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CUSTOMERS' DEPOSITS AND LOAN ADMINISTRATION: NIGERIAN BANKS' PERCEPTION

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ABSTRACT

This study evaluates the effect of customers' deposits on loan administration in Nigerian banks from 2007 to 2016. Secondary data were obtained from annual reports accounts of ten (10) quoted Nigerian commercial Banks. The variables for which data were sourced include Loans and advances, Customers' deposit, Investment, Interest Income, and Operating expenses from 2006 to 2015. Panel data results show that customers' deposits has positive significant impact on loan and advances of the sampled banks (t= 4.60 and P>|t = 0.000 < 0.05) Also, investment has positive significant effect on loan and advances (t value 2.68 and P>|t = 0.009 < 0.05). More so, there is a positive significant effect of interest income on loan and advances (t value 4.74 and P>|t = 0.000 < 0.05), that is gain or returns from the investment by the sampled banks enhanced positive impact on loan administration in Nigeria banks. In contrary, operating expenses has a negative insignificant effect of on loan and advances (t value – 0.74 and P>|t = 0.460 > 0.05). In conclusion, customers' deposits have strong, statistical and significant positive impact on loan and advances in Banking Sectors in Nigeria. To enormously improve customers' deposits, bank should design more packages that would entice and motivate customers' patronage and deposits, this will invariably increase customers' loyal to deposit more cash with the bank which will ultimately generate additional revenue for banks to satisfying their customer in terms of loan and advances.

INTRODUCTION

Background to the study

Every financial institution like bank is established to provide efficiently a wide range of financial services to its customers with a view to making profit. Hence, bank's role in the developmental efforts in an economy cannot be underestimated. One of the cardinal roles of banks is to make the deposits and investments surplus and useful by lending it to people for

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various investment purposes: company growth, education, houses, among others (Bart Baesens and Tony Van Gestel, 2009). Commercial banks use deposits more often than not to enhance its profitability through advancing deposits mobilization to its customers in the forms of loans and advances. The lending activity is made possible as a result of the fact that the bank has the financial muscle to mobilize enough funds from their customers (Tuyishime, et al, 2015). Bank's responsibility is to perform a pivotal service to all segments of the economy through the pooling of savings from the public and making the same available for economically and socially desirable purposes (Brick, 2006). More also, banks act as brokers between supply and demand of securities, and they transform short-term deposits into medium- and long-term credits. Specialized information on financial products is gathered by banks to improve investment decisions and to manage the risk (Bart Baesens and Tony Van Gestel, 2009).

It is to be noted however that the commercial banks and the economy as a whole depend largely on customer's deposit to advance its clients. Interestingly, the bank credit and bank deposits are closely related with each other that they represent, roughly speaking, two sides of the same coin, the balance sheets of banks (Sharma, 2009). With regard to the question whether loans make deposits or deposits make loans, two kinds of answers have been given for the puzzle. Banks all over the world strive to garner income through their lending activities. The lending activity is made possible only if the banks can mobilize enough funds from their customers. Since commercial banks depend on depositor's money as a source of funds, it means that there are some relationships between the ability of the banks to mobilize deposits and the amount of credit granted to the customers. Thus, the main function of financial institutions of mobilizing funds from the surplus economic agents to the deficit economic agents is put to test in order to generate economic growth (Tuyishime, et al, 2015).

Customers' deposits play a pivotal role in providing satisfactory service to different sectors of the economy. The success of the banking greatly lies on the customers' deposits. Performance of the bank depends on customers' deposits, as the deposits are normally considered as a cost effective source of working fund. Customers' deposits in a bank are as essential as oxygen for human being. To enhance profitability, banks take steps to minimize the expenditure and are forced to source for customers' deposits. (Sylvester, 2010). It is to be noted however that in this present context banks' performance is measured on several indicators which include the deposit mix and the quantum of low cost deposits in the mix among others. During the present era of competition and with the advent of private and multinational banks, an ideal mix of deposits is a must to survive. Since the interest paid on deposit forms a big burden on bank, the mobilization of low cost deposits, like current account and savings bank deposit is the urgent need for the bank. Banks borrow and lend, they borrow money by accepting deposits from the public including members of the bank. Customers' deposits are the chief source of funds to undertake lending operations, for profitable operation, the amount of deposits is very important. It is the size of the deposits that largely decides the lending potential of a bank (Rajeshwari, 2014).

Every commercial bank strives to generate income through lending activities. Since commercial banks depend on depositor's money as a source of funds, it means that there are some relationships between the ability of the banks to mobilize deposits and the amount of credit granted to the customers. For the purpose of achieving self-sufficiency in banking operations, there is a need to improve ways of improving customers' deposits for efficient and effective loan administration. The banks must have adequate deposits to meet the lending volume required by the public and at the same time maintain extra cash for withdrawals by depositors. The bank cannot achieve this, if there are no clear strategies of getting more customers to make deposits. The study is interested in customers' deposits and loan administration in the banking sector of the Nigerian economy, the related research has not taken into cognizance the customers' deposits and loan administration factors and how it can be improved as means of increasing loan administration in Nigeria. After observing the gap in this area of research, the study therefore beams its searchlight on the effects of customers' deposits on loan administration in Nigerian banks.

Objectives of the study

The main objective of this study is to evaluate the effects of customers' deposits on loan administration in Nigerian banking sector. The specific objectives are to:

i assess the effect of investment on loan administration in selected Banks in Nigeria

ii determine the impact of interest income on loan administration in selected Banks in Nigeria.

LITERATURE REVIEW

The links between Loan Administration and Customers' Deposits

Loan administration implies issuance of loan to customers for the advancement of their business operations. It is a tool for managing organization's progress towards achieving predetermined goals, defining key indicators of organizational performance and customer satisfaction. The entry on the books of the company at the time the money is received in advance is a debit to Cash and a credit to Customers' deposits. It is a type of a funding component of a banking institution. These deposits can make up a portion of a bank's total funding requirements. Customers' deposits can include retail, business and institutional customers' deposits. According to Gockel and Brow (2007), bank deposit is money placed into a banking institution for safe keeping. Bank deposits are made to deposit accounts at a banking institution, such as savings accounts, checking accounts and money market accounts. The account holder has the right to withdraw any deposited funds, as set forth in the terms and conditions of the account. The deposit itself is a liability owed by the bank to the depositor (the person or entity that made the deposit), and refers to this liability rather than to the actual funds that are deposited. A bank deposit is generally made when opening an account or in the course of routine business or personal transactions that involve placing funds with the bank for future use. Bank deposits can be made in a number of different ways. The most direct way is to walk into a bank or a bank branch in which someone hold an account. Bank deposit is done by filling in a bank deposit slip with the particulars of your account and the amount of money you wish to deposit. Bank deposits can be made via wire transfer, as well as through a direct deposit plan from employers in many cases.

According to Kazi, (2012), in banking sector, customers' deposits is a scheme intended to encourage customers to deposit more cash with the bank and this money in turn will be used by the bank to disburse more loans and generate additional revenue for them. The main business for banks is accepting deposits and granting loans. The more the customers' deposit, the more the loans disburse by the banks, and the more the profit they make. Also, banks do not have a lot of their own money to give as loans. They depend on customers' deposits to generate funds for granting loans to other customers. Traditionally, customers of banks walk to the banking premises to deposit money. This method of savings mobilization is not able to mop up enough savings. The World Development Report, (2008), in response to the problem of inability to mobilize enough customers' deposits, many banks has devised mechanisms of generating savings. Among the mechanisms for savings customers' deposits identified by bank include moving from shop to shop to collect daily deposits, sending agents to economic zones to mobilize customers' deposits/savings, among others. It is evident that the bank uses a number of mechanisms to mobilize savings.

Apart from the traditional of mobilizing savings where customers walk to the bank to save, there are other ways through which the bank mobilizes savings. In addition, the bank moves from shop to shop to collect deposits. This mode of mobilizing customers' deposits is done through special arrangement with the customer. Customers who qualify must have a high sales turnover. According to Laura, Alfred, Sylvia, (2009), to mobilize more deposits, financial institutions offer a range of savings products that are tailored to their particular clientele. They offer the widest variety of specialized savings products, so that their customers have a choice between immediately accessible, liquid products, or semi-liquid accounts or time deposits with accordingly higher interest rates. Simple and clear design of basic savings products enables depositors to easily select the product that best suits their needs. The simple and transparent design of the savings products also enables staff to administer them with ease, reducing administrative costs.

Fiscal policy relates government revenue to its expenditure. In most developing countries, taxation is the main source of government revenue and the effectiveness of which rests on its ability to generate required revenue and support investment (Tanzi, 2013). Taxation is often defined as the levying of compulsory contributions by public authorities having tax jurisdiction, to defray the cost of their activities. Ali-Nakyea, (2008) posited that no specific reward is gained by the tax payer. The money collected is used for the common good of the citizenry - for the production of certain services, as aforesaid, which are considered to be more efficiently provided by the State rather than by individuals e.g. maintenance of law and order at home, and defense against external enemies, etc. Commercial banks take deposits from individual and institutional customers, which they then use to extend credit to other customers (Katang and Ntui, 2008). They make money by earning more in interest from borrowers than they pay in interest to those whose deposits they accept. They are different from investment banks and brokerages in that those kinds of institutions focus on underwriting, selling, and trading corporate and municipal. Therefore one of the most important ways leading to financial performance is the effective use of deposit mobilized extended to customers as generation of interest.

Theoretical Review

This theory is related to the study as it presents the process of newness and implementation of innovation. Deposits mobilization is a new model of approaching savers through marketing and financial inclusion and come up with new techniques which were not been used by traditional banking, it is perceived and communicated through channels and the social system facilitates its adoption. In mobilization of deposits, new innovation has to be applied and make convincing the savers to make deposits.

Bank led theory

This theory provides another platform to conventional branch-based banking. Under this theory a customer conducts financial transactions at a whole range of retail agents instead of visiting a bank branch or performing transaction through bank workers. The bank still remains the main provider of financial services and the institution where customers maintain accounts. The theory affords the retail agents the opportunity of making have face-to-face contacts with customers by way of performing cash-in/cash-out functions with their customers for deposit taking and processing withdrawals. It is to be noted however that any outlet that handles cash and is located near customers could potentially serve as a retail agent. Each retail agent is electronically fitted to communicate with the main bank for banking operations. The equipment that may be used for this transaction can be a mobile phone or an electronic point-of-sale (POS) terminal that reads cards. At any point in time when an account of a customer is established or loan approved, the customer goes to the retail agent to conduct all or certain financial transactions.

The retail agent checks the customer's identification documentation and processes the transaction, debiting the customer's and crediting the payee's bank account if it is a purchase or a transfer of funds between accounts. Unless the transaction is merely a transfer of funds, cash is either deposited to or withdrawn from the retail agent's cash drawer. An electronic record of the transaction is either routed directly from the retail agent to the bank or is handled by a payment processing agent that settles the transaction between the customer's account and the payee's account. (Lyman, Ivatury & Staschen, 2006).The bank led theory is related to the study as it focus on how financial institution like bank deliver their financial services through a retail agent, where the bank develops financial products and services but distribute them through a retail agents. This can be a way of mobilizing deposits commercial banks use as a new model to increase financial inclusion and facilitate the transaction especially in the areas where the bank is not present. This model facilitates the banks to raise its deposits and lead to financial performance.

Diffusion of innovations theory

Diffusion of innovations is a theory that seeks to explain how, why, and at what rate new ideas and technology spread through cultures. Rogers, (2003) argues that diffusion is the process by which an innovation is communicated through certain channels over time among the participants in a social system. The origins of the diffusion of innovations theory are varied and span multiple disciplines. The four main elements of diffusion are the innovation, communication channels, time, and the social system. Diffusion is a special type of communication, in which the messages are concerned with a new idea. It is this newness of the idea in the message content of communication that gives diffusion its special character. This process consists of a series of actions and choices over time through which an individual or an organization evaluates a new idea and decides whether or not to incorporate the new idea into ongoing practice. This behavior consists essentially of dealing with the uncertainty that is inherently involved in deciding about a new alternative to those previously in existence. It is the perceived newness of the innovation, and the uncertainty associated with this newness, that is a distinctive aspect of innovation decision making (Rogers, 2003).

METHODOLOGY

The data was obtained from annual reports accounts of ten (10) quoted Nigerian commercial Banks. The variables for which data were sourced include Loans and advances (LOADVC) Customers' deposit (CUSDEP), Investment (INVST), Interest Income (INTINC) and Operating expenses (OPEXP) from 2007 to 2016. The panel data analysis were used is this study. It has certain benefits like using the assumption that the banks are heterogeneous, more variability, less co-linearity between variables, more informative data, more degree of freedom and more efficient.

MODEL SPECIFICATION

The impact of Customers' Deposits on loan administration in commercial Banks in Nigeria is investigated using the panel data of selected banks listed in Nigeria Stock Exchange (NSE).

$$\mathbf{LOADVC} = \boldsymbol{f}(\mathbf{CUSDEP},\ \mathbf{INVST}, \mathbf{INTINC},\ \mathbf{OPEXP},\ \mu) \qquad \mathbf{1}$$

$$\mathbf{LOADVC} = \alpha 0 + \beta 1 \mathbf{CUSDEP} + \beta 2\ \mathbf{INVST} + \beta 3\ \mathbf{INTINC} + \beta 4\ \mathbf{OPEXP} + \mu) \qquad \mathbf{2}$$

Where, Dependent Variable= Loans and advances (LOADVC)
Independent Variable= customers' deposit (CUSDEP), Investment (INVST), Interest Income (INTINC) and Operating expenses (OPEXP)

RESULTS AND DISCUSSION

The impact of Customers' Deposits on loan administration in commercial Banks in Nigeria is estimated using panel data analysis. Pooled effect, Fixed Effect and Random Effect Model are used to validate the results. Table 2 exhibited the results of pooled effect model, Table 3 exhibited the results of Fixed Effect Model and Table 4 exhibited the results of Random Effect Model.

Table 1 - Descriptive Analysis of the determinant of Loan Administration of Selected Nigerian Commercial Banks in Nigeria

	Observation	**Mean**	**Standard deviation**	**Minimum**	**Maximum**
LOADVC	**100**	2.00e+08	2.40e+08	4248697	**1.13e+09**
CUSDEP	**100**	3.72e+08	3.95e+08	6475336	1.78e+09
INVST	**100**	7.09e+07	1.18e+08	55603	5.50e+08
INTINC	**100**	4.18e+07	4.52e+07	24429	2.09e+08
OPEXP	**100**	2.95e+07	3.12e+07	1200351	1.42e+08

Source: Researchers' computation (2017) using STATA Version 12

The descriptive statistics of the analysis is presented in Table 1 above shows that Loan and advances (LOADVC) as the dependent variable. LOADVC had a mean of 2.00e+08 and standard deviation of 2.40e+08 with positive maximum and minimum value of 1.13e+09 and 4248697 respectively. CUSDEP had a mean of 3.72e+08 and standard deviation of 3.95e+08 with positive maximum and minimum value of 1.78e+09 and 6475336 respectively, which signifies that for every 1% increase in CUSDEP, increases loan and advances by up to 3.72%, this implies that there is a positive relationship between Loan and advances and customers' deposits in Nigerian banks. The effect of investment, interest income and operating expenses can be seen as shown in the Table 1, with mean values of 7.09e+07, 4.18e+07 and 2.95e+07 respectively and standard deviations of 1.18e+08, 4.52e+07 and 3.12e+07 having positive maximum values of 5.50e+08, 2.09e+08 and 1.42e+08 and positive minimum values of 55603, 24429 and 1200351. This implies that 1% increase in Investment (INVST), and Interest Income (INTINC) generate a rise in Loan administration to 7.09e+07 and 4.18e+07 respectively. It can be deduced from the analysis that there is a positive relationship between customers' deposits and loan administration in Nigeria Banking sector.

Table 2: The Pooled Effect of Customers' Deposits on Loan and Advances on Nigeria Banks

Independent Variable	Dependent Variables	Coefficient	Standard Error	T	P>|t	[95%Conf. interval]
LOADVC	**CUSDEP**	.1663957	.0612043	2.72	0.008	.0448899 .2879016
	INVST	.3432182	.0987283	3.48	0.001	.1472177 .5392187
	INTINC	3.712996	.5336386	6.96	0.000	2.653589 4.772402
	OPEXP	-1.184119	.728818	-1.62	0.108	-2.631006 .2627673
	constant	-6194433	1.07e+07	-6.58	0.000	-2.74e+07 1.50e+07
R-squared = 0.9040	Adj R-squared = 0.8999		Prob > F = 0.0000		F(4, 20) = 174.81	Root MSE = 7.6e+07

Source: Researchers' computation (2017) using STATA Version 12

Table 2 above shows the pooled effect of customers' deposits on loan and advances (LOADVC) on Banking Sectors in Nigeria. 1% increase in customers' deposits increase loan and advances (LOADVC) by 0.166%, this shows that there is a positive significant effect of customers' deposits on loan and advances (LOADVC) with t value 2.72 and P>|t = 0.008 < 0.05. Also, 1% increase in investment (INVST) increases LOADVC by 0.343%, this also shows that there is a positive and significant effect of investment on loan and advances (LOADVC) with t value 3.48 and P>|t = 0.001 < 0.05. More so, 1% increase in interest income (INTINC) increases loan and advances (LOADVC) by 3.7%, this shows that there is a positive and significant effect of interest income on loan and advances (LOADVC) with t value 6.96 and P>|t = 0.000 < 0.05. Contrarily, 1% increase in operating expenses (OPEXP) reduces loan and advances (LOADVC) by 1.1%, this shows that there is a negative and insignificant effect of operating expenses on loan and advances (LOADVC) with t value – 1.62 and P>|t = 0.108 > 0.05.

Given the coefficient of determination (R^2) as 0.9040which is 90% supported by high value of adjusted R^2as 89.9%, it presages that the independent variables incorporated into this model were able to explain the variation of loan and advances to 89.9%. That is, there is a positive significant effect of customers' deposits on loan and advances The F Probability statistic also confirms the significance of this model.

Table 3- Random Effect Model

Dependent variables	Independent variables	Coefficient	Standard error	T	P>/T/	(95% conf. Interval)
LOADVC	**CUSDEP**	.1663957	.0612043	2.72	0.007	.0464376 .2863539
	INVST	.3432182	.0987283	3.48	0.001	.1497143 .5367221
	INTINC	3.712996	.5336386	6.96	0.000	2.667083 4.758908
	OPEXP	-1.184119	.728818	-1.62	0.104	-2.612576 .2443377
	constant	-6194433	1.07e+07	-5.61	0.000	-2.71e+07 1.47e+07
R-squared **within = 0.9008** **between = 0.9191** **overall = 0.9040**		Prob > chi2 = 0.0000 Wald chi2(4) = 894.24			**sigma_u 0** **sigma_e 69264413** **rho 0** **(fraction of variance due to u_i)**	

Source: Researchers' computation (2017) using STATA Version 12

Random effect needs to be tested because of the doubt that may arise with pooled result. Table 3 above shows the pooled effect of customers' deposits on loan and advances (LOADVC) on Banking Sectors in Nigeria. 1% increase in customers' deposits increase loan and advances (LOADVC) by 0.166%, this shows that there is a positive significant effect of customers' deposits on loan and advances (LOADVC) with t value 2.72 and P>|t = 0.007 < 0.05. Also, 1% increase in investment (INVST) increases LOADVC by 0.343%, this also shows that there is a positive and significant effect of investment on loan and advances (LOADVC) with t value 3.48 and P>|t = 0.001 < 0.05. More so, 1% increase in interest income (INTINC) increases loan and advances (LOADVC) by 3.71%, this shows that there is a positive significant effect of interest income on loan and advances (LOADVC) with t value 6.96 and P>|t = 0.000 < 0.05. Contrarily, 1% increase in operating expenses (OPEXP) reduces loan and advances (LOADVC) by 1.1%, this shows that there is a negative and insignificant effect of operating expenses on loan and advances (LOADVC) with t value – 1.62 and P>|t = 0.104 > 0.05.

Table 4- Fixed Effect Model

Dependent variables	**Independent variables**	**Coefficient**	**Standard error**	**T**	**P>/T/**	**(95% conf. Interval)**
LOADVC	**CUSDEP**	.2868686	.0623652	4.60	0.000	.1628908 .4108465
	INVST	.2600179	.0968645	2.68	0.009	.0674577 .4525781
	INTINC	2.627401	.5545234	4.74	0.000	1.525045 3.729757
	OPEXP	-.5425064	7302522	-0.74	0.460	-1.9942 .9091868
	constant	-1.86e+07	1.09e+07	-4.61	0.000	-4.04e+07 3088875

R-squared within = 0.9077 between = 0.8754 overall = 0.8968	sigma_u | 45236749 sigma_e | 69264413 rho | .29900448 (fraction of variance due to u_i)	F(4,86) = 211.49 Prob > chi2 = 0.0000 corr(u_i, Xb) = -0.2119

Source: Researchers' computation (2017) using STATA Version 12

Table 4 above shows the fixed effect of customers' deposits on loan and advances (LOADVC) on Banking Sectors in Nigeria. 1% increase in customers' deposits increase loan and advances (LOADVC) by 0.286%, this shows that there is a positive significant effect of customers' deposits on loan and advances (LOADVC) with t value 4.60 and P>|t = 0.000 < 0.05. Also, 1% increase in investment (INVST) increases LOADVC by 0.260%, this also shows that there is a positive significant effect of investment on loan and advances (LOADVC) with t value 2.68 and P>|t = 0.009 < 0.05. More so, 1% increase in interest income (INTINC) increases loan and advances (LOADVC) by 2.62%, this shows that there is a positive significant effect of interest income on loan and advances (LOADVC) with t value 4.74 and P>|t = 0.000 < 0.05. Contrarily, 1% increase in operating expenses (OPEXP) reduces loan and advances (LOADVC) by 0.54%, this shows that there is a negative insignificant effect of operating expenses on loan and advances (LOADVC) with t value – 0.74 and P>|t = 0.460 > 0.05.

Table 4- Hausman Test

Dependent variables	Independent variables	Coefficient (b) Fixed	Coefficient (B)	(b-B) Difference	Sqrt (diag (v-b-v-B)) S.E
LOADVC	CUSDEP	.2868686	.1663957	.1204729	.0119772
	INVST	.2600179	.3432182	-.0832003	-
	INTINC	2.627401	3.712996	.641613	.045744
	OPEXP	-.5425064	-1.184119	.641613	.045744
b = consistent under Ho and Ha;	B = inconsistent under Ha, efficient under Ho	Test: Ho: difference in coefficients not systematic chi2(4) = (b-B)'[(V_b-V_B)^(-1)](b-B) = 32.30 Prob>chi2 = 0.0000			

Source: Researchers' computation (2017) using STATA Version 12

To decide between fixed or random effects, Hausman test was conducted where the null hypothesis is that the preferred model is random effects vs. the alternative the fixed effects (Green, 2008). It basically tests whether the unique errors (*ui*) are correlated with the regressors, the null hypothesis is they are not. If Prob>chi2 = 0.0000 is less than 0.05 (i.e. significant) use fixed effects, therefore the null hypothesis is rejected, the alternative hypothesis is accepted.

SUMMARY AND CONCLUSION

The impact of effect of customers' deposits on loan and advances on Banking Sectors in Nigeria from 2007 to 2016 was examined using panel data analysis. Results show that customers' deposits has significant positive impact on loan and advances of the sampled banks (t= 4.60 and P>|t = 0.000 < 0.05) which implies that for every increase in customers' deposits resulted to an increase in loan and advances of sampled banks. Also, investment has positive significant effect on loan and advances (t value 2.68 and P>|t = 0.009 < 0.05). More so, there is a positive significant effect of interest income on loan and advances (t value 4.74 and P>|t = 0.000 < 0.05), that is gains or returns from the investment by the sampled banks enhanced positive impact on loan administration in Nigeria banks. In contrary, operating expenses has a negative insignificant effect of on loan and advances (t value – 0.74 and P>|t = 0.460 > 0.05).

In conclusion, customers' deposits have strong and statistical significant positive impact on loan and advances in Banking Sectors in Nigeria. To enormously improve customers' deposits, bank should design more packages that would entice and motivate customers' patronage and deposits, this will invariably increase customers' loyal to deposit more cash with the bank which will ultimately generate additional revenue for banks to satisfying their customer in terms of loan and advances.

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