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Effect of Deposit Volume on Banks' Lending Behaviour in the Nigerian Post-Consolidation Era

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ABSTRACT: Lending represents one of the core functions of commercial banking system. The essential role of banks in the economy has been to intermediate funds between surplus and deficit economic units. In the process of carrying out this primary task, banks have found themselves performing a number of functions which include: the mobilization of savings, stimulation of investment and economic growth, assistance in resources allocation, boosting of international trade and promotion of the payment system. The few studies which have been conducted on bank lending in Nigeria focused on the pre-consolidation banking era. This study examines the effect of deposit volume on bank lending behaviour in the Nigerian post-consolidation banking period. The population of the study comprises the 22 deposit money banks operating in Nigeria as at December, 2012. Data were obtained from the audited annual reports of the 22 banks for the post-consolidation period of 2006-2012. The analysis was conducted using regression analysis with the aid of SPSS package. The results revealed a positive and significant relationship between deposit volume and loan and advances in the selected banks. The study recommends that future researchers should investigate other factors which may exert some influence on the lending behaviour deposit money banks in Nigeria beside deposit volume. Specifically, factors such as capitalization, interest rates, gross domestic product, and liquidity ratio were mentioned.

KEYWORDS: Business Size, Accurate Product Costing, Activity-based Costing, Manufacturing, Nigeria.

1 INTRODUCTION

Lending has been described as one of the services that deposit money banks do render to their customers [1]. It has been opined that lending is undeniably the heart of banking business [2]. Therefore, its administration requires extensive skill and agility on the part of the bank management. Lending timeframe may vary from short-term, medium-term to long-term duration. It has been observed [1] that banks do grant loans and advances to individuals, business organizations as well as government in order to enable them embark on investment and development activities as a means of aiding their growth in particular or contributing toward the economic development of a country in general.

According to [3], lending practices in the world could be traced to the period of industrial revolution which increases the pace of money deposit and production activities thereby bringing about the need for large capital outlays for projects. During this period, many captains of industry were unable to meet up with the sudden upsurge in the financial requirements and therefore turn to the banks for assistance. The essential role of banks in the economy has been to intermediate funds between surplus and deficit economic units. In the process of carrying out this primary task, banks have found themselves performing a number of functions which include: the mobilization of savings, stimulation of investment and economic growth, assistance in resources allocation, boosting of international trade and promotion of the payment system [4].

Reference [5] observed that commercial banks are the most significant savings, mobilization and financial resource allocation institutions in the world. Consequently, these roles make them an important phenomenon in economic growth and development. In performing this role, it must be realized that banks have the potential, scope and prospects for mobilizing financial resources and allocating them to productive investments. Both theoretical and empirical finance literature reveals that the availability of bank credit is an important determinant of economic growth and development, particularly, in developing economies [6].

1.1 STATEMENT OF THE PROBLEM

Reference [1] conducted a study on determinants of commercial banks lending behaviour in Nigeria between 1980 and 2005. This period represents the pre-consolidation era. Several innovative changes have taken place in the Nigerian banking sector since the 2005 consolidation. These changes, no doubt have influences on the discharge of the fundamental functions of the banking sector in Nigeria. One of the widely recognized fundamental functions of the banking system is that of intermediation between the lender and the borrowing public [7]. However, there is dearth of current research in Nigeria on the effect of deposit volume on bank lending in the post-consolidation era. Thus, this study seeks to investigate the effects of deposit volume on banks' lending behaviour in the Nigerian post-consolidation era.

1.2 OBJECTIVE OF THE STUDY AND RESEARCH QUESTION

In response to the problem identified above, the main objective of this study is to investigate and report on the effect of deposit volume on banks' lending behaviour in Nigeria. The specific objective is to ascertain whether volume of deposit influences loan and advances in the Nigerian deposit money banks. In order to achieve the research objective stated above, the following research question has been raised. What is the influence of the independent variables (volume of deposit) on the dependent variable (loan and advances) in the Nigerian deposit money banks?

1.2.1 RESEARCH HYPOTHESIS

Based on the research objective and research question stated above, the following research hypothesis has been developed:

H_0: There is no significant relationship between the dependent variable (loan and advances) and the independent variables (volume of deposit) in the Nigerian deposit money banks.

H_1: There is significant relationship between the dependent variable (loan and advances) and the independent variables (volume of deposit) in the Nigerian deposit money banks.

2 LITERATURE REVIEW

Lending in its most general sense can be described as the temporary giving of money or property to another person with the expectation that it will be repaid [8]. In a business and financial context, lending includes many different types of commercial loans and advances.

In his onion, [9] asserts that bank lending plays an important role in influencing levels of consumer spending, investment and economic growth. According to [9] when bank lending reduced at the start of the credit crunch in 2008; the decline in bank lending was a significant factor in causing the 2008 UK economic recession.

In a related study [10] opined that lending is one of the two most important functions of banks, not only because of the banks' social obligation to cater for the credit requirements of diverse sections of the community, but also because lending is one of the most profitable. The interest rates realized by banks on loans have for all time been well above those realized on investments.

Similarly, [10] observes that deposits play a critical role in bank funding, as the main portion of a commercial bank's assets is generally financed through customer deposits. To boost deposit mobilization from the public, banks have used a variety of strategies and most increasingly adopt a marketing approach for deposits mobilization, which focuses on the identification of customer needs and offering of products accordingly [12].

In another study, [6] observed that, most business organizations, especially in emerging market economies are highly dependent on bank loans as a source of capital and the ability of banks in giving loans depends to a large extent on their ability to attract deposits. It was observed by [13] that bank loans are one of the most important long-term financing sources in many countries.

Similarly, [5] conducted a study on lending behaviour in Ghana. Using a dataset from the Bank of Ghana for 25 Ghanaian banks from 2005 to 2010, the study employed a random effects (RE) model with AR(1) and heteroskedastic disturbances to test the relationship between bank lending behaviour proxied as the ratio loans and advances to total asset and bank asset quality (ratio of nonperforming loans to gross loans and advances) while controlling for deposit mobilization, equity, management efficiency, intermediation spread and income diversification. The results of the study revealed that the effect of the deterioration of bank asset quality (high levels of non-performing loans) on bank lending behaviour is persistence and not contemporaneous. Additionally, bank deposit mobilization, intermediation spread and equity were also found to influence bank lending behaviour.

Likewise, [1] examined the determinants of commercial banks' lending behaviour in Nigeria. Data for the census study were obtained from secondary sources. The population comprised of the 89 commercial banks in Nigeria for the period 1980 – 2005. The scope was limited to 2005 because of the major banks' consolidation that took place from December 2005 which drastically reduced the numbers of banks in Nigeria. The results of the regression analysis conducted revealed that volume of deposits, investment portfolio, interest (lending) rate, stipulated cash reserve requirements ratio and liquidity ratio each showed a significant relationship with loan and advances in the commercial banks.

In a similar study, [14] surveyed the determinants of lending behaviour in Ghana. Particularly, the study observed a relationship between bank lending behaviour and a set of macroeconomic indicators, industry and bank level characteristics. The study utilized panel data which involved pooling of seventeen (17) banks over the period 1997 – 2006. The results revealed that the bigger banks seem to be in a better position to lend more than smaller ones. In other words, a positive relationship was established between bank lending and bank size. Similarly, the study showed that high level of bank capital was found to support much higher volumes of bank lending. Finally, relationship banking was found to have a positive correlation with bank lending behaviour in Ghana.

In a related study, [15] carried out an analysis of the deposits and lending behaviours of banks in Nigeria. Specifically, the study examined the extent to which banks in Nigeria have performed their intermediation functions of deposit mobilization and granting of loans and advances and the effects on their performance. The study employed secondary data obtained from the annual reports and accounts from 2006 to 2011 of seven purposively selected banks out of the 24 existing banks. The study used descriptive statistics of trend analysis, percentage growth and averages. The results of the analysis revealed that banks with high deposits and loans perform better in terms of profitability than banks with low deposits and loans.

For a period covering the pre-consolidation and post-consolidation era [16] carried out an assessment of the determinants of lending behaviour of commercial banks in Nigeria for 1975-2010 periods. Specifically, the study investigated the level of commercial banks loan advances in Nigeria and also examined those various determinants of commercial banks lending behaviour in Nigerian banking sector. The data obtained from secondary sources were subjected to regression analysis. The results of the analysis indicated a direct and positive relationship between commercial bank loan and advances and volume of deposit. The results also revealed a direct and positive relationship between commercial bank loan and advances and annual average exchange rate of Naira to dollars.

3 MATERIALS AND METHODS

The study adopted the correlational research design. The population of the study consisted of the 22 deposit money banks currently operating in Nigeria as at December, 2012. Data were obtained from the audited annual reports of the 22 banks for the post-consolidation period of 2006-2012. The analysis was conducted using regression analysis with the aid of SPSS package. The regression function is as follows: LOAD = f (VOD). Where LOAD = Loan and Advances, VOD = Volume of Deposit.

4 RESULTS AND DISCUSSIONS

Having subjected the data obtained for this study to regression analysis with the aid of SPSS Statistic version 17.0, the results are presented below beginning with the model summary. The model summary below provides the R and the R^2 value. The R value is 0.941, which represents the simple correlation. It indicates a higher degree of correlation. The R^2 value indicates how much of the dependent variable, "loan and advances", can be explained by the independent variable, "volume of deposit". In this case, 88.6% can be explained, which is very large. Furthermore, in order to test for autocorrelation in the residuals, the Durbin-Watson result is presented; the Durbin-Watson statistic is always between 0 and 4. A value of 2 means that there is no autocorrelation in the sample while values approaching 0 indicate positive autocorrelation and values toward 4 indicate negative autocorrelation. Thus, the value of 1.425 is close to 2 which is an indication of no autocorrelation.

Table 1: Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.941[a]	.886	.863	.0686014	1.425

a. Predictors: (Constant), VOD b. Dependent Variable: LOAD

Source: Output of data analysis by author

The ANOVA table below indicates that the regression model predicts the outcome variable significantly well. This is observable under the Sig column. It indicates the statistical significance of the regression model that was applied. Here, the p value of 0.002 is less than critical value of 0.05, and indicates that; overall, the model applied can statistically significantly predict the outcome variable.

Table 2: ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.183	1	.183	38.843	.002[a]
	Residual	.024	5	.005		
	Total	.206	6			

a. Predictors: (Constant), VOD b. Dependent Variable: LOAD

Source: Output of data analysis by author

The coefficient table below provides information on each predictor variable. This gives us the information we need to predict loan and advances from deposit volume. It shows that volume of deposit contributes significantly to the model.

Table 3: Coefficients[a]

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	T	Sig.
1	(Constant)	.574	.517		1.111	.317
	VOD	.822	.132	.941	6.232	.002

Source: Output of data analysis by author

This study focused on the effect of deposit volume on lending behaviour in the Nigerian post-consolidation banking era The result of this study substantiates the one reported by [5] who conducted a study on lending behaviour in Ghana and reported a positive relationship between deposit volume and bank lending. Similarly, the result of this current study aligns with that of [1] who examined the determinants of commercial banks' lending behaviour in Nigeria during the pre-consolidated period. A positive relationship is established between the volume of deposit and bank lending in Nigeria. This connotes that the more deposit a bank is able to attract, the more fund would be available for lending to customers. This result is supported by [11] who observes that deposits play a critical role in bank funding.

5 CONCLUSION

This study examines the effect of deposit volume on bank lending behaviour in the Nigerian Post-consolidation banking era. The result of the regression analysis revealed that the independent variable (Volume of Deposit) has a significant and positive relationship with the dependent variable (Loan and Advances) on the Nigerian deposits money banks. In other words, the higher the deposit volume, the greater the probability of granting loans and advanced to prospective borrowers.

The result of this study reveals a positive relationship between deposit volume and bank lending. Therefore, there is need for bank management to devise new methods of enhancing customers' deposits. Besides, there are other factors which may exert some influence on the lending behaviour of deposit money banks in Nigeria beside deposit volume. These factors include capitalization, interest rates, gross domestic product, and liquidity ratio among others. Therefore, it is recommended for future studies to examine the effect of these factors on lending behaviour of banks.

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