Economic and Financial Review

Volume 47 | Number 4 | Article 6

12-1-2009

Keynote address at the CBN Executive Seminar , December 2009

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Keynote Address

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Deputy Governors,
CBN Departmental Directors,
Distinguished Resource Persons/Facilitators,
Distinguished Executives,
Ladies and Gentlemen

1. I am delighted to deliver the keynote address on the occasion of this year's Executive Seminar taking place in Abuja, Federal Capital Territory. It is, indeed, a great pleasure to be present at this seventeenth edition of the Seminar jointly organized by the Research and Human Resources Departments. This seminar has always provided the opportunity for the Management staff of the Bank to reflect on contemporary developments, particularly, as they relate and impact on the domestic economy and to simultaneously explore strategies of dealing with complex macroeconomic issues. In addition, this forum is also an avenue for human capital development through extensive interaction and exchange of ideas among the participants.

2. The theme of this year's Seminar "Cross – Border Banking: Challenges and Implications for Monetary Management" is quite apt given the fallouts of the catastrophic economic and financial crises at both the international and domestic environments. As you are all aware, the global economic and financial turmoil resulted in the bankruptcy and collapse of big financial conglomerates in the United States of America (USA) and the United Kingdom (UK) with the contagion effects reverberating to other European and emerging economies. The failure of American financial giants, such as the Lehman Brothers, Merrill Lynch and the American International Group Incorporation are instructive; the Royal Bank of Scotland and Northern Rock and Paribas Bank faced similar fate in the UK and Germany, respectively. The spate of bankruptcy and collapse attendant to the crisis revealed the serious

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lax in regulatory and supervisory oversights by monetary authorities across the globe. Consequently, the demise of these financial institutions culminated in various governments incurring millions of dollars in bailouts. In fact, it was estimated that the global economy lost over US$50.0 trillion.

3. You will recall that after several years of lackluster performance of Nigeria's banking sector in fostering economic growth particularly by stimulating the real sector of the economy, the CBN in conjunction with the Federal Government instituted the banking sector reforms during 2004-2005. Before the reform, we had 89 deposit money banks characterized largely by low capital base and poor assets quality, coupled with the oligopolistic structure where few banks controlled the markets. In addition, the banks were shrouded in weak corporate governance and over-dependent on public sector funds for survival.

4. The consolidation initiatives driven mainly by recapitalization addressed these problems and induced the emergence of 25 (now 24) out of the existing 89 banks through merger and/or acquisition as well as the injection of fresh capital. The recapitalization spurred Nigerian banks into forging new grounds in terms of taking banking business to other jurisdictions. Indeed, as you are all aware, the issue of cross-border banking recently took a centre stage in the quest for Nigerian banks to emerge among the global players in the aftermath of the banking system consolidation. The wave resulted in many of our local banks having branches and outlets in international financial centres such as London, Shanghai, and in other cities on the West Coast of Africa.

5. Cross-border banking has, therefore, posed serious challenges to monetary authorities, particularly, with respect to regulatory and supervisory oversight functions. The threat is further heightened by the unbridled leverage afforded to the banks by universal banking practices, which increased the scope of bank activities beyond the regular norms. As you all know, universal banking has allowed many banks which hitherto engaged in the primary business of banking/asset management on stand-alone basis, to adopt more flexible structures by opening a wide range of affiliates that engage in businesses other than the core banking business.

6. It is pertinent to note that the continuous growth in size and complexity of banking organizations exposes them to a wide array of potential risks, while at the same time making it more challenging for supervisors to have a complete view of firm-wide risks and controls. The global financial crisis was rooted in the enormity of financial conglomerates across borders and the fact that they sought for higher yields without adequate appreciation of the inherent risks. This was compounded by the failure of these institutions to exercise proper due diligence such as weak underwriting standards and unsound risk management practices.

In addition, the increasing complexity of financial products and the consequent excessive leverage combined to create vulnerabilities in the global financial system. While these were on, policy makers, regulators and supervisors alike in most of the advanced economies did not adequately appreciate the risks building up in the financial markets or take into cognizance the systemic ramifications of domestic regulatory inactions. Similarly, the recent banking sector crisis in Nigeria could be attributed to the combination of weak regulatory oversight and poor corporate governance. These, therefore, present to us an opportunity to look inward on our regulatory and supervisory functions.

7. Let me reiterate that financial markets worldwide, including, Nigeria have not only been growing at a rapid pace, but have also been marked by continuous change. Key structural transformation has been the evolution of large and complex financial institutions and structures that, given their inherent size and strengths have promoted financial engineering and also exploited new avenues of financial leveraging accompanied by greater risk appetite. Thus, the recent global financial turmoil has triggered questions regarding the risk associated with cross-border banking and the gaps/weaknesses in the regulatory and supervisory structures that allowed overleveraging without appropriate oversights.

8. The foray of Nigerian banks into other jurisdictions is one of the principal fallouts of the bank consolidation exercise. While cross-border banking has promoted integration and opened-up greater efficiency through increased economies of scale, it has at the same time generated novel risks and, consequently, raised concerns about monetary management, particularly, with respect to regulatory and supervisory oversights. A few of such risks and concerns relates to: contagion risks; risks of regulatory arbitrage; risks of double gearing, and assets and liabilities mismatch, among others.

9. Let me remind you, Ladies and Gentlemen, that the financial sector distress that ravaged Nigeria in the 1990's was precipitated, among others by weak banking supervision, poor assets quality/liquidity management and the poorly sequenced deregulation of the economy encouraged the proliferation of numerous unsound financial institutions including banks. In addition, poor corporate governance accommodated financial mismanagement and, consequently, eroded public confidence in the financial system.

10. The Nigerian banks are today witnessing the re-occurrence of the vices that plagued the banking sector in the 1990s as revealed by recent developments. Although, the global economic and financial meltdown precipitated the stock market meltdown (from an all-time high market capitalization of ₦13.3 trillion to less than ₦5.0 trillion) and the attendant bourgeoning of non-performing assets occasioned by huge margin loans, however, the associated poor corporate governance, particularly, the fraudulent corporate practices, including insider abuses exacerbated the turmoil currently being experienced.

11. The global financial crisis had confirmed the fact that huge capital alone is insufficient to guarantee solvency and good banking system. With the capital-base of many Nigerian banks eroded, the emergence of cross-border banks has added complex linkages and, consequently, necessitated a paradigm shift in monetary management as well as the supervisory approach to assess, manage and mitigate risks stemming from such arrangements.

12. Though, the CBN has initiated the risk-based supervision framework to encourage banks to continuously update their internal risk management system commensurate with the scope of their operations and in line with the Basel II Accord, the recent events in the banking system is a pointer to the need for the adoption of a more comprehensive and holistic approach to the regulatory and supervisory oversights of the Bank. Nevertheless, recognizing the need to evolve appropriate oversight policy mechanism for its evolving financial structure, the Bank has, as part of the overall banking sector reforms, continued to advocate the review of the Banks and Other Financial Institutions Act (BOFIA) in line with contemporary developments.

13. Furthermore, the Bank recognizes that the challenges of contemporary banking supervision and oversight require adequate training and re-training; thus the CBN is poised to re-tool its examiners and expose them to regulatory best practices, particularly as being carried-out in other jurisdictions, to enhance their supervisory skills and competences. This direction, I believe, will assist our examiners in in-depth assessment and evaluations of the risks posed by different banking business areas and ultimately curb excessive bank exposures. In addition, the Bank would continue to explore better ways and avenue of improving the breadth and depth as well as the efficiency of the financial sector as a whole.

14. Ladies and Gentlemen, these few remarks were meant to sensitize you on the current vexed issues with regards to cross-border banking in Nigeria. Let me, therefore, challenge you to brainstorm and come up with appropriate and effective strategies of dealing with the challenges in cross-border banking in order to prevent any incidence of systemic distress by ensuring pragmatic regulatory and supervisory oversights. Finally, I implore you all as participants and resource persons at this Seminar to come-up with proactive policy initiatives which could lead to the evolvement of appropriate policy framework that would enhance good oversight of banks and engender financial sector soundness with the cross-border banks ultimately emerging as catalyst for the promotion of sustainable growth of the Nigerian economy.

15. I wish you all a successful deliberation and I thank you for your attention.