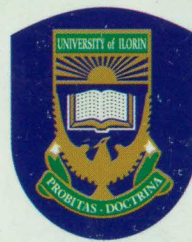


ILORIN JOURNAL OF MANAGEMENT SCIENCES



ISSN 2408-655X

Published by:
FACULTY OF MANAGEMENT SCIENCES
UNIVERSITY OF ILORIN

e-mail: editorijms@hotmail.co.uk

www.unilorin.edu.ng

Volume 3, No. 1,
June 2016.

ABOLITION OF UNIVERSAL BANKING MODEL IN NIGERIA: A POLICY SOMERSAULT?

JIMOH, Abdulrazaq Taiye¹

SANNI, Ibrahim²

IBRAHIM, Wasiu Oluwatoyin³

&

ABDULMUMIN, Biliqees Ayoola⁴

Abstract

The Central Bank of Nigeria (CBN) abolished universal banking model in Nigeria in 2010 barely ten years of its introduction. This abolition generated a lot of debates as some economists argued that the gains of past reforms, especially adoption of the banking model, had not been fully realised and, therefore, tagged its reversal a "policy somersault". Therefore, this study assessed empirically the performance of Deposit Money Banks in Nigeria before and after the abolition of universal banking system. Specifically, the study was carried out to examine the profitability and market performance of Deposit Money Banks in Nigeria before and after the abolition of the model. Data were collected from annual reports of the selected banks listed on the Nigeria Stock Exchange (NSE) and the data were analysed using both descriptive and inferential statistics. One-way ANOVA was used to test the stated hypotheses. Results of the analysis indicate that abolition of universal banking does not have significant effect on ROA, ROE and EPS of Deposit Money Banks in Nigeria. The study concludes that in terms of bank profitability, reversal of universal banking model might actually be policy somersault. It is, however, recommended that further studies be conducted on costs of universal banking and how the abolition affects such costs as conflicts of interest and risk exposure. This is because the findings of this study may not be generalised on all areas of universal banking model.

Keywords: Universal, Banking, Synergy, Profitability, Reforms, Nigeria.

JEL: E58, G21

Introduction

Banks generally serve as financial intermediaries for the mobilisation of funds from the surplus unit to the deficit unit of the economy and thereby promote economic growth. This banking function, which is regarded as financial intermediation

¹Assistant Lecturer, Department of Finance, Faculty of Management Sciences, University of Ilorin, Nigeria. jimadeyemi2006@yahoo.com; +2348064363986; wasbro@gmail.com; +2348082199768; bilbash62@gmail.com; +2348063092997

²Lecturer II, Department of Accountancy Federal Polytechnic Offa, Nigeria. sanniibrahim007@yahoo.com; +2348035638537

³Assistant Lecturer, Department of Finance, Faculty of Management Sciences, University of Ilorin, Nigeria. wasbro@gmail.com; +2348082199768;

⁴Assistant Lecturer, Department of Finance, Faculty of Management Sciences, University of Ilorin, Nigeria. bilbash62@gmail.com; +2348063092997

represents the focal point of banking business in any economic setting. In order to facilitate the contribution of banks towards the growth of national economy, a sound banking system must be put in place. For this sole reason, different countries of the world have carried out different economic and financial sector reforms to boost the performance of financial sectors generally and that of the banking sector in particular. This is because it is only when banks are performing well that their survival as well as contribution to economic growth will be guaranteed. In this regards, different countries have tried different financial and banking systems, depending on their respective macro-economic environments.

Nigeria, in its quest for a sound banking system, embarked on series of financial reforms to put the nation's banking sector on good footing for better financial intermediation. According to Sanusi (2012), such reforms are carried out to ensure that all sectors of the economy are functioning efficiently to achieve the country's macro-economic objectives. One noticeable feature of such reforms is adoption of universal banking model in Nigeria in the year 1999, a banking system designed to change the face of the Nigerian banking sector. The system allowed banks to conduct several financial businesses, both banking and non-banking, and thus opened up more profit making avenues for them. One major reason for adopting the model in Nigeria was the global acceptance that was given to the system as a number of countries (e.g., Germany, US, and so on), have long adopted the system though on different versions. The different versions of universal banking that each country adopted was informed by results of debates on the extent to which banks in each of these countries should undertake a universal range of financial services (Ijaiya, Jimoh & Abdul-Baki, 2015).

Universal banking allowed banks in Nigeria to engage in different areas of financial services such as insurance, mortgage, stock broking, speculative activities and other financial services. All these were being done in addition to their core banking services. Banks were carrying on these services without delineation as commercial or merchant banks. A result of this banking model was the slogan "one size fits all" by which Deposit Money Banks became one stop shop for all kinds of financial services. From the regulatory point of view, only one single licence was issued to any bank interested in operating the system by the CBN subject to the regulations of each regulator for the respective financial service. Also guidelines for the practice of universal banking in Nigeria were issued by the CBN. The model, by its definition, presented some prospects for banking operation as well as financial intermediation in Nigeria.

Surprisingly, however, the Central Bank of Nigeria (CBN) announced the abolition of universal banking in Nigeria through its circular published on September 7, 2010. The decision generated hot debates among economists and financial analysts on whether the CBN's action was right or wrong. Some were of the opinion that the abolition was right, given the CBN's claim that the reform would allow banks to focus on their core banking business, thereby putting a stop on the excessive risk that depositors' funds were unnecessarily exposed to. Others argued that the reversal of the banking model amounted to "a policy somersault" as the gains expected from past reform efforts had not been fully

realised and may not be realised if the model is repealed (NigeriaWorld, 2010). It is, however, worthy of note that both the two conflicting arguments were purely theoretical since they were made immediately after the announcement of the repeal. A span of years is required for any empirical investigation. That is, to examine whether the abolition policy was right or wrong, there is the need to empirically analyse its effect on the profitability and/or market performance of Deposit Money Banks in Nigeria. This is to provide an insight into the performance of these banks before and after the abolition of universal banking in Nigeria. Thus, the thrust of this paper is to examine the effect of universal banking abolition on performance of Deposits Money Banks in Nigeria. The remainder of this paper is organised as follows: Section two details out the review of relevant literature. Methodology employed for the study is discussed in section three. The next section is presentation of results. Section five contains conclusion and recommendations of the study.

Literature Review

Universal Banking system

Universal banking has been given different meanings by different scholars and researchers. According to Unugbro (2009), universal banking is a banking system or model that has to do with carrying on a wide variety of financial services such as deposit taking, credit lending, equity issues, as well as insurance services. Meshkova and Zubkova (2015) defined universal banking as a model by which banks provide traditional banking and non-banking services, as well as carrying out operations in non-bank financial and non-financial markets. In the same vein, Krishna (2005) sees the system of universal banking as the one in which banks involve in the provision of a number of financial services from under one roof. With this model of banking, a financial supermarket is created for customers which enable them to access different products or services from one single banking shop (Ijaiya *et al.*, 2015).

The benefits of having a universal banking licence include economies of scale and scope, customer access to a larger volume of credit, promotion of economic growth, reduction in service cost and increase in earnings due to synergistic effect of the combinations (Bhole, 2004.; Kannan, 2002). All the benefits identified with universal banking model may not be achieved without some associated costs. These costs are the disadvantages of adopting universal banking for the banks and the entire economy. The associated costs are conflicts of interest, increase systematic risk and some regulatory inconsistencies that could arise from participation of commercial banks in some non-banking or non-financial activities (Allen & Jagtiani, 2000).

Universal banking system is in different variants in practice. Ijaiya *et al.* (2015) while building on the previous works of researchers, recognise four types of universal banks, namely, fully integrated banking firm, partially integrated firm, a commercial bank with subsidiaries carrying on non-banking services, and a holding company structure, each of which is thus explained. A fully integrated banking firm is that which provides banking, insurance, securities and other financial and non financial services under the same roof.

A universal bank is said to be partially integrated if both commercial and investment banking services are carried out within the same company but other services such as insurance, mortgage, lease financing are conducted from subsidiaries. Another type is where a commercial bank is the parent company and concentrates on commercial banking while other activities are done through subsidiaries. The last of these is a holding company structure with different affiliates carrying out different services. With this, each of commercial, merchant, investment, insurance, and others businesses are carried out through separate affiliates of the company (Ijaiya, *et al.*, 2015).

The concept of universal banking cannot be well appreciated without discussing the constituents that make it up. Thus, commercial banking, investment banking and merchant banking are reviewed.

Commercial Banking: Meaning, Functions and Objectives

The definition for the term commercial banking could be derived from the functions performed by commercial banks. According to Abianga (2008), commercial banks are those banks which perform all kinds of banking functions such as accepting deposits, advancing loans, credit creation and agency functions. All these activities constitute what is referred to in this study as commercial banking. Traditionally, commercial banking involves the business of deposits mobilization and credit extension through which interests are generated. The interest income generated by banks under this model of banking represents a very large portion of bank's total earnings (Damankah, Tsede & Amankwaa, 2015). Apart from the usual commercial banking function of borrowing and lending for interest, Abianga (2008) identifies role of commercial banks in a developing economy to include but not limited to mobilisation of savings for capital formation through a network of branch banking, provision of industrial finance on short term medium and (in some cases) long term basis, financing of internal and external trade, provision of agricultural finance, and facilitating the implementation of monetary policy of the regulatory authority. Commercial banks carry out these services for different objectives ranging from profitability, liquidity to acceleration of economic growth and development. Mohammed-Idiab, Haron and Ahmad (2011) recognised the main objectives of commercial banking activities to include profitability by which banks seek to maximize the value of its fortune by profit; and the liquidity which underlies the safety of banks funds for the protection of depositors. The third objective that may be added is the facilitation of economic growth via efficient and effective financial intermediation.

The banking system is a major business engagement which has through the history been contributing towards growth and development of economies all over the world. The essence of commercial banking function is for the promotion of economic growth. Supporting this argument, Cornett and Tehranian (2004) state that commercial banks exist because of the various services they provide to sectors of the economy. Such services include information services, liquidity services, transaction cost services, maturity intermediation services, money supply transmission, credit allocation services, and payment services (Cornett & Tehranian, 2004). The contribution of commercial banks to economic growth and development is propelled by their financial intermediation

function with which funds are mobilised and channelled to the most productive sectors of the economy (Jimoh, Sakariyahu & Sanni, 2015).

Merchant/Investment Banking: Meaning and Services

Merchant banking is another form of banking system that deals with mobilisation of funds though on wholesale scale. The system of banking is also central to economy growth and development of many nations. The system bridges the gap in finance between the traditional financial services of the commercial banks and those of the development banks; as it exists mainly to provide medium-term loans (Idrisu, Abianga & Adegbola, 2010). The concept of merchant banking can better be understood in the Nigerian context by providing the legal definition of merchant bank. According to the Banks and Other Financial institutions Act [BOFIA] (1991), merchant bank is defined as a bank whose business includes receiving deposits on deposit account, provision of finance, consultancy and advisory services relating to corporate and investment matters, making or managing investments on behalf of any person. Merchant banking is often confused with investment or commercial banking systems as there are some similarities in their functions (Shreyas, 2014).

Merchant banking services may be grouped into two categories: corporate finance services and banking services. According to Eyanuku, Lawal and Kadiri (n.d), the corporate finance services of merchant banks range from management of the issue of private and public equity shares to corporate debt security service. The banks also provide expertise in the area of loan syndication for the finance of big industrial projects (Eyanuku et al., n.d). On the banking services, merchant banks receive deposit from their wholesale customers, grant loan and advances usually on medium and long term basis, and acceptance of discountable bill of exchange from their international trade customers (Eyanuku et al., n.d).

Regarding investment banking, it is the set of all functions of a bank, which support trading at financial markets (Hartmann-Wendels, Pfingsten & Weber, 2010). Investment banking according to Schroder et al. (2011) comprises all services which serve financial allocation opportunity, as long as they are provided through securities transaction. The inference that could be drawn from this definition is that investment banks are financial intermediaries like commercial and merchant banks. The only notable difference is that financial intermediation of investment banking is mostly in the security market. This is why Subramanyam (2008) stated that investment banks assist the capital market in its function of capital intermediation. Commercial and investment banks may, therefore, be compared via their different functions. Schroder et al. (2011) explain that a common function of investment and commercial banks is that they act as financial intermediaries. However, the difference between the two banking systems lies in the types of intermediation they conducted. While commercial banks fulfill their intermediation role by taking deposits of investors and distributing this money in form of loans, investment banks intermediate for capital market activities by facilitating trade between investors and capital acquirers on the capital market (Schroder et al., 2011).

In Nigeria, not until the introduction of universal banking in the year 2000, commercial and merchant banks were doing their business in line with provision of BOFIA upon which their licences were granted.

Universal Banking in Nigeria: Adoption and Abolition

Following the CBN approval-in-principle of the adoption of universal banking in Nigeria, the banking business was redefined to mean the business of receiving deposits on current, savings or other accounts; paying or collecting cheques drawn or paid in by customers; provision of finance, consultancy and advisory services relating to corporate and investment matters; making or managing investment on behalf of any person; and the provision of insurance marketing services and capital market business or such other services as the Governor of the CBN, may, by gazettee, designate as banking business (CBN, 2000). This definition gave the opportunity to banks in Nigeria to have a single licence and conduct the variants of businesses without any delineation as either commercial or merchant bank. It should also be noted that the guidelines issued to this effect guaranteed the freedom of the banks in the making of choices as to which activities (money or capital market activities, or insurance marketing services or a combination of some of these services) they were to engage in (CBN, 2000).

Universal banking era witnessed rapid expansion in the size of average Nigeria banks, especially with the consolidation exercise of 2005. The era was also characterized by increase in financial innovations, number of financial products and aggressive engagement of banks many different banking and non-banking services (Onu, 2013). All of these occurrences are indicators of better banking atmosphere in the country.

In the year 2010, however, CBN announced the reversal of the banking model. This was to be part of the reforms for the enhancement of the quality of banks and stability of the financial sector. According to CBN (2010) one of the primary objectives of the reform was to ensure protection of depositor funds by ring-fencing banking from non-banking business. Such action was to enable banks to focus on their core banking business thereby safeguarding the depositors' funds from unnecessary dangers resulting from excessive risk taking and exposures. Buttressing this fact, Onu (2013) identified exposure of banking business to greater risks as one major reason for the abolition. This is because the risk exposure threatened the stability of the entire financial system. It should however be noted that risk taking is the major business of banking and such policy might constitute a hindrance to the profitability and other performance indices of the banks; going by the finance theory of the higher the risk, the higher is the expected return. Although, the abolition of the universal banking might have assisted in the reduction of risk exposure of banks as they now concentrate on their major businesses, their profit making potentials will most likely be in question.

Universal Banking and Bank performance in Nigeria

Bank performance has been measured from different points of view depending on the research objectives of the researchers. For instance variables like asset growth, deposit base, lending, number of branches and number of employees have been used to measure bank performance (Uddin & Bristy, 2014). However, the most frequently used

performance indicator for business organizations including bank, is its profitability. Therefore, bank performance is conceptualized in this study as profitability and market performance of deposit money banks. Bank profitability is measured with such indicators as return on asset (ROA), return on equity and many other performance measures. ROA, measured as the ratio of net profits to total assets represents a key ratio in the evaluation of bank performance and it is one of the most commonly used measures in empirical literature (Golin, 2001 cited in Ben-Ameur & Mhiri, 2013). Regarding ROE, Ben-Ameur and Mhiri, (2013) stated that it is the return earned on the funds invested in the bank by its shareholders and shows the effectiveness of the management in using the shareholders' fund. These two variables of profitability are used to measure performance of banks in Nigeria before and after the abolition of universal banking model.

Market performance may be proxy with variables like earnings per share (EPS), price earnings (P/E) ratio, price to book value ratio, and Tobin's Q. EPS is used in this study as a market performance indicator. EPS is another important measure of profitability of shareholder's equity which measures the overall performance (Ibrahim, 2015).

Theoretical Discussion: The Synergy of merging commercial and merchant banking

Harris, (2004) stated that the theory of synergy explains the coming together of separate entities that are often diverse whose concerted efforts bring about an integrated solution that yields results that are greater than the sum of the individual parts' results working independently (Harris, 2004). Therefore, this study conceptualised as synergistic the combination of commercial and merchant banking businesses to become a universal bank. Theoretically, combining these different services of both commercial banking and merchant banking under a single umbrella of universal banking is believed to have a synergistic effect on the operating efficiency and profitability of the banks as well as on their contribution to the economic via an enhanced financial intermediation. This was consistent with the observation made by Bhole (2004) that the synergies in joint production of financial and non-financial services increase economic efficiency, reduce cost and increase earnings. In line with the theory of synergy, this study is based on the assumption that merger of commercial and merchant banking would have brought about enhancement in the performance of deposit money banks in Nigeria. If the theory still hold, why the abolition?

Empirical Evidence

Research works have examined universal banking and its impact on the banking sectors and the entire economy of different countries. Nurullah and Staikoura (2008) assessed the impact of European banks' diversification into insurance underwriting and insurance broking on risk and profitability of banks. Their study confirms the return of entering into insurance business increases in a significant manner. In another study, Abdelaziz, Hichem, and Wafa (2012) investigated the impact of universal banking on credit risk of banks in Tunisia for the period of 1980-2010. Panel data analysis was used to analyse the data collected for the research. The study found that universal banking seems to have significant impact on credit risk of the banks. Owsu-Dankwa, Ampong and Agyei (2014) studied the effect of universal banking on the performance of development banks in

Ghana. Descriptive statistics, chi-square test and independent t-test were used to analyse the data. It was found that those banks practicing universal banking had high performance. On the contribution of universal banking to the entire economy, Ijaiya et al. (2014) examined the impact of universal banking on the Nigeria economy. Mann-Whitney U was used to test the hypothesis and the study showed no significance difference in the contribution of banks to the Nigerian economy before and universal banking system. They thus concluded that separation of banking licences was appropriate.

Evidences have shown that several works have been done on universal banking system, but the effects of its removal from the Nigeria banking sector still lacks clear empirical analysis.

Methodology

The study analysed the performance of banks in terms of profitability in Nigeria before and after the abolition of universal banking system. The study covered a period of ten years period (2006-2015) divided into two equal halves. The first being the five years immediately preceding the abolition of universal banking system (2006-2010) and the other half is the five years after abolition (2011-2015).

Population used for this study includes all deposit money banks in Nigeria out of which a sample of fifteen listed banks was purposively selected for the study. Any bank with significant structural changes such as merger and acquisition after the abolition of the universal banking model was dropped from the sample. As a result of this and for the fact that complete data could not be obtained for some banks, eleven banks were used for the study. Data were collected from annual reports of the selected banks on return on asset (ROA) and return on equity (ROE) which were used to proxy bank profitability. The data was analysed using both descriptive and inferential statistics. One-way analysis of variance (ANOVA), a parametric statistical technique was used to analyse the data, and test the stated hypotheses.

Result and Discussions

Results of data analysis were presented in four tables. Descriptive analysis was presented in table 1 and discussed as follows.

Table 2: Test of Homogeneity of Variances

Statistic	df1	df2	Value	Significance
F	1	10	1.003	.932
Levene Statistic	1	10	1.003	.932

Concomitant the test results, the p-value of 0.932 is greater than the 0.05 level of significance. This implies that there is no significant difference in the variance of ROA between the two periods.

Table 1: Descriptive Analysis

		N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Min.	Max.
						Lower Bound	Upper Bound		
Earnings per share	pre ubs abolition	70	.8454	1.69722	.20286	.4407	1.2501	-5.26	8.74
	post ubs abolition	70	.9103	1.03512	.12372	.6635	1.1571	-1.53	3.35
	Total	140	.8779	1.40102	.11841	.6437	1.1120	-5.26	8.74
Return on Equity	pre ubs abolition	70	.0639	.47288	.05652	-.0489	.1766	-2.21	2.30
	post ubs abolition	70	.0477	.52547	.06281	-.0776	.1730	-3.94	1.21
	Total	140	.0558	.49813	.04210	-.0275	.1390	-3.94	2.30
Return on Asset	pre ubs abolition	70	.0107	.04502	.00538	.0000	.0214	-.29	.14
	post ubs abolition	70	.0141	.02216	.00265	.0089	.0194	-.10	.05
	Total	140	.0124	.03540	.00299	.0065	.0183	-.29	.14

Source: Authors' computation (2016)

Table 1 above depicts the descriptive characteristics of the variables. From this analysis, the average EPS in the pre abolition of universal banking system is 85 kobo per share. However, with the abolition of the model, average EPS of deposit money banks in Nigeria increased to 91 kobo. On the return on equity (ROE), it's averaged average 6% before and 5% after the model was scrapped representing 1% drop on average. Return on asset showed a mean value of 1.1% before the scrap of the model and 1.4% after the abolition of the model. Descriptively, these results indicate an improved performance of banks after the abolition. The only exception is the drop in ROA. Other parameters such as minimum and maximum values of EPS, ROE and ROA as contained in Table 1, point also towards this assertion.

In this study, little attention was paid to the normality of data distribution. This is because the power of F -statistic used in the ANOVA test is, in most cases, unaffected by non-normality (Donaldson, 1968 cited in Field, 2009). This suggests that when group sizes are equal, the F -statistic can be quite robust to violations of normality (Field, 2009). Based on this argument, the test for possible violations of normality assumption was ignored. However, Levene's test of homogeneity of variance was conducted due to the fact that two alternatives exist for any violation of the assumption when ANOVA tool of analysis is employed. The result of homogeneity of variance is presented below.

Table 2: Test of Homogeneity of Variances

	Levene Statistic	df1	df2	Sig.
Earnings per share	1.063	1	138	.304
Return on Equity	.063	1	138	.802
Return on Asset	1.813	1	138	.180

Source: Authors' computation (2016)

From Table 2 above, data on the three variables, earnings per share (EPS) return on equity (ROE) and return on asset (ROA) are found to have met the homogeneity of variance assumption for parametric tests. Levene's test holds the hypothesis that there exists no significance difference in variances of the sampled groups. In the table, ROE has a calculated value of $p = 0.304$ which is greater than alpha level of 0.05. This shows that the result is not significant. Similar results are obtained for ROE ($0.802 > 0.05$) and ROA ($0.180 > 0.05$). It therefore found that the homogeneity of variance assumption is not violated in the analysis

Table 3: Analysis of Variance (ANOVA)

		Sum of Squares	df	Mean Square	F	Sig.
Earnings per share	Between Groups	.147	1	.147	.075	.785
	Within Groups	272.689	138	1.976		
	Total	272.836	139			
Return on Equity	Between Groups	.009	1	.009	.037	.849
	Within Groups	34.482	138	.250		
	Total	34.491	139			
Return on Asset	Between Groups	.000	1	.000	.327	.569
	Within Groups	.174	138	.001		
	Total	.174	139			

Source: Authors' computation (2016)

Table 3 provides the result for the statistical tests of the stated hypotheses. For hypothesis one, both ROE and ROA were used as proxy for bank profitability. This study found no significant difference in the performance of deposit money banks before and after the abolition of universal banking. For ROE, the p-value of 0.849 is greater than the alpha level of 0.05 (level of significance). F-statistic of 0.037 is also lower than the critical value of 3.84 at 5% level of significance. This means that the result is not significant at 5% level of significance. Similar result was found for ROA which has a calculated p-value of 0.569. This means that the result is not significant statistically at both 5% and 10% levels of significance. The value of F-ratio ($0.327 < 3.84$) also attests to this. Based on this analysis, null hypothesis one was accepted.

Concerning the market performance measured with EPS which was tested as hypothesis two, p-value of 0.785 was found. Since $0.785 > 0.05$, $0.785 > 0.1$, the hypothesis was accepted. This implies that there is no significance difference in the market performance

of deposit money banks in Nigeria before and after the abolition of universal banking system. F-statistic of 0.075 testified to this fact.

Conclusion and Recommendations

Based on result of the analysis, the study concludes that abolition of universal banking in Nigeria has had no significant impact on the performance (profitability and market performance) of deposit money banks in Nigeria. This led to another conclusion in support of the claim that the abolition of the banking model might actually be a policy somersault. However, since the findings of this study may not be generalisable on all aspects of banking business, it is recommended that further studies be conducted in the area of costs of universal banking such as conflict of interest, risk exposure in the post universal banking abolition in Nigeria.

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