

History And Evolution Of Banking In Nigeria

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Abstract: Banking is an integral and core part of any economy, without which economic activities might be virtually impossible because of the strategic role of banks in not only safe-keeping of money and other vital documents of trade, but as facilitators of economic interests of sorts in the economy. However so important and strategic the roles of banks are in the economy of a nation, these have somewhat been far-fetched in developing countries, especially in Africa and most particularly, Nigeria the focus of this paper. Banking in Nigeria has started somewhat early enough, but has not grown vibrant enough to ginger the much desired growth and vibrancy of the Nigerian economy. The paper seeks to trace the evolution and genealogy of banking activities in Nigeria, its growth through different stages and through the years up until the present. The paper is thus divided in four parts starting with the introduction, to historical development, the evolution of banking in Nigeria, and the conclusion and recommendations.

[Olubisi Friday Oluduro. **History And Evolution Of Banking In Nigeria.** *Academ Arena* 2015;7(1):9-14]. (ISSN 1553-992X). <http://www.sciencepub.net/academia>. 2

Keywords: Banking, historical development and evolution, reforms.

Introduction

Banking has come a long way in Nigeria with more than a century and almost a half in the economic spheres of the country. This this paper traces the origin of banks in Nigeria and its evolution through the stages and years. For an in-depth grasp and a proper perspective of the work, it opens with the meaning of a bank.

Banking generally may be described as the business activity of accepting and safeguarding money owned by other individuals and entities, otherwise called depositors, and then lending out this money in order to earn profit,¹ and create financial multiplication in the economy through a process economics describes as the multiplier effect. In effect, banks core activity is acting as intermediaries between depositors and borrowers, just as the taking of deposits and the granting of loans singles banks out from other financial institutions. Banks also offer liquidity to their customers.² Thus duty also differentiates banks from

other financial outfits offering near-bank and non-bank financial products. The Banking Act 1979 describes “banking as the acceptance of deposits in the course of a business, to give further protection to persons who are depositors with such institutions. To make with respect to advertisements inviting the making of deposits, and for purposes connected therewith.” Arising out of the above therefore, banking involves the protection of depositors, hence the issuance of controlling advertisements by the banks; giving finance advice to members of the public and to bodies corporate or investment management services and facilities for arranging the purchase and sale of securities.

What constitutes legally the business of banking was laid down in the Court of Appeal decision in the *United Dominion Trust*³ case, where Lord Denning MR

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¹ GOYAL Rajesh, Define What is Banking? AllBankingSolutions.com Online. Available at www.allbankingsolutions.com/Banking-Tutor/What-is-banking.shtml. Site visited 03-04-2014.

² HEFFERNAN Shelagh, *Modern Banking*, Chichester, John Wiley & Sons Publishing, 2005, p.1. see also, BIZER David S. and DeMARZO Peter M., *Sequential Banking*, *Journal of Political Economy*, Vol.100, No.1,

February 1992, pp.41-61, The University of Chicago Press. See further, SCHWARCZ Steven L., *Regulating Shadow Banking: Inaugural Address for the Inaugural Symposium of the Review of Banking and Financial Law*, *Shadow Banking Symposium, Journal of Review of Banking & Financial Law*, Vol.31, 2012, p.625. see as well, BARTH James R., CAPRIO Jr. Gerard and LEVINE Ross, *Banking Systems Around the Globe: Do Regulation and Ownership Affect Performance and Stability?* National Bureau of Economic Research, January 2001, pp.31-96, 37, University of Chicago Press.

³ *United Dominion Trust Ltd. V. Kirkwood* (1966) 1 All E.R. 968. See also, *Jammal Steel Structures Ltd. V. African Continental Bank* [1973] 1 ANLR 852.

enumerated the characteristics of banking to include: (i) the conduct of current account, (ii) the payment of cheques drawn on the bankers and, (iii) the collection of cheques for customers. According to Heber Hart in his book "Law of Banking," a bank is defined as a person or company carrying on the business of receiving monies and collecting drafts for customers subject to the obligation of honouring cheques drawn upon them from time to time by customers to the extent of the amount available on their current account. This definition is certainly not exhaustive as disputes have arisen as to whether an enterprise is a bank or merely a money lending outfit, hence the decision in Chief Abdul Yekinni Ojikutu V. Agbonmagbe Bank and 2 Others,⁴ where it was held that it would not be proper to apply the Money Lending Act to a licensed bank whose interest rates are normally prescribed by the central bank, and that as long as the interest rate, whatever it may be, will not be illegal. Conversely, in the case of Attorney General (Federation) V. Umoh Ekpa,⁵ the Federal Revenue Court held that collecting money from market women and paying same into bank (daily collector) does not constitute banking business. Consequent upon these therefore, for a business to be seen as such, banking has to form a substantial part of the business.

2 Historical Developments

This will be divided into three parts as discussed from 1892- 1952, 1952-1985, and 1986-date.

The period 1892-1952.

The history of banking in Nigeria dates back to 1892 when the African Banking Corporation (ABC), commenced the activities of banking in Lagos. The ABC was a South African based bank which came to Nigeria and took over business from the Elder Dempster Merchants, which hitherto had been carrying on quasi banking business before then. Closely on the heels of this is the British Bank of West Africa (BBWA), which started as a Trust Fund in 1893 by Sir Alfred Jones. It commenced banking activities fully in Lagos in 1894 and established a branch in Calabar in 1900.⁶ The BBWA was registered as a limited liability company when it commenced operations in England before establishing the Lagos branch the same year. It was managed by group known as Elder Dempster Merchants and supported by the colonial government. In 1894, the BBWA absorbed the ABC operations in Nigeria. The BBWA later in 1957 changed its name to the Bank of West Africa, and to the Standard Bank of West Africa Limited and later again to the Standard

Bank of Nigeria in 1965, before finally metamorphosing to the First Bank of Nigeria (FBN), in 1979 when the government of Nigeria increased local interests holding in foreign banks in the country.

Another bank by the name of Anglo-African Bank was established in 1899 which later became Bank of Nigeria,⁷ but its activities regrettably were short-lived as its operations were absorbed in 1912 by the BBWA. In 1917, the Colonial Bank was established, which later in 1925 became the Barclays Bank DCO (Dominion, Colonies Overseas). Indigenous banking enterprises started in 1914, and between then and 1930, several attempts at establishing locally owned and managed banks out of their patriotism and nationalistic views were made. For instance, in 1914, the Industrial and Commercial Bank was established which also regrettably failed in 1936. In 1933, the National Bank was established, which was able to survive through the turbulence of the early years. But when it was unable to meet the requirements of the 1952 Banking Ordinance, the Western Region had to take over the ownership. In 1945, Agbonmagbe Bank was established as a private enterprise, which has similarly since 1969 been taken over by the Western State government, and renamed Wema bank, as it still remains till date. Then, in 1946 was the Nigerian Penny Bank failure, whose failure among others engendered the setting up of the famous Paton Commission of Enquiry to investigate banking operations in the country. In 1947, Dr. Nnamdi Azikiwe acquired the Tinubu Properties Limited (which later became the defunct African Continental Bank Limited), which like the National Bank of Nigeria was one of the indigenous banks that survived the turbulent era. Also, in 1947 the Nigerian Farmers and Commercial Bank was established, which however, like many others failed in 1953, with severe losses of depositors deposits.

In 1936, the Post Office Savings Bank was established under the Savings Bank Ordinance. This was succeeded in 1974 by the Federal Savings Bank which was established under the Federal Savings Bank Act 1974. In 1948, the Paton's Commission of Enquiry was released, which revealed a number of factors for the high bank mortality, as between 1949 and 1952, well over ten banks sprang up, most of which were mushroom in nature, but which also did not survive for long. Among the reasons identified by the Commission were: inadequate capital base, lack of banking regulation and acceptable prudential guidelines,⁸

⁷ JONES, G., *British Multinational Banking: 1830-1990*, Oxford, Clarendon Press, 1993, p.70.

⁸ OLUKOTUN G. Ademola; JAMES O. Olusegun and OLORUNFEMI Kehinde, *Bank Distress in Nigeria and the Nigeria Deposit Insurance Corporation Intervention*, Global Journal of Management and

⁴ (1966) ANLR 553.

⁵ [1976] 2 FRCR 18.

⁶ Familoni J. A., *Management of Banks and Financial Institutions in Perspectives*, 2000.

unskilled or poor management, illiquidity, inexperienced staffing, fraudulent directors/operators, reckless and rapid expansion of branch network, and inability to meet the demands of new government regulations.

The Period 1952-1985

The period 1952 through independence to the nineteen-eighties saw the establishment of many banks, but not without laid down regulations such as the 1952 Banking Ordinance, and the Banking Amendment Act. This era marked the beginning of banking regulation in Nigeria.⁹ This period also witnessed the establishment of specialised banks such as Development Banks and Merchant Banks, some of which include the Nigerian Industrial Development Bank (NIDB), the Nigerian Bank for Commerce and Industry (NBCI) and the Nigerian Agricultural and Credit Bank. The NIDB was established in 1964 through the reconstruction of the Investment Company of Nigeria Limited (ICON), which itself was incorporated in 1959 as an industrial development finance company. From 1961 witnessed the introduction of merchant banking with the establishment of Philips Hill Nigeria Limited, and the Nigeria Acceptances Limited (NAL), both of which later transformed through a merger into the Nigeria Acceptances Limited in 1969, and later to Merchant Bank Limited. And between 1973 and 1975, four merchant banks were established which include International Merchant Bank Limited by First National Bank of Chicago, Continental Merchant Bank Limited by a merger of First National Bank of New York and Chase Manhattan Bank, ICON (Merchant Bankers) Limited, and Nigeria Merchant Bank PLC.¹⁰ In short, the period between 1959 and 1985 experienced consolidated growth in the banking sector. In 1970, there were a total of 14 commercial banks which rose to 29 in 1980.¹¹ In 2007, there were 24 capitalised commercial megabanks,¹² arising out of a season of series of mergers and acquisitions in the banking industry to restore public and investors confidence and forestall a total collapse of the sector. Summarily, the

two chief contributory causes of failure are bad management and the apparent lack of accounting and banking experience, coupled with fraudulent practices by some directors and practitioners in the sector.¹³

The period 1986-Date

From 1986, there was massive expansion and structural changes in the banking sector, that by 1991 there were no less than one hundred and twenty-one commercial and merchant banks in Nigeria. This was made up of sixty-six commercial and fifty-five merchant banks. Twenty new banks were licensed in 1991 alone, arising from the deregulation of the economy by the federal government, which brought an enhanced free-market enterprise and the liberalisation of the banking licensing scheme. The deregulation of the economy and the proliferation of financial institution since 1986 are not without its attendant consequences, among which are that since 1996, there has been thinning-out of banking enterprise. There was distress in the sector owing several reasons such as mismanagement in the form of grants,¹⁴ cosmetic, desperate and technical; also bad loans and advances¹⁵ ranked very highly among the causes of distress; then ownership structure, i.e. owners direct intervention in the banks.¹⁶ In addition to this, we have inappropriate corporate governance, inadequate regulatory and supervisory capacity; asymmetric information; under capitalisation, among numerous others. These led to the crisis and erosion of public confidence, diminution of trust and of relationship commitment, which once betrayed, do not return easily.¹⁷

Bank distress alone claimed the lives of twenty-seven banks between 1994 and 2003.¹⁸ This has resulted in the loss of wealth, public confidence in the system and in more challenging monetary management. It is worthy of note that banks failure was not peculiar to the first era alone, but cuts across all other periods as well. There were quite significant cases of failure, which is indeed more pronounced in the period 1986-2003, which thus necessitated drastic regulatory

Business Research Finance, Vol.13, Iss.8, Version 1.0, 2013, pp.50-60, 52.

⁹ IKPEFAN Ochei Ailemen, *Issues in Banking and Finance*, CIBN Press, 2012, p.3

¹⁰ NKIRU-NZEGWE Danjuma, *The Banker's Liability*, Ibadan, University Press, 1993, p.12.

¹¹ IKPEFAN O.A., *ibid.*, p.4.

¹² ADAMOLEKUN Wole; OGEDENGBE Kunle and PRATT B. Cornelius, *Crisis in Nigeria's Banking and Financial Industry: Government Actions Reassure Skittish, Jittery Publics*, in GEORGE Amiso M. and PRATT B. Cornelius (Eds.), *Case Studies in Crisis Communication: International Perspectives on Hits and Misses*, New York, Routledge Publishing, 2012, p.87.

¹³ UCHE Chibuike U., *Indigenous Banks in Colonial Nigeria*, *International Journal of African Historical Studies*, Vol.43, No.3, 2010, pp.467-487, 479.

¹⁴ See FRN V. Mallam S. Bello Abubakar (SAT) (1979) 1 FBTLR 129.

¹⁵ See FRN V. Odogwu & Ors. (No.1) (FBT) (1997) 1 FBTLR 179. See also, Ifegwu & Ors. V. FRN (SAT) (1997) 1 FBTLR 86.

¹⁶ ABIOLA R.O., *Effects of Bank Distress on the Economy: The Nigerian Case*, *The Nigerian Banker Journal*, January-March 2003, p.17.

¹⁷ ADAMOLEKUN Wole et al op cit., p.87. See also, ABIOLA R.O., *ibid.*

¹⁸ See Folbod Investment Ltd. & Ors. V. NDIC (SAT) (1997) 1 FBTLR 165.

measures to be taken in the succeeding years to stem the tide of failure which was on the high side and, to restore public confidence in the banking sector. Owing to the harvest of banks failure, the Nigerian Deposits Insurance Corporation (NDIC), was established by Decree 22 Of 1988, to insure deposit liabilities of licensed banks; provide financial and technical assistance to banks and contribute to the quest of a safe and sound banking environment in Nigeria. In essence, it was created to carry out the final mortality process of ailing banks whose licenses have been revoked by the Central Bank of Nigeria (CBN).

The period from 2004 to the present has been one of mixed feelings in the sector, as the CBN in late 2004 issued a directive ordering banks to jerk-up their capital base (paid-up) from ₦25 billion (twenty-five billion Nigerian Naira) by December 2005, a period of eighteen months. This elicited vehement protests from the bankers, but the order was irreversible. And the result is that by 2006, there remained one just twenty-five banks in existence resulting from reorganisations, mergers and acquisitions. The interesting that is that what appeared a mission impossible at the onset has metamorphosed to something practicable through dogged determination of operatives.¹⁹

3. Evolution Of Banking In Nigeria

There may not be a clear-cut, water-tight distinction between the historical development and evolution of banking in Nigeria as both go *pari-passu*, the one engendering the other. According to Prof. G.O. Nwankwo, 'the historical evolution of banking in any country provides or can provide the rationale for and methodology of prudential regulation of banking in that country.' The evolution of banking in Nigeria therefore, can be summarily put in phases as categorised above. That is between 1892-1954, which was an era of free and monoculture banking. Between 1952-1985, an era of classical liberalism. And between 1986-the present, which has been characterised by series of structural adjustment programmes of sorts, and reforms and consolidations in the sector for sectoral viability and for customers and investors' confidence in the system. This is very necessary to ensure a clean break from the irritating and unpalatable past.

The earlier part of the first era was a period of monopoly but which was later broken by the entrance into the sector by indigenous banking enterprises. The failure of most of these concerns for reasons stated above warranted the promulgation of the Banking Ordinance of 1952, which was a first step at regulating

the banking sector. The 1952 Ordinance addressed vital issues by establishing a minimum paid-up capital, examination and supervision of banks, maintenance of reserve fund and capital, unsecured loans, among others. The ordinance also adopted a classification of banks into indigenous and expatriate banks, which were to maintain a minimum paid-up capitalisation of £12, 500 (₦25,000) and £100,000 (₦200,000) respectively. All new banks were required to obtain a license from the Minister of Finance before operating. Further to this came the Central Bank of Nigeria Ordinance of 1958, and the Banking Ordinance of 1958 which was repealed in 1969. The 1958 Banking Ordinance further jerked up the authorised paid-up capital to £200,000 for the foreign banks leaving the indigenous banks at the old rate. The Ordinance introduced credit ceiling, prohibited banks from trading or beneficially acquiring real estate. The 1969 Banking Act which repealed the 1958 Ordinance came with an objective of strengthening the banking system while increasing the powers of the Central Bank of Nigeria on the sector and on overall economy of the country.²⁰ The Act provided that banks incorporated in Nigeria must have a minimum paid-up share capital plus ₦600,000, while foreign banks must have ₦1, 500,000. That, the paid-up capital plus the statutory reserve of a bank in either category must not be below 10 per cent of its total deposit. It provided also for compulsory local incorporation of all banks in Nigeria. That, the opening and closing of branches by banks was to be subject to the prior approval of the CBN.

From 1969 to 1991, there was a plethora of amendments to both the CBN Act and the Banking Act, such as the Central Bank of Nigeria Act (Cap 47), Laws of the Federation of Nigeria (LFN) 1990, and Cap C4, LFN 2004; the Banking Act (Cap 28) LFN 1990, and the Banks and Other Financial Institutions Act B3, LFN 2004. The 1990 Acts have been repealed by the CBN Decree of 1991 and the BOFID of 1991. These successive Acts and Decrees brought new innovations into the regulation of the industry to enhance standard and proper monitoring of the sector. With the advancement of the economy came the necessity for diversification in the banking sector, hence over the years, there were different types of specialised banks established in the country for different specific purposes. The sector started with a mono-culture system as earlier stated, which later developed to one where specialised banks began to spring-up. In 1960, Merchants Banks debuted, while the 1970s witnessed the coming on the scene of the Development Banks, then Community banks and Mortgage Banks came in the 1990s. There is also the Nigerian Export-Import Bank which was established in

¹⁹ ANAMEJE Alex C., The Nigerian Banking System Reform: A Challenge to Operators, The Nigerian Bankers Journal, July-December 2004, p.6.

²⁰ NKIRU-NZEGWU Danjuma op cit., p.7.

1991 to facilitate economic development through commerce, and then Urban Development Bank, which was established by the Federal Government to finance urban development and the rehabilitation and maintenance of urban areas in the country.²¹ In 1977, the CBN introduced the Rural Banking Programme for the first time to facilitate rural development. It was a programme in three phases to cover a period of years from 1977 through 1991, by which time at least, 290 out of the 300 identified and allocated centers had been opened,²² hence it was a huge success. This encouraged commercial banks opening branches in rural areas, which brought about the opening up of the rural areas.

In the aftermath of the banking industry distress in the wake of the glut in the sector in the 1990s, there were sessions of reforms and consolidations fashioned to bring sanity in the sector which had over the years been inundated with an overwhelming number of banking institutions that led to public confidence wane arising from banking failures and distresses.²³ The series of sectoral reforms that commenced thereafter culminating in the most recent rounds in the early 2000s have brought a considerable level of sanity in the sector. For instance, in July 2004, the massive sectoral overhaul resulted in the consolidation of 80 commercial banks into 24 stronger megabanks. This has resulted in sound footing for the nation's banks bringing them in the league of the fastest-growing banks in Africa and in the world, attracting an estimated 34.8 per cent of the net funds inflow into Africa between 2004-2007. And in 2010, the country had the second highest number (three) of the top 20 banks in Africa, and most (eighteen) of Africa's 200 largest banks.²⁴ The efforts to arrest the unpalatable situation and era that plagued the banking sector were carried by the various monitoring and regulatory institutions put in place to effect this, among which are the Central bank of Nigeria (CBN) established in 1958, the Federal Ministry of Finance (FMF), the Nigeria Deposit Insurance Corporation (NDIC)

established in 1988, the Securities and Exchange Commission (SEC) established in 1979, the National Insurance Commission (NAICOM) established in 1997, the National Board for Community Banks (NBCB), and the Financial Services Regulation Coordinating Committee (FSRCC),²⁵ which coordinates the activities of the various regulatory bodies and agencies.

4. Conclusion And Remarks

Since 1952 when the first regulatory measure was taken by way of the Banking Ordinance, there have been quite a lot legal frameworks put in place to regulate the Nigerian banking sector. This has significantly transformed the sector, bringing it to an enviable state. Further developments are envisaged in this sector as long as both the law and economy are similarly dynamic. It is suggested that the CBN should enhance and bolster the more its supervisory and monitoring roles to arrest the harvest of banks distress that characterised the 1986-2003 era. This would entail the enhancement and standardisation of the banking supervision aspect of the CBN's activities, to make for more effective functioning of this important institution and forestall any future reoccurrence of the ugly past in the sector, where the deregulation of the sector was abused by the operators in the sector. The law and policy frameworks regulating this important sector should be made more stringent to guard against rampant fraud and other unethical practices in the sector. The coming on board of the NDIC has come as a way forward in the sector, as the agency's activities has been complementary to the CBN's to tighten loose ends, especially with the handling of ailing banks. It is further suggested that a reorganisation of the NDIC and the CBN itself is quite imminent to bring them to current realities, if the nation is to experience an all-round, virile sound banking sector to cope with the nation's rising posture as an emerging economic power, which could compare with that of the developed economies the world over. This would be a pride of all.

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²¹ Ibid., p.41.

²² ATOYEGBI G.O., Rural Banking and Economic Development in Nigeria, *The Nigerian Bankers' Journal*, January-March 2003.

²³ For instance, there were an estimated 29 commercial banks and 12 merchant banks in 1986, which by 1994 had risen to 66 commercial banks and 54 merchant banks. There were equally 752 registered finance houses, 879 community banks, 252 primary mortgage institutions and 271 People's Bank branches across the country, leading to unhealthy and unethical banking practices which caused destabilisation in the industry with devastating consequences. See OLUKOTUN G. Ademola et al., op cit.

²⁴ ADAMOLEKUN Wole et al, op cit., p.4.

²⁵ World Bank, Nigeria: Financial Sector Review, Vol. 1: Overview and Macro-Financial Environment, May 2000, p.22.

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1/5/2015