



CENTRAL BANK OF NIGERIA

KEYNOTE ADDRESS

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Keynote Address

Protocol

1. I am delighted to give the keynote address at this auspicious occasion of the first National Seminar on “Banking, Finance and Allied Matters for Legislators”, which is being organized for lawmakers, regulators and operators in the banking and finance sector. This interaction, which is meant to discuss matters of common interest among lawmakers and participants in the financial sector, is very apt at this point in time. The quest to become the financial hub in Africa, where greater understanding and cooperation between stakeholders and legislators is highly needed, makes it imperative to generate credible ideas that would boost growth, development and stability of the Nigerian financial system, in particular and, the economy, in general.
2. The theme of the seminar, “Legislature and the Banking and Finance Sector: Partnering for Nigeria’s Economic development” is very appropriate considering that the legislature is one institution that is indispensable in our drive towards enhancing efficiency and stability in the financial system through sound legislations that would promote further development of the industry.
3. Indeed, the constitutional power and oversight responsibility places the legislature in a vantage position to strengthen the culture of good corporate governance and accountability in the banking and finance industry, which should have positive impact on economic development in general.

4. The Seminar also coincides with the period when the legislative authorities are emphasizing on the need to streamline and reposition the activities and operations of the regulators and operators in the financial system for optimal benefits to the economy. I, therefore, commend the organizers of this Seminar, the Chartered Institute of Bankers of Nigeria, for being committed to promoting the soundness of Nigeria's banking industry, in particular and, the financial system, in general.

5. **Distinguished legislators, ladies and gentlemen**, I wish to recall that the Nigerian financial system was characterized by serious corporate failures due to bad management at the inception of banking business in 1892. It was the legislature that came to the rescue of the system with the promulgation of the 1952 Banking Ordinance designed to ensure orderly commercial banking and prevent the establishment of unviable banks. This was subsequently followed by the enactment of the Central Bank Act, 1958 and the Banking Decree (Act), 1969, which constituted the legal framework within which the Central Bank of Nigeria (CBN) consequently operated and regulated banks.

6. Another major initiative to address the operational problems in the banking sector was the promulgation of the Nigeria Deposit Insurance Corporation Act in 1988. The Act, empowers the NDIC to insure all deposit liabilities of licensed banks and other financial institutions operating in Nigeria; provide assistance in the interest of depositors in case of imminent or actual financial difficulties; guarantee payments to depositors in case of imminent suspension of payments by insured banks and other financial institutions; assist the authorities in the formulation and implementation of banking policy. The Act also vests in the

Corporation, the power to examine and conduct investigations into the books and affairs of a licensed bank. It espouses cooperative regulatory functions between the CBN and the NDIC in the form of access to and making available reports of examination conducted by each body, as well as sharing of information on the licensed banks.

7. Other important legislations were the Central Bank Act of 1991; the Banks and Other Financial Institutions Act of 1991 (BOFIA); the Failed Banks (Recovery of Debts) and Financial Malpractices in Banks Act of 1994 (Failed Banks Act); the Money Laundering Act of 1995; and the Advanced Fee Fraud and Other Fraud – Related Offences Act of 1995.
8. Amendments to the 1991 CBN Act in 1998 and 1999 significantly enhanced the powers of CBN to independently conduct monetary and financial policy for the maintenance of monetary stability and sound financial systems. The promulgation of the BOFIA was informed by the need to have a safe and sound banking and financial market in which public confidence will thrive. Furthermore, the Act was to ensure that banks and other financial institutions played their primary role of financial intermediation effectively.
9. **The BOFIA** confers on the CBN the power to regulate banks and other financial institutions, license, examine (on-site and off-site), supervise, take over and control management of distressed banks, prescribe capital requirement, revoke licences, and generally take control over banks and other financial institutions operating in Nigeria.
10. The promulgation and implementation of the Failed Banks Act was to ensure the quick dispensation of Justice. The twin objectives of the Act

were to assist in resolving distress of failing banks through speedy recovery of their non-performing loans and to sanitize the banking sector through criminal prosecution and conviction of errant directors found guilty of banking malpractices.

11. **Distinguished guests**, as you already know, the Legislature in Nigeria spearheaded the first banking sector reform through the promulgation of the 1952 Banking Ordinance. All stakeholders in the financial system yearn for a banking sector that provides optimum confidence and adequate value. It is gladdening to note that this watershed legislation and the subsequent legislations have been instrumental to guiding and directing financial sector reforms in Nigeria. Indeed, Legislators have been very articulate and focused on providing the needed institutional and legal environments for regulators in the financial services sector to ensure that the banking sector is not lacking in appropriate legislations that would impact positively on the economy.

12. One of such institutional and legal environment was the autonomy granted to the Central Bank of Nigeria in 1999 to ensure that the Bank operates without political interference, in line with international best practice. Within the ambit of its enabling legislations and strengthened autonomy, the CBN has over the years focused on its key mandate of ensuring monetary and price stability in Nigeria.

13. **Distinguished legislators, ladies and gentlemen**, while I do not intend to dwell on the proposed plan to amend the 2007 CBN Act and to tinker with the Bank's autonomy; I want to emphasize the need for the Legislators to examine this issue with the best interest of the financial sector and effective monetary policy at heart. I also wish to add that

the Central Bank of Nigeria requires autonomy to enable it function appropriately according to its expert and independent viewpoint. Indeed, the global trend have been towards full independence for central banks and its budgetary and instrument autonomy are the reasons why most central banks are now proactive rather than reactive in the discharge of their responsibilities. With independence, central banks are able to anticipate and identify problems and unintended outcomes and respond immediately with appropriate policy actions.

14. As we are all aware, the CBN over the years had initiated and implemented various policies and measures to stabilize the Nigerian financial system. The thrust of the recent financial sector reforms was to grow the banks and reposition them to play pivotal roles in driving development in other sectors of the economy, as well as induce improvements in their own operational efficiency.
15. For instance, the bank consolidation exercise in 2004 led to a drastic reduction in the number of operating banks and enhanced their capital base. Though the global financial and economic crises in 2008 strained the gains from the exercise, compounded by the risky adventures of operators in the financial markets in the form of margin loans and other high risk investments in oil and gas sub-sectors, the CBN took steps to address the situation, including the establishment of the Asset Management Corporation of Nigeria (AMCON) to relief banks of non-performing assets; the bailout funds for banks that were badly hit by the crises and different real sector intervention projects were shaped by both domestic economic problems and the global financial and economic crises. I make bold to say that the positive gains from

this exercise would not have been made possible without the requisite legal and institutional frameworks in place.

16. **Distinguished ladies and gentlemen**, the financial system which, plays key roles in the mobilization and allocation of savings for productive uses, provide structures and framework for monetary management as well as provides the basis for managing liquidity in the economy. The recent “Cash-less Policy” is aimed at addressing the currency management challenges in Nigeria, as well as enhance the national payments system. As we all know, the Nigerian economy is heavily cash-oriented in the transaction of goods and services. The huge cash transactions increase the operational costs of the banking sector, which is passed down to the customers in the form of high service charges and high lending rates.
17. The operational costs were wholly due to the high cost accrued in cash management, currency sorting, cash movements and frequent printing of currency notes at a high cost to the Bank. Research has shown that about 90 per cent of bank customers’ daily withdrawals are of amounts below N150,000 whereas, only 10 per cent of bank customers who withdraw over N150,000 are responsible for the rise in cost of cash management being incurred by all the bank customers.
18. **Distinguished ladies and gentlemen**, you will agree with me that the various reforms of the financial system in Nigeria have yielded positive results in the economy notwithstanding some challenges. Very importantly, the reforms were carried out without depositors losing their money, while all the Nigerian banks have been fully recapitalized and in addition, no bank failed. Furthermore, the Bank has articulated and

adopted various legal, institutional and governance measures, with resolute passion to put the financial system on the path of long-term stability and efficiency.

19. It is evident that some of the reform measures have yielded gains that have impacted positively on the economic and financial environment. The past two decades have witnessed improved general macroeconomic environment, access to finance, financial inclusion, payments and settlement system, employment generation, and strengthening of the market mechanisms in the country.

20. Let me also say that the successes achieved over the years would not have been possible without the right legal framework. The CBN Act of 2007 incorporates these requirements, and for the first time, clearly spelt out monetary and price stability as the key mandate of the CBN, something that could only be inferred in the previous legislations. Consequently, it made it possible for the Bank to join global central banks that are specifically tasked to keep inflation low and stable, recognizing the importance of price stability to the economic development process. The current Act also fully grants the CBN autonomy to choose its instruments for the purpose of meeting its mandate.

21. However, to consolidate the gains so far made in the financial sector reform processes and arrest the challenges, there would be need for other complementary reforms to address the rising incidence of poverty and growing unemployment rate, insecurity of life and property, lack of basic amenities and inadequate infrastructure, high rate of fraud and

corruption, youth restiveness and other social vices, which constitute hindrances to our growth prospects.

22. The reforms needed to guarantee these must focus on diversifying the economy away from being oil dependent to agro and industrial-based economy, and from being import dependent to a net exporter of finished goods and services. In addition, transparent fiscal operations, development-oriented monetary and exchange rate policies, and adherence to the rule-of-law and respect for the sanctity of contract as well as commitment to fighting corruption are essential to the achievement of sustainable growth and development. These are the ultimate ingredients for the attainment of social security in Nigeria. We must break away from the past to deliver a new Nigeria that the future generations will cherish and believe in.

23. **Ladies and gentlemen**, our task in the Seminar therefore should focus on how various institutions of government can work with the legislative arm to fast-track all pending legislative bills at the national assembly that are intended to form the building blocks of a well-functioning and effective financial sector. This is very important especially at this time when the world's attention is focused on Nigeria and the investment opportunities in the country. Getting things right in terms of the legal foundation will help attract the needed investment in the country and contribute to the growth and development of the real economy.

24. **Distinguished Ladies and gentlemen**, once more, I welcome you all to this First edition of the National Seminar on Banking, Finance and Allied Matters for Legislators and wish you a fruitful deliberation.

Thank you for your attention.

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