

AN EVALUATION OF THE PERFORMANCES OF NIGERIA CAPITAL MARKET BEFORE AND AFTER BANKING SECTOR CONSOLIDATION EXERCISE (2001-2010)

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Abstract

Capital market as a vehicle for channeling investment opportunities played a vital role in achieving greater economic activities in Nigeria, its major role is identifying alternative sourcing to where capital is lagging. The Nigeria Capital market met the demand of some Nigeria banks by issuing fresh funds during consolidation exercises to meet the minimum requirement of N25 billion capital base as set by the Central Bank of Nigeria, without endangering themselves into mergers or acquisitions. The performance of the market in the economy prior to and after consolidation is a matter of concern especially to share holders who are always losing their confidence on the operations of the market. The objective of the study is to determine the level of difference in terms of performance of the market before and after consolidation. In trying to achieve this objective, secondary data was employed and T-test was used to determine the level of the mean difference between the two periods at 95% confidence level. The study found that despite the capital market performed well during post consolidation, yet investor's confidence are at stake. The study recommended that the Nigerian capital market should regulates its activities and employ more strict measures that will ensure investors confidence.

Key words: Consolidation, Capital market, Common stocks, Bonds, Debentures, Shareholders

Introduction

The history of the development of Nigerian banking sector as put forward by Somoya (2008) and Alao (2010) dated back to 1892 with African Banking Corporation having its headquarter in South Africa, British Bank for West Africa in 1924, and Barclays Bank in 1925 all these banks are owned and managed by foreign nationals. In 1933 National Bank of Nigeria Limited was established as the first indigenous bank, later Agbonmagbe Bank Limited, African Development Bank were established in 1945 and 1948 respectively.

From 1977 to 1991 there was a major development in Nigerian banking sector. The period witnessed the development of Rural banking, Peoples bank and Community banking, These raised the total number of Nigerian banks to 120 banks within the periods as argued by Alao (2010), Uchenna and Okelue (2012). Between 1991 and 2006 the Nigerian banking institution as claimed by Uchenna and Okelue (2012), witnessed illiquidity, insolvency and many of them became distressed, where every one out of four closed its shop particularly between 1994 and 1998.

As at 2004 there were 89 banks in existence, which are badly shaped with the exception of very few (Gunu and Olabisi, 2011) and to arrest the insolvency condition and protect shareholders funds these banks were consolidated to 25 banks as at December, 2005. In 2006 the number of banks reduced to 24 banks and by the end of 2011, the surviving banks in Nigeria were reduced to 21 banks.

The performance of banking system in Nigeria prior to 2006, was poor and inefficient, some of the factors that characterized banking sector among others include; poor management,

too many banks with limited number of branches, insider abuse and worst of all lack of liquidity and insolvency. These mentioned problems leads to closure of so many banks, making a great loss to economy and at the same time making investors to lose confidence.

To arrest the situation and bring back confidence in to the minds of investors, the Central Bank of Nigeria set machineries in motion to flush out pretenders from banking arena by making N25 billion to be the minimum capital base of Nigerian banks. This necessitate some banks to terminates their existence, while some find themselves into mergers, and acquisitions and the remaining went to the capital market to raise new capital.

The roles and performance of Nigeria capital market before and after consolidation in channeling investment opportunities is something that cannot be ignored. However the question that is yet to be scientifically answered is which period does Nigeria capital market performed better? The objective of the study is to assess the performance of Nigeria capital market before and after consolidation, in doing so the study employed secondary data, and T-test at 95% confidence level was used to determine the degree of differences. The study set the flowing null hypotheses to be tested.

Ho: There is no significance difference in the mean of the performance of Nigeria capital market before and after banking sector consolidation.

CONCEPTUAL FARMWORK BANKING SECTOR CONSOLIDATION

Reforms in banking industry are aimed at addressing issues such as governance, risk management and operational inefficiency. Banking sector consolidation as argued by Uchendu (2005) and Ajayi (2005) is a deliberate attempt or policy response to correct the perceived banking sector crises and subsequent failure. Some of the factors that may necessitate and call for consolidation include persistent illiquidity, insolvency, under capitalization, high level of none performing loans as well as weak corporate governance.

Banking sector reforms and consolidation is a worldwide phenomenon. Since 1979, there have been well over 3,500 mergers in which two or more banks were consolidated under a single bank charter and more than 5,800 acquisitions in which banks were bought by another. For example, the number of insured banks in the United State had fallen from 14,000 in 1985 to around 9,000 (Loretta, 2002).

Ajayi (2005) is of the view that consolidation is the reduction in the number of banks and other deposits taking institutions with a simultaneous increase in size and concentration of the consolidated entities in the sector. This process was motivated by technological innovations, deregulation of financial services, enhancing intermediation and increased emphasis on shareholder- value, privatization and international competition.

Consolidation via merger and acquisition is viewed as the process of reducing the number of banks and other deposit taking institutions with a simultaneous increase in the size, concentration and efficiency of the remaining entities in the sector (Bello, 2005). A merger is continuation of two or more companies into one single company. On the other hand, acquisition takes place where a company takes over the controlling shareholding interest of another company. Corporate re-structuring as observed by Pandey (2006) includes mergers, acquisitions, amalgamation, take over, spin offs, capital re-organization, sale of business units and assets.

In a bid to meet the new minimum capital base of N25 billion stipulated by CBN for banks as part of the consolidation program, many banks sought to raise fresh funds. Most analyst agreed that the significant increase in banks capital during and immediately after the

consolidation exercise in 2005 as pointed by Alao (2010) was necessary to strengthen the banking sector, remove the unsound and pretenders from the scene.

Most capital were meant to increase the ability to do business, expand branch network, invest in critical information technology, infrastructure, hire the best personnel as well as making alliances with global partners. With these, however, banks have been generally more secured, better organized and more competitive than ever before and at the same time customer service has improved.

Leeba (2007) argued that recent capital raising by banks through stock exchange, mergers and acquisitions which appear to be driven more by psychological reasons rather than any real strategy has been a source of concern. What many banks have to show for their recent fund raisers includes; high price of services, head offices and branches, ATMs that do not work twenty-four hours in a week, high priced retail credit facilities, increased borrowing to the blue chips and other large corporate entities and little or nothing for small business who are the real drivers of the economy. Similarly, the repeated visits to the capital market have some implications, as banks must now be more efficient than ever before in deploying capital to generate the sort of earnings and profits that support their current prices on the market.

To achieve the said objectives, banks are now deploying different strategies including; recruitment of unqualified personnel (particularly ladies) in the name of marketing, provision of different schemes/facilities at high interest rate such as housing scheme, car loan and other loan facilities to mentioned but just a few, all in an attempt to meet share holders value (Zakari, 2008). The first wave of the mergers/acquisitions in the early 1980s was precipitated by attempts of the strong banks to acquire weaker and undercapitalized ones, while the second resulted from a response to a legislation that liberalize interest rate. Banking sector reforms incorporating consolidation have also been implemented in Europe, Asia, Latin America and Africa at different times for different reasons (Uchendu, 2005). Factors necessitating banking sector reforms as observed by Ajayi (2005) include; weak supervisory and regulatory framework, weak safety nets arrangement, poor crisis resolution techniques, poor corporate governance as well as the structure of the banking system.

To address the above-mentioned factors, banking sector reforms aimed at ensuring a healthy sector, this can be through observance of corporate governance, risk management and operational inefficiencies. The central focus of the reform is the formation of a strong capital base which is a central nerve of a healthy bank. Attaining capitalization is achieved through consolidation, convergence as well as capital market (Ajayi, 2005). Consolidation is used to describe the coming together of some banks within the country to become one bank and be able to meet the CBN's requirement for capitalization to a minimum of N25 Billion (CBN Press release, 2005).

The rationale behind bank consolidation is to strengthen the banking system, embrace globalization, improve healthy competition, exploit economies of scale, adopt advance technologies, raise efficiency and improve profitability (Uchendu 2005). Unlike Uchendu, Abdulrahman (2010) sees consolidation as simply another way of saying survival of the fittest then to say bigger, more efficient, better-capitalized or more skilled industries. Consolidation is part of the natural evolution which is primarily derived by business motive, market forces or regulatory intervention.

Banking sector reforms and its subcomponent, bank consolidation, have resulted from deliberate policy response to correct the perceived banking sector crisis and its subsequent failures. A banking crisis can be triggered by the preponderance of weak banks characterized by

persistent illiquidity, insolvency, under capitalization, high level of non-performing loans and weak corporate governance, among others as observed in the Nigerian case (Uchendu, 2005).

The Central Bank of Nigeria, had forced the banks to raise their capital base to N25 billion in December 2005 leading to series of mergers and acquisitions as well as raising new shares in the capital market that reduced the number of banks in the economy to 25 and later to 24 banks. An analysis of the quarterly results of the quoted banks submitted to the Nigeria Stock Exchange indicates that 18 banks posted total profit before tax of N 121.4 billion at the end of December 2006 as against N72 billion profits before tax said posted by the entire 89 banks which made up the banking sector before consolidation in 2005. Moreover, this represents an increase of 65.6 percent over the previous year's figure (CBN, 2005). The Central Bank of Nigeria also argued that, the gross profit of the entire banking industry was N499 billion in 2005, just N9 billion higher than the N490.4 billion recorded by 18 quoted banks as at December 2006.

DEVELOPMENT OF NIGERIAN CAPITAL MARKET

A capital market is simply a network of inter-related institutions governed by operational guidelines, which permit the sales of securities (equity and long term debts) (Sulaiman, 2002). The history of Nigeria stock exchange can be attributed to Barback R.H committee in 1960 on how to promote stock market in Nigeria. The committee's report leads to creation of Lagos Stock exchange in 1960. In 1977 a committee led by Pious Akigbo lead to the transformation of Lagos stock exchange into Nigeria stock exchange in December, 1977.

Reilly (1994) classified capital market into primary and secondary market, a primary market is which new issues (stocks and bonds) are said to exist, while secondary market is a market where existing securities are bought and sold. Secondary market according to Prassana (2002) can be divided into two, depending on the nature of security traded. Secondary bond market is where existing debts obligation (government bonds and corporate debentures) are traded, and on the other hand equity market is where securities (shares which are certificate of ownership) are traded. The equity can further be categorized into primary market where fresh issues are sold and secondary market where existing stocks are bought and sold (Pandy, 2006)

Major developments in the Nigerian security market came into being as a result of government decree number 16 and 17 of 1995, which encourages, promotes and coordinate investments in Nigeria as well establishing the autonomous foreign exchange market respectively.

The history of Nigeria stock exchange started with three trading floor in Lagos, Kaduna and Port-Harcourt, later four more trading floors, in Kano, Onitsha, Ibadan and Yola, was opened in 1989, 1990, 1990 and 2002 respectively. Suleiman (2002) argued that in terms of value and volume of securities traded at the beginning was not impressive when compared with the development of other capital markets in advance economies. In 1988 the market traded in 31 corporate bonds, which increased to 63 bonds by 1994. The total value of common stock traded rose from 100 in 1988 to 177 in 1994. In the same year the value of stocks traded (new issues) reached N 7.3 billion, where the total market capitalization amounted to N113.7 billion.

Central Bank of Nigeria (2005) reported that during the period of 1995, 1996 and 1997 the market traded in stocks worth N1,838.8, N6,979.6, and N10,330.5 respectively. Similarly the market also traded worth N 13,571.1, N14, 072.0 and N 28,153.1 for the period 1998, 1999 and 2000 respectively.

Looking at the trends of dealings both in value and volume the growth rate from one period to another is impressive. Take for instance in 2000 the growth rate over 2009 was 100.06%, and the growth rate in 2001 over 2000 was 83.58%

Pre Consolidation Value and Volume of Stocks traded in Nigeria Stock Exchange

Year	Value of transactions (N, millions)	Volume of Security
(Millions)		
2001	51,683.8	426,163.0
2002	59,406.7	451,850.0
2003	120,402.6	621,717.0
2004	225,820.0	973,526.0
2005	962,935.0	1,021,966.6

Source: CBN 2005

The development of the capital market prior to consolidation was impressive especially when looking at the last three years into consideration (2003, 2004 and 2005). For example the total volume of security traded in 2003 was 621,717.0 equivalent to N120, 402.6, within two years (2005) the total volume of securities traded in the market rose to 1,021,966.6 equivalent to N962, 935.0 (CBN, 2005). However, the first two years does not show any remarkable performance. These came in various forms especially with the need that, the market will play a vital role in raising fresh funds for some banks that wanted to meet the minimum of N25 billion set by the Central Bank of Nigeria as the minimum capital base for banks in Nigeria.

Somoye (2008) reported that in 2004, the total capitalization of quoted banks was 34.41 percents of total market capitalization of Nigerian Stock exchange, but grew to 41.80 and 41.84 for the periods of 2005 and 2006 respectively. Between 2004 and 2006 the market capitalization of Nigeria Stock Exchange grew by 160,70 percent and the banking sector capitalization rose by 223.33 percent within the same periods.

Further development to enhance customer's confidence in the capital market as reported by CBN (2010) includes the reconstitutions of the board and management of the Nigeria Stock Exchange, strengthening the NSE arbitration committee as well as increasing the daily trading periods by two hours.

Post consolidation Value and Volume of Stocks traded in Nigeria Stock Exchange

Year	Value of Transaction (N billion)	Volume of Security
2006	470,300,000.0	36,500,000.0
2007	2,100,000,000.0	138,100,000.0
2008	2,400,000,000.0	193,100,000.0
2009	685,700,000.0	102,900,000.0
2010	797,600,000.0	93,300, 000.0

Source: CBN 2010

In terms of value and volume of trading in stock market after consolidation exercise the performance of the market was highly impressive, in 2006 securities valued 470,300,000.0 was transacted this shows a growth rate of 487.40% over 2005. The increased in the value of trading in 2006, cannot not be devoid from the needs of the banks as they approached the market to raise fresh funds to meet the CBN minimum requirements. In 2007 and 2008 there was similar increase, but 2009 and 2010 there was a decreased in the activity of the market when compared to that of 2007 and 2008.

It was reported (CBN, 2010) in 2010 capital market recorded a turnover volume of 93.3 billion as against 102.9 billion shares in 2009, this shows 9.3% decreased., with an increase in

value of 16.3% (N797.6 billion) over 2009. Similarly in the primary market there was improvement in 2010 over 2009, where the market considered and approved 31 applications (new issues and mergers/acquisition) with a total value of N2.44 trillion as against the 30 applications that the market approved in 2009 with a value N 279.3 billion.

Model

The research design is descriptive and comparative analysis using secondary data; the study is comparing the performance of Nigeria capital market for the period of ten years (2001–2010) which are divided into two different periods, pre consolidation period (2001 – 2005) and post consolidation period (2006 -2010). In doing so the study used T-test (Paired means) model.

$$T\text{-test} = \frac{\frac{p_1}{n_1} - \frac{p_2}{n_2}}{\sqrt{\frac{p_1q_1}{n_1} + \frac{p_2q_2}{n_2}}}$$

Results and Discussions

The paired sample statistics table provides the mean, standard deviation and standard error means of the two sample data.

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Valuepreconsol	2.8405E5	5	3.85848E5	1.72556E5
	Valuepostconsol	1.29E9	5	8.899E8	3.980E8

Paired Samples Test

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Value preconsol – Value postconsol	-1.29044E9	8.90040E8	3.98038E8	-2.39557E9	-1.85305E8	-3.242	4	.032

At 95% confidence level the value of the paired sample test is 0.032, given the calculated t statistics of -3.242 with 4 degrees of freedom. Using the p-value approach (0.032) which is less than 0.05 significance level, or since -3.242 is greater than -1.96 at 95% confidence level the research rejects the null hypotheses which said: There is no significance difference in the mean performance of Nigeria capital market before and after banking sector consolidation. The study infers and concluded that there is a significance difference in the means of the two sample periods.

Conclusion

In achieving the objective of consolidation (raising N 25 billion) the Nigeria capital market played an important role, in providing an avenue for banks to raised fresh capital instead of going into mergers. This can be seeing from how dealing both in value and volume moved into trillions as against billions of dealings prior to consolidation. The research observed that, the first year of banks consolidation the performance of capital market both in values and volumes are not appreciating, when compared to subsequent years (2007 and 2008), in 2009 and 2010 the performance of the market in terms of dealings dropped down. The factors contributed to that is lack of confidence both in the banking sector and in the capital market (investors are not ready to invest any more in banks), un ethical behaviors, low level of awareness concerning the activities of Nigeria capital market among investors as well as bureaucratic formalities hinders most of local investors to participate in the activities of capital market.

Recommendations

From the findings and discussion of the paper it came into notice, that the performance of nigeria capital market after consolidation is excellent when compared with the performance of the market before consolidation. However, the followings are recommended for an efficient performance.

The Central Bank of Nigeria should device whatever means to restore back investors confidence into banking activities this can be done by removing all unsound, and pretenders from participating in financial activities. Reducing the number of banks from 89 banks in 2004 to 25 banks in 2005, to 24 banks in 2006, and to 21 banks in 2011 re-stored investor's confidence in

banking sector. The same should be done to issuing houses, brokers as well as agents in the capital market.

The capital market should ensure that all performers in the market abide by ethical norms and values governing dealings in the market, it was reported that in 2010 (CBN, 2010) many financial organizations were suspended and some have their name delisted from the floor because of one unethical behavior or the other, this is a good move, the study call for more watch on the activities of these companies.

The study is also recommending that information on the activities of the market should be made available to every potential and prospective investor. Available information is one of the characteristic of an efficient market.

Lastly the study is recommending that, the market should create an avenue, where people will be enlightened on the activities of the market. Most of the local investor refused to invest in capital market because they are ignorant on what constitute the market and what it is meant for.

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