

12-1991

## The relation of CBN with other banks under the new CBN Decree No 24

Sadiq M. A.  
*Central Bank of Nigeria*

Follow this and additional works at: <https://dc.cbn.gov.ng/bullion>



Part of the [Business Commons](#), and the [Economics Commons](#)

---

### Recommended Citation

A., Sadiq M. (1991) "The relation of CBN with other banks under the new CBN Decree No 24," *Bullion*: Vol. 15 : No. 4 , Article 4.

Available at: <https://dc.cbn.gov.ng/bullion/vol15/iss4/4>

This Article is brought to you for free and open access by CBN Institutional Repository. It has been accepted for inclusion in Bullion by an authorized editor of CBN Institutional Repository. For more information, please contact [dc@cbn.gov.ng](mailto:dc@cbn.gov.ng).

# THE RELATION OF CENTRAL BANK OF NIGERIA WITH OTHER BANKS UNDER THE NEW CENTRAL BANK OF NIGERIA DECREE NO. 24 OF 1991



**Alhaji M. A. Sadiq.**

My assignment as a resource person for this segment of the Workshop is to examine the areas of relationship between the CBN and the other banks as contained in the new CBN Decree No. 24, 1991 to pave the way for further discussion by way of comments, observations, questions and answers, etc. The ultimate objective is to achieve a better understanding of the various aspects of the relationship. It is also hoped that the discussion will afford us the opportunity of examining some of the problems, constraints and impediments and to make suggestions on what

can be done to minimise them so that the full benefits of the relationship can be derived and enjoyed by all parties.

Exactly as in the repealed CBN Act (as amended), the CBN Decree No. 24 of 1991 makes provisions for such relationship with other banks. Part VII of the new decree provides for such relationship in five broad areas covered in Sections 37 to 41. Section 37 of the decree empowers the CBN to serve as banker to their banks. The section states that "The Bank may act as banker to their banks in Nigeria and outside Nigeria". The practical interpretation of the section is that it provides for the existence of the typical banker/customer relationship, complete with all the usual rights and responsibilities. In other words, the CBN stands in a similar relationship to the other banks as the other banks to their customers. It is by virtue of this section that the CBN, through its operational departments, provides the banks with a wide range of banking services, some of

which can be enumerated briefly as follows:-

- (1) **Maintenance of Accounts:** Without any doubt, maintaining accounts for the banks is the most fundamental element of the relationship as it is at the centre of the provision of the financial services delivery. Commercial and Merchant banks require to have accounts with the CBN in order to facilitate their daily financial transactions. It is for this reason that as soon as a new bank is established, its number one priority is to have its CBN account opened. Without a CBN account, a Bank cannot be said to be operational.
- (2) **Lodgements and Withdrawals of Cash:** as in the repealed CBN Act, the new CBN decree vests in the CBN the



sole right for the issuance of legal tender currency throughout Nigeria. The decree also entrusts to the CBN responsibility of the re-issue and exchange of currency notes and coins. The commercial banks' daily currency transactions at the Head Office of the CBN and at the branches in the State, which constitute an integral part of their business operations, provide a convenient vehicle through which a substantial part of this most important statutory responsibility of the CBN is discharged. The CBN appreciates and values the contributions the banks are making in this regard.

(3) **Transfers of funds:**

Like in the case of currency transactions, daily transfers of funds from branches of banks situated in the States to their Lagos Offices constitute a major service provided by the CBN. Surplus funds at the banks' outstations require to be pooled to Lagos, where the money market is, for efficient utilization.

(4) **Financial assistance to banks:**

In pursuance of its cardinal objective of promoting monetary stability and sound financial system in Nigeria, the CBN readily acts as lender of last resort to other banks, such financial assistance is most obvious in the provision of rediscounting facilities at the Head Office as well as in the provision of Cash Drawing Facility made available to banks at CBN branches across the country. Under the Cash Drawing facility Scheme, the CBN allows banks, under collateralised arrangements, to draw cash up to agreed limits from CBN branches to meet unforeseen cash demands from customers. Indeed, this traditional role of the CBN as lender of last resort was demonstrated to the fullest during the liquidity crisis of 1989. Apart from the CBN/NDIC facility of over N2 billion granted to the affected banks, the CBN not only discounted the traditional Federal Government securities but also expanded its discount window to accommodate State Governments' promissory notes as well as negotiable certificates of deposit issued

by banks.

(5) **Inter-Bank Money market:**

This is a kind of clearing mechanism provided by the CBN for wholesale money intermediation which takes place daily among banks. It is noteworthy that the inter-bank market has witnessed tremendous growth in recent times, a development which is believed to be a result of de-regulation and other government policy decisions as well as the considerable increase in the number of banks.

(6) **The Clearing**

**System:** Because of its unique significance in the CBN relationship with other banks, in view of its leading role in promoting a sound and efficient banking system in the country, the establishment of Clearing Houses to facilitate the clearing of cheques and credit instruments for banks, is specifically provided for under Section 41 of the new decree. The section stipulates that the CBN shall at any ap-



propriate time and in conjunction with other banks, establish clearing houses in premises provided by the CBN in such places as the Bank may consider necessary. The section further empowers the CBN to suspend any bank from participation in the clearing for such period as the Bank may deem fit for non-compliance with its directives.

Commercial banks are well advised to take note of the new legal provision under this section which empowers the CBN to suspend from participating in the Clearing any bank which fails to comply with its directives. Before now, such suspension used to be imposed under a provision in the Clearing House Rules. It has now acquired full legal backing.

**Other areas of operational relationship can be found in:**

- (a) Foreign Exchange market activities**
- (b) Collection of repayments in respect of loans granted to state governments by the banks.**
- (c) Collection of other payments for the banks on behalf of their customers.**

**(d) Provision of investment services under mandate through Discount Office of Banking Operation Department.**

Section 40 of the new decree deals with yet another important area of CBN relation with other banks, namely, appointment of other banks as agents to CBN. Specifically, the section provides for appointment of other banks as agents to the CBN for the issue, re-issue, exchange and withdrawal of currency notes and coins. In reality, the banks have always acted as agents to the CBN in this connection. As stated earlier while discussing lodgement and withdrawal of cash, the banks are daily carrying on cash transactions with the CBN in the course of performing their normal business operations. In doing so, they are automatically giving effect to this agency relationship with the CBN. The stipulation in the decree to my mind, is for the purpose of re-enforcing and underscoring the relevant section of the decree vesting in the CBN the sole right of issuing, re-issuing and exchange of currency notes and coins in the country. In other words, if any organisation (i.e. the other banks in this case) are to issue, re-issue, withdraw and exchange currency notes and coins, they are deemed to be doing so on behalf of (ie. as agents of) the CBN.

Section 38 of the new de-

creed is of special importance in the sense that it caters for general cooperation between the CBN and other banks, essentially for the purpose of promoting and maintaining of an adequate and reasonable financial service to the public. It is this section which empowers the CBN to issue periodic guidelines and directives pertaining to the banks' relationship with their customers and for the benefit of the general public. Some of the obvious examples that readily come to mind under this relationship include:-

- (1) The requirement to clear with the CBN before certain key appointments are made by any bank, to ensure that only persons suitably qualified are appointed.
- (2) The requirement to clear with the CBN before public advertisements are put up by any bank, to ensure that such adverts do not carry anything that may be misleading to the public.
- (3) Handling of public complaints against banks whereby any aggrieved person can lodge a complaint with the CBN for appropriate intervention.

We may now turn to Sec-



tion 39 of the new decree which deals with the powers of the CBN to issue directives to the banks on cash reserve requirements for achieving an effective monetary policy. The summary of the provisions of the section with its numerous sub-sections is that the CBN is empowered to:

- (1) Prescribe cash reserve ratio.
- (2) Prescribe liquidity ratio.
- (3) Call for special deposits from time to time to be maintained/held by the banks.

In doing so, the CBN is further empowered to, among other things:

- (1) Determine the class of deposit liabilities against which the cash reserves shall be held.
- (2) Classify the banks into such categories as the CBN may from time to time specify.
- (3) Prescribe different cash reserve ratios to be maintained by each category of banks.
- (4) Vary the composition and proportion of each category of the specified liquid assets which may from time to time be held by a bank
- (5) Call for information and statistics from any bank and as often as

it may deem necessary.

Sub-Section 5, 6 and 7 of Section 39 deal with the issue of:

- (1) Referring to the CBN for its approval all applications for loans made to any bank exceeding such amount as the CBN may specify.
- (2) Fixing of ceilings on the volume and aggregate amount of loans advances and discounts outstanding at each bank.
- (3) Holding of special deposits by the CBN on which it may, at its discretion, pay interest.
- (4) Powers of the CBN to prohibit any bank which fails to comply with any of its directives from extending new loans and advances and from undertaking new investments.

Finally, sub-section 8, Section 39, prescribes steep penalty for any bank which furnishes false information to the CBN. The penalty is a fine of not less than N100,000.00 for the first offence and N200,000.00 for a second or each second subsequent offence.

### CONCLUSION:

While there may not be much difference in the new decree in comparison with the repealed law regarding the CBN relations with the other banks,

I wish to use this opportunity to underscore the need for a continuous strengthening of the relationship. Indeed, I will describe the totality of the relationship as a collaborative endeavour which is necessary to enhance and re-inforce the integrity and efficiency of our banking system. We are all living witnesses to some of the dubious and unethical activities of certain individuals in the system, not to mention the unprecedented high rate of frauds being perpetrated on the banks. It is my considered opinion that we should utilize the opportunity provided by the promulgation of the twin decrees Nos. 24 and 25 of 1991 to re-dedicate ourselves collectively and individually to work towards the attainment of a sound, stable and prosperous financial system. I believe that it is feasible and we should get on with it.