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Historical Analysis as a Diagnostic Tool of Corporate Governance Ailment in the Nigerian Banking Sector

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Abstract

Although the attainment of the raison d'être of the Nigerian banking industry rests on history, the operators and regulators in the sector are yet to acknowledge the role of history in their corporate existence. A cursory look at the history of the Nigerian banking sector indicates that inadequate corporate governance is a dominant factor responsible for the failures in the sector. As a result of the prevailing low historical intelligence, measures are yet to be instituted towards mitigating the inadequate corporate governance which contributed to past failures. The learning of the lessons of success through study of failures is now imperative. Historical analysis as a diagnostic tool of the causes of corporate governance ailment must be acknowledged. This research is based on existing theoretical and practical knowledge on Banking. Data analysis was done through critical analysis of literature and dialectical reflections on same .Observations were also utilized. Observation is linked to validity as it is the most direct way of obtaining data. This research is expected to impact positively on the present low level of historical intelligence with a view to enhancing the diagnostic capacity of corporate governance ailment and hence performance of the Nigerian banking sector.

Keywords: Corporate governance, Corporate governance semantics, Historical analysis of Banks in Nigeria, low historical intelligence, Banking in Nigeria, Central Bank of Nigeria Intervention in Banks, Failures and distress of banks in Nigeria, Consolidation of Banks, Post consolidation.

Introduction

Banking is an industry in the service sector (Jones, 1993). Hendrickson (2004), in his study undertaken in the United State of America banking industry, demonstrates the correlation between a well-functioning banking system and a well-functioning economy. The health of the banking system of a Nation determines the well-being of the economy (Osaze, 2000). As stated by Karl Marx (2009), "gaining control of a nation's wealth is a must if the conquest of that nation's political system is to be achieved". This is exactly what has been done in the United State of America through the Federal Reserve System (as well as in many other countries through their respective Central banking system) (Guiliani, 2009). As argued by Keynes (2009), "there is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which no man in a million is able to diagnosis". Flowing from the perspectives of Karl Marx, Guiliani and Keynes, if you want to achieve the conquest of the political system of any nation, the capturing of their banking system is imperative. The banking industry in Nigeria plays a very critical role in the economic development of the country (Ebimobowei & John, 2011). As part of the Nigerian financial system, banks channel scarce resources from surplus economic unites to deficit units (Abdullahi, 2002, Nzolta, 2004). Thus, banking activities remains a critical variable in the National development of countries. The way banks function in providing its traditional services have changed drastically over the years due to the implementation of new technology in the sector. One of the most significant is electronic banking.

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Whatever it is between banks businesses or the plans of individuals which they seek to harness; these developments have made the management of these institutions more complex. The ability of the operators in the Nigerian banking sector to learn valuable lessons from past failures in the banking sector is now constrained as a result of low historical intelligence. The objective of this study is therefore to explore the historical perspective of the Nigerian banking sector. This will act as an enabler in learning the lessons of success through study of failures.

1.1 Methodology

This research is based on existing theoretical and practical knowledge on Banking. Data was collected from the literature on related concepts by means of critical analysis. Data analysis for purpose of explication of understanding was done by critical analysis of literature and through dialectical reflection about my understanding of it. In this study, observations were also utilized because they are believed to be effective for collecting data in studies where the phenomenon is hidden from public view (Jorgensen, 1989). The importance of observation and its link to validity was summarized by (Gillham 2000:46), when he stated that "...the overpowering validity of observation is that it is the most direct way of obtaining data. It is not what people have written on the topic. It is not what they say they do. It is what they actually do". This provided the insight into what people 'actually do', or for my case, 'actually talk about' in certain settings (Griffins, 1985).

The critical question to be answered in this study is outlined below:

Research Question: Is historical analysis relevant in the determination/diagnosis of the causes of corporate governance ailment in the Nigerian banking sector?

1.2 Literature Review

The establishment of the banking industry in Nigeria to a large extent could be attributed to be involvement of the British in the country since 1860. Nwankwo (1980), for analytical convenience, classified the evolution of commercial banking in Nigeria into five stages namely: the free banking era, the pre-central Bank of Nigeria era, the post Central Bank of Nigeria era, the indigenization era and the era of deregulation. Nzolta (2004) also highlighted the era of bank distress (1993 – 2001) and the era of bank consolidation (2004 – 2008). The period from 2009 to date is the post consolidation era.

1.3 The Free Banking Era – up to 1952

The era spans between 1892 and 1952. One important feature of the era was the absence of banking legislation. That resulted in a boom in banking, especially indigenous banks which later in many instances ended in failure. Also during the era, three foreign banks and two biggest indigenous banks were established. **While the foreign banks were:** (1) The Bank of British West Africa Ltd (BBWA) (2) The Barclays Bank Dominion, Colonial and Overseas; and (3) The British and French Bank of Nigeria. **The indigenous banks were** :(4) The Africa Continental Bank Ltd (5) National Bank, founded by Dr. Nnamdi Azikwe from Tinubu properties Limited. The industrial and Commercial Bank was established in 1929. After a tenuous survival of barely one year, against the hostile competition of the overseas banks, it was forced into voluntary liquidation. In 1931, the Nigerian Merchantile Bank was established with the support of some of the former directors of the Industrial and Commercial Bank. It had branches in Lagos and Aba. Due to poor patronage, it was forced into voluntary liquidation in 1936. In September 1933, the mutual Aids society was also established by Nigerians as a private company under the Money Lenders ordinance of 1929. The company was linked with the National Bank of Nigeria Limited to assist small – scale indigenous enterprises. Three directors of the Nigerian Merchantile Bank were among the promoters of the two new companies. While Agbonmagbe Bank Limited (now Wema Bank) was established in 1945, the Nigerian farmer Bank was established in 1947.

1.4 The Pre – Central Bank of Nigeria (CBN) Era:

Ayida (1960) described the period between 1951 and 1952 as the period of non – interventionist, intolerable and chaotic commercial banking in Nigeria. This era marked the genesis of regulation of the Nigerian banking industry following the enactment of the Banking Act No. 15 of 1952, which came into being as a result of the incessant bank failures.

In his analysis of the era, Osayameh (1991) noted that the nature of regulations was simplistic and relatively unrestricted. The Banking Act No. 15 of 1952 prohibited the transaction of any banking business except by a company in possession of a license granted by the then Financial Secretary to the Government.

To be eligible for a license, the company, if incorporated in Nigeria must have minimum paid up capital of £12,500.00 out of £25,000.00 nominal capital. If incorporated outside Nigeria, it must have a minimum paid up capital of £100,000.00 out of £2,000,000.00 nominal capital. The then existing banks were given up to three months to apply for license and up to three years within which to comply with the licensing requirements. The Financial Secretary in considering an application for a license or its revocation must have regard, among other things to the applicants' liquid resources in relation to its liabilities. It could also withdraw the license of any bank which conducts its business in any manner prejudicial to the interest of its depositors (Asomugba, 1997).

1.4 The Post – Central Bank of Nigeria (CBN) Era:

In 1958, both the banking ordinance and the Central Bank Ordinance of 1958 were passed. The Central Bank Ordinance repealed ordinance No. 15 of 1952. The ordinance came into operation in July 1958 when the CBN began operation, hence the reference – Post Central Bank of Nigeria Era. Under the 1958 Ordinance, the minimum paid up capital remained £12,500.00 out of £25,000.00 nominal capital for indigenous banks, but for the expatriate banks it was raised to £200,000.00 and any reference to nominal capital was removed.

In 1962, a further amendment was made which further raised the minimum paid up capital of indigenous banks from £12,500.00 to £250,000.00. The existing banks were given seven years grace within which to comply. In respect of expatriate banks, they were expected to provide a satisfactory undertaking to the Minister of Finance that they would keep within Nigeria assets of at least £250,000.00. The provision remained in force until the promulgation of the 1969 Banking Act 1969 No. (1) Which repealed the Banking Act of 1958.

The Banking Act No. 1, 1969 made detailed provisions for the establishment, operation and control of banks and banking in Nigeria. The Banking (Amendment) Act of 1972 removed the protection hitherto enjoyed by "the unscrupulous bank managers who recklessly gave out loans to customers sometimes in defiance of their banks instructions" (Asomugha, 1997:3).

1.5 The Indigenization Era

The indigenization era started in 1972. Nwankwo (1991:14) posits that as a result of the indigenous enterprises Promotion Degree 1972 designed to enable Nigerians control the "commanding height" of the economy and partly in an endeavor "to get intimately involved in commercial banking activities so as to guide them to operate to the maximum benefits of the economy". The Federal Government in 1975 acquired 40% equity interest in, Union Bank of Nigeria Ltd., First Bank of Nigeria Ltd and United Bank of Africa. Following the Enterprises Promotion Act 1977 in which banking was classified as a schedule II activity requiring a mandatory Nigerian minimum participation of 60%, the Federal Government acquired the remaining portions of the mandatory 60% participation in the three major foreign banks; Union Bank of Nigeria Ltd, First Bank of Nigeria Ltd and United Bank of Africa and 60% in the then remaining seven foreign banks. The action had the immediate effect of turning banking into a public sector industry because, with the sole exception of one bank, all the banks in the country then were either wholly owned by the State Government or predominantly owned by the Federal Government. Osayameh (1991), points out that during the indigenization era, marketing of their services was not a major priority for the banks in Nigeria. The favourable economic climate prevailing as a result of oil boom was largely responsible.

1.6 The Era of Deregulation

In response to criticisms that the banks were over regulated, with too little intelligent supervision and control, gradual deregulation of the Banking Sector began in 1984 and was accelerated with the adoption of the Structure Adjustment Programs in July 1986 by President Ibrahim Babangida. The structural adjustment programme was designed to give more room for the operation of free market forces and more discretion in their operations and stimulate competition in the financial system as a whole (Nwankwo, 1991:19). Between 1956 and March 1989, a total of thirty-three new commercial and thirty-one new merchant banks were licenced to commerce operation in Nigeria (Nwankwo, 1991:15).

1.7 The Era of bank distress and failures

The 1991 Banks and other Financial Institutions Act No. 25 and Central Bank of Nigeria Act No. 24 of 1991 were passed simultaneously. The Banks and other Financial Institutions Act No. 25 repealed the 1969 Banking Act. The Central Bank of Nigeria Act No. 24 repealed the 1958 Central Bank Act. By virtue of the Act, the Central Bank is given the responsibility for overall control and administration of the monetary and banking policies of the Federal Government both within and outside Nigeria. The Banks and other Financial Institutions Act No. 25 of 1991 among other things regulates banking and other financial institutions by prohibiting the carrying on of such business in Nigeria except provision have been made regarding the proper supervision of such institutions by the Central Bank of Nigeria.

Central Bank of Nigeria Act No. 24 and Banks and other Financial Institutions Act. 25 of 1991 were, therefore, enacted to strengthen and extend the powers of Central Bank of Nigeria to cover the new institutions in order to enhance the effectiveness of monetary policy, regulation, and supervision of banks as well as non-banking financial institutions. Unfortunately, in 1997, the Federal Government of Nigeria enacted the Central Bank of Nigeria (Amendment) Act No. 3 and Banks and other Financial Institutions (BOFI Amendment) Act No. 4 to remove completely the limited autonomy which Central Bank of Nigeria enjoyed since 1991.

The 1997 amendments brought the Central Bank of Nigeria under the supervision of the Ministry of Finance. The composition of the Board was also changed to comprise a part-time Chairman, the Central Bank of Nigeria Governor, The Deputy Governors of Central Bank of Nigeria, The Director-General, Federal Ministry of Finance, the Managing Director, Nigerian Deposit Insurance Corporation (NDIC), and four other part-time members. The board was empowered to approve, among others, the Bank's annual budget, audited accounts, the formulation of the monetary and credit policy, as well as device suitable mechanism for the determination of exchange rate. The Act made Central Bank of Nigeria directly responsible to the Minister of Finance with respect to the supervision and control of banks and other financial institutions, while extending the supervisory role of the Bank to other specialized Banks and Financial Institutions. The amendment placed enormous powers on the Ministry of Finance while leaving the Central Bank of Nigeria with subjugated role in the monitoring of the financial institutions with little room for the Bank to exercise discretionary powers. Similarly, in 1997, the NDIC Act No. 22 of 1988 was reviewed and amended to give more powers to the NDIC as well as autonomy from the Central Bank of Nigeria. The corporation was given power to assume supervisory responsibility over insured institutions. The need to insure depositors funds led to the promulgation of the Nigeria Deposit Insurance Corporation (NDIC) Act. Prior to the NDIC Act, there was no institution to ensure depositors funds. As a result of the rapid expansion in the banking system, the need to insure depositor's funds became more obvious (Asomugha, 1997).

In 1998, the Central Bank of Nigeria (Amendment) Act No. 37 came into being. The Act repealed the Central Bank of Nigeria (Amendment) Act No. 3 of 1997. The Act provides a measure of operational autonomy for the Central Bank of Nigeria to carry out its traditional functions and enhances its versatility. Specifically section 2 of the 1998 Act contains the amendment to the membership of the Board of Directors of the Bank which restores its chairmanship to the Central Bank of Nigeria Governor. The other members of the board are the Deputy Governors, the Permanent Secretary, Ministry of Finance, and five part-time Directors. The Act also reconstituted the Financial Services Regulation Committee (FSRC) for the purpose of co-coordinating the supervision of financial institutions in the country. Membership of the committee comprises the Central Bank of Nigeria Governor who is the Chairman, Director General, Security and Exchange, Commissioner for Insurance, the Registrar-General, Corporate Affairs Commission, and a representative of the Federal Ministry of Finance not below the rank of a Director. Furthermore, the regulatory power of the Central Bank of Nigeria was strengthened by the Banks and other Financial Institutions (Amendment) Act No. 38 of 1998 which repealed BOFI (Amendments) Act No 4 of 1997.

Through the amendments, the Central Bank of Nigeria may vary or revoke any condition subject to which a license was granted or may impose fresh or additional condition to the granting of a license to transact banking business in the country. The Act also empowered the Central Bank of Nigeria to examine the books of specialized banks and other financial institutions, including Development Banks, Primary Mortgage Institutions, Community Banks, People Banks, Bureau De Change, and Discount Houses.

By the Act, the Central Bank of Nigeria powers on banks, especially those relating to withdrawal of licenses. The era of deregulation in the financial sector was greeted with innovations, deregulation of interest rates, fierce competitions, and expansion in the size and number of banking and non-banking institutions.

The increased competition led to greater risk taking by banks which consequently resulted in insolvency, failures, and distress of many banks in the 1990s. There were 8 reported distressed banks in 1991, 16 in 1992, 38 in 1993, 55 in 1993, 55 in 1994, 60 in 1996 and 43 in 1997 (Iyoha, 2003, Donwa & Odia, 2011). While one out of every two banks was distressed in the early 1990s, in the early 2000s one out of every three banks was marginally unsound or totally unsound (Adewoyin, 2006, Sanni, 2009). The challenges of management quality highlighted by Ebhodaghe, 1994; Mamman & Oluyemi, 1994; Kubr & Wallace, 1993; and Aristobolo 1991) are directly related to inadequate corporate governance during the era of failures and distress in the Nigeria banking sector.

The regulatory and security agencies intensified the fight against money laundering and economic crimes through the amendment of the Money Laundering Act No. 3 of 1995 in 2004 and the enforcement of the mandatory cooperation of banks with the National Drug Law Enforcement Agency (NDLEA) and the Economic and Financial Crimes Commission (EFCC). Furthermore, the CBN and the Nigerian Inter-bank Settlement System (NIBSS) finalized arrangement for the introduction of the settlement banking system under the Nigerian Automated Clearing System (NACS). NACS was introduced in October 2002 to facilitate on-line cheque clearing and reduce the number of maximum clearing period for cheque to three working days. Under the settlement banking system, seven banks were selected to clear cheques for themselves and on behalf of others banks.

1.8 The Era of Consolidation 2004 – 2008

As at the end of June, 2004, there were 89 Commercial Banks operating in the country, comprising institutions of various sizes and degrees of soundness. Structurally, the Nigeria Banking sector was highly concentrated, as the ten largest banks accounted for about 50 percent of the industry's total assets/liabilities. Soludo (2004), found that most banks in Nigeria had a capitalization of less than $10,000,000.00 (i.e 1 US $ = N133.9). According to Soludo, the largest bank in Nigeria has a capital base of about US$240,000,000.00 compared to US$526, 000,000.00 for the smallest bank in Malaysia. The small size of most of Nigerian banks, each with expensive headquarters, separate investment in software and hardware, heavy fixed costs and operating expenses, and with bunching of branches in few commercial centers – led to very high average cost for the industry. The spread between deposit and lending rates placed undue pressures on banks to engage in foreign exchange malpractices as means of survival. According to Soludo (2004:32) "some of the banks are not engaged in strict banking business in terms of intermediation – they are traders – trading in foreign exchange, in government treasury bills and sometimes in direct importation of goods through phony companies". In 2004, the industry went back to the days of policy somersaults when the CBN pronounced the new minimum capital requirement to be met by Banks at the end of 2005 (Union Bank Annual Report, 2004:21). The consolidation of the Banking industry in Nigeria which started in 2004, increased the minimum paid up capital from N2,000,000,000.00 to N25,000,000,000.00 (Donwa & Odia, 2011).

1.9 The Post Consolidation Era 2009 – Date

In this era, the Merger and acquisitions in Nigeria banks between 2004 and 2005 will be examined. A post mortem of October 2009 CBN intervention in Union bank and some other banks will also attract attention. In an attempt to meet the new capital base requirement of N 25,000,000,000.00, Nigerian Banks adopted different strategies. While some banks went to the capital market, others explored Mergers and acquisitions. These strategies changed the configuration of the Nigerian banking sector as shown on Table 1 below:

Table 1: Bank Mergers and Acquisitions in Nigeria between 2004 and 2015

S/N	New Bank	Constituent Members
1	Access Bank Nig Plc	Intercontinental Bank Plc, Marina International Bank, Capital Bank International, Access Bank Nig. Plc
2	Diamond Bank Plc	Diamond Bank, Lion Bank and African International Bank
3	Ecobank Plc	Oceanic Bank Int'l Plc., Intercontinental Trust Bank
4	Fidelity Bank Plc	Fidelity Bank, FSB International Bank, Manny Bank
5	First Bank of Nigeria Plc	First Bank Plc, MBC International, FSB Merchant Bankers
6	First City Monument Bank Plc	First Inland Bank Plc, COOP Development Bank, Nigeria-American Bank, Midas Bank, FCMB Plc
7	Heritage Bank Limited	Enterprise Bank Plc, Societe Generale Bank Nig. Plc
8	Keystone Bank Plc	Bank PHB, Platinum Bank Limited & Habib Nigeria Bank Limited
9	Skye Bank Plc	Mainstreet Bank Plc, Afribank Plc, Prudent Bank Plc, Bond Bank Limited, Reliance Bank Limited, COOP Bank Plc, EIB International Bank Limited.
10	Stanbic IBTC Bank Plc	IBTC Chartered Bank Plc, Stanbic Bank, IBTC, Chartered Bank Plc and Regent Bank Plc.
11	Sterling Bank Plc	Equitorial Trust Bank, Trust Bank of Africa Ltd., NBM Bank Ltd, Magnum Trust Bank, Nal Bank Plc & Indo-Nigerian Bank.
12	Union Bank of Nigeria Plc	Union Bank of Nigerian Plc, Union Merchant Bank Ltd., Broad Bank Limited & Universal Trust Bank Plc.
13	United Bank for Africa Plc	United Bank for Africa Plc, Standard Trust Bank Plc & Continental Trust Bank
14	Unity Bank Plc	Intercity Bank Plc, First Interstate Bank Plc, Tropical Commercial Bank Plc, Centre-Point Bank Plc, Bank of the North, New African Bank, Societe Bancaire, Pacific Bank & New Nigeria Bank.
15	Wema Bank Plc	Wema Bank Plc & National Bank of Nigeria Limited
Other Banks		
16	CITI Bank Limited	N/A
17	Guaranty Trust	N/A
18	Standard Chartered Bank	N/A
19	Zenith Bank Plc	N/A

From various CBN Annual Reports 2003 - 2015

1.9.1 A Post mortem of August 2009 CBN Intervention in Union Bank of Nigeria Plc and Four Other Banks

In 2009, the then Governor of CBN, Sanusi, ordered a joint examination of Diamond Bank, First Bank, United Bank for Africa, Guaranty Trust Bank and Sterling Bank, Afribank Plc, Intercontinental Bank Plc, Union Bank of Nigeria, Oceanic International Bank Plc and Finbank Plc. by the CBN and the Nigeria Deposit Insurance Corporation (NDIC). At the end of the examination, the CBN stated on the 14th of August, 2009 that Afribank Plc, Intercontinental Bank Plc, Union Bank of Nigeria, Oceanic International Bank Plc and Finbank Plc were in "grave situation". The then CBN Governor Sanusi, said the management of the affected banks were found to have acted in a manner detrimental to the interest of their depositors and creditors. On 14 August, 2009, in exercise of the powers of his office as contained in sections 33 and 35 of the Banks and other Financial Institutions Act 1991, as amended, and after securing the consent of the board of Directors of the CBN, the Governor of CBN removed and replaced the executive management of the five banks.

The CBN Governor acted in excess of his powers by **removing** and **replacing** the Executive Management of the Banks at the same time. In line with Section 35(1) (d) (i) of the Banks and Other Financial Institutions Act of 1991 (As Amended), the Governor may by Order in writing remove from office any Director of the Bank. The Governor may also elect under Section 35(i)(d)(ii) of the Act to appoint any persons as a Director or Directors of the bank. However, the provisions under Section 35(i)d(i) and Section 35(i)d(ii) of the Act are mutually exclusive. The Governor cannot remove the Directors under Section 35(i)d(i) and appoint Directors under Section 35(i)d(ii) at the same time. The responsibility for replacing the removed Directors rests on the Shareholders where the Governor elect to remove the Directors under Section 35(i)d(i) of the Act. That is the only way to give true meaning to the elements of **independence** and **control** in corporate governance (Omoijiade, 2015:197).

In the letter relating to the removal of the Executive Management of Union Bank, the CBN stated that Union Bank of Nigeria has been carrying on business in a manner detrimental to the interest of its depositors and creditors in particular because:

i. 19.8% of Union Bank of Nigeria Plc total loan portfolio of N638.00 billion was non-performing.
ii. The capital adequacy ratio of Union Bank of Nigeria Plc is -1.01%, which is below the minimum of 10% prescribed by the Central Bank of Nigeria.
iii. The liquidity ratio of Union Bank of Nigeria Plc is 23.8% below the minimum of 25%
iv. Union Bank of Nigeria Plc showed signs, symptomatic of a troubled bank with its inability to meet its maturing obligations without recourse to the expanded discount window of the Central Bank of Nigeria.
v. Union Bank of Nigeria Plc has insufficient assets to cover its liabilities.

My comment on CBN positions in (i) – (v) above are given below:

1.9.2 Non-Performing Loans

The Central Bank of Nigeria indicated that Union Bank's non-performing loan was 19.8% as at May 2009. The trend in the non-performing loan of the bank in the accounts approved by the CBN from year 2006 showed that the ratio of the non-performing account improved from about 28% to 19.8% as at May 2009 due to aggressive debt recovery strategy adopted by the bank. The CBN should have reported the movement as a great improvement in the health of the bank and not deterioration. Besides, there was no threshold indicated by the CBN for non-performing loans. Further, included in the CBN computation was the loan of about N30 Billion granted to Transcorp for the purchase of Nigerian Telecommunications Limited (NITEL). At the time of the joint inspection of the NDIC and CBN, the Bureau Of Public Enterprises (BPE) had indicated that the bank would be issued bonds by the Federal Government in repayment of the loan since the sale of NITEL was reversed. Union Bank brought the letter to the attention of the CBN/NDIC examiners; but they simply ignored it. If the loan was adjusted, the ratio of non-performing loan would have reduced below the 19.8% reported by the CBN.

1.9.3 Capital Adequacy Ratio

The CBN reported a capital adequacy ratio of -1.01%. Union Bank of Nigeria had maintained a healthy capital adequacy ratio over the years. However, arising from the acquisition of some other banks following the consolidation and the growth of the bank, Union Bank of Nigeria Plc obtained the approval of the shareholders at the 2007 Annual General Meeting to raise 30% equity through a direct investment from foreign banks. While in the process of doing that, the CBN stopped Union Bank from attracting foreign investors, on the ground that no foreign bank would be allowed to take a material interest in any of the big banks in Nigeria. The bank thereafter decided to go to the stock market to raise equity. Again, the CBN slowed down the process by raising another circular that all banks going into the capital market must obtain the approval of the CBN.

The bank sent the request for approval and CBN insisted that the bank must submit the strategic plan of all its 14 subsidiaries and associated companies. By the time the bank concluded the process and obtained the CBN approval, the meltdown in the capital market had commenced and the stock exchange advised the bank not to approach the market at the time, which was around June 2008. Furthermore, the bank determined to beef up its capital embarked on asset revaluation of selected buildings which gave an asset revaluation surplus of N 25,000,000,000.00 discounted at the CBN rate of 45%. The request for the approval of the revaluation surplus which was sent to the CBN to enable the bank incorporate the figure in its financial statement for the period ended 31st March 2009 was delayed and on Thursday, 13th August, 2009, the CBN declined the request and asked the Group Managing Director to appeal.

After the removal of the Executive Management on 14th August, 2009, the CBN approved the request which was earlier declined. The actions of the CBN frustrated the ability of the bank to improve its capital adequacy and maintain a healthy capital. When the bank was earmarked for sale, as a going concern, the bank should have been allowed to value its entire assets in line with Investment and Securities Act of 2004. There is no evidence of comprehensive revaluation of the assets in the scheme of arrangement dated, September 1, 2011. Many of the assets had zero book values. They were acquired over 20 to 50 years. In the absence of revaluation of assets before recapitalization/sale of the bank's shares to new investors, the core investors succeeded in reaping from where they did not sow.

1.9.4 Liquidity Ratio

The CBN reported a liquidity ratio of 23.8% for UBN as at May 2009 against a threshold of 25%. The CBN did not show the liquidity ratios over a period of say January 2009 and May 2009, and thereafter, to show that the bank was in continuous contravention. The bank maintained liquidity ratios well above 25% minimum prescribed by the CBN for the period reviewed and the CBN had no basis to take action against the bank under the heading under reference.

1.9.5 Signs Symptomatic of a Troubled Bank

The CBN stated that Union Bank of Nigeria Plc showed signs symptomatic of a troubled bank with its inability to meet its maturity obligations without recourse to the expanded discount window of the CBN. That statement is simply not correct. The expanded discount window was created under the former CBN governor, Soludo, after a meeting of four banks, namely Union Bank of Nigeria Plc, Zenith Bank Plc, First Bank of Nigeria PLC, United Bank for Africa (UBA) Plc with the Nigeria Stock Exchange and a Deputy Governor of CBN, in an attempt to improve the liquidity of the stock market.

The banks had recommended to CBN to make the discount window lend to qualifying banks for longer periods of between 2 to 3 years, to give the stock market enough time to bounce back. All the participating banks were to discount qualifying instruments as prescribed by the CBN at the discount window. With the said arrangement, banks without qualifying instruments were not qualified to approach the window. However, the CBN made the discount window short-term instead of the recommended long-term. Union Bank of Nigeria PLC utilized the window to discount its qualifying instruments because the Bank found the window as a cheaper source of fund which was utilized to boost its profitability. Following the complaint of the former Governor of CBN, of frequent utilization of the window by UBN Plc, the bank stopped patronizing the window in May 2009. It is on record, that while the CBN and NDIC were carrying out their Audit in July 2009, the Bank had stopped going to the window in May, 2009. There was no basis for the comment by the CBN.

With effect from 1st July, 2009, the Central Bank issued the following guidelines that must be present before a bank is considered illiquid:

- The Bank's Current Account with the CBN is overdrawn and not covered by the next working day consecutively for 5 working days within a month.
- The Bank suffers clearing operation deficits for 5 consecutive days, i.e there was adverse clearing settlement position without adequate cover to the extent, that recourse had to be made to the clearing collateral.
- The Bank is unable to pay maturing obligations for 5 consecutive days, and the Bank is a net taker of interbank deposit of up to 25% of its total deposit for a period of 90 days.

When the CBN changed the Executive Management of Union Bank in 2009, the Bank had positive clearing of over 90 days at the CBN. There was no basis for CBN to conclude that the Bank was showing signs of a troubled bank.

1.9.6 Assets and Liabilities of Union Bank

The CBN stated that Union Bank assets were not sufficient to cover its liabilities. There were no details given to substantiate the comment. Besides, the comment contradicts the CBN earlier comment which posits that the net assets of the bank were less than half of the share capital.

This means that the net asset was positive; otherwise it would have been reported as net liabilities. The comment that Union Bank assets were insufficient to cover its liabilities is not correct as the total assets must be higher than the liabilities of the bank to give the net assets reported by CBN. This means that the Bank was in position to meet its maturing obligations. At no time was the bank reported as defaulting in meeting its obligations both locally and internationally.

It is clear that there was no proof that the assets of Union bank were deteriorating and the Executive Management did not act in the best interest of the bank at all times. The action of the CBN governor to remove the Executive Board was too harsh and done in bad faith for such a big and important bank, respected internationally. The Governor of the CBN ought to have given the bank the opportunity of fair hearing and response to the report of the examiners. In term of specific reference, section 13(3) of Banks and other Financial Institutions Act gives the bank the opportunity to draw up within a specified period, a capital reconstruction plan acceptable to the CBN. In that regard, Union Bank had arrangements with three issuing houses to raise N100 Billion bond as Tier 2 capital before the examination of the bank commenced, but the examiners were not interested in the information.

The August 2009 CBN intervention in some banks in Nigeria was a rigged game. A similar event took place in the United State of America in 1907. According to Perloff (2008:33), J. P. Morgan precipitated a panic by spreading false rumours about the insolvency of the Trust company of America. Commenting on the event, Allen (1949) wrote:

…certain chronicles have arrived at the ingenious conclusion that the Morgan interests took advantage of the unsettled conditions during the autumn of 1907 to precipitate the panic, guiding it shrewdly as it progressed so that it would kill off rival banks and consolidate the pre-eminence of the banks within the Morgan orbit… While the artificially triggered panic by J. P. Morgan in 1907 was done to prepare the Americans for the acceptance of the Federal Reserve Central banking system, the August 2009 intervention in some banks by the CBN was done to deliberately misinform the public to enable the apex bank enjoy public sympathy and support with a view to justifying the handing over of Public Enterprises to some powerful individuals/core investors. There is nothing to show that the exercise was not motivated by the deliberate desire to help some favoured investors with the investment of helpless investors. It was a brazen day light robbery.

1.10 The October, 2009 CBN Intervention in fourteen Banks in Nigeria

After the Aug 14th 2009 intervention, the CBN commenced another audit of 14 banks, namely: Bank PHB, Equitorial Trust Bank, Spring Bank, Wema Bank, Access Bank Plc, Citibank Nigeria Ltd, Ecobank Nigeria Plc, Fidelity Bank Plc, First City Monument Bank Plc, Skye Bank Plc, Standard IBTC Bank Plc, Standard Chartered Bank Limited, Zenith Bank Plc and Unity Bank. After a review of the findings of the Special Examination report in respect of the 14 banks, the CBN announced on October 2 that nine banks had adequate capital and liquidity to support the level of their current operations and future growth. The nine banks were: Access Bank Plc, Citibank Nigeria Limited, Ecobank Nigeria Plc, and Fidelity Bank Plc, First City monument Bank Plc, Skye Bank Plc, Stanbic IBTC Bank Plc, Standard Chartered Bank Limited and Zenith Bank Plc.

The 10th bank – which was Unity Bank, was adjudged to have insufficient capital but not in grave situation because it had a healthy liquidity position. The remaining four banks namely: Bank PHB Plc, Equitorial Trust Bank Plc; Spring Bank Plc and Wema Bank Plc were found to be in “grave situation”. The CBN sacked and replaced the executive management of Bank PHB Plc, Equitorial Trust Bank Plc and Spring Bank Plc. The banking watchdog injected N200 billion as liquidity support and long-term loans into the banks to enable them continue normal business, while pursuing recapitalization option. The CBN ordered Unity Bank and Wema Bank to recapitalise not later than June 30, 2010. Clarifying the actions of the CBN, the CBN Governor, explained that the intervention was informed by the need to save the banking system from total collapse. He said it was based on concern for the national economy as well as restoring confidence in the financial system. He stressed that weak risk management, serious liquidity shortages, sub-standard corporate governance, insolvency, among other serious problems were present in many of the banks. (This Day, Wednesday, 06 May, 2015).

1.11 Discussion

Ayida (1960) described the period of non-interventionist policy of commercial banking in Nigeria as intolerable and chaotic. Increased competition led to greater risk-taking by banks. It resulted in insolvency, failures and the distress of many banks in the 1990s (Ebhodaghe, 1994; Mamman & Oluyemi, 1994; Kubr & Wallace, 1993; Aristobolo, 1991).

The intolerable and chaotic situation surrounding the non-interventionist commercial banking in Nigeria (Ayida, 1960) and risk-taking by banks culminating in insolvency, failures and distress of many banks in the 1990s borders on inadequate corporate governance. The differences and similarities in meanings are rooted in sematics. Laundaver, Foltz and Laham (1998) describe sematic analysis as the theory and method for extracting and presenting the contextual – usage meaning of words.

They explain the underlying idea on how the contexts in which words are given offer (or not) a collection of mutual constraints which determines or undermines the similarity or otherwise of collection of words. Corporate governance is an activity with linguistic character. Wittgenstein (1953) provided a philosophical concept that, in its core, states that language shapes reality. He perceived the limits of language as the limits of the world that an individual is able to perceive. Where people cannot speak thereof they must be silent, that is, people cannot know what they have no words for (Wittgenstein, 1953 and 1921).

Following Wittgenstein, there must be a concept (notion) for the thing to be thinkable and, as concepts are elements of convictions, for the conviction to be existent. Frege (1879) pointed to the fact that epistemology needs to be founded on the linguistic logic of concepts in order to be able to provide real knowledge, because knowledge is based on and notated in the form of language. With imprecise concepts, there cannot be precise knowledge. Nevertheless, concepts are always imperfect and imprecise in that they can never describe all the aspects or features of the thing in it (Russel, 1912). The semantics in the historical analysis of corporate governance, risk-taking and intolerable and chaotic moments, follow a semasiological approach that takes the terms and concepts (things – for – us) used by research participants and the authors in the literature as starting points and asks for their meaning and only secondarily on onomasiological approach that departs from things – in – themselves and asks for their names. The onomasiological approach would require the possibility to perceive the real nature of corporate governance, which obviously is not given.

This means that throughout this research, the focus was on identifying and analysing the words used in describing corporate governance. The terms used by one individual or group were compared with the terms used by other individuals or group. By triangulating these findings with the descriptions in the literature and the perceptions and observations of the researcher, relatively solid definitions and understandings were achieved. Soludo (2004), a former Governor of CBN identified weak corporate governance as one of the problems facing the Nigeria banking sector. Sanusi (2009) also rested his intervention in 5 banks in August 2009 among other factors on Sub – standard corporate governance. The position of Soludo and Sanusi is strongly supported by Ebimobowei & John (2011) who found inconsistency in corporate governance in the Nigerian banking sector. Similarly, CBN (2011:218) stated that "three banks had two or more members of their families on the board; no bank complied with the requirement for independent directors and seven banks had executive directors as members of their board audit committees contrary to the provisions of the code of corporate governance for banks in Nigeria."

In the determination of the causes of poor corporate governance, is the process of historical analysis of some moments a condition precedent? It is not sufficient to predicate bank failures on weak corporate governance or sub – standard corporate governance. In making meaning out of the existence of weak or sub – standard corporate governance, it must be located within a historical context. For example, blaming malaria for the cause of deaths will not prevent further deaths. It is only the successful isolation of the cause or causes of malaria that will assist in preventing further deaths arising from malaria. It is highly simplistic and therefore mere escapism to attribute the failures in the banking sector to weak corporate governance.

Weak or sub – standard corporate governance is only a symptom of other deeper crisis. The inability of operators and regulators to learn the lesson of success through study of failures as a result of **low historical intelligence** is responsible for the inability to establish/diagnose the factors responsible for weak or sub – standard corporate governance. The search for a lasting cure for corporate governance ailment will remain an illusion until the history of the ailment is fully established. The process of historical analysis must therefore be acknowledged as an enabler in the determination of the causes of weak, poor or sub-standard corporate governance. Historical analysis of the Nigerian banking sector must now be viewed as a means to an end.

1.12 Conclusion

The Nigerian banking sector is on its road to perdition as inadequate corporate governance, epitomised in excessive risk taking, interest rate speculation, overtly aggressive growth policy etc arising from poor management which were identified as factors that contributed to the failures of some banks during the pre – CBN, post CBN, the indigenisation, the deregulation, the banks failures/distress, consolidation and post consolidation eras still abound. The perceived differences in the concept of corporate governance ailment during the various eras lie in semantics. The process of historical analysis is now relevant in the determination/diagnosis of the causes of corporate governance ailment in the Nigerian banking sector.

Although I found historical analysis vital in the determination of the health of the Nigerian banking sector, it is yet to find true meaning as a result of low historical intelligence on the part of the regulatory authorities and operators. In this study, historical analysis assisted in identifying corporate governance as a dominant factor in the determination of the health of the Nigerian banking sector. This finding will act as an enabler in furthering the process of establishing the factors impairing corporate governance in future studies. However, to be **Pareto** efficient in securing the health of the banking sector, affecting the configuration of corporate governance, which is a common denominator in the elements responsible for banks failures/distress, is now imperative. Historical analysis is a condition precedent to the attainment of this goal.

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(2014) analyse the risk management practices in Nigerian commercial banks, relating these practices to their yearly financial performance for 2012 fiscal year. The finding reveals that risk management is positively linked to the bank's financial performance.Â knowledge that has studied the extent of ERM implementation in the Nigerian banking sector and further examine the relationship between regulatory influence, internal audit effectiveness, human resource competency, top management commitment and board characteristics and the stage of ERM implementation in the Nigerian banks. To this end, this is the first known empirical research that examined this set of combination of variables in this context in relation to ERM implementation in the Nigerian banking sector. In the Nigerian banking industry, poor corporate governance has been identified to be responsible for. the distress in the sector in previous years. With the recapitalisation exercise of 2006 where the banks. were required to raise their minimum share capital from $13.4m to $167.5m, the banks were faced.Â to meet up with the capital requirements. 3. corporate governance issues in the nigerian banking industry. The importance of corporate governance in a developing and emerging economy like Nigeria cannot. be overemphasised. The institutionalization of a good corporate governance policy helps to facilitate. The analysis of the internal environment of the company is the analysis of strengths and weaknesses, as well as the assessment of the potential that the company can count on in the competitive struggle to achieve its goals.Â After you finished the Environmental Analysis, it is time to go to the internal analysis of your company. The analysis of the internal environment of the company is the analysis of strengths and weaknesses, as well as the assessment of the potential that the company can count on in the competitive struggle to achieve its goals. The main objectives of the analysis are to determine the factors and causes of the strengths and weaknesses of the organization. One of the tools for internal analysis is ABC analysis.