IMPACT OF DEBT MANAGEMENT ON THE PERFORMANCE OF DEPOSIT MONEY BANK IN NIGERIA

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Abstract

This study investigated the effect of debt management on the performance of deposit money banks in Nigeria. The study covered the period 2005-2023. The specific objectives were: to ascertain the effect of nonperforming loans on the performance ofdeposit money banks in Nigeria, to examine the effect of ratio of nonperforming loan to total loans on the performance of deposit money banks in Nigeria, and to examine the effect of bad debt provision on the performance of deposit money banks in Nigeria. The study adopted ex post facto research using time series data on the debt management variables. The major findings of the study revealed that: non-performing loans has negative significant effect on the performance of deposit money banks in Nigeria, ratio of nonperforming loans to total loans revealed to have negative and insignificant effect on the performance of deposit money banks in Nigeria and the bad debt provision revealed to have positive significant effect on the performance of deposit money banks in Nigeria. The study concluded that debt management had mixed effect on the performance of the banks during the period 2005-2023 in Nigeria. Based on the findings, the study recommended that banks should adopt a coordinated credit recovery scheme to reduce the effect of the non-performing loans on the banks; the banks should sustain the bad debt provision as it will free up more capital available for other bank credit operations and enhance performance; and the bank should ensure to reduce the nonperforming loans to total loans ratio order to enhance the credit rating of the banks and reduce the effect of the nonperforming loans

Introduction

The banking sector plays a crucial role in the economy, providing financial services and facilitating economic growth (Ozili, 2022). Effective debt management critical for banks' optimal performance and risk reduction. Improving shareholders' assets is one of the core objectives of banks. According toSantos and "firms' performance is the effectiveness of corporate organizations with impressive operational and financial results (Singh ,Kumar and Sharma, 2023).

> Fosu (2023) also stated that banks' performance is the extent to which bank managers can use the banks' resources efficiently. The performance of the banks is beneficial for their creditors and investors, creditors could use the performance measures as a useful guideline to refuse or approve loans proposed by the banks; a high performing bank will be able to convince investors not to object to adding funds to the banks operational activities (Abiola & Olausi, 2014).Debt management is the regulation of the size and handling of the structure of debt. Banks are firms that efficiently provide wide range of financial services for profits, they are profit making firms performing intermediary connection between borrowers and savers and bringing temporarily available resources to those who need them for investments and other purposes (Abor, 2005).

According to Olayemi & Fakayode (2021), "Banks adopt strategic debt management policies such as structuring performing and non-performing loans, managing the ratio of non-performing loans to total loans, managing the size of the total loans, and making provision for bad debts. Such debt management approach is intended to ensure that debts do not impact badly on the financial performance of the bank. In the same vein, how banks finance daily operational activities and various investments affects their survival and existence".

> Factors that can affect banks' performance include the debt management structure (the nonperforming loans, the ratio of nonperforming loans to total debt, and the total debt). A sure indicator or determinants of high exposure to bad debt management practices by banks can be linked to the size of the nonperforming loans, the loan loss provisions and the total debts (Adebayo & Enyi, 2014). Hence as a way of reducing or achieving control of the dangerous debt management crisis facing most of the banks, the central bank has made two (2) separate releases (January 31 and February 23, 2018 respectively) in which it sought to regulate dividend payments of financial institutions and bring it agreement with the badly performing debts and the capital adequacy ratios. This was to serve as checks to be implemented in enthroning good debt management practice. The CBN mandated that the banks which have a capital adequacy ratio of at least 3% above the minimum requirement, and non-performing loans (NPL) ratio of over and above 5% but below 10% to only distribute to shareholder profit after tax not exceeding 75%. Although the bank: which meets the minimum capital adequacy ratio with non performing debt ratio more than 5% but less than 10%; are authorized to pay out dividend not more than 30%. The banks which are classified to have high a non-performing debt ratio over and above 10% were restrained from paying out dividends (Ilugbemi, 2020).

Statistical data available showed that the banks have billions of naira in bad debts and about 871.92 billion naira in loan loss provision (CBN, 2024; NBS, 2023). It has been observed that in addition to other banking strategies, the management of debt exposure regulations plays a crucial role in aligning the incentives of bank owners with their creditors.Following the above scenario and the efforts made by the monetary authorities through the CBN, this studyexamined the effect of debt management on the performance of banks in Nigeria.

Statement of the Problem

Debt management has been a critical issue in the banking industry as it is critical in determining the bank performance. Despite the importance of effective debt management in the banking industry, many banks in Nigeria continue to experience high levels of bad debt which negatively impact on their financial performance. The inability of banks to manage their debt portfolios effectively has resulted in financial losses and erosion of shareholders value. Consistently, the performance of banks is often compromised by poor debt management practices which can lead to financial instability and undermine public confidence in the banking system. Studies have shown that credit quality of Nigerian banking industry has deteriorated to a disturbing degree which can be attributed to the accumulation of non-performing loan portfolio. Consistently, poor debt management can lead to increase in bad debt which invariably will affect banks' liquidity and credit expansion negatively and in the long run leads to retardation in the growth, and overall banks' performance(Kargi, 2021).

Some empirical evidence have shown that the financial industry in Nigeria is facing serious poor debt management practices which are streamed to include absence of basic measures for checking and controlling credit facilities, ineffective corporate governance and dangerous exposures to bad debts or credit risks (Audu, 2023). Besides the poor debt management practices, there is a huge non-performing loan portfolio and unattended indebtedness in the inter-bank system, flagrant noncompliance and adherence to supervisory and regulatory provisions, the internal control system is weak, and generally insider procedural abuse (Okorie & Uwaleke, 2020).

In Nigeria, the collapse of some deposit money banks in the past is traceable to inability of corporate financial managers to secure the best debt management practice.

Deposit money banks in Nigeria, have not lived up to expectation of achieving good performance, this is because they are experiencing bad debt problems. (Adeoye & Olojede, 2019). The banking industry in Nigeria is characterized by high levels of non-performing loans which can compromise bank stability and performance. Previous studies have highlighted the importance of credit risk management in banks, however, there is need for further research on debt management and performance of banks. It is on this backdrop that the study examined the impact of debt management on the performance of deposit money banks in Nigeria.

Objectives of the Study

The study examined the impact of debt management on the performance of deposit money banks in Nigeria. The specific objectives were:

1. To ascertain the impact of nonperforming loans on the performance of deposit money banks in Nigeria.
2. To examine the impact of ratio of nonperforming loan to total loans onthe performance of deposit money banks in Nigeria
3. To examine the effect of bad debt provision on the performance of deposit money banks in Nigeria.

Research Questions

The following questions were developed to guide the study:

1. To what extent does nonperforming loans affect the performance of deposit money banks in Nigeria?
2. To what extent does ratio of nonperforming loan to total loans affect the performance of banks in Nigeria?
3. What is the impact of bad debt provision debt on the performance of deposit money banks in Nigeria?

Research Hypotheses

$H0_1$: Nonperforming loans have no significant effect on the performance of banks in Nigeria

$H0_2$: Ratio of nonperforming loan to total loanshas no significant effect the performance of banks in Nigeria

$H0_3$: Bad debt provisionhas no significant effect the performance of banks in Nigeria.

REVIEW OF RELATED LITERATURE

Debt Management

Debt management refers to the process of organizing and controlling debt in a way that minimizes financial risk and maximizes the ability to meet financial goals. It involves assessing one's debt situation, creating plan to repay debts and implementing strategies to prevent future debt related problems. Effective debt management is essential for financial stability of banks and as well prevent the negative consequences excessive debt. Financial health of banks can be improved when debts are managed effectively (Tamplin, 2023)

> Debt managementrefers to the process of managing and repaying debts, including developing strategies to reduce debt, negotiating with creditors and creating plan to become debt free"it is the process of managing a company's credit risk to ensure customers pay their invoices on time. It involves identifying and mitigating the risk of late payments or defaults. Debt management refers to all the strategies adopted by banks to manage their debt structure. It is the loan and credit administration activities of the banks which seek to manage the debt in such a way as not to affect the efficiency and profitability of the banks. Debt composition includes nonperforming loans, loan loss, bad debt provision, etc. Debt composition is possibly the firm's most fundamental financial decision which involves in depth and careful thoughts (Wanyoike and Nasiieku 2022). According to Singh and Kumar (2023),"debt management involves the use of various strategies and techniques to manage and repay debts, including debt consolidation, debt settlement and credit counselling."

Non-Performing Loans

According to Caprio and Klingebiel (1996), "non-performing loans relates to those loans which characteristically do not generate income over relatively long period of time – meaning that the principal and/or interest on these loans have been left unpaid after due date of repayment. Most of the non-performing loans are caused by unprofessional ways the Nigerian bank managements disburse loans influenced by personal affiliations with the customers and the poor credit risk management systems. Rather than follow the standard procedures of granting loans as provided by the bank, they grant loans based on personal relationships with customers who do not meet the bank's requirements for granting such loans. Most of these loans turnout to be non-performing loans in the future."

Provision for Bad Debt

The provision for loan loss is a portion of the banks income which is set aside as an allowance for uncollected loan payments. This provision is usually used to cover different kinds of loan losses such as non-performing loans, customer bankruptcy and renegotiated loans that incur lower-than-previously-estimated payments. Loan loss provisions are consistently made to incorporate changing projections for losses from the banks' lending products. While standards for lending have greatly improved, banks still experience late loan payments and loan defaults. In the Nigerian financial space, improved regulations have been severally introduced; some of them focused on increasing the standards for lending which have mandated banks to require higher credit quality borrowers and also increased the capital liquidity requirements for the banks. despite these improvements, banks still have to account for loan defaults and expenses that occur as a result of lending(Alpert, 2021)..

In a bid to find the impact of debt financing on performance of banks in Nigeria, Bamgboye (2024) studied effect of debt financing on financial performance of listed deposit money bank in Nigeria. The study used regression analysis and found that debt financing has a significant effect on the performance of listed deposit money banks. It was concluded that financial performance of deposit money banks in Nigeria is highly determined by banks' debt financing and thereby recommended that DMBs should focus on optimizing prudent debt financing practices to effectively manage their loan to deposit ratios. Also, banks should strategically use debt to enhance asset utilization and profitability.

In finding the impact of the prudential Basel III regulations on the financial performance of selected listed African banksObadire and Obadire (2023) examined the impact of bank regulation on bank Performance: a novel analysis of the pre-covid era with cross- country evidence. "The study used the fixed effects and random effect estimator to fit the static panel data established for the study. A panel of 45 listed banks from six African nations were used, covering the period from 2010 to 2019. It was found that capital adequacy ratio has a positive impact on the financial performance of African banks while the liquidity and minimum capital requirement have negative impact" The study concluded that the adoption of tighter and higher Basel III regulatory requirements has a double-edged-two-face implication on African banks' financial performance.

Abdul (2024) examined debt management as a strategy to minimize financial risk.The study has the objective of evaluating different debt management strategies which include: to meet payment obligations on time, reduce liquidity and credit risks, and stabilize debt costs by diversifying financing sources and using hedging instruments. Literature review approach was adopted by the study and the results of the study indicated that good cash flow management is a key factor in minimizing liquidity risk, including measures such as aligning debt repayment plans with income sources and maintaining adequate cash reserves. Diversified funding sources has also been shown to be effective in reducing concentration risk and reliance on a single loan type or creditor, while hedging instruments such as interest rate swaps and foreign exchange forwards help stabilize borrowing costs. In addition, the results show that consistent and structured credit assessments can strengthen credit risk control and reduce default risk. Companies that actively assess their own credit and use detailed credit reports are better able to handle credit issues. The use of scenario analysis and stress models in risk profile management also provides important insights to support better decision-making".

Atandi and Kuiri, (2022) examined debt management and financial sustainability of mobile Lending Firms. The methodology applied was cross sectional, descriptive and correlational survey designs using both quantitative and qualitative research approaches. Data collected was both primary and secondary which was analyzed using both descriptive and inferential statistics. The major findings of the study indicated that there is a need to improve on credit recovery efforts to ultimately enhance the firm's income and minimize losses, credit collection strategies should encourage borrowers to repay their debt rather than antagonizing them and ineffective financial management policies can eventually cause inefficiency in financial services.

Uwuigbe, Ranti and Babajide (2020) assessed the effects of credit management on banks performance in Nigeria. In achieving the objectives identified in the study, the audited corporate annual financial statement of listed banks covering the period 2010-2011 were analyzed. More so, a sum total of ten (10) listed banks were sampled for the study using the purposive method. However, in assessing the research postulations, the study adopted the use of both descriptive statistics and econometric analysis using the panel linear regression method consisting of periodic and cross sectional data in the estimation of the regression equation.

Findings from the study revealed that the ratio of non-performing loans and bad debts do have an inverse significant effect on Nigerian banks while secured and unsecured loans were not significant.

Ilugbemi (2020) carried out a study "assessing credit management in relation to the profitability of Nigerian Banks, sampling for a 13year period spanning (2004-2018). The study utilized time series data that were sourced from the Central Bank of Nigeria Statistical Bulletin and the annual reports of Nigerian Deposit Insurance Corporation. The study employed inferential statistics and the OLS regression technique. From the finding, all the credit management determinants (explanatory variables - lending interest rate, monetary policy rate, Treasury Bill rate and ratio of cash balance to total liabilities) were indicated to be positive but insignificant as per their relationships with the return on assets (explained variable - profitability) of Nigerian banks. The study concluded that lending interest rate was an insignificant determinant of banks' profitability in Nigeria. The study recommended that banks must strike a good balance in their loans pricing and investment decisions as this will help them to cover cost associated with lending while maintaining good banking relationship with their customers."

To ascertained "the effect of credit efficiency in the performance of deposit money banks in Nigeria, Adeyemi, Adewale and Kolawole (2020) examined credit efficiency and financial performance of commercial banks in Nigeria".Panel least squares regression technique was employed to analyze the data from a sample of 13 selected Nigerian deposit money banks over a 10yearperiod spanning from 2010 to 2019. It found that cost efficiency has significant effect on financial performance in Nigerian banks. It implies that bank managements tend to increase profitability by increasing power-running cost efficiency, and by reducing general administrative cost efficiency. "It was recommended that bank management need to use alternative source of energy and holistic approach to monitor wastages and theft of fuel to reduce administrative expenses and power running cost to improve bank performance in Nigeria".

Asiedu and Gadzo (2019) investigated "credit risks in relation to the financial performance of banks listed on the Ghana stock exchange". The study estimated the sign and magnitude of the effects of bank credit risk on the corporate financial performance of the sampled banks for 15year period spanning 2003 to 2017. The study used 2 stage least squares (2SLS) regression technique for data analysis. It was found that"capital adequacy ratio (CAR), the operating efficiency, the profitability, and net the interest margin variables were negative on the dependent variable (credit risks); while the variables (bank size and financing gap) were positive on the credit risk". The study recommended that the management of the banks should pay critical attention credit risk exposures.

Similarly, Kajola, Babatunji, Olabisi and Babatolu (2019) carried out a study of credit management and the financial performance of ten selected banks in Nigeria. The study covered a 12year period (2005 – 2016). The study modeled credit management using the variables (Non-performing Loan to total Loan Ratio (NPLLR); Non-performing Loan to total Deposit Ratio (NPLDR) and Capital Adequacy Ratio) as proxy, and Return on Asset (ROA) as measure for financial performance. The panel least square random effect model (PLS) regression was employed to estimate the model. The findings confirmed all three credit risk parameters to have significant relationship with the return on asset and the return on equity. Based on the findings, the study recommended that there was need for the deposit money banks management to expediently implement rigorous and robust credit management policies which would assist banks to effectively assess the creditworthiness of their customers.

Furthermore, Olabamiji and Michael (2018) researched on credit management practices and the financial performance of banks in Nigerian (using First bank Plc as case study). The data were collected using

Purposive sampling technique with a sample size of thirty (30) respondents. The study adopted combined descriptive and inferential statistics to analyze the data, such as. The findings showed the credit management variable to be significantly positive on the financial performance of the bank. The study also found that credit risk control, client appraisal, and the collection policy appeared as the major predictors of financial performance.

Theoretical Framework

This study was anchored on the Credit market theory developed by Karl Brunner in 1966. The theory emphasizes the importance of credit markets in the economy as it facilitates economic growth."The theory postulates that if collateral and other pertinent restrictions remain given, then it is only the lending rate that determines the amount of credit that is dispensed by the banking sector. Therefore, with an increasing demand for credit and affixed supply of the same, interest rates had risen. Any additional risk to a project being funded by the bank should be reflected through a risk premium that is added to lending rate to match the increasing risk of default. The theory assumes that there exists a positive relationship between the default probability of a borrower and the interest rate charged on the advance. It is thus believed that the higher the failure risks of the borrower, the higher the interest premium" (Brunner,1971)

This theory is fit for the study because it models credit management and total output of a firm. In the current study, this theory is relevant because it provides the theoretical model for relating debt management to the performance of banks

METHODOLOGY

Research Design

This study adopted the *Expost facto* research design; this is because data on past events were used for the study. Similarly, *Expost facto* research design helps a researcher to make predictions on possible causes behind an effect that has already occurred.

Sources of Data

The data for this study were obtained from a secondary source-the financial statements and annual reports of banks 2009-2023 as published in the CBN's statistical bulletins. The 2023 edition of the statistical bulletin was used. Some of the data were also gotten from the online portals of the banks.

Model Specification

The study used the model by Ewer (2020) which assumed an underlying relationship between effects of debt management and banks. Thus, the regression model for this study is stated below:

$ROA = \beta_0 + \beta 1NPL + \beta 2NTR + \beta 3BDP + U_t . . . (2)$

Where;

ROA = return on asset as measure of bank performance

NPLR = Non-Performing Loan

NTR = Nonperforming loan to total loan ratio

BDP = Bad debt provision

β_0 = intercept

$\beta_1 - \beta_3$ = Coefficient of the independent variables

U_t = Residual or error term.

Analytical Techniques and Tests

The Analytical Techniques that were employed in the study include; ordinary least squares regression (OLS) Correlation test, and Unit Root test. All were done using the E-views 10 environment. The OLS regression was used to estimate the numerical coefficients of the explanatory variables, while the correlation test was used to show the nature of association between debt management and bank performance.

RESULTS

Descriptive Test

The study carried out descriptive test to check for some of the descriptive qualities if the data and to ensure that the data is from a normal distribution. The tests include the mean, standard deviation and the skewness. The result is presented below:

Table 1: Descriptive result

	ROA	**NPL**	**NTR**	**BDP**
Mean	18.14577	904102.3	0.030145	14.96154
Std. Dev.	2.841246	1.5309.1	0.024660	0.362769
Skewness	-0.135813	1.556479	1.008777	-0.559367
Observations	13	13	13	13

Source: Researchers' computation 2024

From the descriptive result as presented above, the study found that the average performance of the banks (average return on assets during the period 2005-2023) was 18.15% annually. The nonperforming loan, loan loss provision and the nonperforming loans total loan ratio averaged 904102.3 billion, 0.03% and 14.96% respectively. On the deviation, the values were 2.84, 1.53, 0.02 and 0.36 for return on assets, nonperforming loans, loan-loss provision and the nonperforming loans total loans ratio respectively. This means that the data are from normally distributed sample, therefore suitable for this analysis.

Correlation Test

The researchers also carried out the correlation test in order to check the nature of the association that exists between debt management and the performance of banks in Nigeria. The correlation test result is presented below:

Table 2: Correlation test result

	ROA	NPL	BDP	NTR
ROA	1.000000			
NPL	-0.073050	1.000000		
BDP	0.659732	-0.139972	1.000000	
NTR	-0.746270	0.062559	-0.890385	1.000000

Source: Researchers' computation 2024

The correlation result is presented in diagonal form to show both the association between the dependent variable (bank performance - return on asset) and the debt management variables (nonperforming loan, nonperforming loans total loans ratio, and bad debt provision); and among the independent variables themselves. The result as presented above show that during the period, nonperforming loan nonperforming loans total loans ratio had negative association with the performance of the banks (return on asset) while the bad debt provision had positive association.

Regression

The ordinary least square regression was used to investigate the effect of credit risk management on the performance of deposit money banks and to extract the coefficient of the independent variables. The result is presented below:

Table 3: Regression result

Dependent Variable: ROA

Method: Least Squares

Date: 12/24/24 Time: 09:10

Sample: 2005 2023

Included observations: 19

Variable	Coefficient	Std. Error	t-Statistic	Prob.
NPL	-1.590006	1.020106	-2.701419	0.0051
BDP	270.4200	34.13307	7.922521	0.0000
NTR	-0.543835	0.388779	-1.125682	0.2501
R-squared	0.635179	Mean dependent var		
Adjusted R-squared	0.622214			

Source: Researchers' computation 2024

According to the result, the coefficient of determination which shows the strength of the effect indicated that the variation in the performance of the banks (proxy by the return on assets - ROA) due to the debt management of the banks is about 63.52%. Variable by variable analysis showed that the all the debt management variables except the bad debt provision were revealed to have negative effect on the bank performance. The nonperforming loan variable negatively affected the bank performance by 1.59% while the loan loss provision affected the performance by 270%. Also, the nonperforming loans total loans ratio negatively affected the banks performance by 0.54%. However, only the effect of the bad dept provision was positive as shown.

Test of Hypotheses

The null hypotheses formulated in the introductory sections were tested. The decision rule for accepting or rejecting the null hypothesis is as follows:

Decision rule one: reject the null hypothesis if the p-value is less than 0.05, or the t-statistic greater than or equal to 2.0

Decision rule two: accept the null hypothesis if the p-value is greater than 0.05 or the t-statistics less than 2.0

Test of Hypothesis One

$H0_1$: Nonperforming loans have no significant effect on the performance of banks in Nigeria

From the result in table 3.0 above, it showed that the p-value is 0.0051 while the t-statistic is 2.71419. Since the p-value is less than 0.05 and the t-stat greater than 2.0, the study rejected the null hypothesis and accepted the alternative. In conclusion, nonperforming loans have significant negative effect on the performance of banks in Nigeria

Test of Hypothesis Two

$H0_2$: Ratio of nonperforming loan to total loanshas no significant effect the performance of banks in Nigeria

From the result in table 3.0 above, it was observed that for the variable ratio of nonperforming loans to total loans (NTR), the p-value is 0.2501 while the t-statistic is 1.125682. Since the p-value is greater than 0.05 and the t-stat lesser than 2.0, the study hereby accepted the null hypothesis and rejected the alternative. In conclusion, ratio of nonperforming loan to total loanshas no significant effect the performance of banks in Nigeria.

Test of Hypothesis Three

$H0_3$: Bad debt provisionhas no significant effect the performance of banks in Nigeria.

From the result in table 3.0 above, it was observed that for the variable bad debt provision (BDP), the p-value was 0.0000 while the t-statistic is 7.922521. Based on the decision rule, since the p-value is lesser than 0.05 and the t-stat greater than 2.0, the study rejected the null hypothesis and accepted the alternative.

The study concluded that bad debt provisionhas significant and positive effect the performance of banks in Nigeria.

Summary of Finding

This study investigated the effect of debt management on the performance of banks in Nigeria. The study covered the period 2005-2023. The researchers reviewed the conceptual, theoretical and empirical literatures on the topic. The summary of the major findings are:

1. There is negative significant effect of non-performing loans on the performance of banks in Nigeria (p-value is 0.0051 while the t-statistic is 2.701419)
2. Ratio of nonperforming loans to total loans revealed to have negative but insignificant effect on the performance of banks in Nigeria (the p-value is 0.2501, while the t-statistic is 1.125682).
3. The bad debt provision revealed to have positive significant effect on the performance of banks in Nigeria (the p-value is 0.0000 while the t-statistic is 7.922521)

Conclusion

The study focused on investigating the impact of debt management on the performance of deposit money banks in Nigeria for the period 2005-2023. The study reviewed related conceptual, empirical and theoretical literature on the relationship between debt management of banks and their performance. The study also adopted the ex post facto research method and employed the ordinary least squares regression technique to analyze the data generated across the selected banks. Based on the results from the analytical tests carried out, the researchers concluded that debt management had mixed effect on the performance of the banks during the period 2005-2023 in Nigeria.

Recommendations

Based on the findings, the study recommended the following:

1. The banks should adopt a coordinated credit recovery scheme to reduce the effect of the non-performing loans on the banks.
2. The banks should sustain the bad debt provisionas it will free up more capital available for other bank credit operations and enhance performance.
3. The bank should ensure to reduce the nonperforming loans to total loans ratio order to enhance the credit rating of the banks and reduce the effect of the nonperforming loans

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