Bullion

Volume 3 | Number 4 Article 3

12-1978

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Recommended Citation
Ogundipe, S. O. (1978). The Banking environment. CBN Bullion, 3(4), 7-13.

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THE BANKING ENVIRONMENT

Banks exercise a degree of economic power, notably by their choice of assets in which they place the disposable portion of the funds deposited with them. By their decision to lend to one customer and not another, whatever the criteria, they obviously assist to determine the allocation of scarce real resources; in other words, what will or will not be produced.

You would observe that Nigeria is attempting to transform herself into an industrial urban society, which should be able to feed herself and produce raw materials for her mills. This will be done by making the necessary adjustment from an oil economy to a diversified one. Banks have a crucial role to play not only in the ultimate achievement of this objective but more importantly how speedily and efficiently it is achieved. The purpose of this paper is to attempt to present the bank credit and operating policies that are essential and desirable for forstering economic development in Nigeria.

It is pointless to approach the issue by re-opening the abstract arguments for and against public ownership of banks, an issue which is temporarily and certainly only partially settled by the acquisition of shares in certain banks by the Federal Military Government to bring the indigenous equity holdings in them to 60%. Rather, a pragmatic approach which gives due weight to historical experience would be adopted in the process of examining whether or not the banks have acted too much irresponsibly in pursuit of private profit and aiming for a banking elysium where risk was banished and business failures no more than a bad dream, all to the detriment of National economic development.

Therefore, this paper begins with a review of main streams of banking business to 1969, the year the Monetary Policy Circular No. 1, entitled "Central Bank of Nigeria Credit Guidelines for 1969/70" was issued. The second phase of review will be the period ending in 1976, the year the Federal Military Government bought into certain banks. The third and final phase will review some criticisms of banks and present, a proposal for reform with the objective of having in the 80s a banking system that relates our credit and operational policies and techniques to the conditions of a rapidly changing economy.

PHASE 1 - Period up to 1969

In this country, more than in other countries, particularly Britain with developed financial system, from where banking is mostly received into this country, Commercial Banks derived their economic powers from the complementary roles of mobilising savings, suitable for long term investment and recycling the saving in the economy. Its other role is the provisions of the mechanism whereby money is transferred within the domestic economy and to and from other currency centres to settle import and export bills.

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During this period, a Merchant Bank and an Industrial and Development Bank, both of which were not then of much consequence to economic development joined in the business of banking. Credit policies of banks up to 1969 encouraged ubriddled support to non-productive sectors, particularly, finance of import bills, irrespective of the nature of imports. These were based on the orthodox principle of lending short, a principle which was considered very prudent, having regard to their funding base.

Principal banks, notably the expatriate ones, concentrated their operations in the main commercial cities and most in the hands of the international companies, from which they derived nearly all their profits. There was no geographical spread out or diversification of their assets to include serious industrial lendings or serious lendings to the indigenous enterprises, which are mostly in the small scale and medium size brackets. The indigenous banks, which sprang up, were left to fill the vacuum created by courting the indigenous business and opening up offices in the less commercial centres, the twin factors which later become their strength and the cause of their weakness. Consequently, they were faced with high operating costs, including huge write-offs, coupled with very meagre income, mainly derived from interest on loans and advances whereas the bulk of bank incomes has always been derived from businesses offering transfer and other charges, which were almost the preserves of the top league expatriate controlled banks.

Savings mobilised in Nigeria by the Post Office Savings Bank (now the Federal Savings Bank) were invested abroad by

design, although, these savings were the most suitable for medium and long term lending a case of carrying coal to New-castle. The investment of the savings mobilised by the Commercial Banks followed the seasonal pattern of the economy. During off-season, the funds were invested in sterling securities in the United Kingdom while they would be repatriated during produce seasons to meet local needs.

Banking business was unregulated in any form until the enactment of the first legislation, the Banking Ordinance 1952. That ordinance, like the subsequent legislations, was designed to protect the depositors by means of setting out systems of licensing, minimum capitalisation, liquidity ratio, maintenance of reserves and Bank supervision and regulation.

The determination in to neu tralise, as much as possible, the defects inherent in a colonial and dependent developing economy, with a view to localising the control of credit, resulted in establishment, in 1958, of the Central Bank of Nigeria. The Central Bank of Nigeria, which was superimposed on the existing financial institutions was designed to direct the banking industry towards the achievement of national economic objectives.

This singular step produced many results. The Nigerian currency system was evolved, investments of funds of public institutions in the United Kingdom were amended and redirected, the management of the nation's foreign exchange reserves was vested in the Central Bank of Nigeria, Exchange Control Act 1962, and subsequent amendments, regulate the movement of funds in and out of the Country and the Lagos Stock Exchange Act of 1961 was enacted. While this single act offered the indigenous banks the opportunity of operating under a well-defined body of regulations geared towards their safety and the protection of depositors, as well as sound banking supervision and examination, the expatriate banks were being constantly required to adapt their operations to local needs and seek out and use local investment outlets for their resources. Nothwithstanding all these, because the expatriate banks continued to be outposts of their home based baks, both in law and in fact, their responsibilities were to their head-quarters, which ordered operations within the targets set world-wide for all overseas branches, irrespective of the peculiarities of each and distinct overseas country and economic requirements. The sustained determination to reduce the dependence of this economy on outside economies by having a measure of control on companies operating here and under our own laws, resulted, to the astonishment of its antagonists, the enactment and successful execution of the companies Decree 1968, which obliged all companies operating in Nigeria to register as Nigerian Companies under Nigerian Company Law. Thus, the banks, like other companies, were obliged to take out local incorporation. The noose was further tightened up yet by a further fiat which found expression in the Banking Decree 1969. The timing of this latter act and the obligations therein emphasise the determination of the authorities to evolve a banking system that will be responsive to our needs. Banks were obliged to render to the Central Bank of Nigeria periodic returns in standard forms to enable the Central Bank of Nigeria to perform its supervisory roles.

"Banks were obliged to render to the Central Bank of Nigeria periodic returns in standard forms to enable the Central Bank of Nigeria to perform its supervisory roles."

The returns are:

First Schedule:
Monthly Statement of Assets and Liabilities.

Second Schedule:
Report on Loans and Advances, indicating under sub-headings, A, B, C, D, and E. respectively their Sectorial, Liquidity, Security, Maturity and Method of Repayment distributions.

Third Schedule:
Layout, form, and elements of Balance Sheet and Proft and Loss Accounts.

Fourth Schedule:
Matters to be expressly stated in auditor's report and

Fifth Schedule:
Auditor's analysis of Doubtful Advances.

In spite of all these gains and tightening up of the noose, the banks, particularly the expatriate ones, continued to base their credit decisions on factors outside this economy. Not only was there a decline in the aggregate of loans, and advances to private sector in the economy, there was a significant and substantial decline in credits to agricultural, mining, manufacturing and real estate sectors of the economy. Since it was realised that allocation of credits by the banks according to profit motive would frustrate the monetary policy goal to increase the productive capacity of the economy to meet domestic demand from time to time and produce surplus, the Central Bank of Nigeria initiated direct control of sectoral distribution of credit by way of the issurance of monetary policy circulars at the beginning of each of fiscal years from 1969/70. This is the beginning of conscious efforts to move the banks away from their traditional preference for short term lending and a reluctance to provide transparently medium/long term credit necessary for the rapid economic development of the Country.

PHASE II - From 1970 - 1976

During this period, some time was devoted to two extreme views that the credit problems would be solved if the expatriate banks were nationalised and that instead of nationalising them, the Government should set up its own banks, as it happened in Ghana. The protagonists of the former maintained that if a developing country wants to engage in effective planning, its public sector has to embrace certain strategic spheres of economic activity. Otherwise, there would be a serious danger that its planning remains mainly on paper. Banking is considered to be one of these strategic economic spheres which are regarded as "commanding heights" and which if not drawn into the public sector, would make impossible the shapening of the destiny of the economy. The antagonists of this thesis pointed to the inefficiency of the indigenous banks, under indigenous managements, and followed up the argument that the nationalisation of the expatriate banks would produce a chaotic banking system and therefore recommend the continuation of the dichotomy in banking.The argument was countered by the protagonists of nationalisation, that judging from resources, both human and materials, internal and external contacts, efforts, operating negative factors, facing the industry, degree of monopolistic powers enjoyed, the indigenous banks performed comparatively and relatively better than their expatriate counter parts.

Five points were cited.
First, without effort, the expatriate banks derived their huge income from the businesses pushed their way by their foreign friends who are in control of the economy.

Second, their antecedence made it possible for them to have cheap and steady deposit base for their lending operations. Third, their clients, who are mostly expatriate companies, have good financial management unlike their indigenous counterpart with clients with poor management which contributes to the problems of the indigenous banks.

Fourth, the operative costs of the expatriate banks relative to their income is very low and could therefore employ good quality staff on better terms and.

Fifth, their huge profits could support huge write-offs for bad debt provision and other losses, including those sustained as a result of fraud.
On the other hand, because the indigenous banks operate in mostly rural areas, they act positively in developing banking habit in those areas irrespective of attendant high costs. The announcement in 1973, by the Federal Government of its decision to intervene more directly in commercial banking activities by acquiring 40% of the equity of the three largest expatriate banks - Barclays Bank of Nigeria, Standard Bank, and United Bank for Africa, settled the arguement if only for a while. The aim of the participation, according to the government, is for the government .to get intimately involved in commercial banking activities so as to guide them to operate to the maximum benefit of the economy. This is as much in their own interest as it is in the interest of the country.

Consequently, Federal Military Government participated in the management of the three banks at the board level, having appointed their Chairmen and some directors. As this step did not produce the expected change, it became dawn on the authority that we could not have a responsive and purposeful banking system merely by the Federal Military Government's 40% participation in the three major expatriate banks, the establishment of Merchant Banks without clear corporate policies, the use of credit guide lines and other tools of monetary policy. Therefore, as a continuation of the evolution of the banking system, the Federal Government in 1976, acquired enough shares in all the licenced banks to bring the indigenous participation to 60% with the right to appoint the Chairmen of the boards and certain number of board members.

Possibly, being aware that the management of these banks with expatriate Chief Executives, would continue to treat the Central Bank of Nigeria guide lines as so many pious wishes of the authority and follow their own lines the maximization of profit - the trend is now for the post of the Chief Executives of these banks to be Nigerianised.

It appears that interplay of various factors push banking history in the direction of those who were convinced that banking should go public, necessarily gradually, if not at one go.

PHASE III

BLAME FOR BANKS

The main streams, as recounted above, of the development of banking business, have not exempted the banks from criticism; initially from the indigenous business community and now from the monetary authorities and everybody. The past five years have been somewhat unusual, by comparison with previous post civil war experience, beginning with a rapid growth of economic activity, in which pressures built up, which developed into an unusually high rate of inflation.

One line of criticism has been that the activities of the banks - particularly their lending - seriously contributed to the situation. It is suggested that bank lending is too short term and not sufficiently directed towards the financing of industrial investment (productive sector); lending policies are based on factors outside this economy. Their lending policy diverted resources

into the wrong places and in particular was responsible for the unprecedented high consumption of imported goods within the last three years, which exacerbated the inflationary pressure in the economy. 1

Another criticism is that the banks contributed to inflation by not stepping up savings campaign. Yet another line of criticism is that operational standard has declined to a ridiculous extent.

It is time to examine the justification or otherwise of these criticisms.

The ultimate monetary policy goal of any economic entity is a financial system which enables the economy to operate at an optimum level. Although this is an unattainable goal, persistent efforts are usually made to move towards the goal. One reading through the Central Bank of Nigeria Monetary Policy Criculars Nos. 1 to 10 sees a monetary policy goal trend emphasing fast rate of economic growth through the process of expansion of productive sectors. Year in year out, the Governnor keeps on lamenting that while credit allocation to finance imports and domestic trade has always been above the desired proportion, credit to Agricultural, Mining, Manufacturing and Real Estate sectors of the economy, which constitute the productive sector, has on the other hand been below the desirable level. As a result, the Government, at the beginning of every fiscal year, urges banks to increase their credit supplies sufficiently to the productive sectors of the economy while curbing credit for consumption.

From the 67/68 year to 1971/72, the Central Bank of Nigeria went about achieving its goal through a credit policy based on the fixing of credit ceilings to a specified maximum percentage rise in each sector, using as a base the position as at the end of the previous fiscal year.

From 1972/73 year, there was an alteration in credit control pattern. From that year, loans and advances were to be channelled to the various sectors of the economy in such a way that by the end of the fiscal year the distribution of loans and advances in the various sectors of the economy shall be as specified at the beginning of the relevant fiscal year.

From 1976/77 year, while still keeping specified proportional sectoral distribution, ceilings were reimposed on the percentage by which the aggregate loans and advances could expand during, the fiscal year, using the amount at the end of the provious year as a base.

One may want to look into why it has not been possible for the bank to achieve the sectoral balance stipulated'.

Essentially, credit to the productive sector is of a medium to long term nature (say between 3 and 7 years) and the risk involved calls for a special form of assessment. It is suggested that bank lending is too short in term and not sufficiently directed towards the financing of industrial investment (productive sector).

Banks argue that they cannot see a need for this criticism considering that banking prudence calls for reasonable maturity matching between their assets (mostly loans and advances) and liabilities (mostly demand and short term deposits). They are quick to direct the attention of their critics to interest and liquidity risks inherent in industrial term lending. They regard new entrepreneurs and their projects as credit risks which they are not likely able to handle.

They see Merchant Banks as the specialist lenders whose preserves are medium and long term credit market.

Their critics in turn directed them to the following points: Bank lending policy as practiced in this country is a reflection of the lending policy in the United Kingdom from where banking business was substantially imported to this country and has not taken sufficient notice of the economic setting in this country, which is different from that of the United Kingdom.

In the United Kingdom, banks are not repositories of long term savings. Life Insurance Companies, which are the repositories of long term savings and the money market are well developed.

The bulk of the liability of the commercial banks is demand and seven day call deposits which are volatile.

In Nigeria, the life assurance business is not yet well developed and the commercial banks are the repositories of long term savings, with a high aggregate hard core, a type that is useful for long term investment. For example, the more direct involvement of German Banks in German Industry owes something to their relatively severe financial tribulations in the interwar inflation and depression, and the under-development of her life insurance business explains much of the greater role played there by banks like the Nigerian situation, as repositories of long term savings.

The other point about systems imported from the United Kingdom is the criticism made there of their own system. "Me too" is a basis for reform'.

Proposals for Reform

At this stage of their evolution, commercial banks cannot validly claim that they lack deposit base to finance medium and long term lendings. They are the repositories of the bulk of the savings mobilised in this economy. All they need do is to re-allocate their resources to produce the prescribed distribution of their loan portfolio.

The Merchant Banks can argue from a position of strength that lending operations can be very vulnerable for them unless their funding mixes and strategies change.

The Commercial Banks have always been an important though a declining source of funds for them.

See appendix one for credit allocated to productive sector and sub-sectors as a per centage of the aggregate credit granted as at the end of December of the years 1972 to 1977.

Merchant Banks buy all their money; any interest - free demand deposit has a real, if hidden, cost. The ability to successfully reduce funding costs is particularly important in an environment where profits from the assets side of the balance sheet is eroding.

The erosion will result from increased competitive pressures on interest spreads as a result of less lendings to non-productive sectors. There are two risks association with funding decisions, the market risk which refers to the risk that interest rates for assets and liabilities of imperfectly matched maturities will move over time in directions which will affect interest differential income adversely.

It is important to note that in the market risk area, it is the repricing date rather than the repayment maturity that is relevant. If an advance can be repriced every three or six months in line with prevailing market interest rates, the fact that the loan might be outstanding for 10 years has no bearing.

In a normal market environment the yield curve slopes upward as the maturity period lengthens. There is a rational temptation to borrow short and lend long which is commonly known as "riding the yield curve". But this introduces risks. Today's short term interest rates may be lower than todays long term interest rates. Tomorrow, however, the whole yield curve may shift upwards and short term interest rates may rise above the long term rates at which the funds are from today. The profit consequences of a major shift in rates on a heavily mismatched assets/liability repricing position can be extremely serious.

This was the bane of many secondary banking institutions particularly United Dominions Trust Limited, in the United Kingdom during the secondary banking crisis of 1974/75.

The Central Bank of Nigeria policy to peg the interest rate chargeable to agricultural and real estate sub-sectors is capable of producing the opposite of the desired result.

The rate applicable here is fixed at 6% per annum, whereas cost of 3 month money is approaching 6.5% per annum. The tendency is for the banks to limit lending in this area to the prescribed minumum per centage of the aggregate loans and advances. This is the general trend in the mortgage market. The other day, one of my Insurance friends said, We would be doing a lot more mortgage lending if the interest ceiling were more realistic" This factor is probably responsible for the plight of Mortgage Bank which I understand has found it uneconomic to borrow from the market to finance its lending operations. It would have been enough for the authority to fix the maximum lending rate to the preferred sector while another maximum rate is fixed for the less preferred sector. This is the only way whereby resources would flow to those two sub-sectors, agricultural and real estate - fiat or credit guide lines cannot do it alone. The punitive measure of asking the banks to deposit shortfall between their actual and prescribed lendings to this sectors would produce administrative problems and if such deposits are finally not make available to the related sub-setors is not achieved.

There is the liquidity risk which may be defined as a bank being unable to obtain sufficient funds to cover its needs, either from customers or from the money market at the market rates prevailing for the class of bank involved. The extreme position exists when adequate funds are not available from any sources at any price. Under those circumstances, a bank would obviously fail. This explains the need for a lender of last report. In the resent past, the Central Bank of Nigeria had to rescue two indigenous banks that ran into liquidity problems. Empirically, no bank structures the maturities of its liabilities longer than the maturities of its assets. As a result, most banks will generally have a negative cash flow in the short term. This negative cash flow represents its absolute liquidity exposure. That liquidity exposure must then be reviewed in the context of the nature of the liability base.

There is a need to analyse the stability and replaceability of the liability base in order to assess the amount of risk involved. There is a need also to analyse the diversity of funding sources and broad market shares. One has need also to look at the behavioural characteristics of the various types of funding sources and the bank's relationship with them. The more broadly based and more mutually advantageous the relationship is to both the borrower and the lender, the more stable the funding from that source is likely to be. To assist the banks, particularly, the Merchant Banks to play active roles in medium/ long term credit market, they would need access to the funds with Financial Institutions like National Provident Fund and Federal Savings Bank, whose funds are suitable for medium/ long term investment. Banks should have automatic rediscount facillities from Central Bank of Nigeria on selected projects. It would be necessary for the constitutions guiding the operations of these institions to be overhauled to allow for this kind of accommodation.

Savings

Commercial banks used to compete fiercely for depostis to support their lending operations. But during the last four fiscal years, a critical problem was how to manage the surplus revenue from oil. The policy measures to contain inflation necessitated the need to re-impose credit ceiling on the bank aggregate lending limits. This produced the result that banks, without outlet for their funds, adopted negative attitude to savings mobilisation. The banks are now witnessing a changed liquidity condition. Like the tides, liquidity levels in the system rise and fall in cycles. It has been very high tide for sometime now with

ample liquidity, but now there is an ebb from past levels.

Keeping this in mind, and recognising the existing presures on deposits as a result of which cost of deposit is rising, I should warn the banks to recognise the need not only to step up their campaign for deposits, but also improve the existing sources. Introduction of rural banking is expected to influence the level of aggregate savings in the economy. It is expected that deposits in the rural branches will exceed the level of loans made, and funds would be transferred to other parts of the economy through financial channels.

Generally, households save more when they have profitable investment possibilities and incentives played an important role in stimulating savings.

I would like to recommend the following savings mobilisation strategies:

There is a need for a flexible interest rate structure. The current practice is for the government to fix the minimum during a fiscal year at the beginning of that fiscal year. The minimum prescribed during 1978/79 fiscal year is 5% per annum, and only applies to accounts with savings deposits of not more than ₦20,000. Although this rate is meant to be minimum, the commercial banks, left to themselves would never venture to alter the rates upwards; rates are therefore not made competitive. If the desire is to mobilise substantial voluntary savings, there should be a mechanism for reviewing interest rates from time to time during any fiscal year to reflect the market trend. Application of this rate to accounts with savings deposits of not more than ₦20,000 appears to be regressive. Where rates of inflation are above 15% - 30% per year, incentive to save at very low interest rates is also low.

The minimum rate of interest payable on savings or any other deposits might be linked to minimum re-discount rate so that a desired change in rates can be initiated through changes in the minimum rediscount rate. If considered feasible, lottery schemes can be attached to savings deposits to promote additional interest in voluntary savings. The key element here is the attractiveness of the reward paid on savings.

Convenience, liquidity, and security of the savings, however, strongly complement the return paid. The existing chaotic situations in savings department of banks where clients depositing or withdrawing funds have to sweat it out is not conducive to proper savings mobilisation. Savings departments are too large to make for efficient handling of transactions. The Central Bank of Nigeria might want to consider relaxing its rules about opening of branches especially in the commercial centres. Banks could be allowed to open cash centres strictly meant for deposit savings/withdrawal transactions. Ideally, any saver should not walk more than a couple of hundred metres to reach a savings bank or spend more than say ten minutes before concluding a transaction.

There is a need for Federal Savings Bank to popularise its activities in the rural areas to supplement the rural banking recently introduced. Why don't banks introduce mobile savings bank, a brain child of United Bank for Africa.

It might be considered to tie a life insurance option to savings deposits as in the case of credit - savings cooperatives in Latin America; a system which has also been introduced by United Bank for Africa Limited.

The Borrower

In Industrial lending, which is essentially of at least medium term nature, more than any short term lending, non-quantifiable criteria weigh very heavily. Among those non-quantifiable factors are the people behind the project and those who have responsibility for managing the project

There is no institutional arrangement so far to sieve honest borrowers from those with tendency for fraud. This makes it difficult for banks to come to early or any decision to lend in certain circumstances. The Government must therefore speed up the much awaited Bankruptcy law which will provide the means of ascertaining the degree of risk involved in lending to a particular person. Undischarged Bankrupts are usually not allowed to borrow without disclosing the fact that they are undischarged nor could they be directors of companies. The law will provide a basis for determining the cause of the bankruptcy - whether it was by design or due to ill-luck, and events beyond the bankrupt's control.

Banking Posture

Another issue is the image of bank officials. Banking is a respectable profession and can only be made respectable if that profession has posture of its own, that is, its own ethos. For an example, Bankers are known for their frugality, a quality which qualifies them as agents of depositories of public funds. A state of affairs where majority of senior bank officials live careless life does not produce the right environment for banking business. Such epithets as 'Ololu' (meaning possessor of brand new notes) and "Currency Controller" are not complimentary to bankers. The mass character or posture of bank officials should reflect the attributes of their profession. One wonders if it is not necessary therefore to make membership of the Nigerian Institute of Bankers obligatory for anybody performing any executive function in a bank.

I understand that the council of the Nigerian Institute of Bankers has set up a sub-committee to work on a suggested draft decree for regulating the professional conduct of their members. The passage of such

a fiat by the authority will make the discipline of bank officials a matter for the council of the Nigerian Institute of Bankers. Without this, banking profession cannot attain a respectable posture.

Banking Operations/Public Relation

I will now turn my attention to the much needed improvement in operations at branch level. Most of the chaotic situation at the branch level is due to strained resources at the branches which makes span of control of the supervisors problematic. If more branches are allowed to be opened in the cities, where demand for banking services is greatest, there would be opportunities for banking without tears.

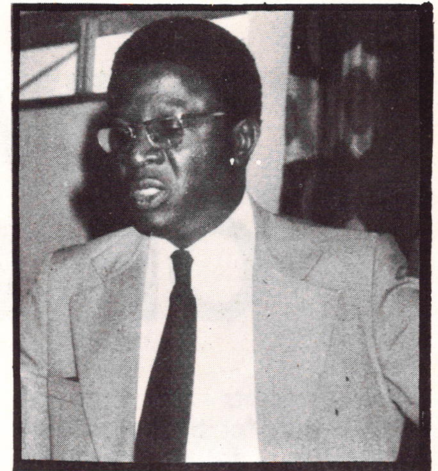
Most of the successful frauds can be blamed on overburdened supervisory strength at the branch level and nothing else. It is observed that there are more frauds in large branches of banks than there are in smaller branches, where people work less under pressure.

Some of my banking friends feel that computerisation will assist to reduce the branch congestion. This view must be taken with a pinch of salt. In Nigeria, most transactions are in cash or cheques across the counter.

Although I believe in mechanisation, which should be introduced in stages, what is immediately required is a situation whereby fewer cheques would pass across the counter and the bulk of cheques transacted would be through the clearing system. You cannot have this state of affairs as far as the Government does not enforce the law which makes the intentional issuance of dud cheques a criminal act with heavy penalties.

In addition, the rules governing the presentation of the annual accounts and their auditing should be made stronger and the auditors should have a responsibility to report anything untoward to the banking authority. A special

"All I am saying, is that, never was it more necessary that it is today to relate our lending policy to the conditions of a rapidly changing economy, and to vigorously police this policy."



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report on the bank and branch internal control system should be made obligatory as in the case of auditor's analysis of doubtful advances.

On a more serious note, if need be, any licenced bank which operates persistently against the Central Bank of Nigeria credit guide lines, because of its mad desire for easy profit or fear of making a bad judgement in the medium term loan market or both should have its foreign exchange dealing licence suspended for a period of three to six months as a punitive measure. The fear of losing the licence with the consequent loss of income from foreign exchange transactions, the major and most crucial source of income for banks, can serve as a deterrent.

CONCLUSION

Our monetary policy goal is fast rate economic growth which presuposes development of small and medium size enterprises. Experience in economies similar to ours has shown that they cannot be developed without planned re-allocation of financial resources to them. Productive Sectors require not only new lending techniques, but a great deal of local knowledge, and in many cases, the ability to exercise relatively strict collateral control.

Since I find it difficult to believe that this knowledge can be properly developed at the required speed by banks, especially the new ones, operating thousands of miles outside their historical market place and under peculiar conditions, I would like to urge the Council of the Nigerian Institute of Bankers, in cooperation with the lending institutions in the medium to long term loan market, to develop lending techniques and criteria apposite for our economy.

All I am saying, is that, never was it more necessary than it is today to relate our lending policy to the conditions of a rapidly changing economy, and to vigorously police this policy.

And never were it more necessary to refer our techniques to the ultimate end for which they should be used.

This is our economy; this is our banking system, and this is our chance to influence economic trend. As responsible officials of our various institutions, we must endeavour to pursue all those things that are noble in banking, not minding whose horse is gored.

Shall we be able to rise to the challenge of our times, and will the right, reasonable and effective nature of banking prevail?