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Banking Regulations: A Panacea for Banks' Failure

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ABSTRACT: This study investigates how banking regulations influence bank failures in Nigeria. It draws on theoretical perspectives, including classical and monetarist views, and explores the concepts of banking regulation and bank failure. The research also analyzes the causes, consequences, and possible remedies for bank failures. The findings indicate that weak enforcement of prudential guidelines has significantly contributed to the persistent incidence of bank failures in Nigeria over time. Consequently, the study recommends the effective implementation of key regulatory measures such as strengthened risk management practices, improved corporate governance frameworks, higher capital adequacy requirements, robust supervisory mechanisms, enhanced financial literacy, protection for whistleblowers, and the introduction of comprehensive technology and cybersecurity regulations.

Keywords: Banking Regulations and Banks' Failure.

INTRODUCTION

In Nigeria, the Central Bank of Nigeria (CBN) Act of 2007 grants the apex bank the authority to regulate and supervise the activities of the banking sector. This legislation empowers the CBN to formulate and implement policies, guidelines, and regulatory frameworks, as well as to carry out oversight and control functions over banks operating within the country (Ennis & Walter, 2016; Mbatabbey, 2019). Specifically, the Act requires the CBN to establish policies that deposit money banks (DMBs) must adhere to in order to ensure stability, safety, and public confidence in the financial system.

To mitigate risks and ensure that banks maintain sufficient liquidity to meet customers' demands, the CBN mandates DMBs to comply with key prudential requirements. These include maintaining adequate capital levels, minimizing non-performing loans, and restricting the proportion of loans relative to total deposits (Disalvo & Johnston, 2017). In 2013, the CBN further stipulated that DMBs must maintain a capital adequacy ratio (CAR) of 10% for regional and national banks, and 15% for internationally licensed banks. Additionally, banks are required to sustain a minimum loan-to-deposit ratio (LDR) of 65% and a maximum non-performing loan ratio of 5%. These measures are designed to enhance lending activities, particularly to small and medium-scale enterprises (SMEs), while promoting financial system stability (Thi, 2020; Obioma & Charles, 2018; Anusi & Nduka, 2022).

Despite the positive intentions behind these regulatory measures, they have been argued to

constrain the profit-maximizing objectives of DMBs (Abba et al., 2018; Abata, 2014; Tuškan & Stojanović, 2016). Profit generation, primarily derived from loans and advances, remains the core objective of banks. However, regulatory requirements such as limits on the loan-to-deposit ratio, interest rate controls, and other supervisory interventions tend to restrict operational flexibility and profitability (Akinjobi, 2022; Aldhaheri & Nobanee, 2020; Nduka, Ananwude, & Osakwe, 2019; Obateru, 2021; Obioma & Charles, 2018). Empirical studies indicate that these regulatory and supervisory policies significantly influence the financial performance of DMBs, with broader implications for economic growth (Olabisi, 2021; Trefis, 2016; Aniefor, Nduka, Ananwude & Ezeaku, 2021).

Furthermore, the wave of bank failures recorded between 2009 and 2012 has been partly attributed to poor loan asset management in relation to regulatory requirements. Some banks reportedly adopted inconsistent provisioning practices and varying impairment assumptions to align with CBN regulations and remain operational (Thi, 2020; Ekwunife, Nduka & Ogini, 2022).

In recent times, the Nigerian banking sector has come under increased scrutiny, not only due to its critical intermediation role but also because of recurring issues such as bank failures and financial distress. As the backbone of any modern economy, the banking system facilitates economic development and serves as a key channel for the transmission of monetary policy (Golin, 2001). Given the public policy functions performed by banks, government regulation and supervision are both necessary and justified. Additionally, the inherent risks and vulnerabilities associated with banking operations further necessitate strict regulatory oversight.

The persistent challenges within the sector are reflected in the number of failed banks, rising levels of non-performing loans, capital inadequacies, loss of depositors' funds, and the overall adverse impact on the economy. These issues highlight the critical importance of an effective regulatory framework. The repeated instances of bank distress and collapse have been linked to regulatory weaknesses, including lapses in supervisory enforcement, inadequate regulatory frameworks, and failure to ensure compliance with established standards. This situation persists despite the existence of several regulatory instruments, such as the CBN Act of 1958 (as amended), the Banks and Other Financial Institutions Act (BOFIA) of 1991 (as amended), the Prudential Guidelines on Asset Classification and Loan Loss Provision (SAS 10), and the Failed Banks (Recovery of Debts) and Financial Malpractices Act of 1994.

Over the years, Nigeria's monetary authorities have introduced various monetary policies aimed at regulating and strengthening the financial sector in pursuit of key macroeconomic objectives. Despite these efforts, the Nigerian banking industry has continued to experience episodes of bank distress and failure. In addition to earlier incidences, the period between 1993 and 2004 witnessed a significant wave of systemic instability, which culminated in widespread bank failures (Nwanna& Odia, 2018; Akinjobi, 2022). These persistent and recurring crises have adversely affected the stability, credibility, and overall performance of the banking sector (Oke, 2022; Nduka, Okolie & Ngangah, 2025; Ejinkonye, Mazeli, Leviticus & Nwosu, 2024).

The repeated occurrence of bank failures has therefore become a critical concern, not only

for regulatory authorities but also for scholars, policymakers, and the broader economy.
It raises important questions about the effectiveness of existing regulatory frameworks and the adequacy of supervisory mechanisms in ensuring financial system stability.

Against this backdrop, this study seeks to investigate key regulatory and policy measures that could help mitigate bank failures in Nigeria. Specifically, it focuses on the role of stricter risk management practices, improved corporate governance, higher capital requirements, effective regulatory supervision, enhanced financial literacy, whistleblower protection, and strengthened technological and cybersecurity regulations in promoting banking sector stability.

LITERATURE REVIEW

Banking Regulation

Banking regulation plays a crucial role in ensuring the effective functioning of financial intermediation, particularly the process through which funds are transferred from the financial sector to the real economy. This intermediation function is fundamental to the development of any socio-economic system. However, it is widely acknowledged that regulations governing banking risks should not be excessively restrictive, as overly stringent prudential requirements can limit banks' ability to extend credit, especially to small and medium-sized enterprises (SMEs). In this context, Baravelli (2017) highlights a commonly overlooked issue concerning the effectiveness and efficiency of the financial system in fostering innovation.

Furthermore, small banks in Italy are currently confronted with significant challenges due to the inadequate application of the proportionality principle within the European Union's regulatory and supervisory framework. This situation leads to disproportionately high compliance costs for smaller institutions, placing them at a competitive disadvantage relative to larger banks. Scholars such as Comana (2016), Masera (2016a, 2016b), and Mottura (2014b) argue that regulatory frameworks should be better tailored to reflect differences in bank size, operational structure, and business models, rather than adopting a uniform "one-size-fits-all" approach.

Consequently, it is important to assess whether regulatory measures—while designed to prevent financial crises and maintain system stability—may inadvertently disrupt the core credit intermediation role of banks. Such disruptions can affect not only the volume of lending but also its composition, pricing strategies, risk assessment practices, and the organizational structures that support credit management (Tutino, 2016, 2018). There is also growing concern that the current prudential regulatory framework may no longer be sustainable, potentially undermining the financial and economic balance of banking institutions.

In general, the banking sector has experienced a significant increase in both the number and complexity of regulations, alongside continuous changes over time (Mottura, 2014b). Additionally, according to Ananwude, Ngaikedi & Mazeli (2026), there is considerable overlap among regulatory and quasi-regulatory bodies at the European level. While ensuring financial stability remains essential, it must be balanced with the need to maintain efficient and effective provision of credit and financial services to the real economy. Overemphasis on stability could, therefore, hinder the core functions of banking institutions (Tutino, 2014, 2016, 2018; Tutino et al., 2011; Ogunewe, Ananwude & Nduka, 2020).

Banking regulation is particularly necessary to ensure the safety and soundness of the financial system, enabling banks to meet their obligations with minimal risk. This typically requires maintaining higher levels of solvency and liquidity than banks might otherwise choose to hold (Oladehinde & Oladipupo, 2021). Similarly, Oloyode (2020) notes that the banking sector is inherently vulnerable to both internal and external shocks, making regulation and supervision essential. In the Nigerian context, inconsistent monetary and regulatory policies have been identified as major obstacles to banking stability. This is partly because the supervisory capacity of the Central Bank of Nigeria may struggle to keep pace with rapid developments in the financial system (Oke, 2020; Mazeli, Adigwe & Ananwude, 2020).

Potential Policies Enacted to Avoid Banks' Failure in Nigeria

1. Stricter risk management: Enforce robust risk assessment frameworks
2. Enhanced corporate governance: strengthen board oversight and audit committees
3. Increased capital requirements: Bolster buffers against losses
4. Effective supervision: proactive regulatory monitoring and enforcement
5. Financial literacy programs: educate customers and stakeholders
6. Whistleblower protection: safeguard those reporting irregularities
7. Tech and Cybersecurity regulations: mitigate digital risks

Some Potential Benefits of Banking System Regulation

Among the many potential benefits of an efficient financial regulatory framework are to:

1. Protect the depositors/ investors
2. Promote monetary stability
3. Integrate the activities of the informal sector of the economy to harness their boundless economic potentials.
4. Ensure stable, efficient and coordinated payments systems.
5. Ensure disclosure of adequate and correct financial information to users
6. Reduce such undue financial intermediation risks as liquidity, credit, investment, interest rate and fraud risks,
7. Ensure the safety and soundness of individual institutions and by extension of the financial system and
8. Reduce unprofessional practices among practitioners and thereby promoting professionalism.

The Major Banking Regulatory Objectives

The broad objectives of banking regulation are therefore to:

1. Prevent undue concentration of economic power and promote healthy competition in the financial system.
2. Ensure a safe and sound financial system to safeguard the public against the worst consequences of instability
3. Encourage and promote a high level of operating efficiency and innovation in the financial system
4. Meet the needs of the public for conveniently available credit facilities and financial services
5. Enforce the implementations of government's monetary and credit policy guidelines and
6. Promote an equitable distribution of costs and benefits among the management, stakeholders, creditors and customers of banks and other financial instruments.

Bank Failures

Bank failure can be understood as a situation in which a bank is unable to fulfill its financial commitments, including settling interbank obligations, repaying depositors, and meeting other maturing liabilities. This

condition often arises from factors such as a weak deposit base, inadequate capitalization, ineffective management, asset–liability mismatches, and unfavorable operational conditions **(**Nzotta, 2004; Chinwoke, Madubuike, Adiga & Mazeli, 2025**).**

In a broader sense, Kama **(**2021**)** defines banking failure as a significant disruption within a country's banking system, going beyond minor fluctuations or temporary instability. It typically occurs when loan losses erode the capital base of banks, leading to negative net worth across the sector. This indicates insolvency, where the realizable value of assets falls short of total liabilities. Additionally, bank distress may also be viewed from a liquidity perspective. As noted by Ebhodaghe **(**2022**)**, a bank becomes illiquid when it is unable to meet its financial obligations as they fall due, thereby violating its contractual commitments.

Theoretical Review

The theories adopted in this study are classical theory and monetarist theory.

The Classical Theory

The Classical theory of economics originates from the work of Adam Smith (1776) in his seminal book *An Inquiry into the Nature and the Causes of the Wealth of Nations*. Smith argued that when individuals pursue their own self-interest, the overall outcome benefits society as a whole. He illustrated this idea by noting that people rely on the self-interest of producers—such as butchers, brewers, and bakers—rather than their goodwill for the provision of goods. Central to this theory is the concept of the "invisible hand," which suggests that individual actions are guided by market forces that promote collective welfare without deliberate coordination.

The classical economists strongly emphasized the efficiency of the free market system and maintained that government intervention, whether through fiscal or monetary policies, disrupts the natural functioning of the economy and leads to imbalances. As a result, they advocated a laissez-faire approach, encouraging minimal or no government interference. The theory is built on several key assumptions, including full employment of resources, efficient resource utilization, perfect competition, large market size, and an automatic adjustment mechanism within the economy. It also assumes the neutrality of money, meaning that changes in the money supply do not affect real economic variables. Furthermore, the classical framework holds that savings always equal investment.

A central pillar of the theory is Say's Law of Market, which posits that supply generates its own demand, thereby eliminating the possibility of persistent overproduction or unemployment. Under this view, full employment is considered the normal state of the economy, and any deviations are temporary. Market forces of demand and supply are expected to automatically restore equilibrium whenever disruptions occur. In classical analysis, the levels of output and employment are determined through interactions in the labour, goods, and money markets. These outcomes are influenced by the aggregate production function, as well as the demand for and supply of labour. Equilibrium in the money market is achieved when money demand equals money supply, a concept explained by Irving Fisher's quantity theory of money, which asserts that changes in the money supply directly affect the general price level. Consequently, money is viewed as neutral in influencing real economic activity.

Despite its contributions, the classical theory has faced criticism for relying on unrealistic assumptions that do not fully reflect real-world economic conditions. The most notable

critique came from John Maynard Keynes in his work *The General Theory of Employment, Interest and Money*, where he challenged the notion of automatic full employment and emphasized the role of government intervention in stabilizing the economy.

In summary, the classical perspective maintains that government involvement in the economy -whether through monetary or fiscal measures, tends to distort rather than stabilize economic performance. Therefore, it advocates that the government should adopt a hands-off approach, allowing market forces to operate freely in order to achieve optimal economic outcomes.

Monetarist Theory

The Monetarist theory is strongly associated with Milton Friedman **(**1963**)**, a leading advocate of monetarism. Friedman argued that individuals base their consumption decisions on their *permanent income* rather than temporary changes in earnings. As a result, short-term increases in income do not significantly influence consumption expenditure and therefore do not generate a strong multiplier effect. He also emphasized that private investment is highly responsive to changes in interest rates. Since monetary policy directly influences interest rates, an increase in the money supply typically lowers interest rates, which in turn stimulates private investment and raises aggregate demand in the economy.

Monetarists maintain that money plays the central role in determining economic activity. Consequently, they oppose the use of fiscal policy as a primary stabilization tool, arguing instead that monetary policy is more efficient, quicker to implement, and less costly. In his reformulation of the quantity theory of money, Friedman posited that the supply of money is determined independently of money demand and is often unstable due to actions taken by monetary authorities. In contrast, the demand for money is relatively stable, as it is closely linked to individuals' permanent income. This implies that the amount of money people choose to hold—either as cash or bank deposits—maintains a predictable relationship with their long-term income.

Friedman further explained that when a central bank increases the money supply, for instance by purchasing securities, individuals who sell these securities experience an increase in their money holdings relative to their permanent income. As a result, they tend to spend the excess money on both financial assets and goods and services. This process reduces their cash balances while simultaneously increasing nominal income in the economy. Moreover, when the economy is operating below full employment, an expansion in the money supply can lead to increases in output and employment through higher aggregate expenditure. However, this effect is primarily observed in the short run. Overall, Friedman concluded that monetary policy is more effective than fiscal policy in stabilizing the economy, a position that has been supported by many empirical studies in economics.

Empirical Review

Osakwe et al. (2022**)** examined the impact of Central Bank regulations on the performance of Deposit Money Banks (DMBs) in Nigeria. The study used Return on Assets (ROA) as the dependent variable, while monetary policy rate (MPR), treasury bills rate, lending rate, and cash reserve ratio (CRR) served as independent variables. Using secondary data and the Ordinary Least Squares (OLS) technique, the findings revealed that MPR and treasury bills rate had a positive relationship with ROA, whereas lending rate and CRR showed a negative relationship. However, only MPR and lending rate were statistically significant, while CRR and treasury bills rate

were not. The study recommended that monetary authorities should effectively manage policy instruments to make borrowing more attractive and affordable, thereby enhancing bank profitability. It also suggested that the Central Bank of Nigeria should adopt more flexible regulatory policies.

Similarly, Ogundipe et al. (2022) investigated how compliance with regulatory requirements affects the total assets of deposit money banks in Nigeria. The study adopted an ex-post facto research design and utilized secondary data from the financial statements of ten listed banks on the Nigerian Stock Exchange covering the period 2007–2018. Data analysis involved descriptive statistics, diagnostic tests, and multiple regression techniques. The results indicated that regulatory compliance significantly influences total assets, as evidenced by an F-statistic p-value of 0.0483 (less than 5%). The study concluded that strict adherence to regulatory requirements can enhance banks' asset growth and long-term sustainability.

In another study, Obadire and Obadire (2023) analyzed the effect of bank regulation on financial performance across selected African countries prior to the COVID-19 pandemic. The research covered 45 listed banks across six countries and employed both Fixed Effects and Random Effects models. The findings showed that capital adequacy ratio positively influenced bank performance, whereas minimum capital requirements and liquidity levels had a negative effect.

Furthermore, Ini and Eze (2018) assessed the impact of capital adequacy requirements on the performance of commercial banks in Nigeria. Using annual time-series data sourced from the Nigeria Deposit Insurance Corporation and the Central Bank of Nigeria, and applying the OLS regression method, the study found that variables such as ASF, CRWA, and TQC jointly had a significant effect on ROA. The results further indicated that capital adequacy positively influences bank performance, suggesting that it is a critical determinant of financial stability. The study recommended improvements in asset and liability portfolio quality to enhance bank performance.

Lastly, Ighoroje and Akpokerere (2018) explored the relationship between liquidity management and bank performance in Nigeria over the period 1980–2017. The study employed the Autoregressive Distributed Lag (ARDL) approach, along with cointegration, error correction modeling, and Granger causality tests. The results revealed that liquidity ratio had a significant individual effect on bank performance, while collectively, all liquidity variables significantly influenced bank performance. Based on these findings, the study recommended that the Central Bank of Nigeria should enhance its effectiveness in managing liquidity instruments to improve banking sector performance and overall financial stability.

Causes of Bank Failure in Nigeria

Bank failures in Nigeria have generally been attributed to three broad categories of factors:

1. **Institutional, Economic, and Political**

However, this study focuses primarily on institutional factors, which are largely within the control of bank owners and management. Evidence suggests that most bank failures in Nigeria can be traced to these internal weaknesses. One of the most critical institutional causes is the abuse of insider loans. According to Ugoani (2015), excessive insider lending has been a major contributor to the recurring collapse of banks in Nigeria. Similarly, Ogunleye (2010) notes that many bank owners and directors exploited their positions of authority by violating fiduciary

responsibilities and engaging in self-serving practices. These abuses manifest in several ways. The granting of unsecured loans to directors, shareholders, and related companies in violation of the *Banks and Other Financial Institutions Act 1991* (as amended). The approval of interest waivers on non-performing insider-related loans. The diversion of bank resources to support personal or affiliated business ventures, including preferential access to foreign exchange (Mazeli, Ejinkonye, Uloghobui & Onehi, 2024)

Furthermore, Abiodun and Ojo **(**2012**)** reported that defunct banks such as City Express Bank and FinBank recorded non-performing insider-related loans amounting to ₦12 billion and ₦16 billion, respectively. In some cases, top executives granted loans running into as much as ₦125 billion, leading to ongoing legal proceedings in Nigerian courts. In addition, the extension of large credit facilities—exceeding ₦9 billion in some instances—has also contributed to bank failures in recent times. Many of these loans became non-performing, and in certain cases, management teams appointed by the Central Bank of Nigeria to rescue distressed banks opted to write off such debts, including amounts of approximately ₦9.7 billion, through waivers. This further highlights the severity of insider loan abuses in several failed and liquidated banks, as illustrated in the accompanying data table.

Table 1: Statistical evidence of loans granted to owner and directors

S/N	Banks (in-Liquidation)	No. of Directors Involved	Amount as at Closure	% of Total Risk Assets
1.	Alpha Merchant Bank Plc	11	1,314,418,700.43	33%
2.	United Commercial Bank Ltd	5	741,755,808.86	30%
3.	Financial Merchant Bank Ltd	1	383,061,096.00	100%
4.	Highland Bank of Nig. Plc.	12	33,197,157.58	38%
5.	Commercial Trust Bank Ltd	1	247,749,719.10	38%
6.	ABC Merchant bank Ltd	8	272,981,634.00	49%
7.	Royal Merchant Bank Ltd	7	646,940,182.23	69%
8.	North-South Bank of Nig. Ltd	13	240,668,637.62	32%
9.	Abacus Merchant Bank Ltd	14	568,888,254.11	47%
10.	Credite Bank Nig. Ltd	6	379,634,611.47	76%
11.	Prime Merchant Bank Ltd	1	539,292,310.00	64%
12.	Amicable Bank of Nig. Ltd	7	149,854,896.00	56%
13.	Century Merchant Bank Ltd	5	272,072,261.00	32%
14.	Group Merchant Bank Ltd	13	595,836,077.20	80%
15.	Commerce Bank Plc	4	1,294,851,665.64	52%
16.	Pinnacle Commercial Bank Ltd	10	298,766,751.76	20%
17.	Republic Bank Ltd	1	161,375,466.00	38%

Source: NDIC Report 2011

2. Weak Corporate Governance

Corporate governance issues continue to impede banking system profitability and stability in many places. Inept management and corruption accelerate the rate of bank failure in Nigeria (Ugoani, 2015). Udunze (2013) reports that as the result of investigations regarding corporate governance breaches the CEO of Ecobank transnational agreed to forgo US$1.14m bonus he was to earn for the 2012 financial year as part of efforts to rebuild public confidence in the bank against the backdrop of accusations of maladministration, fraud and technical incompetencein the bank. Inept management and corruption accelerate the rate of bank failures in Nigeria. AlsoItua (2013) reports that the ex-MD/CEO of one of the failed banks was involved in the fraudulent deals involving US$ 11million. The number of banks adjudged as satisfactory dropped from 63 in 2001 to 51 in 2004. The bank failure syndrome continued through the years to 2011, when six banks collapsed due largely to poor credit risk management with a potential loss of about N700bn. The following are responsible for bank failures under the weak corporate governance framework:

i. Inability/difficulty of management of failed banks to adhered to corporate governance codes and prudential standard.
ii. Contravention in keeping proper books and accounts as prescribed by laws, rules and regulations.
iii. Most failed banks in Nigeria are characterized with weak and poor internal control systems. This weak internal control is evidence in the height of frauds and forgeries in the failed banks.
iv. Some of the failed banks are occupied with, inexperienced, unqualified and incompetent personnel occupying top and key positions in the banks (Olufon, 1992).

This is because many investors see business as personal or family business and as such children and family members who are not qualified in any way are employed into key position in the bank.

3. Poor Risk Asset Management

The spate of bank failure in Nigeria is attributed to poor credit policies in place. A situation where loans are granted without detailed and proper analysis of the loan applicant, that is banks grant loans without collateral while some loans request are granted on the basis of order from above (Okpara, 2009; Chukwuma, Okaro, Anyanwu, Ogbonna, & Mazeli, 2023). Many banks in Nigeria have witnessed large asset and liability mismatch in the bank balance sheet because they relied heavily on public sector funding for liability generation and when these funds were recalled from banks, it threw them into serious problems. Of course, this action put a lot of strain on bank capital and this was clearly showed in CBN's response by regularly increasing the capital limit of every banking policy reforms. Meanwhile other causes of bank failure are as follows: Absence of regulation and control; Macroeconomics instability; Weak management; Deregulation of the economy; Capital inadequacy; Bad lending; Fraud; Liquidity; High cost of fund; Inability to generate profit;

Bank lending leads to creation of wealth/profit. One cardinal aim in extending credit is to generate income. For this reason, the banker should not extend credit if a problem of performance is anticipated or if it becomes evident that a bad and doubtful account will arise. A great deal of restraint and discipline is required when extending bank credit because the experience of international banks during 1980s has shown that loan growth is not synonymous with higher profits. Credit is the life wire of any bank as financial intermediaries. But majority of Nigeria banks could not make profit as a

result of high percentage of non- performing loans or bad loans which led to the crisis of those banks as in the case of National Bank of Nigeria, African Continental Bank and Bank of the North all in liquidation.

Effects of Bank Failures in Nigeria

Bank failures have far-reaching consequences for the financial system and the broader economy. These effects manifest in several critical ways.

One major consequence is the loss of savings and deposits. When banks collapse, customers risk losing their funds held in such institutions. In Nigeria, deposit protection is provided by the Nigeria Deposit Insurance Corporation, which was established in 1988 with an initial insurance limit of ₦50,000 per depositor. This coverage was later increased to ₦200,000 for deposit money banks and ₦100,000 for microfinance and mortgage institutions in 2006, and subsequently raised to ₦500,000 and ₦200,000 respectively (NDIC, 2010). However, depositors with balances exceeding these limits may have to wait for asset liquidation processes, which can be prolonged and may not guarantee full recovery of funds.

Another significant effect is the erosion of public confidence in the financial system. Bank distress or failure discourages customers and stakeholders from trusting financial institutions, thereby weakening banking culture. As a result, individuals may prefer to keep cash outside the banking system, which undermines financial intermediation.

Bank failures also lead to increased unemployment and job losses. Employees of failed banks lose their jobs, and given the limited employment opportunities in the labour market, this can contribute to economic hardship. In some cases, prolonged unemployment may lead to social issues, including increased involvement in criminal activities.

Furthermore, distressed banks are unable to perform their core function of credit creation. According to Ebhodaghe **(**1997**)**, disruptions in banking operations negatively affect the supply of credit to the economy. This, in turn, impacts key economic indicators such as real GDP growth, manufacturing capacity utilization, and per capita income.

Bank distress also increases the cost of financial intermediation. As noted by Ebhodaghe (1997), troubled banks often offer higher interest rates on deposits to attract and retain customers. While this may temporarily boost deposits, it ultimately raises operating costs and exacerbates financial instability.

In addition, bank failures threaten the efficiency of the payment system. Banks play a central role in facilitating safe and convenient transactions both domestically and internationally. When banks are distressed, payment processes become unreliable, and international confidence in the country's financial system declines due to fears of fund losses or restrictions.

The effectiveness of monetary policy is also compromised during banking crises. The Central Bank of Nigeria relies on banks to implement monetary policies, particularly in controlling inflation by regulating money supply. However, when public trust declines and funds are withdrawn from the banking system, it becomes difficult for the central bank to achieve its policy objectives.

Bank failures can also worsen a country's balance of payments position. Reduced credit availability to productive sectors leads to lower output and productivity, contributing to economic contraction and external imbalances.

Moreover, government revenue declines as a result of job losses in the banking sector. Employees who would normally pay taxes under the Pay-As-You-Earn (PAYE) system are no longer employed, reducing tax inflows to state governments. Similarly, organizations such as the National Union of Banks, Insurance and Financial Institutions Employees experience reduced membership and revenue.

Finally, bank failures impose significant financial costs on the government. Authorities often intervene through bailout measures, which involve restructuring banks, compensating depositors, recapitalizing institutions, and managing non-performing loans through entities such as asset management companies. These interventions, funded through public resources and central bank support, increase fiscal pressure and may widen the budget deficit.

Solutions to Bank Failure in Nigeria (Paraphrased)

The banking sector plays a vital role in the functioning of any economy; therefore, addressing bank distress is essential for economic stability. Several measures can be adopted to mitigate and prevent bank failures in Nigeria.

One key solution is recapitalization. This involves increasing the long-term capital base of banks to strengthen their financial position and enable them to effectively perform their intermediation functions. According to Nwude (2005), the level of capital required by a bank should correspond to the risks it undertakes. Prior to the 2005 banking reforms, many Nigerian banks were undercapitalized, with minimum capital requirements of ₦1 billion for existing banks and ₦2 billion for new entrants. Recapitalization enhances banks' ability to absorb losses, invest in profitable ventures, and improve overall performance, particularly when the internal rate of return exceeds the cost of funds (Nduka, Atueyi, Osakwe, & Mbanefo, 2021).

Maintaining adequate liquidity is another critical measure. Liquidity reflects a bank's capacity to meet its financial obligations as they become due, both in the short and long term. Many Nigerian banks experienced distress due to insufficient capital and excessive expansion, which weakened their liquidity positions. Regulatory authorities, particularly the Central Bank of Nigeria, must ensure strict compliance with prescribed liquidity ratios to promote stability and smooth operations within the banking system.

Adherence to lending limits is equally important. The central bank sets limits on the amount banks can lend to a single borrower or a group of related borrowers, commonly referred to as the single obligor or legal lending limit. These limits are tied to the bank's capital base to minimize risk exposure. Failure to comply with these regulations has been a major cause of bank failures, especially when large loans to single customers become non-performing.

Another proposed solution is the establishment of specialized courts for debt recovery. Such courts would expedite the prosecution of loan defaulters and bank officials involved in fraudulent activities. This approach would reduce delays commonly experienced in conventional courts and enhance the recovery of bad debts, similar to measures introduced under the Recovery of Debt and Financial Malpractice in Banks Act of 1994.

Enforcing strict sanctions against non-compliant banks is also necessary. The Central Bank of Nigeria should ensure that banks adhere to regulatory standards,

including capital adequacy requirements, lending limits, risk-weighted asset ratios, and liquidity ratios. Sanctions for non-compliance would serve as a deterrent and promote discipline within the sector.

Controlling the cost of funds is another important strategy. In times of liquidity stress, some banks attempt to attract deposits by offering interest rates that exceed their lending rates, leading to operational losses. To prevent this, regulatory authorities should ensure that deposit rates remain lower than lending rates, thereby maintaining profitability and financial stability. This practice aligns with the principle of financial leverage, where funds are sourced at lower costs and invested at higher returns.

The presence of a competent management team is also crucial. Poor management has been identified as a major contributor to bank distress, often reflected in weak asset quality, insider abuses, inadequate internal controls, and fraudulent practices. Bank directors have the responsibility to appoint qualified management personnel and provide effective oversight, as the overall stability of a bank largely depends on sound leadership.

Finally, liquidation serves as a last-resort option. When all other measures fail, the Central Bank of Nigeria, in collaboration with the Nigeria Deposit Insurance Corporation, may revoke a bank's license. Following this, the NDIC initiates the liquidation process, which includes closing the bank's operations and settling obligations to depositors. In cases where there are no legal disputes, the payment of liquidation dividends to customers is commenced.

The Role of Prudential Regulators

The role of the Central Bank of Nigeria as the primary prudential regulator and supervisor of the Nigerian banking sector has been critically examined in relation to recurring bank failures. Evidence suggests that the CBN has, at times, fallen short in effectively carrying out its supervisory responsibilities. One major concern is the inability of the regulator to detect unethical practices within banks in a timely manner. This shortcoming is attributed not only to insufficient personnel but also to a lack of adequately skilled and competent supervisory staff. Additionally, the liberalization of the banking sector in the 1980s contributed to weak oversight, as many banks operated for extended periods without on-site inspections. In some cases, supervisory examinations were conducted only once every two to three years (Ogunleye, 2010; Monogbe, Omotayo, Achugbu & Nduka, 2016). This delay in supervision often resulted in late detection of financial irregularities, ultimately contributing to bank failures.

Moreover, concerns have been raised about the professionalism and expertise of some regulatory personnel, particularly in their ability to identify fraudulent activities and financial misconduct. The advancement of information technology and rapid expansion of the banking sector have further complicated supervision, making it easier for banks to manipulate financial records and engage in practices such as window dressing of balance sheets.

Another major challenge lies in the weak institutional structure of the supervisory framework. According to Sanusi **(**2010**)**, deficiencies within the banking supervision department have limited its effectiveness in monitoring and enforcing regulatory compliance. There is often no clear assignment of responsibility for both on-site and off-site supervision, and in many cases, supervisory officers operate independently across different locations without proper coordination. Furthermore, inadequate

collaboration among key regulatory bodies - such as the CBN, the Nigeria Deposit Insurance Corporation, and the Securities and Exchange Commission Nigeria - has weakened the overall regulatory framework. The absence of information sharing, particularly regarding bank examination reports, has reduced the ability of these institutions to effectively monitor banking activities and detect irregularities, especially in capital market operations.

In addition, inconsistencies in macroeconomic policy implementation have further constrained the effectiveness of the CBN as a regulator. The lack of alignment between macroeconomic management and banking sector oversight has created persistent challenges for banks, including issues related to capital adequacy, foreign exchange earnings, and asset quality. External shocks, such as declining global oil prices, have also exacerbated these challenges. During this period, key macroeconomic indicators deteriorated significantly, with inflation rising above 17% in 2017 and unemployment increasing to 13.9% in 2016. This unfavorable economic environment placed additional strain on the banking system.

Finally, the process of appointing the CBN Governor has been identified as a structural weakness affecting regulatory independence. Political considerations, such as zoning arrangements, may undermine merit-based selection and limit the effectiveness of leadership within the central bank. Furthermore, close ties between bank promoters and political actors can lead to regulatory forbearance, thereby weakening enforcement and accountability within the sector.

CONCLUSION

The findings of this study indicate that the persistent challenges within Nigeria's banking sector have not been adequately addressed by regulatory authorities and other stakeholders. In particular, weak implementations of prudential guidelines and lapses in regulatory oversight have significantly contributed to recurring bank failures. The inability of the CBN to consistently perform its supervisory functions has further aggravated the situation.

To address these challenges, the study recommends that regulatory authorities should strengthen their commitment to effective supervision and enforcement of banking regulations. Prudential guidelines must be fully implemented to ensure stability within the sector. Additionally, there is a need for improved coordination and collaboration among regulatory bodies, including the exchange of supervisory information to enhance monitoring and compliance.

Furthermore, the study contributes to existing knowledge by proposing several policy measures, including the adoption of stricter risk management practices, improved corporate governance, higher capital requirements, and more effective regulatory oversight. Other important recommendations include promoting financial literacy, protecting whistleblowers, and strengthening regulations related to technology and cybersecurity to address emerging risks in the banking sector.

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