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Capitalization Policy and Service Delivery in the Nigerian Banking Sector

Dr. Isah Adamu

Department of Public Administration, Ibrahim Badamasi Babangida University, Lapai, Nigeria

Abstract:

The study reported in this paper examines the relationship between capitalization policy and service delivery in the Nigerian banking sector. The problem investigated by the study revolves around the question of whether or not capitalized banks meet their current challenges. The study targeted the component number of fifteen out of the twenty-five consolidated banks. Data for the study were generated from both primary and secondary sources. The instrument of primary data utilized is the questionnaire while secondary sources employed the use of published and unpublished materials. Data were analyzed qualitatively and quantitatively using descriptive statistics like tables, chi-square (χ^2) test to test the hypotheses on the relationship between capitalization policy and service delivery. The study revealed among other things that capitalization policy is a welcome venture, it has the greatest benefit of reinforcement of public confidence, it created the problem of unemployment, it enhances management of depositor's funds and it helps banks on capital project financing. It was recommended that capital base should be reviewed upward, staff welfare should be taken into consideration and all stakeholders should be involved in decision making.

Keywords: Capitalization, Service Delivery, Interest Rate, Loan Service, Project Financing.

1. Introduction

1.1. Background to the Study

The Nigerian economy at the commencement of democratic governance in 1999 was characterized by huge deficit financed mainly through the banking system. Similarly, Umoh (1992:19) observed that the survival and growth of Nigerian banks are intractably controlled by the native economy. Fundamentally, economic manifestation revealed unfavourable balance of payments, weak financial system, high unemployment rate, accumulation of large debt services arrears and policy inconsistency. Particularly, the financial sector was bedeviled with instability, undercapitalized and distressed banking system. Consequently, His Excellency, Chief Olusegun Obasanjo, GCFR, former President and Commander - in Chief of the Armed Forces Federal Republic of Nigeria on his assumption of office directed the Central Bank of Nigeria (CBN) to double its effort in dealing with a number of challenges so as to achieve monetary stability and sound financial system in Nigeria however, the measures adopted to achieve these objectives were adhoc in nature and therefore ineffective. In this regard, the Federal Government in 2003 embarked on a general fundamental restructuring of the economy under the home - grown reform programme named National Economic Empowerment and Development Programme (NEEDS) in which Central Bank of Nigeria is playing an active role in its implementation.

The continuous increase in the pump price of fuel, retrenchment, retirement policies of government, rapid depreciation of the naira and subsequent high inflation rate made it very difficult for an average Nigerian to generate income and be able to save money for contingencies and to procure loans for business ventures. In this circumstance, banks were faced with the problem of large quantum of non-performing loans, which accentuated the precarious financial condition as revealed by chronic illiquidity, and insolvency problems.

The history of minimum paid up capital for banks revealed that prior to 1992, the requirement was N12 million for Merchant Banks and N20 million for Commercial Banks. In 1992, capital requirement was reviewed to N40 million and N50 million respectively. In 1997 the Central Bank granted uniform banking license to all banking institutions and raised the capital requirements to a uniform level of N500 million, thus, the distinction between commercial and merchant banks was removed to allow for a level playing ground preparatory to the introduction of universal banking. Again in 2000 minimum capital moved to N1 billion for new banks, while existing banks were expected to comply by December 2002. In 2001, minimum capital was further reviewed to N2 billion for new banks while existing banks were given up to December 2004 to

meet up with the requirement. It was at this stage that professor Charles C. Soludo directed banks to meet the new capital base of N25 billion by the end of December 2005.

In 2004, the Central Bank's initial assessment of the banking industry revealed that as at the end of March 2004, sixty-two (62) of Nigeria's eighty-nine (89) commercial banks were classified as sound and satisfactory, fourteen (14) as marginal and eleven (11) as unsound, while two (2) of the banks did not render any returns for the period CBN (2004). Following the assessment, the Central bank of Nigeria embarked on a reform of the banking sector. As a prelude to the first phase of the reform, on 6th July 2004, the Governor of Central Bank Prof. Charles Soludo announced a thirteen (13) point reform agenda aimed at sanitizing and repositioning the banking sector. The capital requirement of N25 billion naira that all commercial banks must meet by 31st December 2005. Soludo (2004) observed that the policy was aimed at preventing the impending systemic crisis in the industry and permanently stopping the boom and burst cycles which had hitherto characterized the banking sector, indeed one of the reform is to create a banking system, which depositors can trust and investor can rely upon according to Soludo, It is good news to report that as at 31st December 2005, twenty five (25) banks emerged from the exercise while fourteen (14) banks which could not meet the recapitalization deadline had their operating licenses withdrawn. Osho (2005) observed that the reforms included measures aimed at improving bank regulation such as consolidating the supervisory function within the Central bank, increasing the minimum paid up capital requirement of banks and the rationalization of non-bank financial institutions.

This paper assesses the impact of government policy on service delivery with special focus on capitalization policy and service delivery in the banking sector of Nigeria. The paper would be divided into four sections. Section one is an introductory section, section two contains literature review and theoretical framework, section three deals with discussions of findings and results and section four concludes the paper.

1.2. Statement of the Problem

Before now, the Nigerian banking sector had witnessed tumultuous period characterized by weak banks, financial instability and unhealthy competition, this trend brought untold hardship to the depositors who lost confidence in the remaining banks. The other sensitive aspect of the economy did not escape the negative impact of banks distress. There was almost a zero growth in the industrial sector. The inflation rate was very high while the exchange rate of the naira with other major currencies of the world was equally high. Again, the near level of service delivery by the Nigerian banks and its inability to voluntarily embark on consolidation in line with global trend and to meet the local requirements for facilities for business growth and customer satisfaction therefore necessitated the need for a new capitalization policy of the government. The new policy on capitalization was aimed at promoting the soundness, stability, customer's confidence and enhanced efficiency of the banking sector. The budget question now is, how will the capitalized banks meet these current challenges? The study reported in this paper sets to provide answer to this question and some of the research question raised below by studying the relationship between the capitalization policy and service delivery in the Nigerian banking industry.

1.3. Research Questions

In line with 1.2 above, the following research questions were designed

- To what extent has the capitalization policy affected service delivery in the banking sector?
- How does the policy influence management and administration of depositor's funds?
- To what extent does the policy affect capital project financing?
- How does the policy affect interest rate management?
- To what extent does capitalization policy impact on loan service?

1.4. Objectives of the Study

The main objective of this study is to examine the relationship between capitalization policy and service delivery in the Nigerian banking industry.

Specific objectives of this study include:

- To establish the relationship between capitalization and management of depositor's funds;
- To establish the relationship between capitalization and performance of loan services;
- To determine the relationship between capitalization and huge capital project financing.
- To determine the relationship between capitalization and interest rate management;
- To determine the relationship between capitalization policy and conditions of services and welfare of bank staff in the post capitalization period.
- Based on 1-5 above proffer useful suggestions.

1.5. Hypotheses

The hypothesis formulated for this study is as follows:

- H₀: There is no significant relationship between Capitalization Policy and Service Delivery in the Nigerian Banking sector.
- H₁: There is significant relationship between Capitalization Policy and Service Delivery in the Nigerian Banking sector.

1.6. Significance of the Study

The Central Bank policy on recapitalization was meant to enhance the effectiveness of the Nigerian banking industry, through improved but relatively stable capital base to attract high level of depositor's confidence, reduce interest rate for both short and long – term loans and attract both local and foreign investors to the Nigerian economy. As at 31stDecember 2005, 75 banks emerged as 25 banks out of the original 89 banks, while the remaining 14 were unable to meet the target of 25 billion minimum capital bases and therefore had their licenses revoked.

The findings of the study will help confirm how well the banking sector has been strengthened to precipitate economic growth of the Nigerian economy. It will also establish whether the capitalization policy has led to Nigerian banks participating more in international business. A major significance of this study is to establish the impact the capitalization policy has on the service delivery of the surveying banks.

Again, the study will widen the horizon of knowledge by making scholarly contributions. Also, information gathered from such study will assist both the apex bank and the Managers of the Nigerian economy to take necessary but very vital decisions on financial issues relating to the Nigerian banking industry, and national economic growth.

Finally, the study will be relevant to students and scholars interested in the area reported in the paper.

1.7. Scope of the Study

The study reported in this paper studied the impact of the government policy on capitalization on general service rendition among the surviving banks in Nigeria. Services such as short and long-term loan administration, savings, product development, branch networking and general conditions of service of the bank staff were some of the service areas reviewed by the study in the post capitalization era. The study was targeted at the component members of the 25 consolidated banks that emerged from the first phase of the reform of the banking sector. The study sampled 15 banks selected on the basis of their volume and mode of operation asset base, age and geographical distribution. The fifteen (15) banks were: First bank Plc, UBA Plc, Union bank Plc, Zenith Bank Plc, First Inland Bank, Afri Bank Plc, Wema Bank, Oceanic Bank Plc, Fidelity bank, Skye bank, Platinum Habib Bank Plc and Intercontinental Bank Plc.

The study focused on the outcome of the policy for the period January 2006 – January 2017.

The study focused its attention on the impact of the capitalization policy on management of depositor's funds, loan services administration, interest rate administration and condition of service of bank employees.

1.8. Methodology

The study reported in this paper basically a survey research which study the banking sector population using sample size of 15 out of the 25 banks that survived the federal government policy on banks capitalization.

Data for the study were generated from both primary and secondary sources. The instruments of primary data utilized include interview and questionnaires administered to respondents. The secondary source of data was derived from text books, Central Bank Publications, Journals and other unpublished materials including the internet.

Data for the study were analysed using descriptive statistics such as tables and simple percentages and inferential statistical tool of Chi-square test. The chi-square formula is given as:

$$X^2 = \sum \frac{(FO-FC)^2}{FC} \text{ sources SPIKE ET AL (2017:233)}$$

Where: X^2 = Chi-Square

FO = Observed frequency

FE= Expected Frequency

\sum = Sum of

Df = Degree of freedom = (r-1)(c-1) at 0.05 probability

The target population of the study is the staff and customers of the 15 banks selected, a total of 45 respondents as banks staff and 60 respondents as customers. The banks were selected through stratified sampling technique while the customers were randomly selected. 45 questionnaires were administered to 45 staff respondents and 41 were returned duly completed while 60 questionnaires were administered to customers and 53 were returned duly completed. To this end, analysis will be based on 94 respondents.

2. Literature Review and Theoretical Framework

2.1. Literature Review and Capitalization

Banking sector reforms and consolidation have recently intensified due to forces of globalization, which are guising the integration of the world's financial markets and economies.

Reforms according to Ajayi (2005) are predicated upon the need for reorientation and repositioning of an existing status quo in order to attain an effective and efficient state. He observed that there could be fundamental bottlenecks that may inhibit the functioning of institutions for growth and the achievement of core objective, carried out earlier through government institutions or private enterprises. Reforms become inevitable in the light of the global dynamic exigencies and emerging landscape. Banking sector reforms are driven by the need to deepen the financial sector and reposition it for growth

to become integrated into the global financial architecture, and evolve a banking sector that is consistent with international best practice.

Consolidation according to Berger Et al (1999) cited by Ajayi (2004) is the reduction in the number of banks and other deposit taking institutions with a simultaneous increase in size and concentration of the consolidated entities in the sector.

On the issue of capitalization, it could be seen that traditional capitalization for business entities including banks, serves as a measure of business ownership, provision of operational funds and facilitating market pressure for managerial prudence and efficiency. It is therefore critical for every organization to be well capitalized to be able to achieve efficient performance. This is even more important with financial institutions particularly banks.

In addition, Basel committee (2003) also revealed that the relative scarcity of bank failures despite a severe U.S. corporate recession in 2001 and subsequent sluggish recovery has to be attributed in part to banks strong capital levels, and at least some credit should go to the capital regime that has been in place in the U.S. throughout the 1990s, namely 198/8 Basel Accord Operating in conjunction with Prompt Corrective Action. Basel committee also revealed that Poland in 1993 successfully adopted elements of banks recapitalization to face its financial crisis because sound banks emerged at the end of the exercise. In Thailand (1997-1998) financial institutions were recapitalized in several ways.

The first stage according to this report involved setting the capital base adequacy ratio (CARS) of eight participating banks to about zero percent, and then the second stage of four percent while in the third stage, the capital base adequacy ratio (CARS) of four large state-owned banks was raised to the prescribed Basel rule of eight percent. The recapitalization in the first and second stages mainly took the form of government purchasing newly issued shares by the recapitalized banks, the government paid for these shares through bonds issued with the same conditions as earlier consolidation bonds. This action accordingly heightened temporary state ownership in the banking industry, while the third stage involved the extension by the government of subordinated loans to the banks with little effect on increasing government ownership in the banks. All the consolidation processes involved in a total gross cost of approximately 13 percent of GDP over an eighty-year period (1992-2000).

In his review Ajayi posited that in Yugoslav economy, banking industry restructuring was motivated by the need to establish a healthy banking sector that will carry out its financial intermediation role at a minimal cost, effectively provided service consistent with world standard and which will involve foreign financial institution and banks privatization as the ultimate goal. The central focus was to shore up the capital base of the banks consolidated through mergers and takeover of local banks and selection of strategic investors for additional capitalization. Foreign banks permeated the industry exclusively by providing additional capitalization through investment in existing infrastructure, particularly the new banking product and operating technologies and buying shares of existing banks.

In his contribution Maximilian Hal (2004) as cited by Ajayi (2005) observed that the banking sector reform in Japan involved the reform of the regulatory and supervisory framework, the safety net arrangement as well as mechanism to speed up attempts at resolution of banks non-performing loans. In an attempt to revitalize the Japanese banking system, a package of proposals were used comprising among others the following: the government would work with the banks of Japan (BOJ) to try to reduce the bad loan ration of the big bank by half, the government would consider the possibility of establishing a new system for prompt infusion of state capital into undercapitalized banks, the government would act to ensure a tightening of the assessment of bank asset quality, possibly involving the use of Discounted Cash Flow (DCF) techniques in the assessment of the adequacy of provision among other measures.

The Asian continent had witnessed one of the most severe financial difficulties in recent history, which affected the banking system. This development induced government sled spruces in some of these countries. One of such examples is Malaysia. In his study of the Malaysia banking sector reform Uchendu (2005) observed that the Malaysia experience resulted from the contagion effect from the Asian financial crisis in 1997.

Finally, empirical evidence seems to indicate that a combination of both functions would give a clearer picture regarding the true extent of the financial health of any bank. Indeed, (Imala, 2004) confirmed this assertion when he postulated that the efficacy of any supervisory effort is at ensuring compliance with prudential guidelines, otherwise, called prudential regulations, while on the site activities involve physical verification of assets and liabilities and the appraisal of internal control systems of financial entities.

Corroborating the imperatives of regulation in banking industry, (Oguma, 1994) observe that the main objectives of the BOFIA, 1991 was to strengthen the powers of the CBN not only to license banks but also to deal effectively with the prevalent distress in order to engender safety and public confidence in the financial system.

2.2. Theoretical Framework

A plethora of theories exist on the significance of capitalization to general output growth and performance of every production unit. The emergence of economic growth theories can be traced back to Adam Smith's "Wealth of Nations". His view was later superseded by the theories of Richardo, Malthus and Milli, collectively known as the "Classical Theory of Economic Growth". In the late 19th and early 20th centuries Karl Max gave his theory of historical growth. Remarkably, during the 1903's and 40's R.F. Harrod and E. Dorman developed a path breaking theory of economic growth known as the Harrod - Dornar growth models.

The Harrod- Dormar theory shows that output is directly related to the capital stock so that a rise in the savings rate leads to a permanent rise in the growth of GDP. However, for the purpose of this study, we will adopt one of the neo-classical theories i.e. Paul Romers endogenous growth theory. The assumptions of this theory are – that production and investment depends on capital and labour. That capital strongly has increasing impact on the level of income and could also impact on consumption. Finally, that marginal product resulting from additional capital strictly adds to productivity and does not recognize the law of diminishing returns.

The endogenous growth theory therefore explains that for any organisation to do well and even have general impact on the growth of the economy, capital is very crucial. The theory believes that aggregate resources must be divided between the production of physical capital and consumption of goods in one sector, and production of knowledge or human capital on the other. In this regard, production level is determined by both the capital and labour. Capital is used to obtain other inputs and therefore its increase is critical to achieving productivity. This situation places higher recognition on the role of capital in every business endeavour, be it corporate or financial. It is not surprising therefore, that Prof. C.C. Soludo, governor of the Central bank of Nigeria directed banks increase their capital base to a minimum of N25 billion to ensure soundness, safety and stability of the banking system. It is expected that well capitalized banks will be able to contribute to the growth and development of the Nigerian economy as well as rendering high quality service to their customers. In this regard, the government capitalization policy could be said to be predicated on this theoretical foundation of the significance of capital to the survival of every institution whether corporate or financial.

The justification for adopting the Endogenous growth as a theoretical framework for this study is that it evaluates the importance of capital to production or business ventures. It also looks at the incremental contribution of capital to service delivery. It tries to evaluate capital in terms of resources and human capital. In this context, labour contribution to organization adds tremendous value to service delivery. This explains that no matter the capital injection into any business, its performance in terms of viability, profitability and quality of service delivery significantly depend on the human capital, which is the labour that undertakes the activities of such institution. This scenario conforms to our situation in the banking sector.

3. Discussions of Results and Findings

This section of the paper will present data captured from the respondents in the questionnaires administered and subsequently discussed the results and findings therein.

3.1. Respondents Profile

Tables 1 and 2 provide positions and years experience of bank staff respondents while tables 3 and 4 gives categorization of bank customers respondents according to their profession and number of years of patronage of banking.

Variable	Number of respondents	%
Management staff	11	27
Middle management	14	34
Others	14	34
No responses	2	5
Total	41	100

*Table 1: Bank Staff Respondents Categorization according to Positions
Source: Field Survey, 2017*

From the above table, it was revealed that of the Respondents, 11 or 27% are management staff, 14 or 34% are middle management staff while 14 or 34% belonged to the others cadre. 2 of the respondents did not indicate their positions in the bank.

Variable	Number of respondents	%
More than 10 years	17	41
More than 5 years but less than 10 years	8	20
Less than 5 years	14	34
No responses	2	5
Total	41	100

*Table 2: Respondents Categorization according to Years of EXPERIENCE with the Bank
Source: Field Survey, 2017*

Table two above showed that 17 or 41% of the respondents had put in more than 10 years of experience in the service, 8 or 20% had put in more than 5 years but less than 10 years, 14 or 34% had put in less than 5 years experiences in service. 2 respondents did no indicate their years of experience with the bank.

Variable	Number of respondents	%
Trading/business	10	19
Public/civil servant	30	57
Others	10	19
No responses	3	5
Total	53	100

Table 3: Categorization of Bank Customers Respondents according to their professions

Source: Field Survey, 2017

The above table showed that 10 or 19% were engaged in trading/business, 30 or 57% were public/civil servants, 10 or 29% belonged to other profession, then 3 or 5% of the respondents did not indicate their profession.

Variable	Number of respondents	%
More than 10 years	9	17
More than 5 years but less than 10 years	26	49
Less than 5 years	18	34
Total	53	100

Table 4: Categorization of Bank Customers Respondents Bank Patronage

Source: Field Survey, 2017

The table showed that 9 or 17% had been patronizing their banks for more than 10 years, 26 or 49% have more than 5 years patronage, while 18 or 34% had been patronizing their various banks for less than 5 years.

3.2. The New Capitalization Policy

Respondents were asked to express their opinion on the new capitalization. Table 5 below shows their responses.

Variable	Number of respondents	%
Highly welcomed development	61	65
Welcomed development	18	19
Fairly welcomed development	11	12
Unwelcome development	1	1
No responses	3	3
Total	94	100

Table 5: Respondent's view about the New Capitalization Policy

Source: Field Survey, 2017

The above table showed 61 of 65% of the respondents was of the view that the new 25 billion minimum capitalization requirements was a highly welcomed development, 18 or 19% saw it as a welcomed development, 11 or 12% saw it as a fairly welcomed development, and 1 or 1% saw it as an unwelcome development. While 3 respondents or 3% did not demonstrate their view about the new development in the banking sector.

3.3. Timing of the Policy

On the issue of the timing of the policy, respondents were asked to express their opinions which are presented on table 6 below.

Variable	Number of respondents	%
Give the bank more time	28	30
Categorise the bank for the purpose of capitalization	58	62
Allow the banks to function as they were	7	7
No responses	1	1
Total	94	100

Table 6: Respondent's Views about Timing of the Policy

Source: Field Survey, 2017

The above table showed that 28 or 30% of the banks staff felt that the government should have given the banks more time, 58 or 62% were of the opinion that the banks should have been categorized before capitalization. Only 1 respondents representing 1% demonstrated indifference on the issue.

3.4. Benefit of Capitalization Policy

The opinion of respondents about the benefit derivable from capitalization policy, table 7 below shows their responses.

Variable	Number of respondents	%
Reinforcing Public confidence	61	65
Attracting inflow of foreign investment	17	18
Boosting real sector growth	14	15
No responses	2	2
Total	94	100

Table 7: Respondent's view about the Benefits of the Banking Sector Reform
Source: Field Survey, 2017

The above table showed that 61 or 65% of the respondents considered reinforcing public confidence as the greatest benefits of banking sector reform, 17 or 18% felt that attracting inflow of foreign investment was the major benefits, while 14 or 15% observed that boosting of real sector growth was about the greatest benefit of the banking sector reform. 2 respondents or 2% did not react to the issue.

3.5. Problems Created by the Capitalization Policy

The view of respondents on the problems which capitalization policy may likely create, table 8, gives the responses.

Variable	Number of respondents	%
Unemployment	59	63
Trapping of depositor's funds	26	28
Political undertone	7	7
No responses	2	2
Total	94	100

Table 8: Respondent's Views on problems associated with the Capitalization Policy
Source: Field Survey, 2017

59 or 63% of the respondents considered unemployment as the major problem posed by capitalization, 26 and 28% felt that trapping of depositor's funds was one of the greatest problems created by the reform, 7 or 7% observed that banking sector reform in Nigeria had political undertones. Again, 2 respondents or 2% were indifferent.

3.6. Capitalization Policy and Management of Depositor's Funds

Respondents were asked to express their opinions on the impact of capitalization policy on the management of depositor's funds. Their views were presented on table 9 below.

Variable	Number of respondents	%
Highly enhanced	57	61
Fairly enhanced	27	29
No impact	7	7.4
No responses	4	4.6
Total	94	100

Table 9: Respondent's view on Capitalization Policy and Management of Depositor's Funds
Source: Field Survey, 2017

The above table showed that 57 or 61% of the respondents were of the opinion that management of depositor's funds had been highly enhanced, 27 or 29% stated that management of deposit's fund was fairly enhanced while 7 or 7.4% of the respondents felt that the new capitalization policy has not had any impact on the level of management of depositor's fund. 4 or 4.6% did not respond to the question.

3.7. Capitalization Policy and Loan Service Administration

Respondents were also asked to give their opinion on the influencing capitalization policy and loan service administration. Their responses were presented on table ten (10) below.

Variable	Number of respondents	%
Highly disposed to giving out loans	25	28
Disposed to giving out loans	34	35
Fairly disposed to giving out loans	30	32
No impact	4	4
No responses	1	1
Total	94	100

Table 10: Respondent's view on Loan Service Administration since Capitalization

Source: Field Survey, 2017

From the above table, 25 or 28% of the respondents reported that the banks are highly disposed to giving out loans, 34 or 34% reported that the banks are disposed to giving out loans, 30 or 32% reported the banks are fairly disposed to giving out loans, while 4 or 4% observed that no major impact on loan services administration since capitalization. However, 1 respondents or 1% is undecisive.

3.8. Capitalization Policy and Capital Project Financing

On whether or not capitalization policy has any impact on capital project financing, respondent's views were presented on table 11 below.

Variable	Number of respondents	%
Highly involved	31	33
Moderately involved	45	48
Somehow involved	15	16
No impact	3	3
Total	94	100

Table 11: Respondent's view on the extent Banks are involved in Capital Project Financing since capitalization

Source: Field Survey, 2017

The above table showed that 31 or 33% of the respondents were of the view that the bans were highly involved in capital project financing, 45 or 48% stated that the banks were moderately involved, 15 or 16% were not sure hence they observed that the banks were somehow involved on capital project financing since capitalization. 3 or 3% of the respondents did not react to this item on the questionnaire.

3.9. Capitalization Policy Influences Rate Management

Respondents were also asked to express their opinion on the influence of capitalization policy on interest rate management. Their views were presented below in table 12.

Variable	Number of respondents	%
0-30%	25	28
31-50%	29	30
51-70%	22	23
71 and above	6	6
No responses	12	13
Total	94	100

Table 12: Respondent's view on how Capitalization Policy affects Interest Rate Administration

Source: Field Survey, 2017

The above table showed that 25 or 28% of the respondents observed that the interest rate within their banks was reduced to between 0-30% since capitalization, 29 or 30% stated that the interest rate was brought down to between 31-50% another 22 or 23% saw the interest going down by 51-70%, 6+ or 6% observed that interest rate was reduced by 71% and above. While 12n or 13% were indifferent to the question.

3.10. Capitalization Policy and Staff Welfare

Respondents were also asked to indicate their opinion on whether or not capitalization policy has improved welfare of staff; their responses were presented on table 13 below.

Variable	Number of respondents	%
0-30%	22	23
31-50	9	31
51-70%	33	35
71 and above	8	9
No responses	2	2
Total	94	100

Table 13: Respondent's view on Capitalization and Staff Welfare
Source: Field Survey, 2017

The above table showed that 22 or 23% of the respondents were of the view that the general welfare of the staff of their banks had improved between 0-30% after the capitalization, 29 or 31% observed that staff welfare has improved by 31-50%, 33 or 35% stated that general staff welfare improved by 51-70%, 8 or 9% of the respondents were of the opinion that in their various banks, staff welfare improved by up to 71% and above 2 or 2% did not indicate their observation on the issue.

3.11. Test of Hypotheses

The hypothesis formulated for this study is as follows:

H₀: There is no significant relationship between capitalization policy and service delivery in the Nigerian banking sector.

H_i: There is significant relationship between capitalization policy and service delivery in the Nigerian banking sector.

The chi-square statistical tool will be used to test the hypotheses.

The formula so adopted for the computation is as follows:

$$X^2 = \sum \frac{(FO-FC)^2}{FC}$$

Where: X² = Chi-Square

FO = Observed frequency

FE= Expected Frequency

∑ = Sum

Service Delivery	Highly influenced	Fairly influenced	No impact	No Response	Total
Management of depositor's fund	57	27	7	4	95
Administration loan service	25	34	30	1	90
Capital project financing	31	45	15	3	94
Management of interest rate	25	29	22	12	88
Staff welfare	22	29	33	2	86
Total	160	164	107	22	453

Table 14: Computation Of Observed Values
Source: Researcher's Computation, 2017

Service Delivery	Highly influenced	Fairly influenced	No impact	No Response	Total
Management of depositor's fund	34	34	2	5	95
Administration loan service	32	33	21	4	90
Capital project financing	33	34	22	5	94
Management of interest rate	31	32	21	4	88
Staff welfare	30	31	20	4	85
Total	160	164	106	22	452

Table 15: Computation Of Expected Values
Source: Researcher's Computation, 2017

O	E	O-E	(O-E) ²	(O-E) ² /E
57	34	23	529	16
27	34	-7	49	2
7	22	-15	225	10
4	5	-1	1	0.2
25	632	-7	49	2
34	33	1	1	0.03
30	21	9	81	4
1	4	-3	9	2
31	33	-2	4	0.1
45	34	11	121	4
15	22	-7	49	2
3	5	-2	4	1
25	31	-6	36	1
29	32	-4	16	1
22	21	1	1	0.1
12	4	8	64	16
22	30	-8	64	2
29	31	-2	4	0.1
33	20	13	169	8
2	4	-2	4	1
				72.53

Table 16: Computation Of Chi-Square
Source: Researcher's Computation, 2017

$$\begin{aligned}
 &\text{Degree of Freedom} \\
 &= (R-1) (C-1) \\
 &= (5-1) (4-1) \\
 &= (4) (3) \\
 &= df = 12
 \end{aligned}$$

3.11.1. Decision Rule

If X^2 calculated value is greater than X^2 critical, we reject H_0 if otherwise, we accept.

Calculated value of $X^2 = 72.53$

Critical Value at 0.05% and 12df = 21.026

Comparing the X^2 calculated value of 72.53 is greater than x^2 critical value of 21.026 as such, we reject the H_0 in favour of H_1 and conclude that there is significant relationship between capitalization policy and service delivery in the Nigerian banking sector.

3.12. Major Findings of the Study

In line with the result discussed above, the study reported in this paper revealed the following major findings:

- Both the staff and customers respondents perceived the Federal Government Policy on bank recapitalization as a highly welcomed development.
- The study also revealed that the banks should have been given more time to meet the new capitalization requirement.
- The study also revealed that one of the greatest benefits of banking sector reform was the re-enforcement of public confidence.
- Again, unemployment was revealed as one of the greatest problems created by the capitalization policy.
- The study also reported that the management of depositor's funds has been highly enhanced since after capitalization.
- The study also revealed that as a result of capitalization policy, the banks possess the ability to be involved in capital project financing.
- The study also revealed that capitalization policy has not led to reduction of interest rate as expected.
- The study also revealed that respondents did not agree that capitalization really helps in improving the welfare scheme of staff of concern banks.

4. Conclusion and Recommendations

The capitalization of the banking industry in Nigeria appears to have created a significant impact in the Nigerian economy. It has elicited a high level of confidence among stakeholders in the Nigerian banking industry. Both staff and customer

of the banks were unanimous in their opinion that then policy has evoked more confidence in the banking system, the respondents felt that depositor's funds were more secure and a greater opportunity was created for business by the stronger capital base of the survived banks.

As posited by the modern growth theorist, capital accumulation is one of the necessary conditions for any meaningful growth to be recorded in any economy. By this, the present recapitalization policy will check the phenomenon of distress in the banking industry, in addition to promoting the depositor's confidence in the system.

On a final note, the recent increase in the capital base of banks in Nigeria has played a catalytic role in the developmental efforts of the country to move the economy forward. The banking sector of every economy is the pivot for economic growth and the development, because it serves as a bridge between depositor's surplus fund and borrowers of these funds.

More or less base on the findings of the study, the following recommendations are made.

- That the present capital base of 25 billion should not be seen as a complete cycle but rather be viewed as a policy that should be reviewed upwards from time to time to meet the demands of the economy.
- That future policy decisions in the Nigerian banking sector should take into consideration such factors as time, level of operation and consider some measure of categorization of the banks in implementing such sensitive policy issues.
- That numerous depositor's who are major stakeholders in the banking industry should in the future be considered in implementing all levels of policy in the banking industry.
- That a situation where depositor's funds were trapped as a result of the hasty implementation of the policy should be avoided.
- That in implementing future reforms in the banking industry, the interest of the staff of the banks should be considered. Any policy that has the potential of throwing bank workers into the already saturated employment market should be avoided.
- In order to further ensure confidence of major stakeholders in the banking industry, the central bank of Nigeria should be conducting spot checks on the activities of banks especially in the disclosure of their interest charges to investors.

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