CAUSES AND CONSEQUENCES OF BANK FAILURES: A COMPARATIVE ANALYSIS OF NIGERIA AND SRI LANKA

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ABSTRACT

The Nigerian banking sector has experienced a number of banking failures that have led to the liquidation of quite a number of banks since the establishment of the first indigenous bank in 1929, the Industrial and Commerce Bank. After independence in 1960, a new wave of bank failures crept up in late 1980s and early 1990s that resulted in the failure of a number of banks in Nigeria. The tenacity of banking failures in the country once again became a matter of grave and utmost concern not only to the entire nation, but specifically to the practitioners, the academia, the business community and even the international community. There is also the issue of the impact (consequences) of the failures on the economy in general, depositors, employees, shareholders and other stakeholders. On the one hand the Sri Lanka banking sector has been almost failure free since the establishment of the Central Bank in 1950, except for two cases.

The study therefore, has tried to examine the causes and extent of bank failures and consequences in Nigeria and Sri Lanka. In addition, the study has attempted to assess the extent to which these identified factors; macroeconomic instability, managerial deficiency, regulatory and supervisory failures and insider abuse are accountable for the failures, and to ascertain other factors that may be responsible for bank failures. An added dimension is the attempt by the study to find out the level of depositors awareness of the activities of their banks, the aim being to establish whether depositors action could complement regulation and supervision.

The study made use of primary and secondary data. The secondary data was obtained basically from published annual reports of central banks of Nigeria and Sri Lanka, annual reports of commercial banks in both Nigeria and Sri Lanka and other sources. While the primary data was obtained through the application of structured questionnaire and interviewing methods.

The study found out that the following are the major factors responsible for banking failures; macroeconomic instability, managerial deficiencies, regulatory and supervisory failures and insider abuse, and also other factors could be responsible for bank failures. The study also found out that financial literacy in both Nigeria and Sri Lanka is low; as such it is unlikely that depositors through market discipline can complement regulation and supervision in both Nigeria and Sri Lanka. The consequences of bank failures the study found affects the economy in general, but more particularly employees, shareholders and depositors. The study recommends that total compliance to corporate governance is the starting points for a stable banking sector among others.