# GLOBALISATION AND THE MARKETING OF BANKING SERVICES IN NIGERIA

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## Abstract

*This paper traces the origins of marketing in Nigerian banking and shows how different economic, social and political environment have influenced the marketing of financial services in Nigeria. It argues that the future of the banking market in Nigeria will, in the main, depend on the ongoing integration of the country into the global market. With the return of the international banks, Multinational and foreign companies and missions are likely to favour such banks for their banking transactions. The implication of this is that banks with little or no foreign ownership structures will gradually be pushed to concentrate on the indigenous market. Unless the Government can quickly put its house in order and ensure a stable macro economic environment for economic development, it is likely that market forces will coarse several of these indigenous banks to merge their activities or be absorbed by the big international banks.*


## Introduction

This paper traces the origins of marketing in Nigerian banking and shows how different economic, social and political environment have influenced the marketing of financial services in Nigeria.[1] Although conventional banking started in Nigeria in 1891, with the advent of the African Banking Corporation (later to become the Bank of British West Africa), there was very little marketing carried on at the time by this bank. This was because, this bank was, in the main, established to service the foreign commercial interests then in existence in the Nigerian colony.[2] Such banks were thus not interested in developing new markets and clients. The inability of these banks to cultivate indigenous persons led such persons to establish poorly staffed, poorly capitalised and sometimes fraud infested indigenous banks. Although these indigenous banks tried to appeal to the nationalistic sentiments of Africans for support, the advent of the 1952 Banking Ordinance ensured that many of them were short lived.[3] In post independence Nigeria, a combination of nationalisation of foreign banks and memories of the pre-independence

1 Bank Marketing has been defined as "that part of management activity which seeks to direct the flow of banking services profitably to selected customers" (Bambgoye, 1984, p.19).

2 Rowan (1952, p.151).

3 This will be discussed in the next section.

indigenous banking experience, helped ensure that bank marketing issues took a back stage during the period. It was not until 1986, with the adoption of the Structural Adjustment Programme (SAP), that increased competition led to the rise of the marketing concept in the Nigerian banking arena.[4] Technological developments have also impacted on the changing nature of the Nigerian banking arena. Finally, this paper argues that with the return of international banks, wholly owned by foreign interests, multinational and foreign companies and missions are likely to favour such banks for their banking transactions. The implication of this is that banks with little or no foreign participation in their ownership structure will gradually be pushed to concentrate on the indigenous market. Unless the Government can quickly put its house in order and ensure a stable macro economic environment for economic development, it is likely that market forces will coarse several of these indigenous banks to merge their activities or be absorbed by the big international banks. To achieve its aim, this paper is divided into five parts. Part One critiques the marketing practices of banks in pre independence Nigeria while Part Two examines the bank marketing environment in post independence Nigeria. Part Three deals with the influence of the adoption of the SAP on the marketing practices of Nigerian banks while Part Four examines the influence of Information Technology on banking services. Part Five concludes the paper.

## Pre Independence Bank Marketing in Nigeria

The practice of marketing in the Nigerian banking industry has, to some extent, been entwined with the historical development of the industry. As has already been mentioned, the first bank that was established in Nigeria (BBWA) was in the main set up to service British commercial interests in the territory. In 1899 a second foreign bank, Bank of Nigeria, was established.[5] This bank was absorbed by the BBWA in 1912. BBWA had the banking field in Nigeria to itself for the next four years, with the year 1916 seeing the advent of the Colonial Bank. Barclays Bank entered the Nigerian banking arena in 1925 through the merger between the Colonial Bank, the Anglo-Egyptian Bank (which it already owned) and the National Bank of South Africa to create Barclays Bank (Dominion, Colonial and Overseas).

Given the foreign commercial interest focus of these banks, it was not surprising that they established operations in localities where British commercial interests predominated[6] and did not aim to satisfy the needs of the indigenous African.[7] It was therefore not surprising

4 "Competition in the [Nigerian Banking] Industry is based on market perception, service quality and pricing. Banking products in Nigeria are homogenous although some product differentiation is employed by creating brand names for some deposit products. Banks have focused on service quality, pricing and technology to enhance market share and profitability" (Agusto and Co, 1999, p.2).

5 The bank was initially called the Anglo-African Bank and renamed in 1905.

6 Around 1950, for instance, the two British banks which controlled 90% of the bank deposits in Nigeria operated only 23 branches in 17 towns of the territory (Rowan, 1952: 163).

7 Uche (1997a, p.222; 1997b, p.52).

that at the time, these banks were registered in London, head-quartered in London, and controlled from London. This was possible because, there were few legal provisions regulating the operations of banks in Nigeria at the time. There were also no regulations with respect to the marketing of banking services in the colony. It was this absence of regulation, coupled with the fact that the foreign banks were not helpful to the Africans that led to the establishment of indigenous banks. Unfortunately, most of theses banks were poorly capitalised, poorly staffed and in some cases fraud infested.

Given the circumstances surrounding the establishment of indigenous banks, it is not surprising that most of them saw Africans and their accounts as their primary constituency. In order to market their services to this constituency and gain acceptance, such banks appealed to nationalist sentiments. For instance, the philosophy which animated the founding of the first indigenous banks in Nigeria (Industrial and Commercial Bank) in 1929, was summed up by one of its founding members as follows:

> it is evident that there is no law to prevent the African from disposing of the efforts of his labour; therefore, provided with an international business link, he can market his own products, exchanging the proceeds there-from for the purchase of foreign merchandise he may require. These are facilities that as a race we cannot expect these corporations organised for the purpose of exploitation to supply; but it is obvious that the opportunity exists for mutual organisation. It is the foundation for that organisation that the Industrial and Commercial Bank Limited with its affiliations have brought...[8]

This bank was however short-lived and went into liquidation in 1930. The second indigenous bank that came into operation-The Nigerian Mercantile Bank- also had a short and chequered life span. The bank was established in 1931 by some former directors of the Industrial and Commercial Bank Limited and failed in 1936. In 1933, the National Bank became the first successful indigenous bank to be established. In its prospectus, its directors made a nationalistic appeal for patronage by asserting that:

> No people can be respected or regarded as a nation unless it has its own national institutions and the greatest of all national institutions is the financial institution in the form of a bank. This is therefore an appeal to one and all who have the interest of her country at heart and are prepared to work for her progress.[9]

This was followed by the Nigerian Penny Bank which was short-lived.[10] In 1947, two other banks (African Continental Bank and the Nigerian Farmers and Commercial Bank)

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8 Cited in Azikiwe (1956, p.3).

9 Quoted in Azikiwe (1961, p.209).

10 The exact year of its establishment is not known.

were established. There were also other fraudulent institutions that claimed, at the time to be involved in banking. Such institutions used all sorts of marketing gimmicks ranging from bringing banking to your doorstep to the promise of high interest rate earnings.[11]

Worried by the spate of establishment of such indigenous banks and not unmindful of past banking failures, the Federal Government, in 1948, appointed Mr. G D Paton, an Official of the Bank of England to "enquire generally into the business of banking in Nigeria and make recommendations to the Government on the form and extent of control which should be introduced." This culminated in the 1952 Banking Ordinance.[12] Despite the unfair marketing practices, especially by indigenous banks, in the past, there were no specific provisions relating to the marketing of banking services. The promulgators of the Ordinance were content with putting in place entry barriers into the industry rather than detailed regulation and control of the activities of existing banks. Given the above objective, it may therefore not have been a coincidence that the 1952 Banking Ordinance resulted in the collapse of several of the indigenous banks then in existence. Between, 1953 and 1954, 17 of the 21 indigenous banks then in existence failed. This was partly because the Ordinance gave existing banks three years to comply with its provisions or face liquidation. With no deposit insurance scheme in place, depositors in most of these poorly capitalised indigenous banks moved their deposits to safety thus leading to runs on such banks and eventual collapse.[13] The collapse of many of these indigenous banks brought to an end the first wave of aggressive marketing in the history of Nigerian banking. Foreign banks subsequently continued their domination of the Nigerian banking arena largely unchallenged.

The imminence of political independence for Nigeria in the 1950s however made one of the main foreign banks- Barclays Bank (DCO)- to rethink its strategy with respect to

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11 Greaves, 1953, p.22.

12 The Ordinance provided for the regulation of the Nigerian banking industry along the following lines: (1) have a nominal share capital of at least f25,000 of which not less than f12,500 should be paid up; (2) be licensed by the Financial Secretary in order to be able to carry on banking business; (3) abstain from granting loans and advances on the security of their own shares and granting unsecured loans and advances in excess of f300 to any one or more of its directors or to a business in which it or any one or more of their directors had any interests; (4) maintain adequate cash reserves; (5) maintain a reserve fund out of net profit of each year of not less than 20% of such profits until the reserve fund equals the share capital; (6) refrain from paying dividend until all their capitalised expenditure not represented by tangible assets had been written off and (7) make periodic returns to the Financial Secretary**.** This was the pioneer banking legislation in Nigeria. The Ordinance also applied to foreign banks except for the fact that while the indigenous banks were required to maintain a paid up Capital of f12,500, foreign banks were required to maintain f100,000. Unlike most local banks, foreign banks did not have much difficulty in complying with the provisions of the Ordinance since their headquarters were usually abroad and they had better capital base. For instance, by 1948, the Bank of British West Africa (BBWA) and the Barclays bank had a Paid Up Share Capital of f1,200,000 and f7,121,500 respectively while that of the African Continental Bank was only f5,000.

13 Newlyn and Rowan (1954, p.239).

dealing with Africans. The Bank was of the view that it was important to build trust with the Nigerians by establishing many branches and getting to understand and assist their businesses. Although there were obvious risks involved in such mass expansion and change of direction, the bank believed it was worth taking. This rethink of strategy was also partly to enable the bank take advantage of African businesses, an area previously neglected by foreign banks.[14] The result was an increase in the number of the bank's branches and agencies in Nigeria from 8 (1950) to 66 (1960).The new policy appeased Africans who believed that the colonial banks discriminated against them. Unfortunately, Within two years of putting in place the new policy for encouraging lending to Africans, bad debts, previously a relatively unknown phenomenon in the Barclays Bank (DCO) operation in Nigeria, "had reached a very alarming figure". The sudden jump in bad debt levels, predictably, was unwelcome to the London head office, This put to an end, this brave, but costly experiment in marketing of banking services in Nigeria.[15]

## Post-Independence Bank Marketing in Nigeria

The attainment of political independence in 1960 did little to change the nature of banking and its marketing in Nigeria. Indeed the main concern of the Government at the time was the promotion of banking stability. Foreign banks were therefore given a free hand in doing their businesses. The oil boom of the early 1970s changed all that. Newly acquired oil wealth gave the Nigerian Government more confidence and it soon began to question whether foreign banks (and other companies) could indeed be trusted to act in Nigeria's best interest. In its 1970 National Development Plan, the Government explicitly stated that:

> Experience has shown, through history, that political independence without economic independence is but an empty shell. The validity of this statement derives from the fact that the interests of foreign private investors in the Nigerian economy cannot be expected to coincide at all times and in every respect with national aspirations. It would be naive, indeed dangerous to hope that in the process of industrial development, a set of national objectives will automatically be achieved by their mere declaration. A truly independent nation cannot allow its objectives and priorities to be distorted or frustrated b0y the manipulations of powerful foreign investors. It is vital, therefore, for Government to acquire and control on behalf of the Nigerian Society, the greater proportion of the productive assets of the country.[16]

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14 Uche (1998, pp.241-2).

15 See Uche (1998) for an analysis of the real causes of the bad debt problem..

16 Second National Development Plan (1970, p.289).

It was in this light that the Government decided to nationalize foreign banks. This culminated in the Government acquisition of forty percent shares in the three largest banks at the time.[17] General Yakubu Gowon, the then Head of State, argued that the aim of such Government acquisition was for the Government to get intimately involved in commercial banking activities in order to guide them to operate to the maximum benefit of the economy.[18]

By 1976, a new military government had recognized that the problems that the Nigerian financial system faced could not be solved by government holding of 40 percent equity in the leading expatriate banks. This culminated in the raising of government equity in foreign banks to 60 percent in 1976. At the time, the foreign banks feared that the government control of ownership of banks will lead to interference in their activities. The then Federal Minister for Finance tried to allay such fears by assuring the banking community that Government interference will, like in the past, be limited to the specification of economic and social objectives through policy statements.[19] Not all banks were however persuaded by such Government assurances. First National City Bank of New York, an American bank, gave up its banking license and left the country.[20] In subsequent years, many other foreign banks disposed their indigenisation imposed minority interests and left the Nigerian banking arena.

In 1976, the Government appointed a committee to review the Nigerian financial system under the chairmanship of Pius Okigbo. The committee, which saw nothing wrong in the nationalization policy of the government, identified the following socio-economic objectives for commercial banks:

> the banks should actively facilitate the transformation of the rural environment by promoting the rapid expansion of banking facilities and services and banking habit in the rural and near rural communities. They will thus serve as paying and receiving stations for hand-to-hand currencies and provide facilities for remittances to and from the rural areas. They will provide savings deposit facilities for their customers and thereby help to mobilize rural savings. Most important of all, they will serve as vehicles for the creation of credit in the rural areas; this credit will take the form of equity and loans for small scale farmers and entrepreneurs.... They

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17 These banks were Barclays Bank (now Union Bank), United Bank for Africa and Standard Bank (now First Bank). Around the time, these three banks controlled 67 percent of the total assets of the banking system, 70 percent of the total deposits, more than 50 percent of the total loans and advances and 52 percent of the total number of bank offices (quoted in Nwankwo, 1980, p.75).

18 Quoted in Uzoaga (1978, p.32).

19 Quoted in Nwankwo (1980, p.77).

20 Uzoaga (1978, p.30), Nwankwo (1980, p.75).

> should conform to avowed national objectives and identify fully with Nigerian aspirations by taking a more active part in the financing of the economic programmes of national priority. As a corollary of this, the critical and sensitive position in the financial system necessitates that they be brought under Nigerian control in ownership and management.... Decision making in the main commercial banking sector must be localized. This would remove the possibility of our major banking institutions being manipulated to the disadvantage of the Nigerian economy.[21]

It was in line with the above objectives that the committee recommended that a set of incentives be worked out to induce non-indigenous banks to go to the rural areas. The committee further recommended that any of the major banks that wished to open branches in the relatively large cities should be obliged to open, simultaneously or in advance, branches in designated rural areas. the introduction of a rural banking scheme.[22] The Government accepted the above recommendations and directed the Central Bank to work out practical ways of implementing them as well as a set of incentives to both indigenous and non-indigenous banks aimed at encouraging them to expand to rural areas.[23] This culminated in the introduction of the rural banking scheme in 1977.

This indeed represented a shift in the nature of marketing in the Nigerian banking system. Government, through the rural banking scheme had made it compulsory for banks to market their services in the rural areas. Although most commercial banks complied with this Government directive, they did so reluctantly. Generally rural branches were considered unprofitable by commercial banks for reasons ranging from heavy capital outlay, due to lack of infrastructure in these rural areas to inadequate manpower to meet the needs of these rural branches because of mass expansion. Despite this, most of the 866 rural branches earmarked by the Government under the three phases of the scheme (1976-1989) were indeed opened. Perhaps because of the reluctance of the commercval banks to open these branches, such rural branches quickly became a conduit for transferring rural savings to the urban areas. This was contrary to the Government objective of promoting rural development.

Despite the advances made in by the introduction of the rural banking scheme, there was very little pressure on the banks to be aggressive in the marketing of their products. This was perhaps because many of the banks then in existence were Government owned and controlled. Despite the immense opportunities for expanding and improving their services, these banks were content with their existing clientele. Indeed, some of these banks were known to have rejected deposits at the time.[24] Others simply adopted policies, which

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21 Report of the Committee on the Nigerian Financial System (1976, paragraph 2.16).

22 Paragraph 2.48 of the Okigbo Report.

23 Federal Government Views on the Committee on the Nigerian Financial System (1977, p.6).

24 Nwankwo (1990, p.44).

clearly discouraged the opening of new bank accounts.[25] This was partly because, at the time, there was little risk of bank failure. Indeed the Federal Government was determined to prevent any bank failure in order to ensure continued confidence in the banking sector. It was thus noted that at the time, the Government was:

> unwilling to let any bank fail, no matter the bank's financial condition and/or quality of management. Government feared the potential adverse effects on confidence in the banking system and in the economy following a bank failure. Consequently, Government deliberately propped up a number of inefficient banks.[26]

The economic downturn of the 1980s, caused by the dwindling oil prices, led to the adoption of the Structural Adjustment Programme (SAP) by the Government of President Babangida in 1986. This meant that the Government had to rethink its entire relationship with banks operating in the country.

## SAP and Bank Marketing in Nigeria

After several years of import control regulations and import licensing, the Babangida Administration, under pressure from the International Monetary Fund and the World Bank, launched the Structural Adjustment Programme (SAP) in July 1986. It was designed to achieve balance of payment viability by altering and restructuring the production and consumption patterns of the economy, eliminating price distortions, reducing the heavy dependence on consumer goods imports and crude oil exports, enhancing the non oil export base, rationalize the role of the public sector, accelerate the growth potential of the private sector and achieve sustainable growth.[27] To achieve the above objectives, the main strategies of the programme were the adoption of a market determined exchange rate for the Naira, the deregulation of external trade and payments arrangements, reductions in price and administrative controls and more reliance on market forces as a major determinant of economic activity.

The adoption of SAP therefore meant that Government had to relinquish its controlling interest in most banks. Furthermore, it created a new spirit of competition in the banking industry and the licensing process was liberalised leading to increased competition in the industry. This new spirit of competition meant that the decision as to whether banks should fail or not was now to be determined by market forces. Since Government was still interested in the promotion of the banking habit in the country, the Government established the Nigeria Deposit Insurance Corporation (NDIC) which was to, at least to some extent, protect depositors in the event of bank failure.

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25 Owualah (1984, p.161).

26 NDIC (1995, pp.1-2).

27 CBN Briefs (95/03, p.4).

Despite the laudable objectives of SAP, the Government was unwilling or unable to adopt a single market determined exchange rate for the Naira. This was mainly because, it was unwilling to totally leave the fate of its currency to the forces of demand and supply. Most of the managed foreign exchange rate systems the Government experimented with resulted in a dual exchange rate system: the official rate and the parallel market (black market) rate. This positioned banks, the agents of the managed exchange rate system, to make illegal arbitrage profits simply by buying foreign exchange at the official rate and selling at black market rate. This defective Government policy was mistaken by many as proof of banking profitability. This further opened the floodgate of applications for banking licences. Between 1985 and 1993, for instance, the number of licensed banks operating in Nigeria rose from 41 to 120. Most of these new banks were no more than currency exchange centres. The deregulation of the economy coupled with loopholes and sometimes, outright evasion of the law by some of the new banks made it possible for some of them to survive simply by buying and selling foreign exchange.[28]

The Government however subsequently removed most of the distortions in the foreign exchange market. This greatly reduced the arbitrage opportunities available to banks in currency trading. These new banks subsequently had little choice that to intensify the marketing of their services. The competition for bank deposits was further complicated by the Government decision, in 1995, to relax the investment laws for foreigners. With this development, foreigners were allowed to own financial institutions without domestic participation. Foreign banks that once participated in the pre independence banking arena in Nigeria have now started to return. For instance, Barclays Bank which used to be part of what is now Union Bank, is back in the country as a distinct bank which is 100 percent foreign owned. Also Standard Chartered Bank, which was part of what is now First Bank Plc, is also back again, as a distinct, wholly owned foreign institution. Even Citi Bank which, prior to the 1995 liberalisation, owned 40 percent shares in Nigerian International Bank, have since taken up majority interest in the bank and renamed it Citi Bank Nigeria. These developments will impact on the marketing of banking services in Nigeria. Gradually and increasingly, these international banks will target multinational corporations, foreign agencies and international firms. In doing so, they will be leveraging off the international banking relationships of their parent banks and home country contacts. Under such circumstances, indigenous banks will have an uphill task retaining or getting the accounts of these multinationals, foreign companies and agencies. It is therefore no surprise that micro and rural credits once avoided by the commercial banks are now getting some attention from these banks especially indigenous ones. Many indigenous commercial banks now have working arrangements with community banks, which help them siphon deposits from the rural areas to use in the urban areas.[29]

28 Uche, (1996, p.439).

29 Community Banks Newsletter, July-December 1999, p.10.

The competition for clients was further complicated by the stiff competition from Finance Houses. This was again a consequence of the Structural Adjustment Programme. Although they were not legally allowed to take deposits from the public, they got around this by claiming to be fund managers. Government fiscal indiscipline and anarchic economic policies also did not help matters. For most of the post SAP era, Government fiscal indiscipline ensured the prevalence of double digit inflation. Matters were made worse by the control measures sometimes adopted by the Government. In 1994, for instance, the Government reintroduced exchange controls and pegged both the exchange value of the Naira and interest rates. Interest rates were pegged at less than 15 percent.[30] With inflation running at over 50 percent, this simply meant that depositors could only receive negative returns on their deposits. This discouraged bank deposits and made the less regulated finance companies more attractive. The CBN Monetary Policy Guidelines further impeded the ability of banks to effectively compete for deposits. That for 1990, for instance, explicitly stated that:

> The spread between savings deposit rates and prime lending rate for each bank shall be kept at a maximum 7 ½ percentage points ..the margin between the prime and the highest lending rate for each [bank] shall be a maximum of 4 percentage points… the inter bank interest rate shall be at least one (1) percentage point below the prime rate for each lending bank.[31]

Till date, there are no such restrictions on the operations of finance companies.[32] In other words, such finance companies were better vehicles for evading government restrictions on interest rates. Banks were further disadvantaged by the requirement at the time for them to abide by the CBN set sectoral allocation of credit. In 1990, for instance, it was mandatory for commercial banks to extend a minimum amount of 15 percent and 35 percent of their total credit to agricultural production and manufacturing enterprise respectively. In the same year, merchant banks were also required to extend a minimum of 10 percent and 40 percent of their total credit to agricultural production and manufacturing enterprise respectively. Merchant banks were further not allowed to lend more that 20 percent of their loans on short-term basis (less than 12 months). They were also required to lend a minimum of 40 percent of their total loans on medium and long term basis (not less than 3 years).[33] Such restrictions made little sense especially in an era of high inflation. Finance companies which did not have such restrictions were thus better placed to attract funds from the public.

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30 The Government has since returned to the deregulation path abandoning some of the above policies.

31 Central Bank of Nigeria Credit Policy Guidelines for 1990 Fiscal Year, Monetary Policy Circular Number 24, pp. 9-10.

32 Uche (forthcoming).

33 Central Bank of Nigeria Credit Policy Guidelines for 1990 Fiscal Year, Monetary Policy Circular Number 24, p. 5.

There were also other advantages that finance companies enjoyed over banks. For instance, prior to 1991, finance companies were not required to be licensed or regulated by the CBN and there were no minimum paid up share capital required for their establishment. The implication of this was such companies were far easier to set up than banks. The establishment of finance companies was even more attractive especially given the fact that they could perform most of the activities of banks. It is thus not surprising that by 199l, there were over 1000 of such companies operating in the country.[34] Lack of regulation also provided finance companies the platform to overcome their greatest handicap, which was the understandable distrust of these finance companies by the public. Many finance companies took advantage of the absence of regulation, the limitations placed on bank interest rates and the prevalent inflation at the time. They enticed investors with promises of high interest rates. Some of these finance companies paid interest rates ranging from 50-150 percent a year in the bid to attract investments.[35]

A combination of stiff competition from finance houses, unstable macro economic policies and poor management, led to the collapse of several of these banks. In 1998 alone, for instance, 26 banks were liquidated. Most of these failed banks were established after the adoption of SAP. With this development, most customers started to rethink their strategy with respect to selecting their bankers.  While some diversified their risk of deposit loss by spreading their deposits across banks, others opted for the older and more conservative banks. This made the competition for bank deposits even more fierce and most banks came under pressure to, at the very least, deliver superior services. In this regard, advances in Information Technology has been the most useful and prominent tool.

## Banking and Information Technology

Generally, advances in Information Technology have greatly influenced the idea and practice of banking. For instance, it has been suggested that banks have witnessed four phases of disintermediation. These have occurred in the following order:

- The growth of mutual funds, specialized pension funds and life insurance policies at the expense of bank savings;

- The rise of capital markets which encroached on the banks traditional role as providers of credit;

- Advances in Information technology which helped streamline the back office operations of most banks;

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34 Ojo, 1992, p.9.

35 This later backfired and several of these Finance Houses have since collapsed. See Uche (forthcoming) for a detailed analysis of the collapse of these finance houses.

- Advances in information technology, which has continued to influence the disintermediation and distribution of banking products.[36]

For the purposes of this paper, we shall concentrate on the third and fourth phases of disintermediation which have, at least more than the others, been influenced by advances in IT.

There is no doubt that advances in IT have helped streamline the back office operations of most banks improving both efficiency and leading to savings in costs. It is for instance now possible for one bank staff, to check a customer's balance, ascertain the correctness of his signature and make a payment. The implication of this for the customer is that his waiting time in the bank is reduced thus he is served better. For the bank, the implication is that they become more efficient and can increase their productivity with respect to the processing of customer's needs. Increased cost of IT is, at least in the long run, compensated for by increased efficiency and lower staff costs.

Various annual accounts of the three biggest and oldest Nigerian Banks: United Bank of Africa Plc., First Bank Plc. and Union Bank Plc., bring out this point more vividly. Subsequent to the adoption of SAP by the Federal Government in Nigeria, it sold off majority of its controlling shares in these banks. These banks have since embarked on reorganizations with information Technology as a key agent of change. The immediate effect of this has been the institution of more efficient operations, which have often resulted in drastic reductions in staff strengths.[37] For instance, partly because of advances in IT, the staff strength of UBA has been reduced from 7896 (1994) to 4305 (1998). That of Union Bank have also been reduced from 12325 (1994) to 8933 (1999). Finally, the staff strength of First Bank have also suffered a similar fate falling from 10814 (1993) to 7814 (1999).

Although these reductions in staff strengths are not cost free, it is generally believed that their benefits will outweigh their costs. The Managing Director of UBA explained this in the banks' 1998 annual report. According to him:

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36 Economist, May 20th, 2000, p.3.

37 "Building on the efforts of the previous two years, we continued to implement the Century II project, the result of which continued to unfold directly and positively in the bank's top- and bottom line. Indeed, some direct correlation is emerging between the bank's enhanced performance and the project as evidenced by the performance of those branches where re-engineering is most advanced. At the pioneer Niger House branch in Lagos, for example, the full advantage of the process began to manifest during the period under review, with an unprecedented 65.16% leap in profit from N128.6 million during the year ended 31st March 1998 to N212.4 million. At the Ikeja Industrial Estate branch, also in Lagos, revenue from service charge went up from about 6 million monthly the previous year to over 10 million monthly as a result of quicker service delivery. Re-engineering is on the whole, facilitating the realisation of the full potentials of our branches" (First Bank Annual Report and Accounts, 1998/99, p.21).

> During the year, the bank's ongoing restructuring exercise resulted in job losses. The liability of the bank was as regards payments under the staff collective agreement and gratuities. The cost was borne mainly by the staff pension fund with only a small profit and loss impact. However, management was sensitive to the issues involved and approved additional payments to alleviate the personal impact on affected staff. The majority of the reorganization cost of =N=320 million relate to such payments. The bank is satisfied that the cost borne was beneficial to all parties including the bank, which is already recouping benefits in significantly higher productivity and profitability. Meanwhile cost savings accruing from the exercise has been ploughed back into investment in technology, staff training and other operational necessities related to such payments.38

Because of these types of advantages and improved efficiencies emerging from information technology, most banks are now investing heavily in information technology because they believe that a future without information technology will be disastrous. The Chairman of Union Bank of Nigeria recently, noted that:

> The last decade of the 20th Century was marked with corporate repositioning ahead of the new millennium. Our bank was not left out and a major preoccupation during the financial year was to re-engineer and re-equip our staff and branches to fit into the new culture of technologically driven, anywhere banking. It is the need to be customer-focused and more flexible that the bank's Business Process Improvement (BPI) Project code-named the Stallion 2000 Project was duly embarked on during the review period. In terms of our re-engineered branches, which are supposed to operate on-line, real-time after the full implementation of BPI, we have successfully cut over 15 of them from the old Banker 80 legacy system to the new Oracle based Flexcube system. And we are irrevocably committed to implementing the remaining earmarked branches during the 2000 financial year.39

Even the new generation banks are not left out in this technology drive.
According to the recent annual report of one of this new generation banks (Standard Trust Bank):

> Managing information and responding to shifting customer needs in the market place is key to success in financial services today. To achieve this, banks will need to invest in and use the best technology to support their people, processing, partners and customers. This is exactly what we have done. By investing in high and technological solutions as a necessary step

38 UBA Annual Report and Accounts (1998, p.10).

39 Union Bank [Nigeria] Annual Report and Accounts, 1999, p.8.

towards responding to time-to-market process. Our investment in IT has given us unprecedented opportunity to embark in process re-engineering.[40]

Apart from helping streamline back office operation of banks, advances in IT have also been influencing the way banks services are delivered and distributed all with the aim of making banking more convenient for the customers. For instance, many banks in Africa now have most of their branches linked online and real time. The implication of this is that it is now possible for people to conveniently carry out banking operations from any branch of their bank which is linked online. This clearly reduces the need and dangers associated with carrying cash. Compare this scenario with, for instance, the colonial days when it was not uncommon for organizations to fly cash in order to avoid paying bank charges. Perhaps more important is the fact that IT induced ease of payment directly and indirectly aids commercial transactions. For instance, online banking could fasten payments by reducing the clearing time for cheques. This could greatly reduce the cost of tracking payments and increase trade turnovers.

There are also other ways in which technology has influenced how banking services are delivered and distributed. For instance, some banks in Nigeria now use ATMs to make cash available to their customers all day round. Also some Nigerian banks also now practice telephone banking. Another example of technology aided banking product is the SMARTCARD Project, which is being established by a consortium of banks in Nigeria. According to one of the participating banks:

> This project has the ultimate objective of relieving the society of the costs and burden of carrying cash around and by implication, enhancing the efficiency of the payment system in the economy. We see this as providing a leverage for building a formidable consumer business, which is evidently the future for Nigerian banking.[41]

There are also other services banks now provide which have been aided by advances in IT. One very successful example is the money transfer programme, which enables Nigerians in Diaspora to send money to families and businesses at home. Such a basic service in popular especially given the currency conversion and exchange problems prevalent in the country. Under the scheme, technology makes it possible for such transfers to be effected and claimed within minutes. First Bank is a pioneer in this scheme. According to its 1998/99 Annual Report and Accounts:

> …the Bank in February 1996 introduced into the Nigerian market the first ever international money transfer service, in partnership with Western Union Financial Services Inc. This service, known as the Western Union Money Transfer Service (WUMTS), continued to grow in leaps and bounds. It was adjudged by Western Union Financial Services International as the largest

40 Standard Trust Annual Report and Accounts (1999, p.37).

41 UBA Annual Report and Accounts (1998, p.7).

> and most successful in Africa and the third largest in the world during the year. To ensure the provision of our efficient services to our numerous customers, more Western Union Transfer centres operating seven days a week including public holidays have been opened in Lagos and Benin.[42]

International success in the money transfer programme has further encouraged First Bank to extend it to local transfers. According to the bank's managing director:

> Building on the success of international money transfer, your bank has obtained CBN [Central Bank of Nigeria] approval to introduce the DOMESTIC WUMTS by which funds could be transferred electronically almost instantly from one location to the other anywhere within the country. Traders, itinerant workers, students and other members of the public will find the service very helpful because it is fast convenient and safe.[43]

Information technology is also making Nigerian banks to participate more effectively in the international banking arena. This, for instance, enables some of the technologically up to date Nigerian banks to access international banking networks in order to efficiently effect fund transfers, open and amend letter of credit, retrieve up to date information on the status of customers transactions, among others.[44] Some of these banks have also joined the Society for Worldwide Inter-bank Financial Telecommunications (SWIFT). This provides facilities for international payments and settlements through financial data communication and processing as well as the provision of system messages and reports, among others.[45]

There are, however, limits and costs associated with technological advances in banking, especially in Nigeria. Inefficient or non existent basic infrastructure, like electricity, telecommunications, and security, is making the adoption of Information technology very costly for banks. This is so because most banks are forced to develop their own parallel communication, electricity and security networks. This no doubt will, at least in the long run, disadvantage smaller banks.

## Conclusion

The future of the Nigerian banking market will depend on the ongoing integration of the country into the global market. Interestingly, international banks are already positioning

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42 First Bank Annual Report ands Accounts (1998/99, p.22).

43 Ibid.

44 Diamond Bank Annual Report (1999, p.14).

45 Central Bank of Nigeria Annual Report and Accounts (1998, p.188).

themselves to take advantage of this. The adoption of the Structural Adjustment Programme and the subsequent relaxation of investment laws for foreigners in 1995 has now made it possible for Citi Bank to take controlling shares in Nigerian International Bank. This clearly strengthens the ability of the Bank to target the multinational firms linked with Citi Bank in Europe and America. Also, Standard Chartered Bank and Barclays Bank have now returned to Nigeria. Again, their obvious targets will be British and European firms operating in the country. The implication of this is that banks with little or no foreign ownership structures will gradually be pushed to concentrate on the indigenous market.

The above developments will clearly alter the nature of competition among banks in Nigeria. More intense competition will lead to better deals for customers. It is therefore no surprise that micro and rural credits once avoided by the commercial banks are now getting some attention from these banks especially indigenous ones. Many commercial banks now have working arrangements with community banks, which help them siphon deposits from the rural areas to use in the urban areas. Also, the 1999 October Lectures of the Chartered Institute of Bankers of Nigeria was on Micro Credit. Competition is clearly pushing banks into the rural areas. Ironically, these banks were reluctant to operate in these areas even when the rural banking scheme made it compulsory for some of them to do so. Making arbitrage profit on cheap rural savings may however not be enough to salvage many of these indigenous banks. In the long run, however, their ability to survive will depend on how fast the domestic economy can expand. The challenge for the Government therefore is to put policies in place that will ensure macro economic stability and help to promote urban and rural development. Unless the Government can quickly put its house in order and ensure a stable macro economic environment for economic development, it is likely that market forces will coarse several of these indigenous banks to merge their activities or be absorbed by the big international banks.

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