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Research Article

Assessing Market Growth of Money Deposit Banks in Nigeria: Role of Cross-Border Banking

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Abstract

In this study, assessing market growth of money deposit banks in Nigeria: role of cross-border banking was investigated. The study adopted the ex-post facto design. The study population comprised of al the eight (8) cross-border banks in Nigeria as at December, 2021. Secondary data were sourced from the published annual reports Nigerian Stock Exchange fact book which covered the period of 2015-2021. Descriptive statistics and Panel Data Analysis Radom Effect Method were used for data analysis with decision rule at 0.05 level of significant. Findings from the study revealed that cross-border portfolio investment has significant effect on the profitability of cross-border banks in Nigeria while loan advances and market share have no significant effect on the profitability of cross-border banks in Nigeria. The study recommended among others, that Nigerian banks operating cross-border should consider establishing more branches to ensure larger spread and benefit from economies of scale to capture higher market share for enhanced profitability.

***Keywords**: Market growth, Money deposit, Cross-border, Banks.*

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Introduction

The globalization of enterprise has affected the business of banking [1]. Banks are the source of support and stability of the economy and occupy the central position in a country's financial system even as they are essential agents in the development process [2]. There has been a rapid expansion of Pan-African Banks (PABs) during recent years beyond the African continent; this is known as cross-border banking. Cross-border banking has long been an important part of the trend towards increased globalization and financial integration. Foreign participation improves the development of the local banking supervision, legal regulations, increased transparency and the availability of international capital. Nonetheless, it toughens inter-bank competition as well as greater use to advance technologies to improve their business skills and services, know-how, the quality and efficiency of financial system of the domestic bank. The effects of cross-border banking on the economic development, efficiency and performance of the banks appear to be varying and also dependent on some conditions. However, the banking system is the product of a century of innovations. The financial system started as a barter economy and has moved through various stages of development in response to limitations inherent in the evolving financial system [3]. The banking sector has thus, undergone many organizational changes over time in order to facilitate easy production and trade of products and services.

The author in [4] opined that cross-border banking is a consequence of globalization. In like vein, [5] agree it is a (business) strategy, while [6] assert that it as the internationalization of banks. Notwithstanding its contextual usage and nomenclature, it is a welcome development with antecedent benefits and where well placed; it strengthens bank's performance [7]. The author in [8] asserts that cross border banking involves the operation of banking activities across the borders of countries. This may be said to exist when there are financial transactions or arrangements across national borders such as: cross border financing through bank mergers, letters of Credit, cross border loan arrangements and bankers' acceptances and so on. It is a deposit money bank with a commercial presence outside its home country by way of at least one branch or subsidiary [9]. Therefore, Cross border banking as referred to in this study, implies both cross border capital flow and cross border entry in banking. The terms cross border banking and foreign bank were therefore used interchangeably. Cross-border banking has long been an important part of the trend towards increased globalization and financial integration. As in the case with cross-border entry, cross-border banking has increased sharply in the last decade and has affected countries' financial systems in many ways and dimensions.

In Nigeria, CBB is nascent as its era seemed to have been triggered between July 2004 and December 2005 when the Central Bank of Nigeria (CBN) through the then Governor Soludo issued a policy on the capitalization of banks. The policy raised the minimum capitalization of Nigerian banks from two billion (N2, 000,000,000) to twenty-five billion Naira (N25, 000,000,000) [8,10,11]. The author in [12] asserted that this action put so much unplanned money into the coffers of banks that they had to go across the borders of Nigeria for utilization of the twenty-five billion Nigerian banks expanded into other African countries following the 2004 consolidation that increased minimum capital requirements more than ten-folds. Most banks expanded their operations domestically and internationally by increasing branch networks in the domestic market and opening subsidiaries abroad.

The consequence of cross-border banking on domestic banks in the financial market is enormous [13]. Foreign banks will want the domestic banks; in this case, the extreme influx of foreign banks may cause the domestic banking system to be exposed to the economic impact of foreign banks. These foreign banks will also want the local currency and the authority which will affect the banking capacities of the home country. Consequently, the presence of foreign banks in countries across Africa has increased significantly over the past two decades [9]. It therefore suffices in the present study to assess market growth of money deposit banks in Nigeria: role of cross-border banking.

Theoretical Framework

In explaining the effect of CBB on profitability, the efficient structure theory was found relevant.

Efficient Structure Theory

The Efficient Structure (ES) Theory was developed in 1995 by Berger. The theory posits that banks earn high profits because they are more efficient than others. There are also two distinct approaches within the ES; the X- efficiency and Scale-efficiency hypothesis. According to the X-efficiency approach, more efficient firms are more profitable because of their lower costs. Such firms tend to gain larger market shares, which may manifest in higher levels on market concentration, but without any causal relationship from concentration to profitability.

The scale approach emphasizes economies of scale rather than differences in management or production technology. Larger firms can obtain lower unit cost and higher profits through economies of scale. This enables large firms to acquire market shares, which may manifest in higher concentration and then profitability.

The theory is plausible because it emphasizes relative efficiency which manifests from economies of scale. This recognition points to the decision of banks to cross-borders in order to obtain lower cost, higher market shares and higher profits. The weakness of the theory however, is that it ignores the management approaches and cross-border activities that constitute the main focus of cross-border banking. Despite the weakness, the theory is relevant to the present study because Nigerian cross-border banks are expected to enjoy economies of scale which is expected to make them more efficient. The efficiency which could manifest in higher concentration portends higher level of profitability for the cross-border banks.

Research Questions

1. To what extent do cross border loans and advances affect Return on Assets (ROA) of listed deposit money banks in Nigeria?
2. To what extent does the cross-border portfolio investment affect Return on Assets (ROA) of listed deposit money banks in Nigeria?

3. To what extent do cross border market share affect Return on Assets (ROA) of listed deposit money banks in Nigeria?

Research Hypotheses

The following hypotheses guide the present study

1. Ho_1: Cross-border loans and advances has no significant effect on the Return on Assets (ROA) of listed deposit money banks in Nigeria.
2. Ho_2: portfolio investment has no significant effect on the Return on Assets (ROA) of listed deposit money banks in Nigeria.
3. Ho_3: Cross-border market share has no significant effect on the Return on Assets (ROA) of listed deposit money banks in Nigeria.

Research Method

The ex-post facto research design was used in this study. This is because it involved events which have taken place and based on existing data, it cannot be manipulated. It is relevant to this study due to the use of secondary data. These secondary data were collected from published annual reports of the eight (8) money deposit banks and the Nigerian Stock Exchange Fact Book. The data collected were analysed using descriptive statistics such as frequency distribution test were used to analyse the study objectives. Based on the data type and previous research studies, the study uses panel data analysis and hypotheses tested at 0.05 level of significance with the aid of Stata. Robustness tests such as Breausch-Pagan-Godfrey Heteroskedasticity, Correlation matrix, variance inflation factor were used to test the presence of auto co-relation, homoscedasticity and multico-llinearity in the data set. To address panel effect of the data, fixed effect and random effect options were explored. Hausman specification test was used to select which of the fixed and random effect models of the regression was efficient. Lagrangian Multiplier test was carried out to provide direction as to whether random effect regression or pooled OLS regression should be used. At the end, random effect was selected as the efficient method of panel analysis since the result of Hausman test was not significant at 0.05 level.

Results and Discussion

Table 1. Descriptive statistics showing the effect of cross-border banking on the profitability of deposit money banks in Nigeria

Variables	Obs	Mean	Std. Dev.	Min	Max
ROA	56	3.369107	1.694753	1.005	6.525
CBLA	56	4761.804	2167.828	1836	9361
CBPI	56	2.696618	2.087189	.4692	9.9695
CBSZ	56	.9559578	.3709067	.762077	2.811954
CBMS	56	.7783214	.062455	.66	.88

The summary of statistics used in the analysis is presented in Table 1. The table provides information about the mean, median, maximum and minimum value of the variables used in the study. With 56 observations given, the mean rate of for return on assets which is the proxy for profitability stood at 3.369107, with standard deviation of 1.69 while the mean value of loan advances of cross-border banks (CBLA) stood at 4761.884 and standard deviation of 2167.8. The mean value of portfolio investment of cross-border banks (CBPI) was2.6966 with standard deviation of 2.69, the mean of market share of cross-border banks (CBMS) was 0.77832 with standard deviation of 0.062. The mean value of size of cross-border banks (CBSZ) was0.95595 with standard deviation of 0.371. Evidently, these suggest that the data set were clustered and exhibit homogenous characteristics among the study variables across the selected banks as none of these variables recorded values of standard deviation that were higher than the values of their respective means. This implies that there is no wide variation between the study variables in the respective cross-border banks.

Table 2. Correlated Random Effects

Variables	Coefficient	Z- Statistics	Z Sig
CBLA	-8.011e+06	-1.29	0.198
CBPI	-0.0166293	-2.49	0.013
CBSZ	0.038144	1.85	0.293
CBMS	-0.0008578	-0.00	0.397
Intercept	2.681206	34.51	0.000
R^2	0.2589		
Wald Chi^2	16.77		
Prob>Chi^2	0.0130		

Table 2 gives the summary of panel regression results. From the table, it can be seen that the random effect regression has an R^2 of 0.2589 representing 25.9% explanatory powers. This implies that the independent variables jointly account for 25.9% variation in the dependent variable, ROA. The remainder (75.1%) represents variations in ROA that cannot be explained by the independent variables (CBLA, CBMS, CBPI and CBSZ). Thus, a large part of the dependent variable can still be explained by other variables not included in the study. These other variables are summed up in the error term and added to the study model. Furthermore, results show that a unit increase in CBLA results in 8% decrease in ROA which is not significant at 5% level. Thus, loans advances have not contributed positively to the profitability of cross-border banks in Nigeria. Similarly, a unit increase in CBPI results in 0.02% decrease in ROA which is significant at 5% level. However, if CBSZ increases by 1%, there will be 0.04 % increase in ROA which is not significant at 5% level. Thus, banks profitability improves when the size of cross-border bank increases. If there is 1% increase in CBMS, there will be corresponding decrease in ROA by 0.000046% which is not significant at 5% level.

Test of Hypotheses

The hypotheses of the present study were tested at 0.05 level of significance.

Test of Hypothesis One

Ho_1: Loans and advances has no significant effect on the Return on Assets (ROA) of listed deposit money banks in Nigeria.

Results of Table 2 show there is no significant relationship between cross-border loan and advances and the profitability of listed deposit money banks in Nigeria (p, 477>0.05). Since the relationship is not significant at 5% level, the study fails to reject the hypothesis which states that cross-border loan and advances has no significant effect on the Return on Assets (ROA) of listed deposit money banks in Nigeria. Hence, there is no significant relationship between cross-border loan and advances and the profitability of listed deposit money banks in Nigeria.

Test of Hypothesis Two

Ho_2: Portfolio investment has no significant effect on the Return on Assets (ROA) of listed deposit money banks in Nigeria.

Results of Table 2 show that there is significant relationship between cross-border portfolio investment and the profitability of listed deposit money banks in Nigeria (p, 0.013<0.05). Since the relationship is significant at 5%, the study rejects the hypothesis which states that cross-border portfolio investment has no significant effect on the Return on Assets (ROA) of listed deposit money banks in Nigeria. Hence, there is significant relationship between cross-border portfolio investment and the profitability of listed deposit money banks in Nigeria.

Test of Hypothesis Three

Ho_3: Cross-border market share has no significant effect on the Return on Assets (ROA) of listed deposit money banks in Nigeria.

The regression results presented in Table 2 show there is no significant relationship between cross-border market share and profitability of listed deposit money banks in Nigeria (p, 0.397>0.05). Since the relationship is not significant at 5%, the study fails to reject the hypothesis which states that cross-border market share has no significant effect on the Return on Assets (ROA) of listed deposit money banks in Nigeria. Hence, there is no significant relationship between cross-border market share and profitability of listed deposit money banks in Nigeria.

Discussion of Findings

From the study findings, cross-border loans and advances has no significant positive effect on the Return on Assets (ROA) of listed deposit money banks in Nigeria. This means that the banks which operate on cross-border level have not made high returns on their loans and advances to customers. This finding is consistent with the study's a-priori expectations but in contrast to that of [14] which found significant relationship between cross border banks and profitability across Sub-Saharan African Countries. Thus, [15] found out that there is no significant relationship between volume of deposit and investment in service quality by listed cross-border banks in Nigeria. Similarly, [16] conducted in Kenya which found that foreign ownership did not affect bank profitability and that listed foreign banks in Kenya do not outperform the domestic listed banks.

Cross-border market share was fund to have no significant effect on the Return on Assets (ROA) of listed deposit money banks in Nigeria. This means that cross-border banks have not garnered enough market share that reflects in their profit gains. The study finding is in concord with that of [17] conducted in India which found that cross-border banks in India's share values were lower than the expected values. However, cross-border banks continued to play a very important role in the country's economic process.

The study also found no significant effect of portfolio investment on cross-border banks profitability. This suggests that Nigerian cross – border banks have not made significant profits from their portfolio investments in the study period. This finding is in consistent with that of [18] whose study on the profitability level of cross-border deposit money banks quoted on the Nigeria Stock Exchange indicated insignificantly positive influence of credit growth on financial performance of deposit money banks quoted on the Nigeria stock exchange. The study also indicated insignificantly negative influence of bank size, financial leverage and dividend payout on the financial performance of deposit money banks quoted on the Nigeria stock exchange.

The study found a significant positive effect of bank size on the return of asset of listed deposit money banks in Nigeria. This means that larger banks have greater capacity to make profit from cross-border banking than smaller banks. This finding is consistent with the study's a-priori expectations. This study suggests that bank size should be used as a positive criterion for Nigerian banks going cross-border.

Findings revealed that there is no significant effect of exchange rate on the return of asset of listed deposit money banks in Nigeria. This implies that higher exchange rate or otherwise does not alter the level of profitability among cross-border banks. This finding is in contract to that of [19] who, in a study of capital flows, cross-border banking and global liquidity, found that exchange rate dynamics has effect on banking sector capital flows.

Conclusion

Assessing market growth of money deposit banks in Nigeria: role of cross-border banking is presented. Findings reveal that although cross-border banking is not profitable in Nigeria, the contributions of portfolio investment are significant. Hence, the extent of effect of cross-border banking on the profitability of listed deposit money banks in Nigeria was premised on the portfolio investment of the banks. Nonetheless, it was observed that a significant role in determining the level of cross-border banks profitability was due to the size of the cross-border banks. Based on these results, it was recommended among others that Nigerian banks operating cross-border should consider establishing more branches to ensure larger spread and benefit from economies of scale to capture higher market share for enhanced profitability. So far, the level of market share is not enough to accrue significant level of profitability. However, if more efforts are put in the pursuit of higher market share, the desired level of profitability will be attained since the higher the market share, the lower the marginal cost of operating cross-border, and thus, the higher the returns on assets. In like vein, since the main focus in banking is to accept deposits and give out loans, more Nigerian banks should engage in cross-border banking at higher lending rates to rake-in the profits for enhanced performance of the banking industry and the Nigerian economy at large. Additionally, Nigerian cross border banks should to invest in the stock exchange markets of the host countries. This is in view of the finding that cross-border portfolio investment has significant effect on the Return on Assets (ROA) of listed deposit money banks in Nigeria. This is more so for banks that are large in size since they are more eligible to make higher profits from cross-border banking business due to dominance advantage. These banks can stretch their horizon to Asia, Europe and America for high profitability given that cross-border reach has significant effect on profitability.

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