

**REVOCAION OF BANKING LICENSES IN NIGERIA: AN EXAMINATION OF THE
LEGAL FRAMEWORK AND UNDERLYING CAUSES OF BANK FAILURES.**

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ABSTRACT

Banks are very crucial institutions in any given economic system because of their position of financing the economy. Failure of banks has been an issue of great concern in the economy of many countries for a long time. Most companies in a bank-primarily based financial system depend on these establishments for investment to enlarge their operations in addition to their daily operations as working capital. When the banks fail, the firms lose the investment and are pressured to reduce on their operations. This results to unemployment rates going up because of lay-offs, low profits, deep inside the capital market fees and reduction in manufacturing by these firms. Banks operate in a complex and sensitive environment, therefore, they are under numerous regulatory frameworks consisting of the maintenance of certain capital reserves and adherence to Capital Adequacy Ratio (CAR) to make certain balance. However, regardless of those safeguards, bank failures are a reality. In Nigeria, a failing bank requires the intervention of the Central Bank of Nigeria (CBN) as the number one regulator of the Banking Sector. Depending on the occasions, such intervention may additionally vary from changing the bank's management; to revoking the license of the bank to the liquidation of the bank. An example of such happened recently, when the Central Bank of Nigeria (CBN) on the 3rd day of June, 2024, revoked Heritage Bank's operating license, raising large concerns among depositors, investors, and different stakeholders. It is in this regard that this paper seeks to examine the concept and causes of bank failure and its effects, circumstances under which the Central Bank of Nigeria (CBN) may revoke a bank's license, and the effects of such revocation in Nigeria.

Keywords: Bank failure, License, Revocation, Economic growth, and Bank.

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1.0 INTRODUCTION

In recent years, there has been a notable rise in research interest surrounding bank failure, driven by the financial sector's increased volatility and evolving regulatory landscape. Researchers and policymakers are particularly focused on understanding the determinants and effects of bank failure to mitigate systemic risks and protect depositors¹. This interest is propelled by recent economic disruptions, which have exposed vulnerabilities within banks, especially in emerging economies. The COVID-19 pandemic, for example, introduced severe operational challenges, while post-pandemic inflation and rising interest rates have impacted the cost structure of banks globally. Such economic shocks have amplified the need for rigorous analysis on bank resilience, as it has become evident that banks must adapt rapidly to survive in an increasingly turbulent environment.²

The altered financial landscape has also driven up operating costs due to heightened interest rates across various regions, forcing banks to reevaluate their operational strategies and risk management approaches. Rising inflation, coupled with geopolitical tensions, has intensified financial pressures, making it challenging for banks to maintain operational efficiency and financial stability. Many banks, particularly those struggling with inefficiencies and insufficient capital buffers, have faced license revocations as regulatory bodies respond to safeguard economic stability.³ This increased scrutiny and enforcement underscore the relevance of understanding bank failure mechanisms, as regulatory authorities seek to limit the adverse impacts of bank collapses on broader financial markets and economic stability.

In Africa, and Nigeria specifically, banks face intensified challenges due to economic instability, which significantly impacts their operations. High inflation rates, volatile currency fluctuations, and an unpredictable economic environment contribute to an elevated risk of bank failures across the continent⁴. These issues place immense pressure on Nigerian banks, affecting their liquidity

¹Adeoye, T., Ibrahim, M., & Lawal, A. Economic instability and the challenges of banking in Africa. *African Journal of Banking & Finance*, 14(1), (2022)56-72.

² Ibid

³Azeez, K. CBN revokes license of Eyowo MFB. *Business Day Nigeria*.(2023) Retrieved from <https://businessday.ng/>. Accessed on 14 November, 2025.

⁴ibid

and profitability, which are essential for stability. To address these risks, the Central Bank of Nigeria (CBN) has implemented policies aimed at enhancing financial resilience, including stricter capital requirements, risk management standards, and regular audits to strengthen regulatory oversight⁵. Additionally, the CBN has adopted the Bank Verification Number (BVN) system and mandated comprehensive internal control frameworks to combat fraud and improve the efficiency of banking operations. Despite these measures, many banks in Nigeria still struggle with significant barriers to survival, such as limited access to capital, high operating costs, and a constrained lending environment, which further exacerbate the risk of failure in a volatile economic landscape⁶.

A bank failure occurs when a bank is unable to fulfil its financial commitments to its creditors and depositors. This incapacity can stem from two primary reasons: insolvency or illiquidity. Insolvency arises when a bank's liabilities surpass its assets. In this state of affairs, the bank truly lacks the financial resources to cover its debts. On the alternative hand, illiquidity takes place when a bank, in spite of being technically solvent, does not own sufficient liquid assets, consisting of cash or effortlessly convertible assets, to satisfy the immediate withdrawal needs of its depositors. This can trigger a bank run, a chaotic scenario in which depositors rush to withdraw their funds, intensifying the bank's liquidity disaster.⁷

License revocation has increasingly become a last-resort measure for the Central Bank of Nigeria (CBN) in handling failing or inefficient banks. The CBN has, over the years, taken decisive actions against banks that exhibit chronic insolvency, poor corporate governance, and inability to meet regulatory standards. For example, in 2018, the CBN revoked the licenses of Skye Bank, citing the bank's inability to meet capital requirements and resolve liquidity issues; it was subsequently restructured as Polaris Bank.⁸ Similarly, in 2021, the CBN revoked the licenses of over 42 microfinance and mortgage banks due to their consistent financial instability and operational inefficiencies, thereby safeguarding the interests of depositors and preserving financial system

⁵Ogunrinola, B. (2019). Skye Bank: A tale of liquidity challenges and regulatory actions. *Journal of Banking and Finance in Nigeria*, 15(2),(2019) 112-127.

⁶Ojo, B. &Adediran, O. (2023).Enhancing bank resilience in Nigeria: Policies and practices.*Journal of Financial Regulation and Compliance*, 30(2), 210-228.

⁷ ibid

⁸ ibid

integrity. Most recently, in 2023, the CBN withdrew the operating license of Eyowo MFB due to compliance issues and weak internal risk controls, emphasizing the regulator's commitment to maintaining a sound financial environment⁹. Through such actions, the CBN continues to reinforce its mandate of ensuring the stability of Nigeria's banking sector and protecting depositor funds. In light of ongoing financial challenges and regulatory interventions in Nigeria's banking sector, this study seeks to examine instances of bank failure and license revocation, aiming to understand the factors leading to these occurrences and the regulatory responses involved. Recent studies suggest that inadequate capital, poor corporate governance, and risky lending practices are significant contributors to bank instability in emerging markets, leading regulators to revoke banking licenses to safeguard depositors and maintain financial stability

2.0 CONCEPTUAL CLARIFICATION OF KEY TERMS

Bank Failure

Alashi¹⁰ defines bank failure as being a state of entire cessation of normal operation by using affected bank or continuance of normal operation with the help of regulatory/supervisory authorities. This definition extremely is similar to the definition of failed bank under the Failed Bank (Recovery of Debt and Financial Malpractice in Banks) Act (FBA)¹¹. This Act defines bank thus:

“Failed Bank means a bank or other financial institution whose license has been revoked or which has been declared closed, placed under receivership or otherwise taken over by the Central Bank of Nigeria or the Nigerian Deposit Insurance Corporation”

While the two definitions above emphasize cessation of the normal operation of the bank and the intervention of the regulatory institution as indices of failure, it's been argued that insolvency or misery is often visible from unique view factor in that it can not result in the complete ceasation of the operation of the bank, withdrawal of its license and next intervention via the regulatory

⁹Azeez, K. (2023). CBN revokes license of Eyowo MFB. *Business Day Nigeria*. Retrieved from <https://businessday.ng/>

¹⁰Alashi, S.O. “Focus on Bank Failure, Bankruptcy: Some Recent Experiences”, *Nigerian Journal of Financial Management*, Vol.IV, (1985) p. 74

¹¹1994

institution. Therefore, if adequate financial measures are taken, an insolvent or distress bank can be taken out of such scenario and for this reason avoid a scenario of failure.

License: A license is permission granted by a competent or qualified authority that allows a licensee to do something that would otherwise be prohibited under the law. It may be a formal document or permit and can cover activities such as conducting business, driving, or using intellectual property. Licenses often have territorial and time limits and can be revoked. They serve as a legal authorization to perform acts otherwise unlawful without permission.¹²

Revocation: Revocation refers to the annulment, cancellation, or recall of a legal instrument, agreement, or privilege. In law, it often means the withdrawal of an offer before acceptance or the cancellation of a license or contract. It renders the previously granted right or permission void from the point of revocation forward.¹³

Economic Growth: Economic growth in legal and economic contexts is defined as the increase in production of goods and services in a country over a period compared to a previous period. It reflects a rise in national income and economic capacity driven by factors such as capital, technology, and labor. It is commonly measured by gross domestic product (GDP) or gross national product (GNP).¹⁴

Bank: A bank is a legally licensed financial institution authorized by statute or regulation to receive deposits, make loans, provide currency exchange, and perform fiduciary functions. It is a quasi-public institution operating under government-granted authority to carry out banking functions, and the right to operate as a bank depends on state or federal laws.¹⁵

¹²Law.com Legal Dictionary, "License," <https://dictionary.law.com/Default.aspx?selected=1156>. Accessed October 14, 2025

¹³Black's Law Dictionary, "The Law Dictionary," accessed October 14, 2025, <https://thelawdictionary.org/revocation/>. Accessed October 14, 2025

¹⁴John L. Cornwall, "Economic Growth," Encyclopædia Britannica, Encyclopædia Britannica, Inc., <https://www.britannica.com/money/economic-growth>. Accessed October 14, 2025

¹⁵Lea, D., &Bradbery, J. (2020). Oxford Advanced Learner's Dictionary (10th ed.). Oxford University Press.

2.1 LEGAL FRAMEWORK

Central Bank of Nigeria (CBN) Act:

The Central Bank of Nigeria (CBN) Act provides the legal framework empowering the Central Bank of Nigeria to regulate banking institutions, including the issuance and revocation of banking licenses. Section 6¹⁶ of the Central Bank of Nigeria Act confers on the CBN the power to issue licenses to banking institutions and to revoke them under specific conditions. The Act mandates that the Governor of the CBN, with the approval of the Board, may revoke the license of any bank if the bank:

- i. Fails to comply with any condition on which the license was granted,
- ii. Is or becomes unable to meet its liabilities or is insolvent,
- iii. Conducts business in an unsound or unsafe manner,
- iv. Engages in fraudulent or unlawful practices,
- v. Appears to the CBN to pose a threat to the stability of the banking system,
- vi. Is undercapitalized below prescribed minimum capital requirements,
- vii. Has failed to commence operations within a specified period after licensing,
- viii. Or if any other condition prescribed under the Act is breached. The law empowers the CBN to act decisively to protect depositors and ensure financial system stability by removing weak or non-compliant banks from the system.

Procedure and Implications under the Act

The revocation of a banking license under the CBN Act is formalized by a notice published by the Governor, with Board approval. This revocation triggers the appointment of the Nigeria Deposit Insurance Corporation (NDIC) as liquidator to manage the bank's liquidation and protect depositors' interests. The Act also limits the remedies available to banks whose licenses have been revoked. They may challenge the revocation in court, but judicial review focuses on procedural fairness rather than substantive merits. The CBN Governor and the Bank are protected from injunctions or orders that could delay revocation, with disputes typically limited to monetary compensation claims.

¹⁶CBN Act (2007).

The provisions in Section 6¹⁷ reflect the core regulatory authority of the CBN to ensure a sound banking sector by setting and enforcing minimum standards of banking operations and financial health. The Act's revocation clauses act as disciplinary and corrective tools in the framework for banking supervision. They help prevent bank failures from causing systemic risk, protect depositor funds, and uphold public confidence in the Nigerian financial system. In essence, the CBN Act, through its licensing and revocation provisions, ensures the Central Bank's supervisory powers over Nigerian banks are legally binding and effective, providing a clear legal mechanism for intervention when banks operate unsafely or inadequately.

Banks and Other Financial Institutions Act (BOFIA) 2020

The Banks and Other Financial Institutions Act (BOFIA) 2020 provides a comprehensive legal framework for the regulation of banks and other financial institutions in Nigeria, including detailed provisions on the revocation of banking licenses. This Act supplements the powers conferred on the Central Bank of Nigeria (CBN) by the CBN Act by specifying explicit grounds, procedures, and consequences relating to license revocation with a view to preserving the stability and integrity of the Nigerian banking system.

Section 12¹⁸ of BOFIA is the key provision that governs the revocation of banking licenses. It empowers the CBN Governor, subject to Board approval and through published notice, to revoke the license granted under the Act upon the occurrence of any of the following grounds:

- i. The bank ceases to carry on its authorized banking business for a continuous period of six months or aggregates six months within a 12-month period.
- ii. The bank goes into liquidation or is wound up or otherwise dissolved.
- iii. The bank fails to fulfill or comply with any condition subject to its license.
- iv. The bank has insufficient assets to meet its liabilities (insolvency).
- v. It conducts business in an unsound manner or its directors engage in unsafe practices.
- vi. It is involved in any situation, action, or inaction that threatens financial stability.
- vii. Failure to comply with any obligation imposed by BOFIA, the CBN Act, or any other rules, regulations, guidelines, or directives.

¹⁷ *ibid*

¹⁸ BOFIA 2020

- viii. It is critically undercapitalized, with a capital adequacy ratio below prudential minimums.
- ix. It fails to commence banking operations within 12 months of obtaining the license.
- x. It fails to comply with other prescribed provisions under the Act, including sections 9¹⁹ and 13²⁰.

Further, subsection 12(2)²¹ empowers the Governor, when satisfied it is in the public interest, to appoint the Nigeria Deposit Insurance Corporation (NDIC) as liquidator of the affected bank promptly, without delay, appointing the NDIC with powers under the Companies and Allied Matters Act to oversee liquidation and settlement of depositors. The importance of these provisions lies in their detailed articulation of the CBN's discretionary powers to maintain financial system stability through prudent oversight. By explicitly listing grounds such as insolvency, non-compliance, unsafe practices, and capital inadequacy, BOFIA strengthens the regulatory environment, making it clear when the CBN can intervene with revocation to protect depositors and the banking system.²²

BOFIA extends the scope of accountability by covering failures linked not only to financial criteria but also to governance and operational adherence to regulatory directives. It allows swift intervention through NDIC's appointment as liquidator, reducing delays in managing distressed banks and protecting systemic confidence.

The clarity and comprehensiveness of BOFIA's revocation criteria serve as both a deterrent and enforcement tool against reckless or negligent banking practices. It supports regulatory certainty by prescribing formal notice and approval procedures, ensuring transparency and public awareness. Legally, BOFIA caps the relief available to aggrieved banks post-revocation to monetary compensation limited by the paid-up capital, barring courts from reinstating licenses.²³ This provision aims to prevent protracted litigation that could jeopardize financial stability. However, it also raises judicial debates on balancing regulatory authority with due process and

¹⁹ Ibid

²⁰ ibid

²¹ ibid

²²Bunmi A. "Heritage Bank's licence revoked — what happens to depositors, shareholders?" THE CABLE <https://www.thecable.ng/explainer-heritage-banks-licence-revoked-what-happens-to-depositors-shareholders/> Accessed 14 November, 2025

²³ ibid

access to justice for affected banks. BOFIA revocation provisions are central to the Nigerian financial supervisory architecture. They reinforce the CBN's mandate endowed by the CBN Act by prescribing specific lawful grounds and procedures to revoke banking licenses, thereby enhancing prudential regulation, depositor protection, and financial system soundness in Nigeria.²⁴

Nigeria Deposit Insurance Corporation (NDIC) Act

The Nigeria Deposit Insurance Corporation (NDIC) Act is the principal legislation mandating the establishment and operational framework of the NDIC. The Act empowers the NDIC to insure deposits, manage bank liquidations, and protect depositors' funds, thereby safeguarding public confidence in the Nigerian banking system.

Section 1²⁵ of the NDIC Act establishes the Nigeria Deposit Insurance Corporation as a body corporate with perpetual succession, capable of suing and being sued in its corporate name. The Corporation's key functions under Section 5²⁶ include the mandate to insure all deposit liabilities of licensed banks and other financial institutions operating within Nigeria. This insurance scheme is designed to enhance public confidence by ensuring depositors' funds are protected up to a certain limit even if banks fail. Section 40²⁷ of the Act is particularly relevant to the NDIC's role in liquidations. It empowers the NDIC to act as liquidator for banks whose licenses have been revoked by the Central Bank of Nigeria (CBN) or where the institutions are otherwise insolvent or failing. The NDIC is authorized to take possession of the failed bank's assets, manage the affairs of the bank during liquidation, and work to realize and distribute funds to depositors and creditors in an orderly manner. This role protects depositors and ensures minimal disruption to financial stability during bank failures.

Functions and Powers under the Act

The NDIC Act further delineates the powers of the Corporation to levy premiums on insured institutions under Section 21²⁸, which fund the deposit insurance scheme. Section 23²⁹ outlines the

²⁴ *ibid*

²⁵ NDIC Act

²⁶ *ibid*

²⁷ *ibid*

²⁸ *Ibid*

²⁹ *ibid*

power to demand special contributions when necessary to maintain the viability of the insurance fund. The Act also restricts the proliferation of other deposit insurance schemes to centralize risk management and maintain regulatory efficiency (Section 5³⁰). The NDIC is empowered under Section 37³¹ to provide financial assistance and under Section 38 to participate in the management and restructuring of failing insured institutions, including creating bridge banks (Section 39³²) to ensure continuity of banking services during restructuring.

Relevance of the NDIC Act

The NDIC Act is central to Nigeria's banking regulatory architecture as it underpins the protection of depositors' funds, a crucial element in maintaining public trust and confidence in the banking sector. By insuring deposit liabilities, the NDIC mitigates the systemic risk that might otherwise result from bank failures. The Act's provisions for the NDIC to act as liquidator ensure effective management of distressed banks, facilitating timely and orderly resolution of bank failures. This legal framework complements the supervisory functions of the Central Bank of Nigeria by taking charge of the financial safety net for depositors, which is crucial for financial system resilience. The NDIC's insurance and liquidation roles serve as an essential backstop, preventing widespread financial panic and economic disruptions resulting from bank insolvencies. The Nigeria Deposit Insurance Corporation Act explicitly mandates the NDIC to insure deposits, manage liquidations of failed banks, and protect depositors. Key sections such as Sections 1, 5, 21, 23, 37, 38, 39, and 40³³ articulate these responsibilities, making the NDIC a vital institution in Nigeria's financial regulatory framework for maintaining stability and depositor confidence.

AMCON Act 2010

The Asset Management Corporation of Nigeria (AMCON) Act is a significant statute enacted to address the challenge of non-performing loans (NPLs) in Nigeria's banking sector, thereby facilitating financial stability and the recovery of distressed loan assets. The Act establishes AMCON as a specialized agency empowered to acquire and manage non-performing loans from banks to clean up their balance sheets, improve liquidity, and restore confidence in the financial

³⁰ *ibid*

³¹ *ibid*

³² *ibid*

³³ *Ibid*

system. Section 1³⁴ of the AMCON Act establishes the Asset Management Corporation of Nigeria (AMCON) as a body corporate with perpetual succession, a common seal, and the capacity to sue and be sued in its corporate name. This foundational section confers legal personality and operational independence on AMCON, empowering it to function as a standalone legal entity for meeting its objectives.

Section 4³⁵ articulates the primary objects of AMCON, which include acquiring eligible bank assets from eligible financial institutions and efficiently managing, realizing, and disposing of them to achieve best financial returns. This acquisition aims mainly at resolving toxic assets by removing them from banks' balance sheets, enabling banks to focus on normal lending and operations.

Section 5³⁶ describes the functions of the Corporation, central to which is the power to acquire eligible bank assets, including non-performing loans, from financial institutions in accordance with the Act's provisions. The Corporation also holds authority to invest in eligible equities, and to manage and dispose of assets, including the collection of interests, principal, and taking over collateral securing such loans.

Section 6³⁷ enumerates the powers of AMCON, further enabling the Corporation to issue bonds or debt securities to raise funds for the acquisition of non-performing loans, thus ensuring financial backing for its operations.

Importance and Practical Relevance

The AMCON Act was catalyzed by the 2009–2010 banking crisis in Nigeria, where several banks were overwhelmed by a portfolio of toxic loans that threatened their solvency and the financial system's stability. By empowering AMCON to purchase and manage these non-performing loans, the Act helps banks remove such problematic assets from their books, allowing recapitalization and sustainability. This centralized approach to asset management under AMCON also facilitates efficient loan recovery and restructuring, protecting the interests of depositors and investors while

³⁴AMCON) Act 2010

³⁵ Ibid

³⁶ ibid

³⁷ ibid

reducing systemic risk. The Act's provisions empower AMCON to serve as a "bad bank," parallel to healthy banks, tackling legacy problems without impeding regular banking operations.

Legally, the AMCON Act provides a clear statutory framework for AMCON's operations, empowering it to negotiate, acquire, and manage eligible bank assets effectively. This legislative backing ensures transparency, accountability, and operational clarity in addressing the challenges posed by non-performing loans within Nigeria's financial sector.

The AMCON Act 2010, through Sections 1, 4, 5, and 6,³⁸ creates and empowers the Asset Management Corporation of Nigeria to acquire non-performing loans from banks, thereby facilitating financial stability and enhancing loan recovery mechanisms in Nigeria's banking industry. This Act remains a crucial pillar in Nigeria's banking reform efforts to safeguard systemic stability and promote economic growth.

Money Laundering Prohibition Act

The Money Laundering (Prevention and Prohibition) Act,³⁹ is a comprehensive legislative framework designed to combat money laundering and related financial crimes in Nigeria. The Act contains several key provisions that regulate banks and other financial institutions' compliance with anti-money laundering (AML) requirements, with non-compliance potentially leading to severe sanctions, including the revocation of licenses.

Section 2⁴⁰ of the Act explicitly prohibits money laundering activities, establishing that any person involved in transactions involving proceeds of unlawful acts shall be liable to criminal sanctions. Sections 4⁴¹ and 5⁴² impose the duty on financial institutions to identify their customers and verify their identities before establishing relations. This identification process is fundamental for AML compliance, as it facilitates the monitoring and reporting of suspicious transactions.

Section 7⁴³ of the Act mandates financial institutions and designated non-financial businesses to report suspicious transactions to the Special Control Unit Against Money Laundering (SCUML).

³⁸ *ibid*

³⁹ Prevention and Prohibition Act 2022,

⁴⁰ *Ibid*

⁴¹ *ibid*

⁴² *ibid*

⁴³ *ibid*

These reports are crucial in detecting and deterring illicit financial flows, and failure to comply can lead to sanctions, including license revocation. Section 8⁴⁴ requires preservation of records for at least five years, providing an audit trail that supports investigations.

Section 9⁴⁵ emphasizes the importance of communication and the sharing of information between regulatory agencies and law enforcement for effective AML enforcement. Section 10⁴⁶ mandates the adoption of internal procedures, policies, and controls to comply with anti-money laundering standards. Non-compliance with these internal controls exposes institutions and their officers to regulatory sanctions.

Section 12⁴⁷ criminalizes the act of acquiring, using, or retaining funds or property reasonably believed to be proceeds of unlawful acts. Such acts constitute money laundering offenses and carry significant penalties, including fines and imprisonment, and could also lead to license revocation if the entity involved fails to adhere to AML obligations.

Non-Compliance and License Revocation

The Act's provisions imply that non-compliance with AML requirements, such as failure to report suspicious transactions, inadequate customer due diligence, or failure to maintain proper records, can be grounds for regulatory action, including the suspension or revocation of a bank's license. The law gives the relevant authorities, notably the Central Bank and the SCUML, broad powers to enforce compliance.

In particular, Section 26⁴⁸ of the Act empowers regulators to impose administrative penalties including the revocation of licenses on financial institutions that obstruct or fail to comply with AML regulations. These sanctions serve as a deterrent to lax AML practices and ensure that institutions uphold their obligations under the law.

⁴⁴ *ibid*

⁴⁵ *ibid*

⁴⁶ *ibid*

⁴⁷ *ibid*

⁴⁸ *ibid*

Practical Impact and Enforcement

The Act enhances Nigeria's AML framework by aligning it with international standards such as those set by the Financial Action Task Force (FATF). It underscores the importance of robust compliance programs within banks, including transaction monitoring, customer due diligence, training, and record-keeping. Failure to adhere to these standards can result in not only criminal sanctions but also administrative actions like license revocation, which have severe operational and reputational consequences for financial institutions.

The Money Laundering (Prevention and Prohibition) Act, 2022, establishes a stringent legal framework where compliance with anti-money laundering requirements is mandatory, with sanctions potentially including license revocation available to regulators for violations. These provisions reinforce Nigeria's commitment to curbing financial crimes and safeguarding the integrity of its financial system.

Companies and Allied Matters Act (CAMA)

The Companies and Allied Matters Act (CAMA) provides the legal framework guiding the winding-up or liquidation process of companies in Nigeria, including banks. This Act is pivotal in regulating how banks and other companies undergo liquidation, detailing the appointment of liquidators, their powers, and the distribution process of assets to creditors and shareholders, thereby ensuring an orderly and lawful dissolution of insolvent entities.

Chapter 22⁴⁹ and 23⁵⁰ of CAMA comprehensively address the process and regulation of winding-up and liquidation. Section 473⁵¹ specifies the appointment of a liquidator and clarifies that upon appointment, the powers of the company's directors cease. The liquidator assumes the custody and control of the company's assets and affairs to enable orderly realization and distribution.

Sections 480⁵² and 643⁵³ focus on the distribution of a company's property or assets during voluntary winding-up, requiring liquidators to distribute assets in accordance with statutory

⁴⁹CAMA 2020

⁵⁰ *ibid*

⁵¹ *ibid*

⁵² *ibid*

⁵³ *ibid*

priorities such as settling outstanding debts to creditors before any distributions to shareholders. Section 494⁵⁴ mandates liquidators to keep proper books and accounts about the winding-up process.

Section 474⁵⁵ allows for the appointment of a committee of inspection, which assists in supervising the liquidator's administration, enhancing oversight during the liquidation. Sections 480⁵⁶ and 643⁵⁷ also confer broad powers on liquidators to sell or otherwise dispose of company assets for the benefit of creditors and contributors.

Section 625-631⁵⁸ cover provisions for voluntary winding-up initiated by members, including the necessity for declarations of solvency, while Sections 634-641⁵⁹ address creditor voluntary winding-up procedures, outlining meetings of creditors and the appointment of liquidators.

Role and Powers of the Liquidator under CAMA

The liquidator's role is central to the winding-up process. Upon appointment, the liquidator takes full control of the company's assets and business affairs to protect creditors' and stakeholders' interests. The liquidator must ascertain and realize all assets, pay off creditors in the order of priority set out in the Act, investigate the company's affairs, and report to the court and stakeholders. The Act also empowers the liquidator to call meetings at various stages, report on progress, and take necessary legal and administrative steps to complete the liquidation efficiently. The responsibilities include compliance with court instructions and ensuring equitable distribution of remaining assets, culminating in the company's dissolution as provided in Section 631.⁶⁰

Relevance to Bank Liquidation Process

While the Companies and Allied Matters Act applies broadly to all companies, it is especially crucial in the liquidation of banks, often complemented by sector-specific regulations such as BOFIA and NDIC Act. When a bank's license is revoked or it is unable to meet obligations, the

⁵⁴ *ibid*

⁵⁵ *ibid*

⁵⁶ *ibid*

⁵⁷ *ibid*

⁵⁸ *ibid*

⁵⁹ *ibid*

⁶⁰ *ibid*

NDIC is usually appointed liquidator, exercising powers under CAMA while subject to the specialized financial regulatory environment.

CAMA provides the overall procedural and legal framework that ensures the bank's assets are managed transparently and liabilities settled lawfully before final dissolution. This legal guidance mitigates risks of asset mismanagement or unfair treatment of creditors and depositors during the liquidation process. It ensures orderly wind-up consistent with Nigerian corporate and insolvency law. The Companies and Allied Matters Act, through sections such as 473⁶¹, 474⁶², 480⁶³, 625-631⁶⁴, and 634-641⁶⁵, establishes the legal foundation for the appointment of liquidators, their powers, and the structured process for the distribution of assets during liquidation. This Act governs the fundamental steps of bank liquidation in Nigeria, ensuring control transfers from directors to liquidators, protecting creditors' rights, and guiding the final dissolution of the bank in a manner compliant with corporate law. Its provisions safeguard the orderly resolution of insolvent banks, enhancing stakeholder confidence and legal certainty.

2.3 CAUSES OF BANK FAILURES IN NIGERIA

Poor Loan Administration

Poor loan administration constitutes the biggest internal problem for the Nigerian bank. The amazing volume of non-performing resources or bad debts resulting from poor loan administration has left many banks in dubious financial circumstances. Many loans granted are not properly appraised. Others are not secured, the high volume of non-performing loans and bad debts resulting from poor loan administration has left many banks in Nigeria in financial difficulties as many loans granted were not properly appraised while many loans were unsecured making it difficult for the banks to recover the facility.⁶⁶ In some banks, there is no detailed operational manual resulting in poor internal control measures and unregulated limits of lending powers. Common additionally; are instances of unapproved lending and loaning to ghost borrowers, loans

⁶¹ ibid

⁶² ibid

⁶³ ibid

⁶⁴ ibid

⁶⁵ ibid

⁶⁶Ibrahim, M., &Lawal,A.. Financial distress and bank survival in Nigeria.*Nigerian Journal of Economic Management*, 15(4), (2021)88-105.

were granted to fictitious clients, board members of the bank and relatives. Many directors and management staff have utilized their situations to give credits to their privately owned businesses, companions and family members without going through due process of fair examination. A portion of the loans are granted on speculative measures and without insurance security. This ordinarily brings about trouble of recovery of such loans and in most cases, such loans are written as bad and doubtful debts. This situation gives rise to loan default and irredeemable assets resulting in bank failure.⁶⁷

Government Ownership and Political Interference.

Another very important factor worth mentioning here which militates against effective bank governance is government ownership of banks. Appointments to the boards were on political consideration rather than professional competence. Unsecured loans were granted to government and its agencies and officials without collateral. Poor control coupled with high degree of non-performing assets in most cases granted to government and its cronies took a device in general overall performance of the financial institution.⁶⁸ This was glaring in the erosion of the capital base of the bank main to failure of maximum of the banks on this category. The failure of banks inside the recent past have additionally been attributed by means of the CBN Governor to government interference within the affairs of the CBN.

Capital Inadequacy

A bank's capital is acritical way via which losses are absorbed. It additionally cushions surprise on the soundness and stability of a bank, enabling it to regain equilibrium within the face of unusual losses not protected with the aid of cutting-edge incomes and to re-establish an everyday earning sample. The maximum unfortunate feature of the banking boom era became underneath capitalization. Most of the banks licensed at that time had been installed with insufficient capital.⁶⁹

⁶⁷ *ibid*

⁶⁸ Nworji, O. Adebayo and A.O David, 'Corporate Governance and Bank Failure in Nigeria: Issues, Challenges and Opportunities' *Research Journal of Finance & Accounting* (Vol. 2, No. 2 (2011) <https://iiste.org/Journals/index.php/RJFA/article/view/183> <Accessed on the 14th of November, 2025.

⁶⁹ Muriithi, M.G. 'Relationship Between Bank Failure and Economic Activities: A Review of Literature' *International Journal of Management, Accounting and Economics* (Vol. 4, No.11, November, 2017

Liquidity Problem

Liquidity may be defined as the capacity of a bank to satisfy its liabilities as and once they fall due. In the banking enterprise, the banks capability to meet its needs, financial savings and time deposit withdrawals as and whilst such withdrawals are demanded or are due indicates that such banks haven't any liquidity trouble. The banking boom was characterized via illiquidity as most banks could not meet their duty and request for cash. Furthermore, many banks had no right asset base which may be converted to cash to satisfy duties. The extra regulation of the economic device made capital and money marketplace a touch bit stiff and inaccessible as a ready source of cash. This saw many banks suffering to fulfill their obligation because of the lack of cash.⁷⁰

The use of stabilization securities as a tool of indirect monetary control by the CBN additionally compounded the hassle. This system becomea inflexible form of open marketplace operation. The CBN issued the securities and allotted them without delay to the banks without any option or choice and every bank changed into underneath duty to buy its allocation at a price set up through the CBN. The consistent issuance of the security by using the CBN rendered many banks which had been already struggling with non-appearing mortgage burden illiquid, even as the CBN become stacking massive volumes of cash within the names of mopping of extra liquidity. Because of this most banks have been unable to meet their obligation and needed to near keep and fold up.⁷¹ Though the CBN intervned at intervals, this could not save the banks whose operational problems have been already beyond rescue. Wrong signals additionally have been felt by means of the general public. Depositors started out withdrawing their funds and the affected banks commenced loosing customers and ultimately needed to close down.⁷²

<https://www.ijmae.com/article_115219_29573888af2fb1e9dd9f466826c814cl>Accessed on the 6th of November, 2025

⁷⁰I.Ezeribe, T.Oguntade&G.Ogundoye, 'Bank Failures in Nigeria: Implications for Stakeholders A Case Study of Heritage Bank' <<https://topeadebayolp.com/wp-content/upholds/2024/06/BANK-FAILURES-IN-NIGERIA-IMPLICATIONS-FOR-STAKEHOLDERS-%E2%80%93-A-CASE-STUDY-OF-HERITAGE-BANK2>> Accessed on the 14th November, 2025.

⁷¹ ibid

⁷² ibid

2.4 MANNER OF CONDUCT OF BUSINESS AND AFFAIRS OF BANK.

A number of chief executives of banks abuse their position by abdicating their managing functions and are busy enjoying spoil of office. A number use their insider knowledge to defraud the bank.

The extension of loan, advance or credit facility by state-owned bank to any person on the account of his being an influential or prominent member of the party in power in the state or of the government thereof bears the essential characteristics of impropriety. The norms of safe lending are not likely to be observed or taken into consideration in the transaction. It is an improper conduct of the business and affairs of any banker which engages in such lending.⁷³

The extension of loan, advance or credit facility by any banker for the execution of government's (Federal or State) contract on any collateral security other than that which is certainly realizable amounts to conduct of business and affairs of banker in a manner which is capable of bringing insolvency thereon. It is only when a realizable collateral security is taken that the lending banker is in a position to recover the loan even if the project is abandoned or the borrower is unpaid on completion of the contract.⁷⁴

Poor Internal Control

Internal control alludes to the entire arrangement of controls, financial and otherwise, laid out by the administration to carry on the matter of banking in a deliberate way, protect its resources and secure quite far the exactness and unwavering quality of its records. More or less, internal control comprises of:

- 1) Internal check
- 2) Internal audit
- 3) Other financial system of control
- 4) Other system of administrative control

⁷³Prof. Aliero, H.M., & P. Ache, 'Determinants of Bank failure in Nigeria: An empirical investigation' <<https://ndic.gov.ng/wp-content/uploads/2020/08/NDIC-Quarterly-Vol-31-Nos-12-2017-Article-Determinants-of-Bank-Failure-in-Nigeria-An-empirical-investigation>>. Accessed on the 14th of November, 2025.

⁷⁴ Ibid

This system of control should be set up for precise conduct of business. Most banks in Nigeria, particularly, during the financial and banking boom needed inward control. This brought about misrepresentation and forgeries, unapproved loaning dismissal to loaning rules, and contraception of administrative rules. The presence of porous and unenforceable financial and managerial control no doubts; account for internal cause of bank failure in Nigeria.⁷⁵

Indiscipline and Corruption in the Society

Since the late 90s, the level of discipline and integrity in Nigeria society has long past down substantially. The quest for material things has emerge as the order of the day. As a result, cash irrespective of its supply has emerge as a symbol of worship. The end justifies the means. With the extent of material attention and consequent corruption prevailing within the society, banks quickly joined the bandwagon. To them, their closing inn is the depositors fund range stored in their trust. This gave rise to high incident of bank frauds and forgeries that is the maximum endemic purpose of bank failure.⁷⁶

2.5 CIRCUMSTANCES WHERE THE CENTRAL BANK OF NIGERIA CAN REVOKE THE OPERATIONAL LICENSE OF A BANK.

Section 12(1) of the Banks and Other Financial Institutional Act (BOFIA 2020) provides that the Central Bank of Nigeria (CBN) may revoke the license of a bank under the following circumstances:

1. The bank ceases to conduct its licensed banking business in Nigeria for six continuous months or for an aggregate duration of six months inside a 12-month period.
2. The bank undergoes liquidation, winding up, or dissolution proceedings.
3. The bank fails to meet the conditions stipulated in its license or violates provisions of the BOFIA, the CBN Act, or related regulations.
4. The bank's resources are lacking to cover its liabilities, making it financially unstable.

⁷⁵Anameje, A,C, 'Application of Corporate Governance in Banking' (Nigerian Bankers, October-December 2007).

⁷⁶Andah, D.A.[The Role of Management and Board in a Bank](#). Law Commentaries: A Journal of Contemporary Law 1Nasarawa state University 2009 46-55

5. The bank carries on its business in an unstable way, or its directors participate in hazardous practices that could endanger the bank's stability.
6. The bank's circumstance, activities, or inactions represent a danger to the general strength of the financial system.
7. The bank neglects with comply to obligations imposed by the Banks and Other Financial Institutions Act, the CBN Act, or some other relevant rules, regulations or guidelines.
8. The bank's capital adequacy proportion falls underneath the minimum prudential requirement, or some other proportion prescribed by the CBN.
9. The bank neglects to commence banking operations within 12 months of being granted a license.
10. The bank fails to maintain the minimum paid-up share capital requirement for its category as prescribed by the CBN.⁷⁷

2.6 STEPS TO BE TAKEN UPON THE REVOCATION OF A BANK'S OPERATING LICENSE.

The following are the steps that would be taken upon the revocation of a Bank's operational license in Nigeria:

- i. The CBN will immediately appoint the Nigeria Deposit Insurance Corporation (NDIC), or the NDIC automatically steps in as the liquidator of the bank⁷⁸. The NDIC is an independent agency that insures deposits held by commercial banks, merchant banks and deposit-taking microfinance banks licensed in Nigeria up to a specified coverage limit. The NDIC also acts as a receiver and liquidator of failed insured banks and financial institutions.
- ii. The NDIC will do a publication through advertisements in print and electronic media depositors to formally submit their claims for deposit reimbursement. The NDIC has the authority to request proof of claims from depositors. This is a verification step to ensure that only valid claims are processed and paid out⁷⁹.

⁷⁷ Section 12(1) BOFIA 2020

⁷⁸Section 12(2) BOFIA 2020. Section 55 (e) NDIC Act 2023

⁷⁹ Section 28(2) NDIC Act 2023

- iii. The NDIC will make payments to depositors within thirty (30) days of being appointed the liquidator of the bank. The NDIC guarantees the payment of insured deposits up to the maximum limits specified in the Act (₦500,000 for non-microfinance banks and ₦200,000 for microfinance bank)⁸⁰. However the NDIC has the power to increase the amount that a depositor can receive⁸¹. It is important to note that the NDIC will prioritize deposit liabilities over all other liabilities of the bank. This means that depositors will be paid first from the available assets of the bank, followed by other creditors.
- iv. For deposits exceeding the insured limits, in addition to the initial (maximum of ₦5,000,000) sum paid to them, depositors will also be entitled to liquidation dividend upon realization of the bank's assets and recovery of debts owed to the bank⁸². This means that depositors have the opportunity to recover as much of their money as possible, even beyond the initial insured amount.

2.7 EFFECT OF THE REVOCATION ON THE SHAREHOLDERS AND DIRECTORS OF THE BANK.

In the event of a bank's license revocation, the NDIC can enforce the personal liability of significant shareholders and directors if their actions or inactions contributed to the bank's failure⁸³. This means that directors, significant shareholders, officers, employees, and other parties involved with the bank can be held personally liable for monetary damages if their actions or inactions contributed to the bank's failure. This liability extends to damages resulting from the misuse or improper investment of the institution's assets, including principal losses and appropriate interest. The liability of directors for granting unauthorized credit facilities is unlimited and personal. Directors and the shareholders may be liable even if their actions occurred before the institution was declared failing or failed.

⁸⁰ Section 25(1) Ibid

⁸¹ Section 28 Ibid

⁸² Section 25(4) Ibid

⁸³ Section 57(2)b Ibid

2.8 EFFECT OF REVOCATION ON DEBTORS OF THE BANK.

The NDIC would:

1. Set off a loan owed by a debtor against the debtor's deposits held in the failed bank or any other failed bank under liquidation. This means the NDIC can use the debtor's deposits to partially or fully repay the loan⁸⁴
2. Appoint a receiver to manage the debtor's assets if they fail to repay the loan. The receiver can take possession of the debtor's property, manage it, and sell it to recover the debt owed to the failed bank. It will be immaterial that the assets were not pledged or mortgaged as security for the loan.
3. Pending the determination of a debt related suit, apply to the court to freeze the account of the debtor if the NDIC has reason to believe that a debtor has funds in an account with another insured institution. This prevents the debtor from accessing the funds until the debt recovery process is completed.
4. Where a debtor fails to comply with a written demand from the NDIC to settle his debts with the failed bank within 90 days, the NDIC can initiate bankruptcy proceedings against the debtor and the court may adjudge that the debtor is bankrupt notwithstanding that the debtor had not committed any act of bankruptcy. This allows the NDIC to take control of the debtor's assets and distribute them among creditors, including the failed bank.
5. Where a body corporate who is a debtor to a bank whose license has been revoked does not comply with a written demand from the NDIC to settle its debt to the bank within 30 days, apply to the court for a winding up order and the entity may be wound up by the court⁸⁵.
6. Publish the names of debtors of a failed bank in the media. This public disclosure can put pressure on debtors to repay their loans and help the NDIC recover the debts⁸⁶.

3.0 EFFECTS OF BANK FAILURE IN NIGERIA

The effect of bank failure is mostly felt by depositors and also has a macro effect on the economy. This is so because the depositors provide the funds for which the banking system uses to service

⁸⁴Section 26 Ibid.

⁸⁵ Section 68 Ibid

⁸⁶ Section 62 Ibid

the financial sector of the economy. In other words, the banks are there because of depositors and because the depositors patronize the banks, the bank can service the financial sector.⁸⁷

3.1 DEPOSITORS.

When a bank fails, the most terrible hit are the investors. This is so in light of the fact that they lose their outstanding balances in the bank. Such misfortunes depending on the conditions of each case is capable of crippling the whole business of the investor. Aside from this, lifesaving investors become mentally and intellectually troubled as they understand that their life savings are gone. There are even cases of widows who saved their family sustenance only for the bank to fail without a kobo being retrieved.

Furthermore, while NDIC only insured deposit of banks, other finance companies and mortgage banking institution were left without an insurance scheme. The misery which also hit these classes of banks additionally dissolved confidence and trust in the banking and financial system. Consequently, investors needed to depend on the obsolete approach to storing cash in their homes. This no question diminishes the amount of accessible loanable assets. Bank failure disappointment likewise adversely affects corporate investor, the vanishing of the assets of a corporate organizations no doubt; brings about failure to meet business commitment and, contingent upon the conditions, may prompt corporate distress.⁸⁸

3.2 ECONOMY

The importance of the financial sector to any economy cannot be overemphasized. In a cash economy like Nigeria, banks perform two basic functions:

- (a) Savings mobilization
- (b) Credit delivery which is very important for economy growth and development.

In view of these two significant functions, the advancement of the economy is directly attached to its banking or financial sectors. This subsequently implies that an unhealthy banking or financial

⁸⁷Andah, D.A. The Role of the Judiciary in Sanitizing Nigerian Economy. *Nasarawa State University Law Journal* (3) (2010) 60-69

⁸⁸ *ibid*

sector results to an undesirable economy and a failed banking or financial sector would bring about the disintegrating of the economy.

The main job of the bank in the economy is going about as a middle person through which they create and generate assets from the excess units that have more than they need for immediate consumption, which are stored with banks. The excess assets are then made accessible to the shortfall unit for investment in the productive sectors of the economy. Bank failure enormously hampers the exhibition of this job. No doubt the economy capacity for capital formation and the pace of economic growth will be drastically reduced. In completing its traditional role, the banking sector becomes facilitators of the installment framework by the use of negotiable instrument like cheques, drafts, letters of credit and other installment framework to empower to play out this role. With bank failures, individuals will lose confidence and trust in banks and might be compelled to convey immense aggregates in real money to settle transactions with the attendant risk involved.⁸⁹

Financial exercises would be slowed down if not impossible, especially international transactions. The banks work with and facilitate the dissemination and circulation of cash in any economy, speed of cash will be subsequently impeded which can put the economy under an extraordinary intensity. Finally, failure of banks brings about mass lay off of staff. This creates unemployment situation as a social put off for the economy.

3.3 DIFFICULTY IN ENFORCING MONETARY POLICIES BY THE GOVERNMENT.

The Nigerian government through the CBN; implements monetary policies by directing banks direction to follow especially during inflationary period. During inflationary period, Central Bank will use monetary policies to reduce money in circulation in order to stabilize prices of goods and services. When there is banking crisis, this will be very difficult for government to achieve as money will be outside the banking system as a result of loss of confidence in the banking system by the banking populace.⁹⁰

⁸⁹ *ibid*

⁹⁰Andah, D. A. Nkiruka, E. M. Sources of Occupational Stress Experienced By women employed In Selected banks In Enugu Metropolis World Journal Of Management And Buisness Studies, (3)(5) 2024

Financial costs to government.

Bank failures are usually followed by government bailouts. Fiscal cost of banking crisis includes cost of restructuring the banking system, considering the payments to depositors, bank recapitalization bonds, and asset management schemes. The fiscal gross direct costs are measured as outlays of the government and Central Bank in terms of bond issuance and disbursements of liquidity support, pay-out of guarantees on deposits, cost of recapitalization, and purchase of non-performing loans e.g. Asset Management Company. The public money that is needed to recapitalize insolvent banks puts pressure on the budget deficit to increase.⁹¹

Reduction in Government Revenue

Employees of banks pay their Personal Income Tax to Internal Revenue to the appropriate state governments under Pay as You Earn (PAYE) system. When the employees of distressed banks are laid off, the state governments lose the revenue derivable from such employees. The same situation applies to the National Union of Banks, Insurance and other Financial Institutions Employees whose numerical strength and dues receivable would be reduced due to bank failures.⁹²

3.4 THREAT TO THE DEVELOPMENT OF AN EFFICIENT PAYING ECHANISM.

Banks are known for providing a safe, economic and convenient payment mechanism word- wide. Banks are central to an efficient and effective payment system in any country, with bank distress, the payment would be perilous and at great risk between the real sector and the financial sectors. Also, international settlement would be adversely affected. The international perception of the banking system would be that of suspicion as it will be feared that their funds could be locked up or lost in the banking system of a country experiencing banking distress.⁹³

⁹¹ Ibid

⁹² ibid

⁹³ ibid

4.0 CHALLENGES

Bank failure influences not only the bank, but the whole economic system as a whole, because the banking system is the nerve centre of the economy system, or as an alternative, the economic system and the banking system both rely on themselves to survive and produce speedy economic boom and development. It has been visible that Bank failure results to ill consequences on the economic system, for instance, it erodes public self belief, results in no granting of loans to finance enterprise, unfavorable global outcomes, e.t.c. It is due to the notable detrimental effect that bank failure has on the financial system that makes the government come into action that allows it to stem the tide of failure inside the banking industry.

According to Ramirez & Shively, four (4) channels that show the association among bank failure and economic development and the role of bank regulation and insuring deposits were established as: effect on direct wealth, illiquidity, relationship disruption and credit crunch due to reduced loan supply.⁹⁴

- a. **Effect on direct wealth:** Direct wealth effect on the depositors is the first to be felt in the event of a collapsed bank. If the bank has not fully insured the deposits, the borrowers would likely suffer losses and have a reduction of their wealth. This is transmitted into the real economy through reduced demand for goods and services.
- b. **Illiquidity:** The other problem of bank failure is that local depositors and creditors tend to lose money due to illiquidity of deposits and therefore resulting to slower economic growth. Even though some or all deposits are not fully lost, the insured depositors' money remains illiquid and out of reach for the depositors. The spending by the borrower is then greatly reduced. During liquidation of banks, the assets sold off to repay the depositors. This could take very long and the loss of value for money. The time value of money if taken into consideration would therefore have adverse effects on the economic growth of a country.
- c. The other cited problem of bank failure is that it can result to fiscal interruptions in the economy. One of the greatest disruptions is on the associations that banks and their debtors

⁹⁴Ramirez, C. D., & Shively, P. A. The Effect of Bank Failures on Economic Activity: Evidence from U.S. States in the Early 20th Century. *Journal of Money, Credit and Banking*, 44(2-3),(2012) 433-455.

have created over the years. A study in Japan on the Hokkaido Takushoku Bank shows an effect of the botch of the bank on the customers' association . Banks establish close relationships with their customers and extend credit to these customers, there is an effect on them when the banks have a problem with liquidity . These relationships cannot be easily replaced thus the bank failure leads to disrupted lending and thus worse economies outcomes.⁹⁵ The termination of established bank-business relationship is detrimental to the economy. Before a borrower can establish new relationship with other banks, it would take a lot of time therefore the cost of capital would increase. The relationship-based source of funding reduces asymmetric information problem on both parties. The bank failure also affects adversely the bank's corporate borrowers especially those that do not have access to the public funds . These relationship banking effects is especially so for those economies which are bank-based. That is, those economies whose firms' funding comes from the banks.

- d. When one bank fails, it creates other banks contraction of money supply. The other bank may become more pessimistic about the economy and try to reduce their lending in the economy. The surviving banks could reduce their lending due to heightened uncertainty regarding depositor's redemptions. Therefore, to preserve their solvency, they reduce the loans to bank dependent borrowers Businesses are therefore, forced to reduce investment and thus reduce GDP. The bank employees are also affected when banks fail. There is loss of flows and subsequent failure of the company. This leads to less demand for goods and services for those who are unemployed and creates slowed economic growth.⁹⁶

5.0 RECOMMENDED SOLUTIONS TO BANK FAILURE IN NIGERIA

1 Maintaining Adequate Level of Liquidity

Liquidity is a measure of the capacity of a bank to meet its commitments as they fall due. The liquidity of a bank ought to be estimated both in short and long run request to lay out its capacity to quickly recover its commitments. Large numbers of the Nigerian banks were in distress due to under-capitalization and overtrading which brought about low liquidity. It was accounted for that

⁹⁵Andah, D.A Corporate Government practice an Financial Performance on Nigerian Companies. World Journal Of Management And Buisness Studies,(2)(1) 2024

⁹⁶ ibid

many misery banks in Nigeria couldn't meet the liquidity proportion specified by National Bank of Nigeria. Regulatory authorities ought to guarantee that all banks keep up with to liquidity proportion to make the banks have smooth-free operations.

2 Adherence to Lending Limits

The CBN puts down a boundary for loaning to individual debt holders or group of inter-related debtors. This limit is communicated as a level of the banks' own assets. It is generally called legal loaning breaking point or single obligor limit. As banks capital provides a cushion against risk, the most extreme loaning limit of a bank is hence legally attached to its own assets. Regulatory authorities ought to guarantee this standard is adhered to by banks. This is on the grounds that most bank failure could be traced to enormous level of bank loans to a single client. If the business wherein the client put resources into breakdowns; the bank will be unfavorably affected resulting in distress.

3 Establishment of Special Courts for Debt Recovery.

There is need for legislation to facilitate the recovery of debts in the failed banks by establishing a special court with constitutional powers to try bank loan defaulters and staff members of banks who were involved in fraudulent practices that led to failure of those banks. With the establishment of special court, it will eliminate time consuming adjournments / injunctions usually encountered in normal courts which may extend period of trial for years and at the end of it, the culprit will be discharged and acquitted.

4 Sanctions against Banks who fail to Meet CBN Standards.

The CBN should ensure that banks in Nigeria satisfy the standards set for them with regards to capital sufficiency, impediment of loaning limits (single obligor limit), weighted risk/resource proportion and liquidity save proportion. These standards are set to safeguard the banks and bank investors. Any bank that neglects to meet any of these prerequisites, ought to be sanctioned by the CBN, to serve as a deterrent to others.

5 Control Of Cost Of Funds

It was observed that many banks when in liquidity problem, in order to attract deposits to meet depositor's cash withdrawal request, offer interest rates on deposits that are higher than their lending rates. Such a bank will be operating at a loss. Central Bank should stipulate that deposit rates of any bank should be lower than the lending rates. The practice by which banks obtain funds at the rate lower than the return at which the funds are to be invested is called financial leverage. This process is expected to increase the percentage return on equity.

6. Sound Management Team

One of the major factors that have contributed to the distress in some financial institutions is poor management. Poor management is reflected in poor asset quality, insider abuse, inadequate internal controls, fraud, including unethical and unprofessional conduct. It is the responsibility of the directors to select competent management teams and effectively supervise them. Directors are also required to fire incompetent management teams. The safety and soundness of any bank largely depend on a strong and effective management team.

5. CONCLUSION

A sound banking system enables money to perform its functions efficiently, vastly facilitating the exchange of goods and services and enabling the country to make the most efficient use of its human and materials resources. On the other hand, bank failure stays a significant danger to consistent economic development that prompts improvement. The effect brought about by financial compression predominant during this stage begun because of a few shocks bringing about liquidity inclination increment among investors who preferred holding more cash to request stores and different liabilities. To this end, capital crush made decrease in cash supply that impacted pioneering financing, leading to a slowdown in economic activity.