merchant banks with a total number of 1249 branches (Fig 1 and 2). This situation had been changed by 1991 when a larger number of 119 commercial and merchant banks operated through a total number of 2, 023 branches in Nigeria (Ayorinde, 2012).

Fig .1. Total no of Banks in Nigeria: 1981-2013

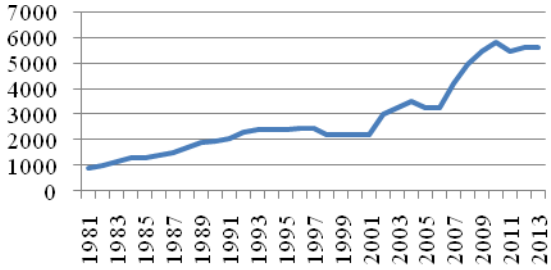


Fig. 2. No of Bank Branches in Nigeria: 1981-2013

Source: CBN Statistical Bulletin, 2013.

All through this period (1970-1993), there was no serious mention of bank failure in Nigeria. However, holding actions were imposed on 46 banks to help stabilize their financial conditions while twenty-four banks were temporarily taken over by the regulators to safeguard their assets between the years 1989 and 1994. But, according to Iyade (2006), accommodation facilities were granted to ten banks with serious liquidity problems to the tune of ₦2.3 billion in 1989 following the withdrawal of public sector funds from commercial and merchant banks and the transfer to CBN during that year.

2.2. Return of regulation period (1994-1998). This period was characterized by re-introduction of regulations into the banking system. The advent of control through the CBN necessitated the closure of some banks and non-bank financial institutions which were terminally distressed as part of its efforts aimed at strengthening and restoring confidence in the financial system (CBN, 1995; Babalola, 2011). Consequently, three merchant banks, one commercial bank and twenty Finance Houses had their licenses revoked thereby reducing the number of licensed banks to 116 with a total number of 2,685 branches across the country (CBN, 1995).

In fact, from 1994 to 1999, thirty-six terminally distressed banks were closed with minimal disruption to the banking system. Specifically, in 1995, 17 banks were taken over by CBN, as the financial sector was under intense pressure while distress in the sector persisted. The licenses of 5 banks were revoked. Seven ailing banks were acquired, restructured and sold to new investors by CBN in 1994. The authorities (CBN and NDIC) assumed control of 19 other distressed banks. Over 200 community banks showed various symptoms of distress. Notwithstanding the official efforts to restore confidence in the financial services industry, the number of distressed banks rose from 42 in 1994 to 51 in 1995 (CBN, 1995; Babalola, 2011). The streamlining of these banks, according to Iyade (2006) was because of their inability to respond to all the various regulatory/supervisory initiatives employed to resolve

the banks' problems and the continued degeneration in their financial conditions.

In 1996, the number of licensed banks remained at 115 (Fig. 1). Distressed banks rose from 51 to 52, while the banks brought under direct control and supervision of regulatory authority increased from 23 to 25. The 17 banks taken over by CBN in 1995 were put under interim management boards. Arrangement for sale of six banks continued. 178 directors of banks were blacklisted and removed on the CBN. 75 shareholders and ex-staff of affected banks were blacklisted and barred from being appointed into financial institutions (CBN, 1996).

In 1997, the number of distressed banks declined from 52 to 47. A total of 13 distressed banks were acquired at the nominal fee of ₦1.00 per bank (CBN, 1997). In 1998, CBN revoked the licenses of 26 distressed banks and while the number of distressed banks reduced from 50 in 1997 to 22, the number of licensed banks fell from 115 to 92 and it was reported that only 64 of them complied with the deadline for recapitalization of all licensed banks to a minimum of ₦500 million (CBN, 1998).

2.3. Return of liberalization period (1999-2004). No mention was made of distress in the banking sector in the CBN reports covering 1999 to 2004. However, the CBN revoked the license of Savannah Bank which became a subject of litigation (CBN, 1999-2001). Eventually the court nullified the action of CBN when authorized share capital had grown to ₦25 billion. The bank has not been able to open its doors for business since it won the case in 2009. It is noteworthy that the fear of distress and the withdrawal of licenses of banks by the CBN seemed abated during this period (Ayorinde, 2012).

2.4. Consolidation period (2004-2008). This period witnesses serious challenges in the banking industry. The period witnessed dramatic changes in the operations of banks, the laws as well as the regulatory agencies. Significantly, this period witnessed the much pronounced consolidation exercise and the enactment of a new CBN Act, 2007 and a new Nigerian Deposit Insurance Corporation Act, 2006 to give the regulatory agencies more powers to introduce sweeping reforms in the industry.

At the conclusion of the consolidation exercise the number of operationally licensed banks in Nigeria numbering 89 was streamlined through a process of mergers and acquisition into 24 banking institutions with a capital base of not less than ₦25 billion each (Iganiga, 2010). Moreover, the licenses of 14 banks were revoked, whilst 50 others either surrendered their licenses or lost their identities and became defunct as a result of having been merged or taken over by other banks (Adeyeye, 2013).

2.5. Post-consolidation period (2009 to date). In 2009, 10 of the 24 banks that emerged out of the consolidation exercise were declared technically insolvent. The CBN sacked the Board of five of the banks and had to inject ₦629 billion in a form of loan to assist the banks to bounce back. Unfortunately, the result of this measure was found to be inadequate to revive the banks. On 5th August, 2011, the CBN in conjunction with the NDIC had to invoke the powers conferred on them to revoke the license of three of the banks. The NDIC established three new 'bridge' banks to take over their assets. The three new banks were named Mainstreet Bank, Keystone Bank and Enterprise Bank. Soon after that, Asset Management Corporation of Nigeria (AMCON) acquired these banks and injected a total sum of ₦679 billion into them: ₦285 billion into Mainstreet Bank which acquired the assets and liabilities of Afribank; ₦283 billion into Keystone Bank that acquired the assets and liabilities of Bank PHB and ₦111 billion into Enterprise Bank that acquired the assets and liabilities of Spring Bank (Adeyeye and Migiro, 2015).

Others that lost their identities in mergers and acquisitions with other banks and investors for survival include Finbank Plc, Oceanic Bank Plc and Intercontinental Bank Plc. While Intercontinental Bank Plc was taken over by Access Bank, Oceanic Bank Plc was taken over by Ecobank Bank Plc, Finbank Plc merged with First City Monument Bank (FCMB) but Union Bank was acquired by other core investors even though it retained its old identity (CBN, 2009). In terms of today, two of the bridge banks have been acquired by yet another core investors while the third one is in the process of being acquired.

Another major policy change in the banking sector was the introduction of cash-less policy in Nigeria, which commenced its pilot operation in Lagos State in April 2012. It has already been extended to all parts of the country. The policy was aimed at reducing the use of cash, which in turn will achieve the following objectives: (1) to drive the development and modernisation of the payment system; (2) to reduce the cost of banking services and drive financial inclusion by providing more efficient transaction options and greater reach; (3) to improve the effectiveness of monetary policy in managing inflation and driving economic growth.

With the foregoing array of bank reforms and consolidation, what impact do they have on the Nigerian economy? With a population of more than 170 million inhabitants, are the banking public better off or worse off with the shrinking of the total number of banks coupled with the attendant closure of many of their branches, especially in the rural areas? Does bank reform actually under-bank Nigeria?

3. Method and material

The study purposively uses descriptive and inferential statistics to provide answers to the three questions earlier stated, which dwell on bank habit promotion, acceleration of financial inclusion and the extent to which Nigeria has been under-banked. This approach is useful as it allows the use of statistical tools including frequencies, averages, percentages and other statistical inferences to describe and compare the data and characteristics of Nigerian banks before, during and after the consolidation period. This approach is highly accurate as it harps on readily available financial data, though it does not state the causal relationship between and among the various variables under study, which is not part of the goal of the study.

Data for the study are drawn from an array of secondary sources, which are readily available in the public domain. These include Global Findex (2014) that show case's statistics on global financial inclusion; World Bank Development Indicators (2013), Central Bank of Nigeria's *Statistical Bulletin* (various issues) and EFInA Access to Financial Services in Nigeria survey for 2008, 2010, 2012 and 2014 respectively. The data are highly reliable because they emanate from these credible sources.

4. Results and discussion

The Nigerian banking life cycles are divided into three broad periods, viz.: (1) the pre-consolidation period, which is again sub-divided into two. The first period (1981-1993) was characterized by an admixture of strict regulation and deregulation and the second period (1994-2003) witnessed a re-introduction of regulations in the banking sector. Financial distress was prevalent in the sector during this period. (2) Consolidation and stability period (2004-2008), which ushers into the system financial liberalization and introduction of universal banking system that enables banks to diversify their operations into both banks and non-banking financial markets. (3) Post-consolidation period (2009-2014), a six-year period long enough to allow an estimate of the effect of the reform measures on the Nigerian banking public.

The stylized facts are treated in three perspectives: (i) issues that concern the size, structure and composition of Nigerian banking system across the periods under study; (ii) issues concerning access to, and usage of financial services in Nigeria; and (iii) a comparative analysis of Nigeria with some purposively selected African countries.

4.1. Stylized facts 1. On the size, structure and composition of Nigeria Banking System.

Table 1. Size, structure, and composition of the Nigerian Banking System (1981-2013)

Financial and economic variables	Pre-consolidation		Consolidation & stability 2004-2008	Post-consolidation 2009-2014
Total assets of commercial banks (₦' billion)	71.47	1,311.86	8,468.52	19,565.46
Changes in commercial banks' assets (%)		94.55	84.51	56.72
Credit to private sector (₦' billion)	31.59	498.37	3,227.97	12,071.11
Changes in credit to private sector (%)		93.66	84.56	73.26
GDP at current basic prices (₦' billion)	347.15	5,251.53	17,908.04	58,733.26
Financial deepening (CPS/GDP, %)	9.56	8.99	16.72	22.52
Growth in financial deepening (%)		–6.3	46.2	25.75
Average number of bank branches	1575	2460	3822	5582
Growth in bank branches (%)		35.97	35.64	31.53
Ratio of population to no of bank branches (persons)	59397.04	48501.4	37608.42	28383.96
Growth in bank penetration		–22.46	–28.96	–32.5
No of branches per 100,000 persons	1.74	2.1	2.65	3.4
Average market interest rate (%)	19.01	23.04	19.21	23.21
Average level of labour force	9,628,390	37,468,087	44,530,420	51,219,913
Growth in labour force		74.3	15.86	13.06

Source: Authors' calculations based on data from CBN *Statistical Bulletin* (various issues); EFInA (various issues); World Development Indicators, 2013.

Table 1 presents a graphic picture of the magnitude and composition of the Nigerian banking system from 1981 to 2013. The following are observed from the figures: (1) while total assets of commercial banks, total credit to the private sector and the level of financial deepening were rising, growth rates of these variables were declining. In fact, growth rate of financial deepening was negative (minus 6 per cent) during pre-consolidation period, increased sharply during consolidation period but declines quickly after the exercise from 46 per cent to about 26 per cent suggesting that the impact of the reform could not be sustained. (2) the number of bank branches is nominally increasing, but its growth is declining, suggesting low access to credit in the under-banked sector. This is corroborated by the persistent decline in the ratio of population to number of bank branches. In fact, the level of bank penetration recorded persistent negative growth throughout the

period under consideration. (3). The level of interest rate remains high and labour growth is also declining.

It is noted (Table 1) that Nigeria, at the beginning of the banking sector consolidation (1999-2004), has an average of 2,460 branches, which increased to 3,822 during the consolidation period and jumped to 5582 after the consolidation exercise. This means that the number of bank branches is increasing steadily in absolute terms. But the growth rate of bank branches has actually been persistent in its downward slope across the periods under review from 35.97 during pre-consolidation period down to 35.64 during consolidation and further down to 31.53 post-consolidation. This is supported by the ratio of population to number of bank branches, which declines progressively across the periods under review. The result may be in connection with the fact that Nigerian population growth rate increases faster than the growth rate of bank branches. This clearly suggests that the country is underbanked despite the consolidation exercise.

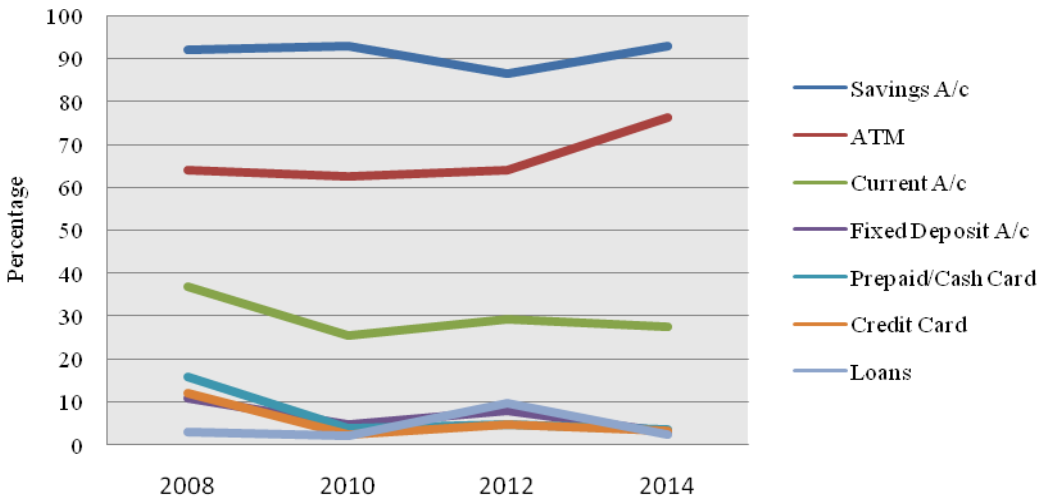
4.2. Stylized facts 2. On access to financial services in Nigeria.

Table 2. Access to financial services in Nigeria (2004-2014)

	Banked		Other institutions		Financially included		Informally included		Financially served		Financially excluded	
Year	%	millions of persons	%	millions of persons	%	millions of persons	%	millions of persons	%	millions of persons	%	millions of persons
2008	21.1	18.3	2.5	2.1	23.6	20.4	23.9	20.7	47.5	41.1	52.5	58.9
2010	30	25.4	6.3	5.3	36.3	30.7	17.4	14.8	53.7	45.5	46.3	54.5
2012	32.5	28.6	10.5	9.2	43	37.8	17.3	15.2	60.3	53	39.7	47
2014	36.3	33.9	12.3	11.5	48.6	45.4	11.9	11.2	60.5	56.6	39.5	43.4

Source: Calculations based on EFInA (2008-2014) and Global Findex (2014).

A cursory look at the figures in Table 2 clearly shows positive impact of the consolidation program in terms of increasing access to financial services in Nigeria. This suggests that the formal financial sector has increased significantly as a result of the banking reform program. For instance, the indicator of the banking sector outreaches (i.e. the percentage of the population that are banked) increased steadily from 21.1 per cent in 2008 to 30, 32.5 and 36.3 percentage points in 2010, 2012 and 2014 respectively. This result suggests an increasing banking habit among Nigerians. But in real terms, as at 2008, about 18 million persons apparently have access to such conventional financial services that are offered by commercial banks like current accounts, savings account, fixed deposit accounts and loan facilities. This figure increased to about 25 million persons in 2010, 29 million persons in 2012 and 34 million persons in 2014 respectively. By implication, more than 60 percent of Nigerian population still do not operate a bank account neither do they have access to other banking facilities. A country where more than 100 million of its population have no access to banking services is undoubtedly underbanked.



Source: Calculations based on EFInA (2008-2014) and Global Findex (2014).

Fig. 3. Actual usage of banking products in Nigeria (2008-2014)

In terms of actual usage of banking products in Nigeria (Fig. 3), those who use savings account and automated teller machines (ATM) predominate the proportion of the population that are banked. The use of savings account increased during bank consolidation period by a percentage point from 2008 to 2010, declines by more than 6 per cent in 2012 but rises by the same percentage in 2014. The effect of

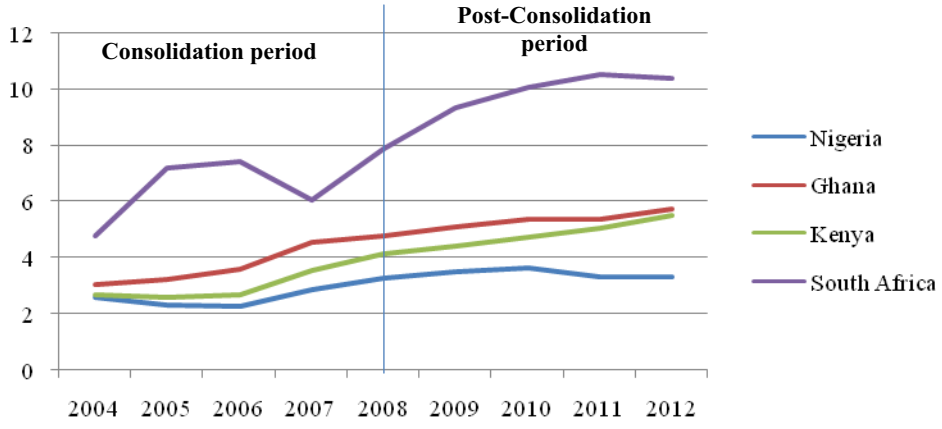
the reform on ATM usage was marginal from 2008 to 2012, but has been rising significantly afterwards. This suggests the positive impact of the cash-less policy of the CBN, as more people were inclined to use the device for cash withdrawals by the force of the law.

Bank consolidation negatively impacts the use of other bank products like current accounts, loan facilities, fixed deposit accounts, credit cards, etc. Their use by the proportion of Nigerian population that are banked declines to a lower level than it was before the consolidation exercise (Fig. 3). This suggests that bank consolidation program promotes banking habit only in absolute terms, and this is largely limited to the use of two banking products including savings account and ATM. The impact of the consolidation program on access to credit is notably insignificant. Use of current accounts follows the same trend with access to loan facilities. This is not a co-incidence, as accessing a loan in a bank is usually tied to opening a current account. Out of the less than 40 per cent of the population, which, in any case, are mostly corporate organizations, that opened a current account, less than 10 per cent has access to loan facilities. The gap suggests that most current account holders predominantly use the product for savings purposes and by implication, most firms and households cannot get credit. In fact, the proportion of the population that gain access to credit declines significantly from 9.7 per cent in 2012 to 2.6 per cent in 2014.

Again, in absolute terms, there is an increasing number, though a relatively small proportion, of the population that have access to other financial services providers like mortgage institutions, insurance companies, microfinance banks, pension schemes, etc. Combining thise group of people with those that are banked makes up those that are financially included. Again, these figures increase progressively in absolute terms from 24 per cent (21 million persons) in 2008 to 49 per cent (45 million persons) in 2014. Adding those who have access to informal financial services to this figure increases the proportion of the population that are financially served from 48 per cent (41 million persons) in 2008 to 61 per cent (57 million persons) in 2014 (Fig. 1). By implication, the proportion of Nigerian population that are financially excluded declines progressively from 53 per cent (59 million persons) in 2008 to about 40 per cent (43 million persons) in 2014. This indicates that bank consolidation positively impacted financial inclusion in Nigeria, but the proportion of the population that are still excluded financially remains very large; almost at par with the population of Kenya, the 7th largest population in Africa.

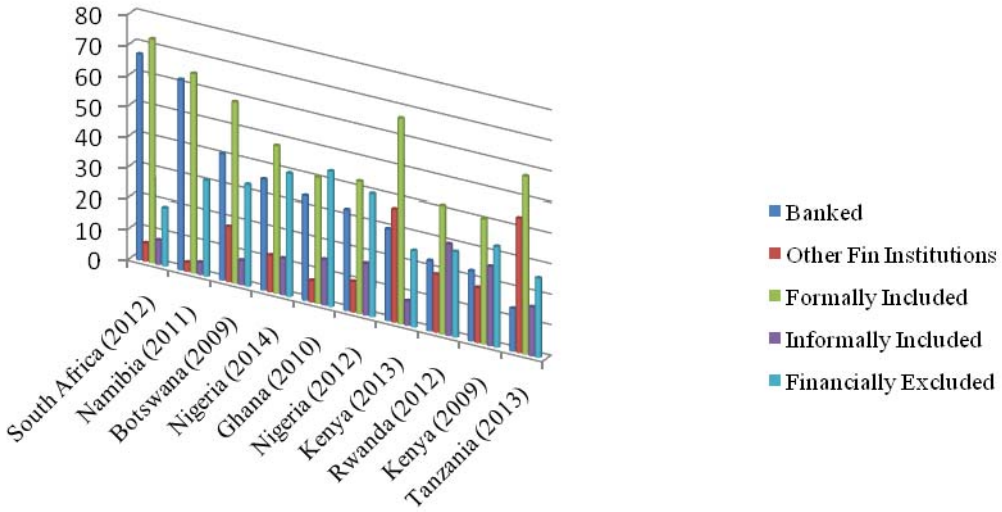
The proportion of the population that are informally included is steadily decreasing from 24 per cent (21 million persons) in 2008 to 11 per cent (11 million persons) in 2014, suggesting a declining influence of the informal sector on the economy.

4.3. Stylized facts 3. On cross-country comparison. Comparatively, Nigeria lagged behind South Africa, Ghana and Kenya in terms of the number of bank branches per 100,000 persons during and after the consolidation exercise (Fig. 4). It also trailed behind South Africa, Namibia, Kenya, Botswana and Tanzania in terms of percentage of the population who are formally financially included (Fig. 5). Although Nigeria has higher level of banked adults than Kenya, Rwanda and Tanzania because of its larger population figure, a higher percentage of formally included adults are recorded in Kenya, Namibia, Botswana and Tanzania respectively mainly due to higher application of mobile money in these countries.



Source: World Bank Development Indicators, 2013 and EFInA Access to Financial Services in Nigeria survey (various issues).

Fig. 4. No of branches per 100,000 persons: cross-country comparison



Source: World Bank Development Indicators, 2013 and EFInA Access to Financial Services in Nigeria survey (various issues).

Fig. 5. Access to Financial Services: Cross-country comparison

Conclusion

Thus far, this paper has examined the various banking sector reforms undertaken in the country in the past few years, especially the bank consolidation program, with a view to finding out whether it has been able to impact the various indices of the banking sector and trigger the desired growth and development of the Nigerian economy. The results clearly show that the formal financial sector is growing as a result of the reform, but the informal financial sector is declining steadily. The proportion of the population that are banked and financially served has increased significantly suggesting increasing banking habit among the inhabitants. But, evidences suggest under-banking in Nigeria. A situation where there are 24 deposit money banks to service the economy of a country with over 170 million people is obviously inadequate. More than 60 percent of Nigerian population neither operate a bank account nor have access to banking facilities. It was also found that the level of credit to the private sector as a result of financial reforms and banking sector consolidation have been declining, as most firms and households have no easy access to banking facilities. For businesses to grow and economy to thrive, the banks must lend. It is obvious that majority of Nigerians are left at the mercy of other non-bank financial institutions that provide very poor banking services at very exorbitant costs. The level of financial exclusion remains high.

The study did not consider the causal relationship between and among the various variables under study. Consideration was not equally given to the possible time lag between one period of reform to another period of reform. These limitations did not in any way affect the inferences drawn from the study.

Recommendations

In the light of foregoing results and conclusions, the following are considered necessary recommendations: efforts should be geared towards ensuring that financial sector reforms result in increasing improvement in access to financial services to larger population of the economy. There should be a reassessment of the level of banking penetration in view of the financial inclusion strategy for the purpose of tackling the issue of poverty and economic growth. Therefore, there is the need for an effectual and responsive regulatory system that allows for financial innovation and expansion of the financial delivery outlets. As good as it is for banks to merge in order to strengthen their capital base and to remain competitive in the market, crowded banking systems should be avoided as large banks are more complex and vulnerable to systemic crises and failure. Also, establishment of new banks has become imperative, as Nigeria cannot afford to remain underbanked if it is to achieve its potentials and remain a giant of Africa. Therefore, incentives should be put in place to encourage more entrants, both local and foreign, into the banking business. The observed declining importance of the informal financial sector requires concerted efforts at addressing the trend more so that a large proportion of the population is still financially excluded. The importance of microfinance institutions in this regard cannot be over-emphasized, given its potentials in addressing the challenges of excluding such a large population from full participation in economic activities. The barriers to inclusion should equally be addressed through designated framework that could assist and encourage financial services providers in meeting the specific needs of the excluded members of the society.

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