Corporate Governance, Risk Management and Bank Failures in Nigeria: A Case Study of Some Selected Banks

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Abstract

The aim of this study is necessitated by the frequent failures that Nigerians banks suffered hinging from week corporate governance to poor risk management issues. With the consolidation of Nigerian Banks in 2004 which shrank the number of money deposit banks in Nigeria from 89 to 24, it was generally believed that a major financial crisis had been averted. But barely 2 years later, it was quickly realized that there are appeared to be no relief in sight, as more than 40% of the 24 mega banks were soon to be classified as failings or failed banks. The paper employed ex-post as research design and utilizes a panel data report of the annual financial statement of the four sampled banks from 2014 to 2019. The study use financial ratios and regression analysis using SPSS as tool of analysis. The findings of this study reveals that though financial ratios are the most widely used predictors of bank failures globally, this study has established that regression analysis are also powerful predictors that can be relied upon. Apart from establishing a strong significant relationship between the explained and the explanatory variables (using CAMEL composite index). This is clearly shown in the very high coefficient of determination (R^2) almost 100 percent and level of significance {p-value of 0.000} in all the 4 sampled banks. The paper concludes that incessant failures of banks in Nigeria has to do with the non-adherence of corporate governance codes as enshrined by the regulators as well as flagrant abuse of risk management principles are factors that results in banking distress and failures in Nigeria. The paper recommends that board diversity should be encourage by nominating female directors in order to create a gender balance for purpose of checks and balances, maximum punitive action should be taken against the board and management that ran any bank aground as well as enforcing strict Corporate Governance and Risk Management codes by the regulators.

Keywords: Corporate Governance, Risk management, Bank failures, Exogenous and Endogenous Variables, Non-Performing Loans.

1.0 Introduction

It is generally acknowledge that the financial sector of an economy is the engine of economic growth and development. The financial sector especially the banking sector plays the roles of engine of growth that propels the economy and develops it through the process of financial intermediation through channelling funds from surplus to deficit units of the economy thereby encouraging productive activities (NDIC, 2015). The financial intermediation role of banking institutions exposes banks to the risk of failure with losses capable of undermining public confidence in the banking system and consequently affecting other sectors of the economy. This scenario according to Ibrahim (2015) was vividly demonstrated in the global financial crises which originated from the United State of America (USA) in 2008 and spread to the rest of the world as a result of contagion effects and in spite of the sophistication and intensity of banking supervision by USA regulatory agencies.

In Nigeria, the history of banking failures is replete with periodic and generalised failures coupled with rapid growth in the number of indigenous banks within a spate of few years, especially between 1947 and 1952 with no proper regulatory supervision. The collapse of these banks was just as rapid as they were established, and in all, a total of 25 indigenous banks failed in the early 1950's (Adeyemi, 2002). During this period, there was no banking regulation framework in place and the period is often referred to as the 'era of free banking'. The main causes of bank failure in the free banking era included under-capitalization, inadequate management skills and lack of regulation and supervision (CBN/NDIC, 2005).

Banking failure in Nigeria has gone through different cyclone as stated earlier. It start during era of free banking (1947-1952), then another one in the 80's and of recent was the failure of banks as a result of global financial crisis in 2008 to 2010. After the banking consolidation of 2004-2005 which shrank the number of money deposit banks in Nigeria from 89 to 24, it was generally believed that a major financial crisis had even averted, but barely 2 years later, it was quickly realized that there are appeared to be no relief in sight, as more than 40% of the 24 mega banks were soon to be classified as failings or failed banks, and Central Bank of Nigeria (CBN) had to do something urgent to prevent a systemic spread of the failure of the banks in 2009 (Sanusi, 2010).

Banking activities involve a higher risk because of its financial intermediation role in the economy. The objective of risk management is to enable a bank keep abreast of all developments impacting on banking activities so as to allow the bank to be proactive and take appropriate, and indeed, precautionary initiatives to protects its risk assets and other non-revenue yielding assets (Sanusi,2010). This function is therefore an important aspect of banking business, and a well managed and effective risk management framework is important to every bank, as large loan losses could lead to non-profitability and the eventual failure and liquidation of a bank.

Over the years, the Nigerian financial sector has suffered a lot of instability as result of bad corporate governance and unethical practices, which are part of the major causes of distress in the nation's banking industry today (Lemo, 2009). Gwarzo (2018) argued that, good corporate governance if adhered to will enhance investors trust, attract foreign portfolio investment, and demonstrate Nigeria's commitment to observing international standards. He continues by saying ‘‘businesses must foster a corporate governance framework that promotes market integrity, the independence of the board from management, transparency, an effective risk management system, and a system of accountability. Promoting good corporate governance can also improve corporate financial performance and economic growth and the integrity of businesses is also central to the vitality and stability of any economy’’ (Gwarzo, 2018).

The impact of corporate governance on the economic performance of firms is an important and crucial issue since the last global financial distress in 2008. The global corporate scandals that took its toll on most economies of the world with the collapse of once prestigious blue chips companies such as Enron and WorldCom reiterated the need for an investigation into the quality of financial reports and increased the clamouring for a better governance mechanism worldwide (Hassan & Ahmed, 2012).

A study conducted by Moody (2019), revealed that Diamond Bank's weak governance structure ‘’compromised the board's ability to determine the bank's risk appetite, and rigorously interrogate management over strategy’’. As a result of this, moody's believes that the board did not place enough emphasis on risk management with the bank biting more than it could chew. The bank leadership made several bad decisions that led to the decline of profits and ultimate loss in 2017. After making a profits of less than N5 billion in 2016, the bank fell far to losses of N9 billion the following year.

The objective of this paper is to find the effects of corporate governance and risk management in determining the failure of banks in Nigeria. This paper is subdivided into various section; introduction as section one, section two reviews the relevant literature of the topic in study, section three deals with methodology of the paper, section four provides the findings and conclusion of the paper and section five makes policy recommendations.

1.2 Statement of the Problem

Until recently in many countries, bank failures of systemic nature were largely unheard of, and the idea of a threat to the financial system, seemed remote and far-fetched (Mayes, Halme & Liuksila, 2011). In a study conducted by NDIC (2015) on banking failures in Nigeria with regards to eight (8) failed commercial Banks, the study concluded that, the banks right from inception experienced corporate governance challenges, insider abuse and the erosion of their capital was largely attributed to the huge volume of non-performing loans (NPL's). A case in point is the recent distress suffered by Diamond bank, which according to Nelson (2018), was as a result of persistent breaches of governance rules and risk management, particularly manifested in avoidable exposure to the oil sector (concentration of risk), that led the bank to huge NPL's as well as board disharmony, resulting in wrong decisions that brought the bank to its knees.

Study conducted by Dermirguc-Kunt, (2018), on causes of bank failure, opined that major regulatory change exposes both bankers and debtors to new opportunities/risk in which they have little or no experience, that can readily originate a banking crisis as a result of distortionary changes or stimulus that could come from anywhere in the economy. It is usually the ambitious or the undisciplined response of the banks to the regulatory change that land them in troubled water. In particular example according to Baker (2009), the post-consolidation 'mega banks' exercise in Nigeria were able, due to liberalized supervision, to extend branches into the fringe financial markets as well as other geographical jurisdictions which further exposed them to new, more complicated and often times misunderstood opportunities and risks. Some of the troubled and bailed-out banks in Nigeria had this issue in abundance as many of them entered into the fragile ECOWAS countries without acute study of their viability and readiness to sustain private banking institutions.

Insider loan or abuses has been found by many researchers to be the most acidic of all the endogenous factors of bank failure in Nigeria including the first experience of the early 1950's down to the 2009 global financial crisis which affect Nigerian banks due to high NPL's and credit concentration (Sanusi, 2013). Insider abuse is a situation where a bank gives credit to companies owned wholly, partly, directly or indirectly by the banker, the bank, a director or the proxy or crony of a director or management staff. In the case of Nigeria, the recent experience of bank failures from 2008 down the line were partly and largely due to concentration of purported lending into two main sectors namely, the oil sector (downstream) and the capital market; stock price speculation or what was termed margin loans (NDIC, 2015).

Another study conducted by NDIC (2009) found that a period of rapid economic growth and financial bubble caused by regulatory changes which are independent of changes in the real economy can lead to financial crisis. The report contends that if the whole or part of the economy expands initially and consistently, there is a natural tendency to think that the trend is sustainable. This scenario was evident in the 2005-2008 periods in Nigeria, when the capital market was booming, and policy makers were under the illusion of rapid and sustainable economic growth. Apparently, banks in Nigeria failed to apply caution as given by the Financial Stability Institute (FSI), as according to FSI (2001), ‘’bad loans are usually made during good times’’.

In a study by the NDIC (2015) on banking failures in Nigeria, it’s argued that most of the banking failures in Nigeria were precipitated by the ownership and control crisis that normally polarised the board. As a result board oversight of management would be very weak, and management engaged in unethical practices as well as dissipation of the bank’s resources by withholding vital information to the boards. For that reasons, corporate governance fells below acceptable standards and furthermore, the banks engaged in excessive risk taking which manifested in illiquidity, poor asset quality and erosion of capital.

Analysing the reasons for Diamond Bank’s failure in Nigeria, Moody’s (2019) report pointed out bad leadership, poor risk management, the board’s lack of independence (corporate governance), and the high volume of turnovers within the board. This is sequel to the fact that, the bank in its desire to become largest retail bank in Nigeria, makes a habit to loaned money to businesses that could not pay back. It also fails to attract enough corporate borrowers who are a major money maker for banks but rather loaned more to the oil and gas sector (concentration of risk), that the CBN thought was not prudent (52% versus 20%). As a result when oil prices fell in 2015 and 2016, the bank capital base was badly affected.

A report by CBN and NDIC on Skye bank failure in 2018 pointed to the poor management, insider abuses by both management and board members among other unwholesome practices. This among them is non-performing loans which led to the failure of the bank, and there are concerns that the NPLs in some other banks have crossed acceptable threshold (Thisday, 2018). In the efforts to sanitise the nation’s banking industry in the past decade, the CBN has committed over N3 trillion through the Asset Management Corporation of Nigeria (AMCON) to bail-out distressed banks in the country. For instance, the CBN had, in 2009, injected N420 billion into five failed banks and sacked their chief executives and board directors over what it described as ‘weak and unethical management practice’, which left the banks weakly capitalised to the point of collapse.

In a research conducted by CBN (2008), the report stated that, when the global financial crises erupted a lot of the Nigerian banks were found to be insolvent and in a deep liquidity crisis which the regulatory body (the CBN) had to introduce a lot of measures to cushion the effects of the global melt down. Among the measures introduced were the *expanded discount windows* (EDW) which allow some banks to borrow as a short term loan from the CBN at a lower interest rate with a flexible tenor period of repayment in order to solve their liquidity problems. But all that efforts by CBN, manage to solve the liquidity problem only, albeit temporarily (Zubairu, 2012).

One of the major contextual arguments in the world generally with regard to banking crisis is that it tends to prevail much longer because of the general complacency and laissez-faire’ attitude of regulatory authorities and their inability to deal with the crisis as it occur (Caprio, 1998; as cited in NDIC report, 2017). The regulatory authority has a moral duty to forestall crises in the first place, rather than trying to control the damage and allocate the losses in a seemingly fair manner after the event (Juan, 2003). However, according to NDIC report (2015), one must add the caveat that it is impossible to prevent all banking crises because of the cost of prevention and restriction on lending and risk-taking which can blunt a country’s economic growth. But authorities have to maintain a good balance between the costs of restraining back the banking system and the costs of crises resulting from a liberalized policy stance.

In the light of the above this paper seeks to answer the following research questions;

i. To what extent have flagrant abuse of risk management codes exposes banks to failure in Nigeria?
ii. To what extent have lack of strict adherence to corporate governance principles exposes Nigerian banks to corporate failure?

The research objectives of this paper are:

i. To assess the extent to which flagrant abuses of risk management codes results in banking failures in Nigeria

ii. To examine the extent to which lack of adhering to corporate governance principles exposes banks to corporate failure in Nigeria

Research Hypothesis

The following research hypotheses are raise in order to realise the objectives of this study.

For objective number one the following hypotheses are raise with regards to risk management as proxied by CAMEL:

$H_{01:}$ Capital adequacy ratio has no positive and significant effect on bank failures in Nigeria

$H_{02:}$ Asset Quality does not have positive and significant effect on bank failures in Nigeria

$H_{03:}$ Management Competency has no positive and significant effect on bank failures in Nigeria

$H_{04:}$ Earning Quality does not have positive and significant effect on bank failures in Nigeria

$H_{05:}$ Liquidity Efficiency has no positive and significant relationship on bank failures in Nigeria

For objective number two the following hypotheses are raise with regards to corporate governance

For objective two the following hypothesis is raise with regards to corporate governance as proxied by Corporate Governance Index

$H_{01:}$ Corporate governance has no positive and significant effect with regards to bank failures in Nigeria.

2.0 Literature Review

This section will conceptually review the causes responsible for bank failures in Nigeria taking into consideration two major determinants; endogenous and exogenous factors. It will also dwell on theoretical framework as the underpinning theory in explaining the cyclical nature of banking failures in Nigeria.

2.1 Causes of Bank Failures in Nigeria

According to CBN (2015) there is a fair degree of commonality in the general causes of bank failures across geographies, but it is the special characteristics of the Nigerian case that singles it out. Since the early 50's, the national banking cyclones repeated themselves historically, precipitating varying degrees of inter-temporal bank failures. Bank failures can come in various shades but the consequences are similar in the economy. The major determinants of bank failures in Nigeria can be sub-divided into two groups, namely; Endogenous and exogenous variables.

2.1.1 Endogenous Variables

These are factors that are internal to the banking institutions individually, conjointly or severally and can be self-inflicted or contagion. Operationally, the quality, strength and safety of banking services can be defined as a function of bank's policies, bank's operation and bank's management. Indeed, these endogenous factors are tantamount to failure arising from poor corporate governance. Endogenous factors that relates to bank failures in Nigeria as reported by NDIC report of 2015, 2016 and 2017 are failures arising from bank's mismanagement (corporate governance), failures arising from bank's policies and failures arising from bank's operations (risk management).

2.1.1.1 Corporate Governance

Following the demise of major global companies such as Enron and WorldCom due to accounting scandals and other in appropriate ethical work, the Sarbanes-Oxley corporate governance Act was approved by the USA congress through legislation and the aim of such acts is to reduce such inefficiencies. However, the late financial crisis of 2009 led to the Dodd-Frankly Act, which is another legislative piece that tries to reduce deviant behaviour among top corporate managers (Hykaj, 2016). And here in Nigeria the launching and instituting of corporate governance code in 2012 by the CBN has brought to some certain degree sanity in the banking system.

Corporate governance is the development, derivation, use, limitation and separation of powers between agents and principals of the company in a way that ensures the rights, privileges and responsibilities through the legitimization of actions and enthronement of accountability of the principals and agents (NDIC, 2017). One major features of the modern corporation is the separation of ownership (Principals) from the management (agents). When professional bankers turn unethical, what normally follow their style are cosmetic management, desperate management and outright fraud (NDIC, 2017). The cosmetic management applies to hiding past and present losses so as to buy time and remain in control while looking for quick fixes. An example is the Diamond, oceanic and intercontinental banks where the management employed all such of tactics, such as announcing dividends and putting up ‘’luxury and boutique premises’’ to give an impression to the investing public and their depositors that, all is well.

Desperate management on the other hand is a situation when bankers in trouble desperately look for business that enable them buy more time and if they are lucky, make up for lost ground. The practices in this scenario include mainly: speculative activities like forex and share manipulation, offering higher than market rates for deposits and charging higher than competitive rates on debtor’s accounts (NDIC, 2015). What normally follows in this flurry of activities is that NPL’s would keep mounting, liquidity situation would worsen and a dangerous ‘’Ponzi’ scheme (called 419 in Nigeria) or pyramidal system builds up until the bubble bursts. The industry witnessed such a scenario in the 2008-2009 banking crises in Nigeria.

2.1.2 Exogenous Variables

While the banks have a relatively firm control on the endogenous variables which can cause bank failures, the exogenous factors are those which the banks have very little or no control over. These are external factors which exact influence on the health status of banks and the best that banks can do to minimize failures or crises which derive from these factors is to device hedging mechanisms or mitigants (risk management) against such factors (Collins, 2009). The most important characteristics features and causes of bank failures resulting from the exogenous factors includes macroeconomic imbalances such as large fiscal and balance of payments deficits, sharp changes in relative prices and external shocks which can all leads to weak financial structures. Secondly, a major regulatory change could also expose both bankers and debtors to new opportunities and risk. The distortionary change or stimulus could come from anywhere in the economy and it is usually the ambitious or the undisciplined response of the banks to the regulatory change that land them in trouble (NDIC, 2017). Example CBN policy on banking consolidation of 2004.

Thirdly, a period of rapid economic growth and financial bubble caused by regulatory changes which are independent of changes in the real economy can lead to financial crises. This scenario was evident in the 2005-2008 periods in Nigeria when the capital market was booming and policy makers were under the illusion of rapid and sustainable economic growth. Apparently, banks in Nigeria failed to apply caution as they engaged in given out all manner of loans; like merging loans without collateral and at the end, many of the loan turned into a NPL's, and by the time the capital market bubble burst in 2008, eight (8) banks had their capital eroded and subsequently failed (CBN, 2017).

Fourthly, but not the least is the issue of weak supervisoury framework as a result of action or inaction that allowed the initial problems to escalate by the regulators. In recognition of the weak framework, the new set of rules in the regulation of banks now focuses on risk-based supervision (CBN, 2017). The main thrust of this new regime emphasizes prudential management, corporate governance and market discipline to counteract the distortions arising from fierce competition (Brealy, 2017)

2.2 Empirical review

In a study conducted by Moody (2019) a renown global financial advisory services firm, Moody posit that, factors that led to the downfall of diamond bank in Nigeria were bad leadership, poor risk management, the board's lack of independence, and the high volume of turnovers within the board. The rating agency in its in- depth report analysis on Diamond bank failures, stated that ''the bank went from making profits of N28.5 billion in 2013 to making looses of around N9 billion in 2017 (within a span of 4 years only)''. The bank NPL's; that is all loans overdue by more than 90 days, reached 42% of gross loans in 2017. The bank provisions against these NPLs were low at only 19%, weakening the quality of its capital, while high credit losses eroded its profits.

The empirical studies conducted by Lillian (2015), Fatima (2012), Sanda, Mukaila and Garba (2015) all demonstrates a link between corporate governance practices on the financial performance of banks. Moreover, Peters and Bagshaw (2014) examined empirically the impact of corporate governance mechanisms on firm economic performance of listed firms in Nigeria from 2010 to 2011 and found significant relationship. Ngwenze and Kariuki (2017) conduct a study to determine the influence of corporate governance practices on the financial performance of listed companies in Nigeria from 2012 to 2016 and they recorded a positive and significant relationship.

Ibrahim (2018) in his study of the defunct First African Trust Bank (FATB) reveals that instances of abuse of extant regulations and unethical standards impacted negatively on the confidence in the banking industry and the entire financial system in general. He cited the recent involvement of some deposit money banks in illegal forex transfers as a wake-up call for better corporate governance and ethical standards and professionalism. He posited that it was the primary responsibility of regulators to uphold strict compliance with international best practices and ethical standards in order to promote risk management and sound corporate governance in the banking industry.

Aebi, Sabato and Schmid (2012) in their paper which investigates whether the presence of a chief risk officer (CRO) in the executive board of a bank, the line of reporting of the CRO, and other risk management-related corporate governance mechanisms (which are also termed ‘‘risk governance’’) positively affect bank performance during the recent financial crisis. The results of the study indicate that banks, in which the CRO directly reports to the board of directors and not to the CEO (or other corporate entities), exhibit significantly higher (i.e., less negative) stock returns and Return On Equity (ROE) during the crisis. In contrast, standard corporate governance variables are mostly insignificantly or even negatively related to the banks' performance during the crisis.

In another study, Aebi, Sabato and Schmid (2012) also analyze the influence of bank-specific corporate governance, and in particular ‘‘risk governance’’ characteristics on the performance of banks during the financial crisis. Most importantly, the results show that banks, in which the Chief Risk Officer (CRO) reports directly to the board of directors, perform significantly better in the financial crisis than banks in which the CRO reports to the Chief Executive Officer (CEO) perform significantly worse than other banks. This result supports the initial hypothesis that risk governance in general and the reporting line of the CRO in particular are important to the banks' crisis performance as the CEO and CRO may have conflicting interests and if the CRO reports to the CEO, the risk agenda may not receive the appropriate attention.

Hykaj (2016) in his study of Corporate Governance, institutional ownership and their effects on financial performance in Albania found that firms that allowed institutional investors to have a stake as their shareholders are associated with higher returns on assets and equity. The paper finds that the presence of institutional holders has a positive impact on fund performance and the relationship is higher for ownership levels between 30% and 50%.

According to Wattimena (2015) banks had stumbled and failed, necessitating that the central bank should work on the classification of bank's credit to give signals about the weakness of financial ratios, especially during the financial crisis period, which could be measured by

CAMELS models for safety and soundness in the banking sector through diagnosis of its six elements as capital adequacy, assets quality, management quality, earning and profitability, liquidity and sensitivity to market risk, which are analyzed from the financial statements and have crucial influence on the economic conditions prevailing (Bakar and Tahir, 2009)

Rostami (2015) noted that the impact of each elements of CAMELS model analysis and diagnose using Tobin's ratio had found that banks focus on risk and certain ratios that relate to the measurement of the quality, method of administration, control of operations and crises that can occur in banks. Salhuteru and Wattimena (2015) study focused on performance of banks based on the analysis of all the financial statements of income, financial position and cash flows and changes that can occur on equity ratios and thus if the banks focused on this analysis it could give a positive indicator for the performance of banks operations. This model allows for the ranking of performance of banks according to the criterions of this model often derived from regulatory, supervisory and follow-up initiatives of the central bank and its objectives to ensure safety and soundness of all banks.

According to Feng (2005), two of the main characteristics of qualitative corporate governance are the size and the presence of outside directors. From the study, the size has been observed generally that a smaller board is more able to deliver better financial performance and is associated with better and faster decision making. Certainly, it is easier for a smaller board to agree on the implementation of important decision and presents stronger monitoring to CEO's. As cited in Hykaj (2016), Mak and Kusmandi (2004) in their research about Singaporean and Malaysian firms found that, smaller boards are associated with 5-year average returns on assets. Campbell (2009) found larger boards are less effective in monitoring the management of the firm and as a result concluded that large boards suffer from the lack of cohesion and coordination, resulting in slow decision making and inability to voice disapproval concerning deviant managerial behaviours.

Caprio (1998) as cited in NDIC report (2017) identified thirteen (13) factors responsible for banking crises in 29 countries using non-parametric measurement of mere factor-identification and the result is shown below in table 1:

Table 2.1 Survey of Factors Causing Banking Crises in 29 Selected Countries

Factors	**% response**
Poor Supervision/Regulation	100
Deficient Bank Management	68.97
Adverse Terms of Trade	68.97
Recession	55.17
Political Interference	37.93
Connected Lending/ Insider Abuses	31.03
Asset Bubbles	24.14
Lending To Government	20.69
Bank Frauds	20.69
Dutch Disease	13.79
Bank Runs	6.89
Weak Judiciary	6.89
Capital Flight	6.89

Source: NDIC report (2017)

In spite of the foregoing research papers, there still remains a lack of academic research testing the use of CAMEL (which stands for Capital Adequacy Ratio, Asset Quality, Management Expertise, Earning Per Share and Liquidity Efficiency) using regression analysis when analysing the risk management and corporate governance in the failure of banking institutions in Nigeria. This paper attempts to fill this gap. In this paper, we constructed a CAMEL composite index to stand as independent variables (regressors) in order to see their effects on the dependant variable.

This study will be different from others in the sense that none of the studies consulted had used regression analysis to analyse the changes in the CAMEL composite index but rather they applied financial ratio only to analyse the soundness of financial firms. This study however will utilise the use of regression analysis in order to analyse the changes associated with the deteriorating performance or otherwise of the effects of banks in Nigeria in the year under study.

2.3 Theoretical Framework

The theory that underpins this study is agency and stakeholders theory. Agency theory examines the relationship between shareholders (principals) and management (agent). The theory came into being as a result of work of Sarbanes-Oxley act legislation in the USA around 2004 when blue collar companies like Enron collapses as a result of insider abuses and lack of oversight by the board. The theory separates the functions of agents and their principals in order to avoid friction for an organization to make an informed decision. Abdullahi and Valentine (2009) define agency theory as a relationship between the shareholders and top management such as the company executives.

The other theory that underpin this study is stakeholder theory which is an extension of the agency theory in that corporate responsibility is not limited to shareholders and management but to broad range of stakeholders. Freeman (2003) believes that the theory originated from a combination of sociological and organizational disciplines. Health and Norman (2004) as cited in Aliyu and Yusuf (2019) stress that when there is any conflict of interest among stakeholders; the interest of shareholders has to be moderated in order to meet the obligations of other stakeholders. Therefore, the theory implies that organization and its managers have a duty to play to ensure that shareholders funds and depositors money in case on MDB are invested in a safe and sound place in order to enjoy their return on investments.

3.0 Methodology

This study employed ex-post facto research design using secondary sources of data extracted from selected banks annual audited financial reports for the periods of 5 years (2014 to 2019). The population of the study is all the Deposit Money Banks (DMB) in Nigeria quoted on the Nigerian Stock exchange and the sample size of the study are five (5) banks namely; First bank, GTbank, Union Bank, Diamond bank and Skye bank. Judgemental sampling technique is used in arriving at the five banks. Multiple regression analysis is also employed as a tool of data analysis using Statistical Software for Social Sciences (SPSS) version 20.

Based on the methodology designed above, the paper is designed to have two (2) models taking into consideration the two explained variables; Corporate Governance and Risk management, all of which will serves as separate dependant variable in each model with proxy as return on Asset (ROA) and return on equity (ROE) respectively. Descriptive statistic using ratios and multivariate regression analysis are apply as tool of analysis for the Corporate Governance index and risk management (CAMEL) index respectively.

3.1 Model Specification

The corporate governance index compose of the following based on the work of Hykaj (2016) which this study adopted but with some slight adjustment.

$ROA = \alpha + \beta_1 BDS + \beta_2 CEO\_T + \beta_3 IDD + \beta_4 FMD + \beta_5 MKTCAP + \varepsilon$............ (1)

Where;

ROA = Return on Asset

BDS = Board Size

CEO_T = Board Tenure

IDD = Independent Director

FMD = Female Director

MKTCAP = Market Capitalization

α = Constant term

ε = Error term

The second model is the risk management proxied as CAMEL composite index (independent variables) with return on equity as the dependant variable. Viz;

$ROE = \alpha + \beta_1 CAP + \beta_2 AQ + \beta_3 ME + \beta_4 EPS + \beta_5 LE + \varepsilon$.............. (2)

Where;

ROE = Return on Equity

CAR = Capital Adequacy Ratio

AQ = Asset Quality

ME = Management Expertise/Competence

EQ = Earnings Quality

LE = Liquidity Efficiency

α = Constant term

ε = Error term

3.1 Variables Definitions/Operationalization

Variables	Definitions	Measurement	Sources
Capital Adequacy Ratio (CAR)	CAR determines the banks capacity to meet the time liabilities and other risks associated and its includes Tier 1 & Tier 2 capital.	Total Equity to Total Assets	Aliyu (2015), Zubairu (2019), CBN/NDIC (2015, 2017, 2018 & 2019)
Asset Quality (AQ)	AQ described the degree of financial strength and risk in a bank asset; typically loans, investments and securities and its drive earnings performance and therefore, its long term viability.	Net income to total Assets	Salhutera and Wattimena (2015), Jamil, Alshubiri & Fattouh (2016)
Management Expertise/Competency (MC)	MC is the degree to which management turn assets of the bank to a sound profitability.	Net income to Total Revenues	Salhutera and Wattimena (2015), Aliyu (2015)
Earning Quality (EQ)	EQ refers to the potential gains from dividend pay-outs and capital appreciation shareholders might earn from holding a stock. In otherwords, it reflects the largest possible profit that a corporation can make.	Total profits to Net income	Salhutera and Wattimena (2015), BawanehAl-Balqa and Dahiyat (2019)
Liquidity Efficiency (LE)	LE refers to a financial term used to describe how easily an assets can be turned into cash	Quick-acid test ratio/ cash ratio (i.e., cash + bond + marketable securities) Current Asset to Current Liabilities	Dahiyat (2016), Gibson (2019), Franca and Wilfredo (2019).

	and it shows how likely a company will be able to meet its short-term obligations.		
Return on Asset (ROA)	Measures the efficiency with which a company utilizes its assets to generate profits	Profit After Tax to Total Assets x 100%	Hykaj (2016), Aliyu & Yusuf (2019)
Return on Equity (ROE)	Measures the efficiency with which a company utilizes its shareholders fund to generate profits	Profit After Tax to shareholders' equity x 100%	Hykaj (2016), Aliyu & Yusuf (2019)

Source: Prepared by the Author (2020)

4.0 Results and Findings

Summary statistics of financial statement of four (4) banks are presented in this section on a yearly basis from 2014 to 2019. Purposive/judgemental random sampling was applied in selecting the sample of the banks from the entire population of the study. Among the banks selected two (2) are currently active and functioning (First bank and GTbank) while two (2) were distressed and are either merged or acquired (Skye and Diamond Banks) by Access and respectively. As an indicator of financial performance, the return on assets (ROA) and Return on equity (ROE) were used as the dependant variables for the two models. In order to avoid any statistical insignificance in model one, market capitalization was used as a control variable for the period under study.

4.1 Descriptive statistics for model 1.

Table 4.1 Descriptive Statistics[a]

SAMPLED BANKS	Minimum	Maximum	Mean	Std. Deviation	N
GTBANK	23.2510	32.6115	28.0212	3.57123	20
FIRST BANK	8.0915	18.7570	13.9892	4.80649	20
DIAM. BANK	.9397	4.0710	2.2384	1.18008	20
SKYE BANK	6.6529	8.8672	8.0862	.99698	20

Source: Author (2020).

a. Predictors: (Constant), Capital Adequacy Ratio, Management Competency, Earning Quality, Liquidity Efficiency, Asset Quality

b. Dependent Variable: Return on Equity

From table 4.1 above there were 20 observations representing the 4 sampled banks use for a period of five (5) years (2014 to 2018) for this study. The results for the mean of each banks shows that GTbank has an average return on assets and equity of 28.0212, First bank 13.9892, Diamond bank 2.2384 and Skye bank with 8.0862. This figure is fairly represented and is an indication of a good performance by GTbank and First bank while Diamond and Skye banks reveals sign of distress. This is further confirmed with the minimum and maximum ROA of 23.2510 and 32.6115 and standard deviation of 3.57 for GTbank, for First bank it was 8.0915 minimum and 18.7570 as maximum and a standard deviation of 4.80649, Diamond bank has a minimum of 0.9397 and maximum of 4.0710 and a standard deviation of 1.18008, while Skye bank has a minimum of 6.6521 and a maximum of 8.8672 and a standard deviation of 0.99698.

The model summaries as depicted in table 4.2, shows that all the banks have an R square of 1.000 which means the variables in question (i.e. CAMEL) explain 100% variation in the models

Table 4.2: Summary of All the Various Banks Coefficient[a]

Variables	Unstandardized Coefficient					standardized Coefficient	Sig.
	B					Std. Error	
	GTbank	First Bank	Diamond Bank	Skye Bank			
(Constant)	-40.875	46.793	-36.281	-14.767		.000	.000
CAR	730.424	24.376	15.272	-1.577		.000	.000
AQ	517.903	460.969	52.286	11.631		.000	.000
MC	3.743	-3.913	-	-1.999		.000	.000
EQ	-	-	-55.522	-		.000	.000
LE	60.286	23.129	17.796	-1.577		.000	.000

a. Dependent Variable: Return on Equity (ROE)

Source: Author (2020) using SPSS version 20.

Table 4.2 shows the results of regression analysis of the various sampled banks in the study. As stated earlier, the dependant variable is the return on asset (ROA) and the independent variables are the CAMEL composite index as proxies of the risk management. The results as shown above is robust as it indicate strong relationship between the explanatory variables and the dependent variable.

Testing Hypotheses in Model 1:

$H_{01:}$ Capital adequacy ratio has no significant positive effect on bank failures in Nigeria

To test for hypothesis one using table 4.2, which was derived from Appendix II, we found that GTbank Capital Adequacy Ratio (CAR) has positive coefficient (730.424) with the ROA and also significant at one percent (P-value < 0.001). Likewise First bank CAR has a positive coefficient of 24.376 and significant at one percent (P-value < 0.001). Diamond CAR has positive coefficient of 15.272 while Skye bank posted a negative coefficient (-1.577) but all the four banks reveals significant relationship at one percent level of significance (P-value < 0.001). Therefore the hypothesis which states no significant positive effect between CAR and bank failures in Nigeria is rejected and alternate is accepted. This work confirm the study of Ibrahim (2018), Rostami (2015), CBN (2017), Bakar and Tahir (2009).

$H_{02:}$ Asset Quality has no significant effect on bank failures in Nigeria

To test for hypothesis two, Asset quality (AQ) when regressed with Return on Assets (ROA) of all the banks, the following results were revealed. All the banks return a positive coefficient with a strong significant relationship at one percent level of significance, as depicted in table 4.3 above. Therefore based on that we reject the null hypothesis which says Asset Quality has no positive significant effect on bank failures in Nigeria. This confirm the work of NDIC (2017), Wattimena (2015), Rostami (2015) and Caprio (1998)

$H_{03:}$ Management Competency has no significant effect on bank failures in Nigeria

Hypothesis three comprises of regressing ROA with management competency (MC) and the results was also robust as demonstrated in table 4.2. All the banks return a negative coefficient with the exception of GTbank that has a positive coefficient of 3.743. Though the coefficients are not strong but all the banks show a significant relationship at one percent level. Therefore the null hypothesis is rejected and alternate is accepted which signifies a relationship between Management competency and return on Assets. The implication of this is that MC in the CAMEL composite weighted risk has a minimum contribution than the other variables. This study is line with that of Aliyu (2010), Zubairu (2019) as well as Wattimena (2015)

$H_{04:}$ Earning Quality has no significant effect on bank failures in Nigeria

To test for Hypothesis four (4), Earning Power (EP) was found to be missing in the course of the regression analysis as it was omitted by the SPSS in running the results except that of Diamond bank with a negative coefficient of -55.522 (see table 4.2) but significant at one percent level. Here also we reject the null hypothesis and accept the alternate. This study is in line with the work of Wattimena (2015) and Rostami (2015)

$H_{05:}$ Liquidity Sufficiency has no significant positive effect on bank failures in Nigeria

The last but not the least, is hypothesis number five which states that there is no significant positive effect on liquidity sufficiency (LS) on bank failures. The various banks report a positive coefficient as GTbank has 60.28, First bank has 23.129, Diamond bank posted 17.796 and Skye bank with a negative coefficient of -1.577.The results shows that all the banks liquidity sufficiency's are significant at one percent level (see table 4.3). Therefore, the null hypothesis is rejected since liquidity sufficiency is one of the acidic in determining the failure of a bank. This result confirms the work of Aliyu (2010), Zubairu (2019) and NDIC and CBN in various issues.

Testing Hypotheses in Model 2:

To test for the second model we first of all ran an analysis of variance (ANOVA) on the Corporate Governance index of the sampled banks under study. The result of all the banks shows that the model is fit and significant as shown in table 4 below. In the overall model, it shows that there is a statistically significant difference between the group means. The calculated F-value of 0.062 for Diamond bank (i.e., $p < 0.05$) is less than the tabulated 5% level of significance while First Bank and GTbank has a significant value of 0.19 respectively at 10 percent level. This confirms that the three (3) predictors' variables are statistically capable of predicting the dependant variable.

Table 4: Analysis of Variance (ANOVA)

Model	Banks	Sum of Squares	df	Mean Square	F	Sig.
Regression	Diamond	.171	3	0.57	140.995	0.062
	First Bank	.437	2	.219	50.441	0.19
	GTbank	2.119	3	.706	14.498	0.19

Source: Author (2020) using SPSS 20.

The model summary in table 5 reveals that the R square of all the sampled banks are significant, with Diamond bank having a 99 percent (0.998), First Bank 98 percent (0.981) and GTbank with 97 percent (0.978). This result shows that the model explains over 99% variations of all the variables in the sampled banks. The Durbin Watson statistics that measures auto correlation shows a result of 2.958, 3.107 and 2.827 for Diamond, First and GTbank respectively and which did not falls within the acceptable range of 1.222 to 2.726 as indicated in Durbin Watson table in Gujarati and Porter (2009). Though, the model indicates that there is an autocorrelation among the variables but that did not render the model unfit and thus the estimates are unbiased and can be relied upon for policy decisions.

Table 5. Model Summary of All the Sampled Banks

Model	R	R Square	Adjusted R^2	Std. Error	Durbin-Watson
Diamond	.997	.998	.991	0.20	2.958
First Bank	.990	.981	.961	0.66	3.107
GTbank	.989	.978	.910	0.2074	2.827

Source: Author (2020) using SPSS 2020

To test for the hypotheses raised as regards model 2, table 6 is use and the following results were found.

$H_{01:}$ There is no significant positive effect of corporate governance on Bank failures.

In Diamond bank Board size has been found to have a negative coefficient of -0.18 and not significant (0.44) at 5 and 10 percent level. Independent directors has a negative coefficient (-.0351) but statistically significant at 10 percent level of significance. Market capitalization though a control variable has been found to have a positive coefficient (3.518) and statistically significant at 10 percent. Therefore the study failed to reject the null hypothesis that corporate governance has no effect on bank failure in Diamond bank. This study is in line with the report of Moody (2019) and contradicts that of Peter and Bagshaw (2014) as well as Ngwenze and Kariuki (2017) which found significant relationship.

First bank reveals almost the same result as Board size has been found to have a negative coefficient (-0.22) and statistically not significant (0.258) with a p-value >10. But in the process of running the regression analysis independent Directors as a variable was removed by the SPSS because they have a constant value for all the sampled years which was taken as two years. But market capitalization is significant at 10 percent level.

The regression analysis for GTbank reveals no significant relationship between Board size and return on assets (dependant variable) except market Capitalization. This result is surprising as GTbank is one of the most widely run financial institution with sound financial standing. Board size has been found to be not significant in all the banks with regards to banking failure and this might not be unconnected with the fact that, money deposit banks in Nigeria monopolised the election of board members by putting their cronies and ‘yes men’ in order to rubber stamp their decisions. This result has been found to be consistent with the work of Moody (2018) but contradict the work of Hykaj (2016), Feng (2005), Campbell (2009), Mak and Kusmandi (2004).

The results above indicate that corporate governance and risk management complement each other and The two underpinning theories of agency and stakeholders theory explain the topic under study

Table 6: Coefficient of All the Sampled Banks

Variables	Unstandardized Coefficient		Standardized coefficient	t	Sig.
	B	Std. Error	Beta		
Diamond Bank-					
Constant	.920	0.77		11.904	0.53
Board Size	-.018	0.15	-.193	-1.1904	.444
Independent Director	-.0351	0.50	-.928	-6.656	.095
Market Capitalization	3.518	.000	.237	3.338	.185
First Bank-					
Constant	1.019	.172		5.927	0.27
Board Size	-0.22	0.14	-1.93	-1.565	.258
Market Capitalization	.000	.000	1.094	8.869	0.12
GTbank					
Constant	13.517	3.704		3.649	.170
Board Size	-.238	.272	-.457	-.876	.542
Independent director	-.753	.299	-.855	-2.515	.241
Market capitalization	-6.068	.000	-1.148	-3.457	.179

Source: Author (2020) using SPSS 20.

5.0 Conclusion and Recommendation

The paper's aim is to assess the predictive power of CAMEL composite index in identifying banks that are failing (i.e. in a state of distress) or had already failed, and also to find if there is a relationship between banks failures in Nigeria with regards to corporate governance and risk management in view of the incessant banking failure being witnessed in Nigeria. The findings of the study were robust as significant relationship was observed as regards to non- strict adherent of corporate governance codes and risk management principles and also proved that CAMEL composite index is a powerful predictor of bank's failure.

It has also been observed that over the years, records have shown that bad debts or NPL's (management incompetence) have been the major causes of bank failures which have militated against banking sector development. Regrettably, those behind many failed banks in Nigeria have walked away free or were given a mere slap on the wrist, while huge tax payers fund had been injected to bail out the banks they ran aground. Take for instance cases of Oceanic bank, Intercontinental bank, BankPHB and of recent near collapsed of Diamond and Skye banks as

clear examples. Leaving a banking institution into the hand of incompetent, self-serving and clueless board of directors to oversee a fraudulent management is recipe for failure as the management would normally exploit the situation to execute their fraudulent intent, especially embarking on reckless insider lending which would end up generating huge provision and operational losses that will lead to insolvency of the bank.
Conclusively, we summarised that in all the sampled banks sampled in this study, Diamond and Skye banks have been found to have an impaired capital and consequently sound management, adequate capital and effective risk management were basically absent, and these risk factors have been found to form part of the critical success factors for a bank's viability. Therefore, the combined effect of their absence was a recipe of failure and dissipation of resources of the banks till their collapsed.

The health of any bank is important to everyone, weather a borrower or savers, an individual or a businesses, therefore concerted effort need to be made by the regulators to ensure strict adherence to corporate governance codes and risk management principles by Money Deposit Banks (MDB) in Nigeria in order to address the issue of incessant failures. While bank failure is not restricted to Nigeria and no bank irrespective of the clime or size of the economy is immune to failure, this author believes that the only way the nations' banks could be insulated from such constant distress or failure is through appointing proper and competent management by both internal (Board) and external authourities (Regulators).

As part of our recommendation to policy makers the following are proffers:

The competency and experience of the management and board in terms of educational background in economics, finance and banking related field should be strictly enforced so as to avoid taking decision inimical to the growth of the banks and the economy.

Board diversity: The diversity of the board should be encourage in such a way to create a balance so that no one section of the country/family members should be allowed to dominate the other. The balance will create a sort of checks and balances on the part of the management to do the right things. Allowing female to be on the board will also create that balance as study has shown that they have the ability to create balance within the stream of their male counterpart in other climes.

Family ties with a business: Though the regulator (CBN) has specifically banned one family from controlling the commanding shares of a banks aftermath the 2009 crisis. Unfortunately, the trend continues specifically in Diamond bank which led to the collapse of the bank. The regulators should pay more emphasis on their supervisory role so as to prevent families investing in a similar corporation using proxies and other subsidiaries.

Timely intervention by the regulators: Another way a nation could free itself of bank failure is through timely intervention of the regulators by adoption and enforcement of corporate governance codes that will help eradicate poor management, fraud and insider abuses by management and board members, as well as poor assets and liability, among others.

Finally, maximum punitive measures should be applied to the culprits (both board members and management). Because until failed bank promoters begin to pay for the consequences of their actions, there will surely be no end to this malaise in Nigeria.

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Appendix I

Descriptive Statistics[a]

SAMPLED BANKS	Minimum	Maximum	Mean	Std. Deviation	N
GTBANK	23.2510	32.6115	28.0212	3.57123	20
FIRST BANK	8.0915	18.7570	13.9892	4.80649	20
DIAM. BANK	.9397	4.0710	2.2384	1.18008	20
SKYE BANK	6.6529	8.8672	8.0862	.99698	20

a. Predictors: (Constant), Capital Adequacy Ratio, Management Competency, Earning Quality, Liquidity Efficiency, Asset Quality

b. Dependent Variable: Return on Equity

Appendix ii

Model Summary-Diamond Bank

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	1.000[a]	1.000	.	.

a. Predictors: (Constant), Liquidity Efficiency, Earning Quality, Capital Adequacy Ratio, Assets Quality

Model Summary-First Bank

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	1.000[a]	1.000	.	.	.114

a. Predictors: (Constant), Capital Adequacy Ratio, Management Competency, Earning Quality, Capital Adequacy Ratio

b. Dependent Variable: Return on Equity

Model Summary-GTbank

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	1.000[a]	1.000	.	.	.052

a. Predictors: (Constant), Capital Adequacy Ratio, Capital Adequacy Ratio, Assets Quality, Management Competency

b. Dependent Variable: Return on Equity

Model Summary-Skye Bank

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	1.000[a]	1.000	.	.	.548

a. Predictors: (Constant), Capital Adequacy Ratio, Capital Adequacy Ratio, Assets Quality, Management Competency

Appendix iii

Coefficients[a]- Diamond Bank

Model-**Diamond Bank**		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-36.281	.000		.	.000
	Capital Adequacy Ratio	15.272	.000	.613	.	.000
	Assets Quality	352.286	.000	2.857	.	.000
	Earning Quality	-55.522	.000	-1.279	.	.000
	Liquidity Efficiency	17.796	.000	1.678	.	.000

a. Dependent Variable: Return on Equity

Coefficients[a]- First Bank

Model-**First Bank**		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	46.793	.000		.	.000
	Capital Adequacy Ratio	24.376	.000	.440	.	.000
	Management Competency	-46.969	.000	-.960	.	.000
	Earning Quality	-3.913	.000	-.626	.	.000
	Capital Adequacy Ratio	-23.128	.000	-.195	.	.000

a. Dependent Variable: Return on Equity

Coefficients[a]- GTbank

Model-**GTbank**		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-40.875	.000		.	.000
	Capital Adequacy Ratio	730.424	.000	1.198	.	.000
	Assets Quality	517.903	.000	1.677	.	.000
	Management Competency	3.743	.000	.087	.	.000
	Capital Adequacy Ratio	-60.286	.000	-1.456	.	.000

a. Dependent Variable: Return on Equity

Coefficients[a]- Skye Bank

Model-**Skye Bank**		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-14.767	.000		.	.00000.
	Assets Quality	82.172	.000	.518	.	.00000.
	Management Competency	11.631	.000	.767	.	.00000.
	Earning Quality	91.999	.000	1.952	.	.00000.
	Capital Adequacy Ratio	-1.577	000	-.969	.	.00000.

a. Dependent Variable: Return on Equity

Appendix v: ***Data for Regression***

s/n	*CAMEL Variables*	*Measurements*	*Banks*	*2015*	*2016*	*2017*	*2018*	*2019*
1	Capital Adequacy Ratio (CAR)	Total Equity to Total Assets	Diamond Bank	0.11888242	0.132242	0.124641563	0.128459	0.0206649
			First Bank	0.121186661	0.315482	0.136626415	0.153559	0.097095
			GT Bank	0.175924739	1.046481	0.182493606	0.191179	0.1811877
			Skye Bank	0.062081294	0.062157	0.06882817	0.073778	0.079119
2	Assets Quality (AQ)	Net Income to Assets	Diamond Bank	0.065722694	0.059826	0.051012705	0.054474	0.0751624
			First Bank	0.023525934	0.011013	0.007403489	0.024829	0.0082075
			GT Bank	0.038924767	0.018153	0.014330345	0.010502	0.0124438
			Skye Bank	0.054645073	0.060653	0.0568763	0.043928	0.0561499
3	Management Competency (MC)	Net income to Total Revenues	Diamond Bank	0.584315694	0.496799	0.000425353	0.000445	0.5463707
			First Bank	0.000397801	0.108653	0.077630416	0.241437	0.0049457
			GT Bank	0.263276041	0.15377	0.229531646	0.304228	0.0985966
			Skye Bank	0.858757288	0.985539	0.890990522	1.004209	
4	Earning Power (EP)	Total Profit to Net Income	Diamond Bank	0.033327524	0.066859	0.022775883	0.0096	0.0712008
			First Bank	0.966210457	1.838283	1.900987092	0.500427	0.2023301
			GT bank	1.365586707	2.280996	3.386824439	5.572056	4.7484003
			Skye Bank	0.07558311	0.076062	0.105263865	0.103622	0.8824025 0.124946

5	Liquidity Efficiency	Current Asset to Current Liabilities	Diamond Bank	0.844542583	1.046481	1.045801959	1.108851	0.9007654
			First Bank	1.175632279	1.210134	1.242508408	1.2602	1.2770938
			GT Bank	1.303040065	1.259457	1.229285524	1.292347	1.0893282
			Skye bank	0.007590469	0.795887	0.795987503	0.802358	1.7360914