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I. Introduction

There are several reasons why a discussion of cross-border banking and the challenges it poses for monetary management is most appropriate at this time. Perhaps the most important of these reasons would be the rapid growth in cross-border banking activities involving Nigerian institutions in the last five years, occasioned by the 2004 consolidation programme in the Nigerian banking sector. As some of the post-consolidation challenges begin to unravel, perhaps it is high time we took another look at that development and examine the implications it holds for monetary management. Yet another important reason to discuss cross-border banking today is the increased interest shown by large foreign banks angling to stake an interest in the Nigerian banking sector.

II. Cross-Border Banking in the Literature

A review of the literature on cross-border banking would identify a number of different concerns that had attracted the interests of scholars and practitioners alike in the subject. It is important to briefly review these concerns in other to place our discussion of the issues of corporate governance in the right perspective.

A good number of the literature in this area focus on identifying the forces driving the growth of cross-border banking in the last decade the world over. Some of the forces commonly identified include financial liberalisation and deregulation, advances in technology, and the prohibitive cost to the local economies of protecting local financial markets (Moskow, 2005). The impression one gets from reading some of these materials is that the growth of cross-border banking is inevitable and that individual countries cannot stop this growth. All individual countries could do is to slow the process down and this they can do only at great costs to their economies.

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There has also been some interest in analysing the costs and benefits of cross-border banking. One major benefit commonly associated with cross-border banking is economies of scale. It has been argued that economies of scale, economies of scope and technical advances create efficiency gains that can be passed on to consumers. Cross-border banking is credited with ensuring better access to financial services by firms and households, and contributing to the stability of the local financial system and the overall economy. More importantly, it had been suggested that cross-border banking helps to build the institutional capacities of the local economies, especially developing economies, where the entry of banks from more developed economies could help raise the quality of rules and their enforcement (Claessens, 2005).

The challenge posed by cross-border banking has received perhaps the greatest attention in the literature. This ranges from concerns over the increased interdependence between different countries which cross-border banking creates, the adequacy of existing structures of regulation for dealing with the special features presented by internationally active banks to the increasing reality that national financial stability is becoming dependent on the activities of banks and authorities in foreign countries.

From this brief review of the literature on cross-border banking, the following points stand out:

- Nigeria cannot hope to stop the increasing growth of cross-border banking. It can only slow it down at great costs.
- Cross-border banking could be beneficial to our financial system and our economy, if properly managed.
- We need to take steps to develop our capacity to manage the challenges of cross-border banking in order to become a net beneficiary of the global trend.
- As part of the capacity building initiatives required, there is an urgent need to raise the standard of corporate governance for the players in the Nigerian financial system.

III. Cross-Border Banking and Corporate Governance

Given the background presented above, we need to raise the level of corporate governance of players in the Nigerian financial system, if the country is to become a net beneficiary of the increasing wave of cross-border banking sweeping through the world. This agenda must play out at different levels, including:

- Raising the structure of governance for our supervisory and regulatory authorities to be able to respond promptly and appropriately to issues and challenges as they occur.
- Strengthening the systems and the mechanisms for self-regulation embedded in the corporate governance code for Nigerian banks to complement the work of the authorities

In this presentation, we have chosen to focus on the second level, while remaining conscious that the points we make would be relevant in addressing the subject, even at the first.

In discussing issues of corporate governance within the context of cross-border banking, it is important that we remind ourselves that corporate governance is a concept that seeks to describe the manner in which the power of a corporation is exercised in accounting for the corporation's total portfolio of assets and resources, with the objective of maintaining and increasing shareholder value and the satisfaction of other stakeholders, while attaining the corporate mission. At the very heart of all attempts to raise the level of corporate governance in any sector is the concern to ensure that the institutions in that sector are managed in accordance with their charters and in a manner that advances the interests of the shareholders, while remaining conscious of the interest of the other stakeholders, especially the impact of the activities of the corporation on the environment.

Any attempt to discuss the issues of corporate governance that must be attended to in order to raise the standard of corporate governance in Nigeria's financial system must start with an acknowledgement of the fact that a lot had been done to lay the foundation for this great task. In this regard, one must recognise the pioneering role of the Securities and Exchange Commission (SEC) in developing the first code of corporate governance for quoted companies in Nigeria, which it revised recently. A lot of commendation must also be given to the Central Bank of Nigeria, working through the Bankers' Committee, for taking several initiatives to place matters of corporate governance on the agenda of players in the banking sector. In spite of these commendable efforts, it is regrettable to note that much of what we have on ground are mere posturing and little substance. Put differently, there is greater evidence of compliance with the form rather than the spirit of the codes of corporate governance, which the players were required to subscribe to. If anyone doubts this assessment, all he/she needs to do is read the published extracts of the outcome of the recent stress tests, which the Central Bank of Nigeria carried out on the twenty-four banks operating in the country. With the eight banks that had been publicly sanctioned thus far, one would be right to ask if there was anything like corporate governance in these banks.

What this suggests is that we still have a long way to go in our quest to enthrone good corporate governance in our financial system. The task has become more urgent, given our exposure to the international financial markets, now heightened by the growth in cross-border banking in which Nigerian institutions are gradually becoming active participants

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IV. Critical Issues of Corporate Governance Requiring Urgent Attention

With the level of executive lawlessness and corporate malfeasance revealed in the recent investigations of Nigerian banks by the CBN and the NDIC, the following issues of corporate governance would require urgent attention:

a) The Structure and Composition of the Boards

In my view, the quality of direction an institution gets depends largely on the structure and the composition of its Board. In this regard, there is an urgent need for the authorities to take another look at:

- the selection of directors. Given that the CBN screened all the directors and confirmed their appointments, it is clear that recent developments would cause the Bank to take another look at its processes of conducting those screenings;
- the mix of skills and experience to be represented on each Board; the emphasis here should be on the balance of experience, disciplines and perspectives that should enrich the deliberations of the Board. In this regard, some jurisdiction should conduct interviews for nominees to Board positions to check the value they were bringing to the Board on appointment;
- the optimum size of the Board; and
- the balance between executives and non-executive directors on the Board.

b) The Proper and Efficient Functioning of the Boards

Except the affairs of a Board are properly steered, the best Board in composition would be nothing but a decoration. The task of Board leadership and getting the best out of a 'good' board rests squarely on the shoulders of the Chairman and the Company Secretary. Some of the important issues here include:

- Notices
- Adequate preparation by the directors for board meetings. It is said that a director who came ill-prepared for a board meeting is worse than the one who did not show up for the meeting.
- Regularity of meetings
- Access to relevant information and expert opinion
- The absence of a dominant director. It was thought that the consolidation exercise would eliminate the menace of dominant directors on the Board of Nigerian banks. Recent revelations must have put a lie to such thought.
- The position/appointment of independent directors. There is an urgent need for the authorities to develop a pool of credible professionals who would receive structured training on corporate governance and who would be certified and available to be appointed as independent directors on the Board of Nigerian banks. To qualify as an independent director on any Board an individual must not be an ex-staff, major supplier/contractor, and must not own equity beyond a particular level to be set by the regulatory authorities. In addition, no member of his extended family must be so similarly exposed to the bank on whose Board he/she is to serve. Independence so defined at the point of joining the Board must be maintained throughout the period of service.

c) Board Committees, their Composition and Effectiveness

The issues to consider here include:

- The reasonable number of committees to have
- Which of the Committees are essential?
- How are the Committees constituted and led?
- What is the relationship between the Committees and the entire Board

While all of these issues are well covered in the revised governance code for Nigerian banks, it is doubtful if any serious check is conducted to ensure the level of compliance by the banks with these provisions except when there is a crisis.

d) Financial Disclosure Requirement and the Observance of Ethics

For us to raise the level of corporate governance in the banking sector, a lot more needs to be done to strengthen the Sub-Committee on Ethics and Professionalism of the Bankers' Committee. For a start, the code of ethics needed to be revised, the operational modalities of the Sub-Committee needed to be re-worked and some permanent structure and funding must be provided for it to be more effective. Some of the activities that have come to scandalize the sector today could have been nipped in the bud if that Sub-Committee had been strengthened as suggested above.

Given the massive investment that the CBN made on ICT infrastructure to support its collection of live data from the banks, it is something of a mystery that some of the information coming out now could have escaped the attention of bank examiners in the last three years. One begins to ask questions on the value of e-FASS and resident examiners with the scale of atrocities recently reported. To raise the level of corporate governance, we need to enforce strict rules of financial disclosures and ethics at all levels.

e) The Role of Auditors (Internal and External)

We still have a lot to do to enhance the value of external audits. Today, external auditors have succeeded in building standard disclaimers into their reports that practically absolves them of all responsibilities on the question of the integrity of information contained in published financial statements. With this arrangement, the average analyst is left to wonder what exactly businesses are paying for when they engage external auditors. In the context of enhancing corporate governance in Nigeria's financial system, the outstanding issues requiring attention include:

- the status of the Internal Auditor in the organisation structure and his/her relationship with the Board;
- the discussion on the use of joint external auditors, whether or not it enhances the quality of the audit;
- the discussion of term limits for external auditors; and

- prohibition of non-audit consulting work by external auditors to a bank.

f) The Role and the Regulation of Rating Agencies

There is still a lot of work to be done in blocking the loop holes that make many of the rating agencies around accomplices in mass deception. In the last four years, Nigeria had been inundated with all manners of rating reports and awards that serve merely to deceive the public on the true state of the health of the banking institutions. The challenge here is not just about the registration or licensing of rating agencies, but also about putting in place a credible mechanism for monitoring and regulating their practices.

g) Developing a Strong and Virile Capital Market

Recent developments have shown how very fragile our capital market was. More importantly, they had exposed the weaknesses and the inadequacies of the regulatory framework for that sector. Until we have a strong and virile capital market that could punish poor governance practices, it would be difficult to get players to voluntarily embrace measures that would raise their governance standards.

h) Shareholders' Activism

Enlightened and well-structured Shareholders' Associations have a major role to play in holding management of enterprises to account for their stewardship. In spite of a long history of shareholders' activism in Nigeria, we do not seem to have been able to channel this towards enhancing corporate governance in Nigeria. More often than not, some of the Associations had served the interests of their leaders more than standing in the guards for their members in the sacred task of holding the companies to account.

i) The Role of the Media of Mass Communication

From a combination of factors relating to our level of development, poverty and ethical orientation, the media of mass communication have not served as a powerful force as they should in the promotion of good corporate governance in the banking sector. In other jurisdictions, the fear of the investigative and analytical skills of financial correspondents was enough to keep corporate Boards on their toes. Unfortunately, in Nigeria, the media joined the band wagon of serving as itinerant rating agencies, designing and granting all manners of awards to any bank and any banker ready to pay the right price.

To play the role expected of it in the struggle to raise corporate governance in Nigeria, media houses need to invest in the training and development of their staff. They also need to offer competitive remuneration packages to be able to attract highly educated and competent professionals into their fold.

j) The Protection of Whistle blowers

We need to further develop our mechanisms for protecting whistle blowers.

k) Equipping Directors to Perform

A major issue that deserves attention is the need to continually equip board directors to perform their duties effectively. This would come in the form of:

- Directors' Continuous Education Programme
- Arrangement to allow the non-executive directors (as groups) to use consultants and counsels to provide assistance to them on their work as may be necessary. Such services should be paid for by the banks.
- Appropriate remuneration for non-executive directors of banks, taking account of their heavy responsibilities and contributions to the business of the banks.

V. Conclusion

Cross-border banking is a phenomenon that is growing and would continue to grow. Nigeria is beginning to play increasingly important roles in this movement, both as a destination for international banks, as well as exporters of banking services to other parts of the world through the activities of some Nigerian banks that have opened operations in different parts of the world. This development holds great benefits for the Nigerian economy and portends some dangers depending on how it is managed.

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