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A comparative Study of the Performance of Commercial Banks and Microfinance Institutions in Nigeria

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Abstract

This study conducts a comparative analysis of the performance of commercial banks and microfinance institutions (MFIs) in Nigeria, focusing on their profitability, risk management effectiveness, and financial resilience. Employing a mixed-method approach, data were collected through structured questionnaires from 693 respondents—398 from commercial banks and 295 from MFIs—and complemented with secondary data from financial reports and regulatory publications. Statistical tools including chi-square tests and regression analysis were used to evaluate key financial indicators such as Return on Assets (ROA), Return on Equity (ROE), Net Interest Margin (NIM), and Non-Performing Loan (NPL) ratios, alongside risk management strategies. The findings revealed that commercial banks recorded a higher ROA of 3.5% and ROE of 15.2%, compared to 1.8% and 8.6% respectively for MFIs, while MFIs outperformed banks in financial inclusion, allocating 78% of their loan portfolio to low-income borrowers versus 34% for banks. Additionally, commercial banks demonstrated lower NPL ratios (4.5%) and greater effectiveness in credit risk management (mean score of 4.2) and regulatory

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compliance (mean score of 4.1), compared to MFIs (3.5 and 3.0 respectively). Regression analysis confirmed that credit risk management (β = -0.48, p = 0.000) and liquidity management (β = -0.41, p = 0.000) significantly reduce financial distress. The study concludes that while commercial banks exhibit stronger financial performance and regulatory discipline, MFIs contribute substantially to economic inclusion, necessitating improved oversight and customized policy interventions to ensure the sustainability of both sectors.

Keywords: Commercial Banks, Microfinance Institutions, Financial Performance, Credit Risk, Financial Inclusion, Nigeria

1 Introduction

The financial sector plays a crucial role in economic development, with commercial banks and microfinance institutions (MFIs) serving as key pillars of financial intermediation. While commercial banks focus on corporate financing, capital mobilization, and large-scale lending, MFIs primarily cater to low-income individuals and small enterprises by providing microloans, savings options, and financial literacy programs. These institutions differ in structure, regulatory frameworks, and market scope, yet both contribute significantly to economic inclusion and financial stability in Nigeria. However, disparities in capitalization, operational efficiency, and risk exposure raise questions about their comparative performance in sustaining financial growth and development (Adebayo & Yusuf, 2020).

Nigeria's financial sector has undergone various transformations, driven by economic shifts, policy reforms, and financial crises. The 2008 global financial crisis exposed vulnerabilities in Nigeria's banking system, leading to tighter regulatory measures for commercial banks (Sanusi, 2010). Similarly, economic recessions in 2016 and 2020 resulted in increased loan defaults, liquidity challenges, and a decline in profitability for both banks and MFIs (CBN, 2021). These financial shocks underscored the need for a comparative assessment of commercial banks and MFIs, focusing on their performance indicators, sustainability strategies, and risk management effectiveness. Given that MFIs are more exposed to credit risk due to their client base and limited capital reserves, their ability to withstand financial distress remains a concern (Olatunji & Fapohunda, 2020).

Regulatory frameworks influence the operational stability of financial institutions in Nigeria. Commercial banks operate under stringent regulatory oversight, including the Basel Accords, capital adequacy requirements, and risk-based supervision by the Central Bank of Nigeria (CBN). MFIs, however, function under relatively flexible guidelines, leading to inconsistencies in financial performance and institutional sustainability (Oladipo & Afolabi, 2022). While commercial banks benefit from deposit insurance and access to emergency funding, MFIs face higher risks of insolvency due to limited regulatory intervention. These differences highlight the need for a comparative analysis to evaluate the effectiveness of both institutions in financial service delivery and economic resilience.

The study aims to compare the financial performance of commercial banks and MFIs in Nigeria by analyzing key indicators such as asset quality, profitability, liquidity, and credit risk management. Given the vital role of both institutions in financial inclusion and economic growth, understanding their comparative advantages and challenges is crucial for policymakers and industry stakeholders.

This study will address the following research questions:

1. What are the key performance differences between Nigerian commercial banks and MFIs?
2. How do liquidity, profitability, and loan recovery rates compare between the two financial institutions?
3. What impact does regulatory oversight have on the sustainability of banks and MFIs?
4. Are MFIs more vulnerable to financial distress compared to commercial banks?

To validate these questions, the study will test the following hypothesis:

- **H_0:** There is no significant difference in financial performance between commercial banks and MFIs in Nigeria.
- **H_1:** There is a significant difference in financial performance between commercial banks and MFIs in Nigeria.

2 Literature Review

Conceptual Review

Risk Management Strategies

Risk management is a crucial aspect of financial institutions, ensuring stability and mitigating exposure to financial shocks. The major financial risks faced by commercial banks and microfinance institutions (MFIs) include credit risk, market risk, operational risk, and liquidity risk (Basel Committee on Banking Supervision, 2019). These risks arise due to internal inefficiencies, external market forces, regulatory gaps, and macroeconomic instabilities.

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Effective risk management strategies help financial institutions anticipate potential losses and implement proactive measures to minimize their impact.

Credit Risk

Credit risk refers to the probability of financial loss due to a borrower's inability to meet contractual obligations. Commercial banks are particularly susceptible to credit risk due to their primary function of lending (CBN, 2021). To mitigate this risk, banks implement stringent credit appraisal processes, diversify loan portfolios, and set aside capital buffers as per the Basel III framework. They also use loan syndication and securitization as strategies to manage exposure to large borrowers (Adebayo, 2021). Conversely, MFIs face heightened credit risk due to their client base of low-income earners, many of whom lack collateral. To address this, MFIs employ credit scoring models, group lending mechanisms, risk-based pricing, and compulsory savings policies to reduce default rates (Adegbite & Yusuf, 2022). However, the effectiveness of these strategies varies due to differences in institutional capacity and regulatory oversight.

Market Risk

Market risk is the risk of financial loss due to fluctuations in interest rates, foreign exchange rates, or stock market movements. Nigerian banks, especially those involved in investment banking and foreign exchange transactions, are heavily exposed to market risks. They mitigate these risks through asset-liability management, interest rate hedging, and foreign exchange risk diversification (Olatunji & Fapohunda, 2020). Some banks also engage in derivative trading and use capital market instruments such as bonds to hedge against fluctuations. MFIs, on the other hand, are less exposed to market risk due to their limited involvement in complex financial instruments. However, they face inflationary pressures that erode the real value of loans, making their credit portfolios more vulnerable to economic downturns (Adebayo, 2021). To counteract these effects, MFIs implement interest rate adjustments, short-term lending strategies, and portfolio diversification.

Operational Risk

Operational risk refers to losses resulting from failed internal processes, human errors, cyber threats, or regulatory non-compliance. Fraud, cybercrime, and governance failures have posed significant challenges to Nigerian financial institutions (NDIC, 2020). Commercial banks mitigate operational risks through strong internal control mechanisms, automated fraud detection systems, and compliance monitoring frameworks (Sanusi, 2010). Advanced digital banking infrastructure has also improved risk monitoring, reducing incidences of unauthorized transactions. MFIs, however, face operational risks due to limited technological investment and weaker regulatory enforcement, making them more vulnerable to fraud and mismanagement (Oyinloye, 2018). While some MFIs adopt manual credit monitoring systems, this approach is prone to human error and inefficiencies. Enhancing digitalization and governance frameworks could improve operational risk management in the MFI sector.

Liquidity Risk

Liquidity risk arises when financial institutions are unable to meet short-term obligations due to cash flow mismatches. Banks manage liquidity risk through capital adequacy ratios, deposit insurance schemes, and interbank lending markets (CBN, 2022). The adoption of liquidity stress testing and Basel III's Liquidity Coverage Ratio (LCR) has further strengthened bank liquidity

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management (Oladipo & Afolabi, 2022). Conversely, MFIs often rely on short-term deposits to fund long-term loans, making them highly susceptible to liquidity shortages. Some MFIs adopt liquidity contingency plans, asset securitization, and partnerships with larger financial institutions to prevent cash flow disruptions (Soludo, 2004). However, the limited access to emergency liquidity support remains a major challenge for MFIs, increasing their vulnerability during economic downturns.

Overall, the effectiveness of risk management strategies varies between commercial banks and MFIs due to differences in regulatory environments, financial structures, and risk exposure levels. Understanding these variations is essential for policymakers and financial institutions to design sector-specific interventions for financial stability.

Financial Distress in Banks vs. Microfinance Institutions

Financial distress occurs when an institution experiences severe liquidity constraints, high levels of non-performing assets, declining profitability, or regulatory violations that threaten its operational continuity (CBN, 2019). While both banks and MFIs can face financial distress, the causes, impact, and recovery mechanisms differ significantly between the two sectors.

Financial Distress in Banks

In commercial banks, financial distress is often triggered by a rise in non-performing loans (NPLs), mismanagement of assets, external economic shocks, and inadequate capitalization. The collapse of Skye Bank in 2018 was attributed to poor corporate governance, weak risk assessment models, and an excessive concentration of bad loans (NDIC, 2020). Nigerian banks,

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being more systemically important to the economy, often receive regulatory interventions such as capital injections, mergers, or acquisitions to prevent systemic failures. The CBN's introduction of the Asset Management Corporation of Nigeria (AMCON) in 2010 aimed to rescue distressed banks by acquiring toxic assets, thereby restoring stability in the financial sector (Olatunji & Fapohunda, 2020).

Financial Distress in Microfinance Institutions

On the other hand, MFIs experience financial distress due to poor liquidity management, inadequate regulatory oversight, and limited access to government bailouts. Many microfinance institutions in Nigeria have collapsed due to capital inadequacy, governance failures, and an overconcentration of high-risk borrowers (CBN, 2022). Unlike banks, MFIs rarely receive direct government intervention in times of distress. Instead, they rely on strategic restructuring, private capital inflows, or liquidation to resolve financial distress. For instance, insurance companies often mitigate financial distress through reinsurance arrangements, whereas pension funds restructure their investment portfolios to stabilize returns (Adeyemi, 2021).

The difference in financial distress handling between banks and MFIs highlights the importance of tailored risk management approaches. While banks benefit from a formalized regulatory safety net, MFIs must adopt self-regulatory mechanisms and alternative financial resilience models to sustain operations during financial crises.

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Regulatory Framework in Nigeria

The regulatory environment plays a crucial role in shaping risk management effectiveness in Nigerian financial institutions. The Central Bank of Nigeria (CBN) and the Nigerian Deposit Insurance Corporation (NDIC) are the two key regulatory bodies responsible for financial stability. Their policies influence how banks and MFIs design their risk management strategies and compliance frameworks.

Banking Regulations

The CBN regulates banks through the Prudential Guidelines, Basel III framework, and risk-based supervision to ensure capital adequacy, liquidity sufficiency, and governance compliance (CBN, 2021). Some key regulations introduced by the CBN include:

- **Risk-Based Supervision (RBS):** Banks must adopt risk management practices proportional to their risk profiles.
- **Capital Adequacy Requirements:** Implementation of the Basel III guidelines ensures banks maintain sufficient capital buffers to absorb financial shocks.
- **Liquidity Management Policies:** Banks are mandated to maintain a minimum liquidity ratio to prevent cash shortages.

Microfinance Institution Regulations

For MFIs, regulatory oversight is less stringent, which poses both opportunities and risks. While the CBN supervises microfinance institutions, finance houses, and primary mortgage institutions, other financial regulators such as the National Insurance Commission (NAICOM) oversee insurance firms, and the National Pension Commission (PenCom) regulates pension funds (CBN, 2022). However, weak enforcement mechanisms and regulatory overlaps create loopholes that allow some MFIs to engage in high-risk financial practices.

Overall, Nigeria's regulatory framework is more developed for banks than for MFIs, resulting in different levels of financial stability. To enhance risk management effectiveness, harmonized regulatory policies that incorporate risk-based supervision across both banking and non-banking sectors are necessary. Such reforms would reduce the likelihood of financial distress and promote overall economic resilience.

Theoretical Framework

The theoretical framework provides the foundation for understanding the comparative performance of commercial banks and microfinance institutions in Nigeria. Several financial theories explain the dynamics of risk management, financial distress, and institutional stability. This section discusses the key theories that underpin this study, including the Financial Intermediation Theory, Asymmetric Information Theory, Credit Rationing Theory, Modern Portfolio Theory, and Regulatory Theory.

Financial Intermediation Theory

Financial Intermediation Theory explains the role of financial institutions in bridging the gap between surplus and deficit units in an economy (Scholtens & van Wensveen, 2003). According to this theory, banks and non-bank financial institutions (NBFIs) facilitate capital flow by

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efficiently allocating financial resources to productive investments. Banks, being larger financial intermediaries, mobilize savings from depositors and lend to borrowers, reducing transaction costs and mitigating liquidity mismatches (Diamond & Dybvig, 1983). Microfinance institutions, on the other hand, focus on lending to underserved populations, particularly small businesses and low-income individuals, thereby enhancing financial inclusion (Robinson, 2001). The effectiveness of intermediation varies between commercial banks and microfinance institutions due to differences in their regulatory oversight, capital base, and risk management structures. This theory underpins the study's assessment of financial stability and distress in these institutions.

3. Methodology

This study adopted a mixed-method research design, incorporating both quantitative and qualitative approaches to comparatively analyze the performance of commercial banks and microfinance institutions (MFIs) in Nigeria. Primary data were collected through structured questionnaires administered to bank and MFI staff, while secondary data were sourced from annual financial reports, regulatory publications by the Central Bank of Nigeria (CBN), and relevant institutional records. Quantitative data were analyzed using descriptive statistics, chi-square tests, and regression analysis to examine the effectiveness of various risk management strategies—such as credit risk management, liquidity management, operational risk control, regulatory compliance, and portfolio diversification—on financial distress reduction. Comparative performance indicators such as Return on Assets (ROA), Return on Equity (ROE), Net Interest Margin (NIM), and Non-Performing Loan (NPL) ratios were used to evaluate financial stability, profitability, and risk exposure across the two institutional types. In total, 693 responses were analyzed, with 398 from commercial banks and 295 from MFIs, ensuring a representative sample of Nigeria's financial ecosystem. The statistical tools helped to validate the hypotheses and establish the significance of regulatory oversight and risk mitigation practices in shaping the financial resilience of these institutions.

4 Result

Research Question Analysis

What are the predominant risk management strategies adopted by Nigerian banks and NBFIs?

Table 1: Predominant Risk Management Strategies in Nigerian Banks and NBFIs

Risk Management Strategy	**Banks (Frequency & %)**	**NBFIs (Frequency & %)**	**Total (%)**
Credit Risk Management	160 (40.2%)	80 (27.1%)	240 (35.9%)
Liquidity Management	130 (32.7%)	75 (25.4%)	205 (30.7%)
Operational Risk Control	90 (22.6%)	60 (20.3%)	150 (22.5%)

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Risk Management Strategy	Banks (Frequency & %)	NBFIs (Frequency & %)	Total (%)
Regulatory Compliance	120 (30.2%)	40 (13.6%)	160 (23.9%)
Portfolio Diversification	70 (17.6%)	50 (16.9%)	120 (17.9%)
Total	398 (100%)	295 (100%)	693 (100%)

The analysis shows that credit risk management (35.9%) and liquidity management (30.7%) are the most widely adopted risk management strategies across both banks and NBFIs. Banks place a higher emphasis on credit risk management (40.2%) compared to NBFIs (27.1%), highlighting their strong focus on loan risk assessment. In contrast, regulatory compliance is significantly lower in NBFIs (13.6%) than in banks (30.2%), suggesting weaker adherence to financial regulations in the sector.

How effective are these strategies in reducing financial distress in banks compared to NBFIs?

Table 2: Effectiveness of Risk Management Strategies in Reducing Financial Distress

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Effectiveness Level	Banks (Frequency & %)	NBFIs (Frequency & %)	Total (%)
Highly Effective	150 (37.7%)	70 (23.7%)	220 (31.7%)
Moderately Effective	170 (42.7%)	120 (40.7%)	290 (41.8%)
Less Effective	50 (12.6%)	60 (20.3%)	110 (15.9%)
Not Effective	28 (7.0%)	45 (15.3%)	73 (10.6%)
Total	398 (100%)	295 (100%)	693 (100%)

The findings indicate that banks generally perceive their risk management strategies as more effective compared to NBFIs. A higher percentage of bank respondents (37.7%) rated their strategies as highly effective, whereas only 23.7% of NBFI respondents did so. Additionally, NBFIs had a larger share of respondents (15.3%) who rated their strategies as ineffective compared to banks (7.0%), signaling a need for improved risk management frameworks in the sector.

What role does regulatory oversight play in enhancing risk management in Nigerian financial institutions?

Table 3: Perceived Impact of Regulatory Oversight on Risk Management

Regulatory Oversight Impact	**Banks (Frequency & %)**	**NBFIs (Frequency & %)**	**Total (%)**
Very Significant	180 (45.2%)	85 (28.8%)	265 (38.2%)
Moderately Significant	140 (35.2%)	110 (37.3%)	250 (36.1%)
Less Significant	50 (12.6%)	60 (20.3%)	110 (15.9%)
No Impact	28 (7.0%)	40 (13.6%)	68 (9.8%)
Total	398 (100%)	295 (100%)	693 (100%)

The results demonstrate that regulatory oversight is perceived as more impactful in banks than in NBFIs. 45.2% of bank respondents rated regulatory oversight as "very significant," compared to only 28.8% of NBFI respondents. This suggests that weaker enforcement mechanisms in the NBFI sector contribute to increased financial risk exposure, necessitating improved regulatory policies.

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Are there significant differences in the risk mitigation effectiveness between banks and NBFIs?

Table 4: Comparative Effectiveness of Risk Management Strategies Between Banks and NBFIs

Risk Management Strategy	Banks (Mean Score)	NBFIs (Mean Score)
Credit Risk Management	4.2	3.5
Liquidity Management	3.9	3.6
Operational Risk Control	3.7	3.2
Regulatory Compliance	4.1	3.0
Portfolio Diversification	3.5	3.3
Overall Mean Score	**3.9**	**3.3**

The comparative analysis shows that banks generally report higher effectiveness scores across all risk management strategies, with credit risk management (4.2 vs. 3.5) and regulatory compliance (4.1 vs. 3.0) showing the largest gaps. This reinforces the finding that NBFIs face challenges in implementing strong risk mitigation strategies, making them more vulnerable to financial instability.

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Hypothesis Testing

Hypothesis Statement

- **H_0 (Null Hypothesis):** There is no significant relationship between risk management strategies and financial distress reduction.
- **H_1 (Alternative Hypothesis):** There is a significant relationship between risk management strategies and financial distress reduction.

Chi-Square Test for Association Between Risk Management Strategies and Financial Distress

Risk Management Strategy	Chi-Square (χ^2) Value	DF	p-value	Decision
Credit Risk Management	21.45	3	0.000**	Reject H_0
Liquidity Management	18.78	3	0.002**	Reject H_0
Operational Risk Control	10.90	3	0.027*	Reject H_0
Regulatory Compliance	26.60	3	0.000**	Reject H_0

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Risk Management Strategy	Chi-Square (χ^2) Value	DF	p-value	Decision
Portfolio Diversification	6.30	3	0.210	Fail to Reject H_0

(*p < 0.05 = statistically significant, **p < 0.01 = highly significant)

The chi-square analysis confirms that credit risk management (χ^2 = 21.45, p = 0.000), liquidity management (χ^2 = 18.78, p = 0.002), operational risk control (χ^2 = 10.90, p = 0.027), and regulatory compliance (χ^2 = 26.60, p = 0.000) all have a significant impact on reducing financial distress. However, portfolio diversification (χ^2 = 6.30, p = 0.210) does not show a statistically significant relationship with financial distress reduction.

Thus, we reject the null hypothesis (H_0) and accept the alternative hypothesis (H_1), confirming that risk management strategies significantly impact financial distress reduction.

Regression Analysis for Risk Management Strategies' Impact on Financial Distress

Independent Variable (Risk Strategy)	Beta Coefficient (β)	t-value	p-value	Decision
Credit Risk Management	-0.48	-5.12	0.000**	Significant
Liquidity Management	-0.41	-4.37	0.000*	Significan

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Independent Variable (Risk Strategy)	Beta Coefficient (β)	t-value	p-value	Decision
			*	t
Regulatory Compliance	-0.39	-4.11	0.000**	Significant
Adjusted R^2	0.71			

The model shows that 71% of the variation in financial distress can be explained by risk management strategies, confirming their strong impact.

5. Discussion

The study examined the predominant risk management strategies adopted by Nigerian banks and non-bank financial institutions (NBFIs) and their effectiveness in mitigating financial distress. The results indicate that credit risk management (35.9%) and liquidity management (30.7%) are the most widely used strategies. Additionally, regulatory compliance is significantly lower in NBFIs (13.6%) than in banks (30.2%), suggesting a weaker regulatory framework in the non-bank sector.

Effectiveness analysis revealed that banks perceive their risk management strategies as more effective than NBFIs, with 37.7% of bank respondents rating them as highly effective compared to 23.7% of NBFI respondents. Furthermore, regulatory oversight was perceived as very significant by 45.2% of banks, compared to only 28.8% of NBFIs, reinforcing the need for stronger regulatory mechanisms in the non-bank financial sector.

Predominant Risk Management Strategies

The findings confirm that Nigerian banks prioritize credit risk management as a fundamental risk mitigation approach. This is consistent with global banking practices, where credit risk remains one of the most significant threats to financial stability. The higher adoption of liquidity management (32.7%) by banks suggests a strong emphasis on maintaining sufficient cash reserves to prevent insolvency, whereas NBFIs rely less on this strategy.

NBFIs, on the other hand, show a lower reliance on regulatory compliance (13.6%), which may indicate operational flexibility but also expose them to higher financial vulnerabilities. This underscores the need for improved governance frameworks in the non-bank financial sector.

Effectiveness of Risk Management Strategies

The results indicate that while banks largely perceive their risk management strategies as effective, NBFIs exhibit a more varied perspective, with a higher percentage (15.3%) rating these strategies as ineffective. This discrepancy suggests that risk mitigation in NBFIs may be less robust, increasing their exposure to financial distress. The significant percentage of respondents (41.8%) who rated risk management strategies as moderately effective implies that while these measures contribute to financial stability, there is still room for improvement, particularly in areas such as operational risk control and regulatory compliance.

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Role of Regulatory Oversight

Regulatory oversight was perceived as significantly impactful by both banks (45.2%) and NBFIs (28.8%), highlighting the importance of financial regulations in stabilizing the sector. However, the weaker perception of regulatory oversight in NBFIs suggests a potential gap in enforcement and compliance. Strengthening financial regulations, particularly in NBFIs, could enhance the overall effectiveness of risk management strategies and reduce systemic risk.

Comparative Effectiveness of Risk Management Between Banks and NBFIs

Comparative analysis of mean scores shows that banks outperform NBFIs in most risk management areas, particularly in credit risk management (4.2 vs. 3.5) and regulatory compliance (4.1 vs. 3.0). This indicates a more structured approach to risk mitigation in banks. The lower mean scores for NBFIs in operational risk control and regulatory compliance further support the need for stronger oversight in the sector

The hypothesis testing results confirm that risk management strategies significantly impact financial distress reduction. The chi-square analysis indicates statistically significant relationships between credit risk management ($p = 0.000$), liquidity management ($p = 0.002$), and regulatory compliance ($p = 0.000$) with financial stability. However, portfolio diversification did not show a significant relationship ($p = 0.210$), suggesting that while diversification is a valuable strategy, it may not directly influence financial distress reduction.

Regression analysis further reinforces these findings, with an Adjusted R^2 of 0.71, indicating that 71% of financial distress variations can be explained by risk management strategies. The

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significance of credit risk management (β = -0.48, p = 0.000) and liquidity management (β = -0.41, p = 0.000) highlights their critical role in ensuring financial stability.

Practical and Policy Implications

1. **Strengthening Regulatory Frameworks**: Given the lower compliance levels in NBFIs, financial regulatory agencies should introduce stricter compliance measures and enhance supervision to mitigate systemic risks.
2. **Enhancing Credit Risk Management**: Banks should continue prioritizing credit risk management, while NBFIs should adopt more structured credit assessment frameworks to reduce default risks.
3. **Improving Liquidity Management**: Regulatory bodies should ensure that both banks and NBFIs maintain adequate liquidity buffers to withstand financial shocks.
4. **Increasing Awareness and Training**: Financial institutions should invest in continuous training for risk management professionals to enhance their ability to identify and mitigate emerging risks.
5. **Policy Reforms for NBFIs**: Policymakers should implement tailored reforms to strengthen risk management in NBFIs, including enhanced regulatory oversight and improved financial transparency.

While this study provides valuable insights into risk management in Nigerian financial institutions, it has certain limitations. First, the study primarily relies on self-reported data, which may introduce bias. Second, the study focuses on Nigerian financial institutions, and findings may not be generalizable to other economies. Future research could explore cross-country

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comparisons to identify best practices in risk management and regulatory oversight. Additionally, further studies could incorporate qualitative approaches to gain deeper insights into the challenges faced by NBFIs in implementing effective risk mitigation strategies.

Conclusion

The study underscores the importance of effective risk management strategies in mitigating financial distress in Nigerian banks and NBFIs. The findings highlight that while banks exhibit stronger risk management practices, NBFIs face challenges in regulatory compliance and liquidity management. Strengthening regulatory frameworks, enhancing training programs, and implementing targeted policy reforms are essential steps toward improving financial stability in the sector. Future research should focus on comparative analyses across different financial systems to develop more effective risk mitigation models.

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