AN ASSESSMENT OF PERCEIVED RISKY BANKING BEHAVIOUR: A COMPARATIVE STUDY OF BANKS AND NDIC WORKERS

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Abstract

The banking, savings and loans crises which engulfed the Nigeria banking industry since the beginning of the last decade have been, and will continue to be a source of concern to investors, bankers, depositors, management experts, and public commentators well into the future. Following the trend of distress, its causes and possible remedies have been given psychological explanations. This study was therefore embarked upon to identify the risky behaviour of managers in the distressed banks. A total of 90 respondents (48 males and 42 females) participated in the study with their ages ranging from 32 to 48 years with a mean of 36 years. The participants were drawn from the Nigeria Deposit Insurance Corporation (NDIC) Lagos, and 2 new generation commercial banks. The perceived Risky banking Behaviour Scale (PRBBS) was used to collect data. Result revealed that NDIC workers significantly identified risky bank behaviours more than the distressed and non-distressed bank employees ($t(88)=3.03$, ($p<.05$). There was also significant difference between male and female bank workers in the recognition of risky managers bank behaviours ($t(88)=1.86$, $p=0.05$). Healthy bank workers were not significantly different from distressed bank workers in their assessment of perceived risky banking behaviours. It was recommended that the NDIC should take into cognizance the important role of psychological factors in selecting, managing and predicting managers' bank performance. The important role of training bank workers in the identification and vigilance on risky bank behaviours are emphasized in the paper.

Introduction

In 1986, the Federal Military Government of Nigeria introduced the Structural Adjustment Programme (SAP). Following this novel development, the financial system was virtually deregulated. As a result, the country witnessed an upsurge in the number and variety of financial institutions, especially banks. This upsurge in the number of banks necessitated the establishment of government regulatory and supervisory agencies to maintain surveillance over their management. In spite of the various policies and monetary controls put in place by these regulatory bodies, so many of these banks began to show signs of distress in the early 1990s. Garba (1990) reported how depositors' money became trapped. Ohio (1998) remarked that bank failures have increased rapidly in Nigeria and many depositors' funds have been trapped. Some banks have got their licenses revoked and placed under liquidation. Considering the central role banks play in any society, it was not possible to sweep the issue of distressed banks under the carpet. Apart from the implication it has on the national economy. It has direct effect on the general public who deposit their money in banks. When a bank finds it difficult to discharge its responsibility to its stakeholders as a result of weakness in its financial, operational and managerial conditions and the bank is rendered insolvent, the bank is regarded to be distressed (CBN/NDIC, 1995)

The most important factor that determines the soundness of a bank is the quality of its management. The managers of the banks can make or mar the healthy operation of the banks by their performances. Judging by the phenomenal growth in the number of distressed banks since the beginning of this decade, it thus appear that the supervisory measures put in place or taken to check bank failures have not been far reaching enough to be effective. Consequently, there is now overwhelming justification to focus on the personality and work attitudes of the managers of banks.

In this regard, the Nigeria Deposit Insurance Corporation (NDIC) 1997 Quarterly Report indicated that distress in the banking industry emanates partly from endogenous factors, which include manpower problems, mismanagement, and fraud amongst others. Despite such claims of the influence of some psychological variables in bank distress, there has been no officially noticeable effort made by any of the surveillance agencies to consider critically the organizational behaviour of managers in the sensitive sector.

The two surveillance agencies of banks are the NDIC and Central Bank of Nigerian (CBN). While the CBN licenses the banks to operate within set guidelines, the NDIC, because of its insurance obligation to depositors, monitors and checks the banks to ensure strict compliance with the banking rules. In other words, the NDIC deals directly with the management of banks. By so doing, the NDIC supervises, from time to time, the activities of the managers. This is to ensure that banking guidelines are not flouted. However, the personal values of these managers help shape their perception of a situation, influence their analysis of alternative solutions to a problem, and have an effect on their overall behaviour in taking ultimate decision. This is why any genuine attempt to explain managers' performance should not underrate the individuals' personal characteristics which include his value, and attitude toward the work.

According to the Nigeria Deposit Insurance Corporation (NDIC) operating manual (1995), a distressed bank is one whose performance rating has to a large extent and on a continuous basis fallen below established parameters of a healthy bank. Specifically, a distress occurs when a bank is either illiquid and/or insolvent. A bank is insolvent when it can no longer meet depositors' and other creditors' demand for cash as contracted. On the other hand, a bank is insolvent when the value of its realizable assets is less than its total liabilities, that is, a case of negative net worth. These situations fit into Greenberg and Barling's (2001) view on employee theft in organizations.

Since the last five years, bank distress became so rampant in Nigeria that it is now a common issue of discussion among traders, bureaucrats, artisans, business managers, government officials, and the general public. The total amount of frauds reported by banks in Nigeria over the periods of 1991 to 1994 was put at about N5.6 billion, out of which commercial banks accounted for about 85.7 percent (Alashi, 1998).

According to the Financial Services Regulation Coordinating Committee (FSRCC) report to the NDIC in 1997, the attitude of the mangers (positive or negative) are to be considered against such characteristics as honesty, integrity, responsibility, prudence, competence, loyalty and accountability. Considering these factors identified by the committee, on behalf of the NDIC, there is a need to study risky behaviour, which can explain bank distress.

Following the trials and appearances of notable bank managers in the failed bank tribunals, the general public (Nigerians and foreign investors alike) became so confused as to what the regulatory bodies were doing that such abysmal failure was recorded (or is being recorded) in the industry. Confidence was gradually being eroded in the Nigerian banking system. Safety of the money and the quality of services rendered are the major concerns of depositors, whereas compliance with the laws and policy measures of the regulatory institutions is the major concern of the supervisory agencies. These are aimed at ensuring a safe and sound banking system in Nigeria.

Some risky bank behaviours have been identified to include over lending, greediness and avarice, granting loans without collaterals or adequate security, granting overdraft through unfunded bank cheques, corruption, weak internal control etc. The aim of this paper is to assess the ability of the bank workers to assess these as risky behaviours. Three hypotheses were tested in this study namely:

1. That NDIC workers will assess significantly risky bank behaviours more than staff of the distressed banks.
2. That males will recognize risky bank behaviour more than their female counterparts.
3. That workers from healthy banks will identify more risky behaviours than workers from distressed banks

Ehigie (2000) highlighted the psychological impact of Bank distress on liquidation exercise. These include traumatic experiences such as decline in healthy mental wellbeing. Ehigie also reported that employees in liquidated banks were significantly more depressed than those in healthy banks.

This study will be relevant to Nigerian Deposit Insurance Corporation (NDIC) and the Central Bank of Nigeria (CBN) since these agencies would become more aware of the need to monitor the behaviours of bank workers and the need to use psychological assessment tools to screen individuals during recruitment exercise for bank workers.

Method

Participants

Ninety participants were drawn from the NDIC, a healthy bank, and a distressed bank from Lagos. Fifty four (60%) of the respondents were drawn from the NDIC and were directly involved in bank inspection. From a healthy bank, 15 (16.7%) participated in the study. The remaining 21 (23%) bank employees were drawn from distressed banks. The ages of the respondents ranged from 32 to 48 years (mean age=36 years), 85% of the respondents were married while 68% were Christians. All the subjects cut across the different cadres from officers to senior management. There were 48 (53.3%) males and 42 (46.7%) females. The NDIC workers being bank regulators are expected to be more knowledgeable in the kinds of behaviour which can mar a bank more than those other bank workers hence more of them were recruited for the study.

Instruments

The instrument used for data collection was a questionnaire designed by the researchers to assess sociodemographic characteristics and perceived risky bank behaviours. The perceived risky bank behaviour scale had 26 items adopting "Yes" or "No" scoring format. The Scale had Cronbach Coefficient alpha of 0.93. The higher the score of the participants on the perceived risk behaviour scale the higher the propensity of the individual to identify and be more knowledgeable about risky bank behaviours which are bad for the banking business.

Procedure

Permission for data collection was obtained from the NDIC and the Banks. The questionnaires were administered to the participants. Out of the 120 questionnaires distributed, 54 were from NDIC, 15 from healthy banks and 21 were from the distressed banks. Those who responded formed 75%.

Results

Hypothesis 1: states that NDIC workers will assess significantly risky bank behaviours more than staff of the distressed banks. The result of this study confirmed the first hypothesis t (88 df) =3.03, $p<.05$ suggesting that NDIC assessment of managers' risky behaviour indicated more awareness of risky banking practices. More detailed analyses are displayed in table 2 comparisons of NDIC and the banks on the 26 items of the scale. These revealed that there was a significant difference between the NDIC and the bank workers on the following: greediness and avarice, lack of supervision resulting in frauds, neglect of procedure for granting loans, mismatching of funds, over valuation of collateral before granting loan, poor moral discipline, spending depositors' funds as personal money, living beyond one's earning capacity, dishonesty of managers, and corruption in the discharge of duties. It is instructive to note that both the NDIC over lending, receiving bribes before granting loans, as the most risky bank behaviours.

Table 1: Table showing mean and standard deviation on risky behaviour scores

Variable	N	X	Std.Dev	T	DF	P
NDIC	54	58.2	12.70	3.03	88	0.003
Bank	36	51.2	9.20			

Table 2: Mean Ratings of Risky Behaviour Pattern of NDIC and Banks

		NDIC Workers				BANKS					
S/N	Items	N	Mean	Std. Dev	Rank	N	Mean	Std. Dev	Rank	t	P
1.	Over lending	54	2.62	0.62	1	36	2.38	0.59	1	1.84	<.05
2.	Ostentatious life style/ Get rich quick syndrome	54	2.33	0.62	9	36	2.33	0.75	3	0	>.05
3.	Greediness and Avarice	54	2.35	0.76	7	36	2.03	0.74	11	2.02	<.05
4.	Abuse of Position (Insider Dealings)	54	2.44	0.69	4	36	2.36	0.8	2	0.51	>.05
5.	Granting loans without adequate security	54	2.46	0.66	3	36	2.22	0.68	5	1.66	<.05
6.	Lack of supervision resulting in frauds	54	2.29	0.63	10	36	1.72	0.7	23	3.95	<.05
7.	Inadequate loan recovery efforts	54	2.29	0.82	11	36	2.08	0.77	8	1.25	>.05
8.	The need to please someone (fear of offending)	54	1.83	0.86	26	36	1.81	0.86	17	0.15	>.05
9.	Neglect of procedure for granting loans	54	2.29	0.74	12	36	1.94	0.67	14	2.32	<.05
10.	Mis-matching of funds	54	2.27	0.85	14	36	1.8	0.85	18	2.56	<.05
11.	Over valuation of collateral before granting loan	54	2.18	0.77	17	36	1.75	0.8	21	2.54	<.05
12.	Inadequate feasibility/investment appraisals	54	2.05	0.76	20	36	1.8	0.82	19	1.45	>.05
13.	Poor monitoring of project after loan	54	1.96	0.75	24	36	1.83	0.81	16	0.76	>.05
14.	Granting overdrafts through unfunded cheques	54	2.05	0.85	21	36	2.05	0.89	9	0	>.05
15.	Employment of staff without required qualification	54	1.92	0.84	25	36	1.66	0.67	25	1.61	>.05
16.	Living up to society expectation	54	2.01	0.96	23	36	1.75	0.84	22	1.4	<.05
17.	Poor moral discipline	54	2.14	0.83	18	36	1.55	0.77	26	3.45	<.05
18.	Spending depositors' funds as personal money	54	2.12	0.77	19	36	1.72	0.88	24	2.24	<.05
19.	Living beyond one's earning capacity	54	2.25	0.78	16	36	1.88	0.82	15	2.13	<.05
20.	Dishonesty of Managers	54	2.4	0.81	5	36	2	0.79	13	2.36	<.05
21.	Yielding to undue pressure from superiors	54	2.27	0.73	15	36	2.13	0.83	7	0.81	>.05
22.	Corruption in the discharge of duties	54	2.4	0.78	6	36	2.05	0.79	10	2.06	<.05
23.	Weak internal	54	2.29	0.74	13	3	2.22	0.79	6	0.4	<.0

one –tail test.

Hypothesis 2 which predicted that males will recognize risky behaviour more than their female counterparts was tested with Independent t-test. The hypothesis was confirmed $t = 1.86$, $df(88)$ $p < 05$ thus indicating that male respondents with mean score of 57. 6 differ significantly from the female with mean score of 52.9 in their assessment the risky behaviour of managers in distressed banks. Males have identified higher risky behaviours compared to women. Further results shown in table 4 elaborated on the 26 items of the scale that both males and female differ significantly on 5 out of the 26 items namely: over valuation of collateral before granting loans, poor moral discipline, spending depositors funds as personal money, employment of staff without required qualification and fraudulent practices. Both males and females agree that over lending, receiving bribes, was regarded to be the most risky behaviours.

Table 3: Mean and Standard Deviation Scores for Male and Female Participants' Assessment of the Risky Behaviour Patterns of Managers

Variable	N	X	Std. Dev	T	Df	P
Male	48	57.6	9.31	1.86	88	0.05
Female	42	52.9	13.97			

Table 4: Mean Ratings of Risky Behaviour Pattern of Male and Female Respondents

	Male				Female					
No Items	N	mean	Std. Dev	Rank	N	Mean	Std. Dev	Rank	t	P
1. Over lending	48	2.58	0.57	1	42	2.47	0.67	1	0.8	0.42
2. ostentatious life style/Get rich quick syndrome	48	2.37	0.7	5	42	2.29	0.77	4	0.56	0.57
3. Greediness and Avarice	48	2.29	9.74	8	42	2.14	0.78	9	0.92	0.37
4. Abuse of position (Insider Dealings)	48	2.37	0.67	6	42	2.45	0.8	2	0.49	0.62
5. Granting loans without adequate security	48	2.41	0.61	4	42	2.3	0.74	3	0.73	0.46
6. Lack of supervision resulting in frauds	48	2.08	0.7	19	42	2.04	0.73	13	0.23	0.81
7. Inadequate loan recovery efforts	48	2.27	0.73	10	42	2.14	0.87	10	0.74	0.45
8. The need to please someone (fear of offending)	48	1.91	0.84	26	42	1.71	0.66	24	1.11	0.26
9. Neglect of procedure for granting loans	48	2.2	0.71	13	42	2.09	0.75	17	0.72	0.47
10. Mis-matching of funds	48	2.16	0.85	16	42	2	0.91	14	0.88	0.37
11. Over valuation of collateral before granting loan	48	2.16	0.78	17	42	2.83	0.82	19	1.96	0.05
12. Inadequate feasibility/investment appraisals	48	2	077	22	42	1.9	0.82	17	0.56	0.57
13. Poor monitoring of projects after loan	48	2	0.71	23	42	1.8	0.83	20	1.15	0.25
14. Granting overdrafts through unfounded cheques	48	2.18	0.84	15	42	2.18	0.87	18	1.55	0.12
15. Employment of staff without required qualification	48	1.97	0.75	25	42	1.64	0.79	26	2.05	0.04
16. Living up to society's expectation	48	2	0.92	24	42	1.8	0.91	21	0.99	0.32
17. Poor moral discipline	48	2.08	0.76	20	42	1.71	0.91	25	2.05	0.04
18. Spending depositors' funds as personal money	48	2.16	0.76	18	42	1.73	0.85	22	2.46	0.01
19. Living beyond one's earning capacity	48	2.2	0.77	14	42	2	0.85	15	1.2	0.23
20. Dishonesty of Managers	48	2.33	0.78	7	42	2.14	0.87	11	1.08	0.28
21. Yielding to undue pressure from superiors	48	2.25	0.6	11	42	2.19	0.94	8	0.35	0.72
22. Corruption in the discharge of duties	48	2.29	0.77	9	42	2.23	0.84	7	0.31	0.75
23. Weak internal control system	48	2.25	0.72	12	42	2.28	0.8	5	0.21	0.82
24. Granting loans to self/relations without collateral	48	2.5	0.68	2	42	2.26	0.88	6	1.41	0.16
25. Favourism	48	2.5	0.76	21	42	1.78	0.84	22	1.74	0.08
26. Fraudulent practices	48	2.43	0.82	3	42	1.97	0.89	16	2.52	0.01

Hypothesis 3: states that workers from healthy banks will identify more risky behaviours than workers from distressed banks.

The third hypothesis was not confirmed t (34 df) = - 0.22. p. > .05. thus showing that workers from healthy and distressed banks were similar in their assessment of risky bank behaviours.

Table 5: Independent t-test table Showing the Scores of Health Banks' and Distressed Banks' Assessment of the Risky Behaviour Patterns of managers

Variable	N	Mean	Std. Dev	T	DF	P
Healthy	15	50.8	4.37	-0.22	34	0.83
Distressed	21	51.4	11.60			

Table 6 displays banks' scores on each item on the mean scores on the 26 risky behaviours of all the items considered, only greediness and avarice was significant meaning that it was the most risky bank behaviour identified by both healthy and distressed bank workers.

Table 6: Mean Ratings of Risky Behaviour Pattern of Healthy and Distressed Banks

			Healthy				Distressed Bank				
	No Items	N	mean	Std. Dev	Rank	N	Mean	Std. dev	Rank	T	P
1.	Over lending	15	2.27	0.46	1	21	2.48	0.63	2	-1.1	0.26
2.	Ostentatious life style/Get rich quick syndrome	15	2.2	0.36	4	21	2.42	0.67	3	-0.89	0.39
3	Greediness and Avarice	15	1.73	0.59	20	21	2.23	0.76	7	-22	0.03
4	Abuse of position (Insider Dealings	15	2.13	0.83	6	21	2.53	0.74	1	-1.44	0.15
5	Granting loans without adequate security	15	2.06	0.59	8	21	2.53	0.73	5	1.2	0.23
6	Lack of supervision resulting in frauds	15	1.67	0.72	22	21	1.76	0.7	18	-0.39	0.69
7	Inadequate loan recovery efforts	15	2.26	0.1	2	21	1.95	0.8	13	1.24	0.22
8	The need to please someone (fear of offending)	15	2	0.84	10	21	1.66	0.85	20	1.16	0.25
	Neglect of procedure for granting loans	15	2	0.53	11	21	1.9	0.76	15	0.43	0.66
10	Mis-matching of funds	15	2	0.84	12	21	1.66	0.85	21	1.16	0.25
11	11. Over valuation of collateral before granting loan	15	2	0.16	13	21	1.57	0.18	25	1.68	0.1
12	Inadequate feasibility/investment appraisals	15	2	0.75	14	21	1.66	0.85	22	1.23	0.22
13	Poor monitoring of projects after loan	15	1.66	0.81	23	21	1.95	0.8	14	-0.04	0.3
14	Granting overdrafts through unfounded cheques	15	2.06	0.88	9	21	2.04	0.92	10	0.66	0.95
15	Employment of staff without required qualification	15	1.73	0.59	21	21	1.61	0.74	23	0.51	0.61
16	Living up to society's expectation	15	1.66	0.81	24	21	1.8	0.87	17	0.51	0.61
17	Poor moral discipline	15	1.6	0.73	26	21	1.52	0.81	26	0.29	0.77
18	Spending depositors' funds as personal money	15	1.86	0.91	17	21	1.61	0.86	24	0.81	0.47
19	Living beyond one's earning capacity	15	1.66	0.72	25	21	2.04	0.86	11	-1.43	0.16
20	Dishonesty of Managers	15	2.2	0.56	5	21	1.85	0.91	16	1.39	0.17
21	Yielding to undue pressure from superiors	15	1.93	0.79	16	21	2.28	84	6	-1.27	0.21
22	Corruption in the discharge of duties	15	2.13	0.63	7	21	2	0.89	12	0.52	0.6
23	Weak internal control system	15	2	0.75	15	21	2.38	0.8	4	-1.45	0.15
24	Granting loans to self/relations without collateral	15	2.26	0.88	3	21	2.23	0.83	8	0.09	0.92
25	Favourism	15	1.86	0.83	18	21	1.76	0.88	19	0.35	0.72
26	Fraudulent practices	15	1.86	0.83	19	21	2.14	0.85	9	-0.97	0.33

Discussion

This study was set out to assess the risky behaviours among NDIC and bank workers and also to examine the influence of sex on identification of risky bank behaviours. It was revealed that the NDIC workers significantly identified more risky bank behaviour than the bank workers since the NDIC workers are bank regulators, perhaps they receive more training on what can lead a bank to become liquidated than the bank workers. The need to highlight those bad behaviours during training of bank employees (new and old) should be taken seriously.

A look at the financial Services Regulation Coordinating Committee (FSRCC) 1996 report following its study of banking distress in Nigeria for a period of 2 year reveals a total neglect of behavioural influence in the recommendation to NDIC, which set up the committee and sponsored the study. Rather, economic factors were recommended such as recapitalization of the distressed banks. Little wonder then that the NDIC differ from the banks in the assessment of managers' behavioural patterns in distressed banks.

Male respondents did not significantly differ from females in their assessment of managers' behaviour, the finding contradicts McShane and Glinow's (2000) view of gender differences in assigning blame, which noted that male and females differed, in this regard men were seen to rely on blaming, women tend to rely on indirect impression formation. Following from this position it would have been expected that a significant difference could exist between males and females on their assessment of managers' risky behaviours. This study however, found no significant difference.

This finding clearly supports the work of Alashi (1993) where he noted the risky behaviour of bank managers which amounted to malpractices. He identified some risky behaviour that are responsible for bank failures. He described that as counter-productive because they work against productive performance in the sub-sector. According to Alashi, males and females see malpractices in same way.

Behaviours that are likely to defraud a bank are negative risky behaviours which should not be encouraged by any bank. The twenty-six items evolved from responses of bank workers on what constitutes risky bank behaviours during a pilot study. Although managers are expected to take risks. Such risks must be seen to be positive, for example, using bank money to invest for the bank, but not for self.

Healthy bank's workers were not singnificantly different from distressed bank workers in their assessment of managers' risky bahaviour patterns. The similarity observed by the respondents of both the healthy and distressed banks could be explained on the basis of the fact that they are all from the same cultural background and perhaps the sample size was small. Subsequent research should increase the sample size.

Conclusion

Going by the results of this study, it can be inferred that little attention has been given to the individual personal characteristics of Bank Managers by the monitoring authorities (NDIC). This can justify the continuous looting in the sub-sector which brought the performance of some of the banks to a level that has never been witnessed in the history of banking in Nigeria. If the behavioural excesses of the managers were checked early, the situation would have been saved.

The present study has far-reaching implications for the bank sub-sector of the economy. The findings in the study are, however, not conclusive, although the results shaded more light on the behavioural characteristics relevant to the banking distresses.

The Nigeria Deposit Insurance Corporation (NDIC) should henceforth, take into consideration the important role of psychological factors in predicting managers' performance in banks.

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