2. Definitions

2.1 What is Distress?

The word distress is synonymous to affliction, trouble or woe. It is best described as stress or unpleasant feelings or emotions that may cause further problems. Saying that you are distress may mean that you are sad, hopeless, powerless, afraid, anxious, panic, discouraged, depressed, uncertain etc. The Wikipedia dictionary defines distress as extreme anxiety, sorrow, or pain. Merriam Webster online dictionary also defined distress as unhappy or pain; suffering that affects the mind or body. Distress could be financial, emotional, psychological, physical etc. distress as related to the Nigerian banking system has to do with problems or troubles that affects the productivity of staff as well as the growth of the sector.

A bank is deemed distress where it cannot pay its entire depositor in full and on time. A distress situation may be either marginal or terminal. It is marginal where it is unable to pay all its depositors; the market value of its asset still overweighs the market value of its liabilities. However, in the case of terminal distress, the market value of a bank's asset decline below the market value of its liabilities. In that case such a bank is said to have failed. This bank may be distressed without falling. In Nigeria, banks like ACB Plc and National bank Plc fall in the category of distressed banks that did not fail. This explains why they were not liquidated along with other distressed banks. Estimated value of their asset was said to be more than their total liabilities (meaning they were solvent), the only problem was converting such assets to cash. Nwankwo (1991) emphasized the importance of liquidity in banking by describing it as "a sine qua non" for banking and the reason why the doors of a bank are open in the short run. This is true because a deposit customer for instance who cannot withdraw his fund due to lack of cash will hardly believe his bank is not in distress.

Distress in Nigerian banking industry can be traced to several causes from both the government and the private sectors. In 1989, the Federal Government directed that its deposits and those of public institution be withdrawn from commercial banks to the CBN. This singular policy measure exposed the weak financial conditions of most commercial banks. Since this time the number of distressed bank has grown steadily as well as severity of problems associated with distress. For example the quarter journal of the Nigerian Deposit Insurance (NDIC) in 1997 reported that 9 banks were adjudged technically distressed in 1998-1999, it rose to 60 and dropped to 47 by the end of 2000 and continuously dropped further in 2004.

Bank distress is seen from different perspectives. To some people a bank is distressed only when it ceases to operate even if it has not been officially liquidated. But in a wider context, a bank is distressed if it has failed in achieving the objectives for which it was established.

3. The Nigerian Banking Industry

According to a report by International Corporate Research (ICP) in 2010, the Nigerian banking system, which is regulated by the Central Bank of Nigeria; is made up of; deposite money banks referred to as commercial banks, development finance institutions and other financial institutions which include; micro-finance banks, finance companies, bureau de changes, discount houses and primary mortgage institutions.

The origin of Banking industry in Nigeria dated back to the colonial era, precisely in 1894, when the Bank of British West African was established in Lagos in a bid to facilitating business between Nigerians and the British colonists. Nigerian Banking system has over the time faced several challenges and distresses, which has led to the liquidation of many of the banks.

The CBN, under the governorship of Charles Soludo in 2004, increased the minimum paid in capital of banks to ₦25billion (US$173million) from ₦2billion (US$14million). The policy, which was effected in 2005, was intended to consolidate the existing banks into fewer, larger and financially stronger banks. As a result of the implementation of the policy, the 89 banks that existed as at 2004 decreased to 25 larger, better-capitalized banks in 2005.

In 2010, the CBN however came up with another policy, which is a fundamental reversal of the consolidation policy in 2005. The new policy was aimed at categorizing banks by function and allowing varying levels of capital depending on the bank's function as opposed to the single current minimum capital of ₦25billion. Sanusi (2010) opined that the banks did not fail. They were destroyed and brought to their knees by acts committed by identifiable people. He further noted that the banking industry has been cajoled and manipulated by human beings-the management that stole money in the name of borrowing, the gamblers that took depositors funds to speculate on the stock market and manipulate share prices, the billionaires and captains of industry whose wealth actually was money belonging to the poor which they "borrowed" and refused to pay back. All these have contributed in no small measure to the distress of banks in Nigeria.

Failures in banking industry are not only peculiar to Nigeria. Every nation in the world has records of cases of bank failures. According to the official liquidator (CBN statistical bulletin 2000), the Nigerian government established a special method to ease the distress of depositors and affected employees of commercial banks. It cost the government 20 billion naira to respond to the interest of depositors and employees (CBN Bulletin, September 2001).

4. Objectives of the Study

The objectives of the study are as follows:

1) To first determine the incidence of distress in the banking industry.
2) To x-ray factors that contributed to bank distress.

3) To determine the ways distress situation affects different sub-systems viz: banking industry, bankers, depositors and the economy.
4) To examine role that should be played by the regulatory bodies and other parties in management.

5. Research Methodology

The data for this research work was collected through questionnaire, observation and interview method. Information was obtained from staff, from the 5 selected commercial banks. The response from the data collected was analyzed to form the findings of this research work.

6. Causes of Distress in Banking Industry

There are many factors responsible for the failure of banks. Some of these factors are highlighted below:

6.1 Deteriorating Economic Factors

Hooks (1994), points out that deteriorating local economic conditions e.g. Inflation, Interest rates and exchange rates cause banks failure or distress. Eisenbeis (1986), cited by Hooks (1994) added that macroeconomic factors like sudden adverse movements in a country's terms of trade and sharp fluctuations in world interest rates, real exchange rates and inflation rates worsened by regulations that are imposed on

Spollen (1997) concludes that ineffective regulatory system causes bank failure.

6.3 Government Deposit Insurance (NDIC)

Goodhart (1998) observe that in the absence of any measure to rescue distressed banks, they could be exposed to depositor's runs. However, when complete deposit insurance schemes and other rescue measures are in place, stakeholders other than banks are discouraged from controlling the activities intermediaries. This is why regulators protect the interest of the public by encouraging the reduction of risk- seeking behaviours. Karcken (1981 & 1983) cited by Hooks (1994) state that fixed rate deposit insurance motivates banks to engage in risky investment activities.

Hooks (1994) agrees with the above by stating that a flat rate fee deposit insurance e.g. (NDIC) is an incentive for banks to make risky investments. Palubinskas and Stough (1999) also stressed that the scheme results in unpaid loans, since banks and customers have nothing at stake when deposits are badly managed or cost through fraudulent actions.

6.3 Inadequate Reserve Requirements

A reserve requirement is a portion of cash to total deposits which banks are obliged to maintain. This ensures prudential and fiscal control of the activities of banks. Friedman (1960), cited by Hooks, (1994) states that bank failure arises because banks do not keep all their deposits in statutory reserve funds.

banks result in a bank failure. Goodhart (1998) emphasized that interest rate fluctuations contribute to the crisis in the banking industry.

6.2 Regulation of Banks

Driscoll (1988), cited by Hooks (1994), Eisenbeis (1986), cited by Hooks, (1994), Dothan and William (1980), also cited by Hooks, (1994) share the opinion that government intervention causes bank distress. Hempel and Simonson (1999) state that when governments intervene in saving banks from failing, creditors and customers tend to rely on the government to protect their interests. The intervention however is a deceptive for other institutions, creditors and customers to effectively monitor their interest in banks in an independent way. Liewellyn (1996), cited by Goodhart, (1999) notes the following situations, which could cause a bank failure:

- Too many stringent rules could cause bank to disregard the measures as they may be seen by the banking sector s superfluous.
- Some dangers that banks are exposed to may be too difficult to be addressed by general laws
- A rigid system of rules could inhibit banks from selecting the most efficient means of achieving regulatory goals set for them and may serve as a disincentive or improvement.

6.4 Forbearance

Hempel and Simonson (1999) noted that some regulatory bodies exercise forbearance. This contributes to bank crisis by permitting distressed banks to continue their operation instead of liquidating them. This action aims at assisting banks to make profits. It effect is rather disadvantageous to banks because usually when banks lack adequate funds, and remain in operation, their capital situation deteriorates.

6.5 Fraud and Corruption

Fraud is one of the key factors that cause distress to the banking industry. In many cases, fraud and corruption has led to the liquidation of the affected bank. Heffernan (1996) added that corruption and fraud have been the general causes of many bank failures.

For instance, using the Nigeria banking industry as a case study, many commercial banks in Nigeria have liquidated or at the verge of being liquidated as a result of fraud and corruption. This is evident in the fact that EFCC (an economic and financial crime commission in Nigeria), is currently handling series of fraud and corruption in relation to many Nigerian banks. However, fraud and corruption cases are not only prominent in Nigeria or Africa, but also found in every nation of the world. Table 1 below shows the extent of fraud and forgeries in the Nigerian Banking industry as published in CBN Bulletin (2004)

Table 1: Extent of frauds and forgeries in bank

Year	*Amount involved (₦ million)*	*Actual/ expected loss (₦ million)*	*No of staff terminated/retired dismissed for fraud*
1997	105	15.3	313
1998	804.2	55.8	417
1999	388.6	26.7	514
2000	411.8	73.1	436
2001	1419.1	246.4	516
2002	3399.4	950.7	737
2003	11011.4	229.1	625
2004	3,77.9	395.3	552

Source: CBN Statistical Bulletin (2004)

6.6 Poor Risk Management Procedures such as Lending Practices of Banks

Hempel and Simonson (1999) stated that the main activity a bank management is not deposit mobilization and giving credit. Effective credit administration reduces the risk of customer default. The competitive advantages of a bank are dependent on its capability to handle credit risk valuably. Bad loans cause bank failure.

Palubinskas and Stough (1999) also noted that lack of dependable financial information on borrowers to help in assessing credit worthiness causes a bank failure. Mismanagement is not a result of immaturity all the time. Most of the time principals and agents know that major faults in the banking regulation in respect of internal changes permit them to exploit bank's funds. Sometimes these two groups of stakeholders attempt to accomplish their short term earnings objectives by acquiring high risk in the bank.

Spollen (1997) added that irregular meetings of loans committee, false loans, large treasury losses, high sums of unrecorded deposit and money laundering in large amounts contribute to bank failure. He opined that some lending decision involving high amounts of money are made by an individual worker because of the status of the recipient of the loans.

6.7 Deregulation of Banks

Hooks (1994) stated that deregulation results in higher risk-taking by banks and could lead to bank failure. Edogahe (1996) also emphasized that free banking encourages banks to engage in deceptive operations and over-expansion, which makes bank fail. With respect to deposit Insurance Scheme (NDIC), Kareken (1981 &1983), cited by Hooks, (1994) noted that deregulation are unsafe for banks. He explains that when banks have freedom of investment and diversification, the situation leads to higher risk-staking. Edogahe (1996) added that if regulatory authorities eliminate the application of strict maximum deposit interest rates imposed on banks, resulting in the increase of deposit interest rates, banks will engage in high risk investments. It therefore concludes that deregulation result in more risky investment.

6.8 Political Interference

Goodhart (1998) points out that political directed lending leads to banking crisis. To buttress this assertion, Caprio and Honohan (1999) observed that governments can cause banks to fail in many ways. Some dishonest leaders exploit the funds of banks as happened in the Philippines in 1980s. In most cases, governments influenced banks to give loans to certain borrowers that discouraged banks from properly assessing the credit worthiness of borrowers and eventually destabilized banks' financial standing.

The implication of this is that such loans are not paid off. Occasionally, the credits are given to government leading to the failure of the banks involved. The NDIC/CBN study (1995) concluded that distress in the financial system was of generalized type based on the theory described above and in the light of available statistics and levels of the ratio of relevant variables.
Table 2 below shows the selected indices of distressed banks in Nigeria between 1997 – 2004.

Table 2: Selected indices of distressed banks in Nigeria between 1997 – 2004

Description	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*
Number of distressed banks	9	26	60	47	30	18	14	8
Ratio of non-performing risk asset of total asset (%)	73	77	75	63	65	69	75	82
Amount required to recapitalize to recapitalize distressed banks (₦ billion)	2	2.4	5.5	13.6	23.4	30.5	43.9	42.8
Total deposit of distressed banks (₦ billion)	6.4	2.6	15.9	20.8	41.6	42.6	48	31.2

Source: NDIC Quarterly Report September/ December, 2004.

As shown in the table above, the number of distressed bank fluctuated from 9 in 1997 and rose to 60 in 1999 and later dropped to 47 in 2000 and continuously till 2004 when Prof. Chukwuma Soludo brought out banking re-capitalization.

7. Data Analysis/Findings and Discursions

On the whole, 115 questionnaires were sent out spread among the five commercial banks in Imo State. Out of this number, 106 respondents returned completed questionnaires. This level of return represents 92% response rate.

Table 3: Cadre of Respondents

Level of Management	*Respondents*	*Percentage*
Low	40	38
Middle	46	43
Top	20	19
Total	106	100%

From the table 3 above, highest number of respondent came from middle management 43%, followed by low level with 38% and lastly top level management with 19%. This distribution appears to be representative enough given the fact that top management staff number is always the least of all.

Table 4: Years of Working Experience of Respondents

Years of Experience	*Respondents*	*Percentage*
3-9	28	26.4
10-14	42	39.6
15-18	20	18.9
19- above	16	15.1
Total	106	100%

The table 4 above shows that 42 respondents had experience of between 10 — 14 years (39%), followed by range of 3-9 years with (26.4%). Expectedly the list is in the category of 19 years and above which recorded (15.1%). The response distribution gives indication of high quality opinion on questions raised since most of the respondents were technically informed. It is this envisaged that adequate and reasonable information / data would be supplied to address the various research questions.

Table 5: Factors Responsible For Bank Distress

Responsible Factors	*Frequency*	*Percentage*
Political uncertainty	62	30.1
Economic downturn	18	8.7
Undue interference of owners	43	20.9
Regulatory constraints	12	5.8
Institutional factor	71	34.5
Total	206	100%

It is clear from the above table that most respondents choose more than one factor that explains why total frequency (206) is higher than total number of respondents (106). The result also indicates that Institutional factors ranked the most important factor with 34.5%. This was closely followed by political factor with 30.1%. Both political uncertainty and institutional factor constitute 64.6%. This goes to suggest that distress in banking industry would not have occurred at the level it did but for these two factors.

Table 6: Extent to which Various Political Factors Contributed to Distress

Political Problem	*Strongly (2 Points)*	*Slightly (1 Point)*	*No. Effect (0 Point)*
Political instability	35	40	31
Religious riot	75	23	8
Panic withdrawal	7	30	69

From the table 6 above, it is evident that among all the possible political factors, the most pronounced was the lingering effect of crises associated with religious riot. Nigerian banking industry has suffered several setbacks resulting from riots. For instance, the Kaduna riot in Nigeria made the Christians and other tribes to leave various state of residence. The level of emphasis given to the religious riot in Nigeria seems justified with this result. The Kaduna riot crisis paralyzed businesses because some of the big companies were owned by foreign investors. The religious riot also influenced massive cash withdrawals. Some borrowing customers suffered great losses and could not pay back either for reason of dishonesty or lack of funds.

8. Conclusion

From the foregoing discussions, we it is clear that a bank is said to be in distress where it cannot pay all of its depositors in full and on time. This means that such a bank can no longer play its basic role as a financial intermediary. The problem of distress can affect a single bank as well as many banks within the banking industry. Bank distress syndrome is not only peculiar to Nigeria, it cuts across the entire world both developing and developed world. Countries encounter it at one time or the other in their economic history. The causes of bank distress however, vary cutting across the following factors: political instability, economic depression, institutional factors, Undue interference of owners especially state government, regulatory constraints etc.

The impact of distress in Nigeria Banking System manifest in loss of confidence by the banking public, leading to massive withdrawals, liquidity squeeze on the part of distressed banks, non-performing risk asset which result in high loan loss provision etc. It is therefore important that banks and the entire economic system take adequate steps such as: high quality boards, sound internal control system, adequate capitalization etc. to prevent distress. Consistent economic policy is also a crucial preventive measure for distress in banking industry. It is however imperative to overhaul the banking industry in other to reduce incidence of bad debts. Credit process of the entire banking system should be overhauled to reduce the incidence of bad debts which is the greatest "enemy" of the system. The Credit Risk Management System (CRMS) being put in place by the CBN should be supported by the banks so that information can circulate within the system. The CRMS is intended to ensure that enough information is available about borrowers of ₦1 million and above. Under the system, a bank intending to advance credit to new customers is required to clear with the CBN, who will avail information about such customer.

Unfortunately, the way banks are driving their credits is dangerous. Many disregard CRMS in attempt to hide who their customers are. As expected, dubious customers are taking undue advantage of the lapses to dupe banks. If distress is to be avoided or minimized in the system, banks must be made to pass through assets. Besides, their instruments of control such as prudential guidelines should be reviewed from time to time.

Banks must also properly scrutinize the quality of their personnel especially at top management level if the system must survive. Today in the system, a fraudulent banker sacked by one bank can easily re-enter the system under any disguise. Besides there is dearth of experienced hands to banks recruit anybody to be a banker and such people shoot up the ladder without adequate experience and competence level.

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