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PAPER

Banking System Distress: Causes, Impact and Diagnosis

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The Nigerian banking sector has experienced a number of banking distresses that have led to the liquidation of quite a number of banks before the banking ordinance of 1952, and after. The tenacity of banking distress in the country, therefore, became a matter of grave and utmost concern not only to the entire nation in general, but to the practitioner and the academic as well.

This study has tried to examine the causes of bank distress in Nigeria, its impact and the way out (diagnosis and solution). The study also tries to assess the extent to which these identified factors are accountable for the distress and to ascertain other factors that may be responsible for it. Questionnaires were applied to a cross section of the banking community in Nigeria between the months of January and February 2012, in addition to secondary data obtained for analysis in the study. With the use of simple regression analysis the study has been able to establish the extent to which these identified factors (financial liberalization, macroeconomic epidemics and microeconomic deficiencies – that encompass such factors as poor management, capital inadequacy, financial liberalization and others, corruption, regulatory inadequacy etc.) have been accountable for banking distress in Nigeria. Consequently, the paper has identified that the main factors responsible for bank distress in Nigeria are poor management, capital inadequacies, government policies, regulatory inadequacy and non-performing loans. The impact of banking distress has been profound in that it affects investment which in turn will affect employment and level of output; it also affects depositors and their welfare, etc. According to the findings, the researcher recommends that the regulatory framework and supervision be overhauled and strengthened; financial literacy should be entrenched at all levels of the country's educational sector (to enhance market discipline) and information disclosure be made compulsory, amongst others.