

THOUGHTS ON BUILDING EFFECTIVE SUPERVISION IN THE ERA OF CROSS-BORDER BANKS IN AFRICA¹

BY

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1.0 Introduction

It is my pleasure to deliver this keynote address at the 17th regular meeting of the College of Supervisors of West African Monetary Zone (CSWAMZ). I understand this is the fourth time the Central Bank of Nigeria (CBN) is hosting the College meeting in Abuja, which coincides with Nigeria's hosting of the Convergence Council Meeting of Governors of Central Banks and Finance Ministers of the ECOWAS region. It is also my maiden visit to the College as the Governor of the CBN.

The foremost objective of any supervisory college such as yours is to facilitate prompt information sharing and cooperation between the home and host supervisors of a cross-border banking group and ensure collaboration and effective coordination of decisions in the event of an imminent failure or systemic crisis.

That is why it is not surprising that the introduction of the Basel II framework, and later Basel III, stressed the need for home and host supervisors to work together for the review, validation and approval of risk measurement models, especially for regionally and globally systemically important banks (SIBs). This requirement has further enhanced the status of Supervisory Colleges as an important component of cross-border supervisory mechanism, following its endorsement by the G20 countries as a necessary tool for effective cross-border supervision.

The theme of my address this morning, therefore, is on “**Building Effective Partnership and Collaboration in Cross Border Banking, Supervision and Financial Integration in the ECOWAS –What Role for**

Supervisory Colleges?” I have carefully chosen this subject for my keynote speech because of the rapidly changing structure of African financial markets as well as developments in some Nigerian banks’ subsidiaries in the WAMZ involving regulatory interventions by the host authorities.

Let me first lay the groundwork for this discussion by describing the current state of banking in the African continent, with emphasis on cross-border banking.

2.0 Growth in African cross-border banks and non-bank intermediaries

Cross-border banks are not new to the African continent. Indeed, European cross-border banks and insurance companies have been in existence in Sub Sahara Africa (SSA) since imposition of colonial rule in the continent. What is new, however, is the emergence of dominant cross-border financial institutions, which are owned, controlled and managed by African entrepreneurs and professionals. While there are a number of reasons for this rapid expansion, the increasing growth in African cross-border banking groups is further fueled by the stringent regulatory requirements imposed by the US and European Union on their banks, which have limited their capacity to expand and finance new businesses in Africa.

On the back of these expansions, African banks have been ranked by The Banker magazine as having generated the highest returns to shareholders in 2013. In its 2014 Top 1000 Bank rankings released in early July 2014, The Banker reported that “in terms of profit generation, African banks made

the highest returns on capital of 24 per cent — double the average return for the rest of the globe and far exceeding average returns of only four per cent in Europe.

In addition to the impressive returns for shareholders, cross-border banks have been beneficial to host communities in more ways than one.

3.0 Contributions of cross-border banking to Host Countries in ECOWAS

African cross-border banks have brought significant benefits to host and home countries over the past decade. Unlike several banks with American and European origin, which were focused on the high end of the market, African cross-border banks such as United Bank for Africa, Standard Bank, Ecobank, First Bank of Nigeria, Zenith Bank, and Access Bank, to mention but a few, have been involved in grass root banking in their host communities. They help finance the real sectors of the economy, including SMEs and help bring the hitherto unbanked population into the formal banking system, thus facilitating financial inclusion, inclusion growth and job creation.

The activities of these banks have contributed significantly to changing the competitive landscape in the host countries, thus enhancing the efficiency of their banking systems through, electronic banking, Automated Teller machines, internet banking, mobile money and other e-payment channels. African cross-border banks have also created new jobs, helped build middle and top-level managerial capacity and improved overall financial capability of host countries.

While noting these outcomes, one must not fail to highlight the challenges that accompany cross-border expansion of banks.

4.0 Challenges of cross-border banking and financial integration in ECOWAS

Firstly, operating in multiple jurisdictions creates regulatory and compliance challenges as banks are expected to report to both the home and host country supervisors who may have different regulatory reporting standards and requirements. This may require that the same information be formatted using different templates to meet the needs of each supervisor, which may result in duplication of efforts and increased costs in terms of time and other resources.

Secondly, the differences in the roles and responsibilities of the home and host country supervisors may create challenges and frictions, which may result in achieving goals that are at variance with the economic objectives of the host or home countries. For example, in some jurisdictions, the central bank is responsible for banking, securities and insurance supervision, while in others the responsibility for securities and insurance rest with different regulators.

Thirdly, restrictions in the movement of capital and labour using various exchange control and restrictive labour laws exert undue pressure on technical and executive capacity in some host countries.

Fourthly, the non-convertibility of currencies of the ECOWAS countries compels them to denominate their cross-border trade transactions in major international currencies such as the U.S. dollar, thus aggravating exchange risks.

5.0 Steps toward building partnership for cross-border banking in ECOWAS

Distinguished bank supervisors, ladies and gentlemen, permit me at this juncture to briefly share my thoughts on how to build and foster an enduring partnership in cross-border banking and supervision in the ECOWAS.

Building partnership and effective cooperation in cross border banking and supervision will require home and host regulatory and supervisory authorities to take the follows steps:

- i. Work assiduously towards achieving convergence of regulatory and supervisory standards and reporting across member states
- ii. Create a level playing field for African indigenous and foreign banks by reviewing all existing requirements that tend to discriminate against foreign banks, particularly on minimum regulatory capital and foreign exchange remittances;
- iii. Collaborate with other stakeholders to develop and deepen the money and capital markets in member countries so as to broaden the range of investment opportunities for banks in the domestic economies;

- iv. Work with relevant stakeholders to review laws that impede effective loan recovery and provide loopholes for fraudulent customers and employees;
- v. Implement the policy of “naming and shaming” for bank-loan defaulters and barring them from accessing further credit from the entire financial services industry;
- vi. Work with relevant stakeholders to constantly review labour laws so as to ensure improved staff productivity and promote healthy employer-employee relations.
- vii. Implement joint crisis preparedness and management framework, which will include joint crisis simulation exercises, to mitigate the impact of crisis
- viii. Jointly address challenges posed by systemically important cross-border banking groups;
- ix. Implement the International Financial Reporting Standards for all banks in the region, except in situations where the scale of operations dictates otherwise such as community, rural, savings associations and microfinance banks.
- x. Communicate and share supervisory and relevant financial and macro-economic information with each other and respect the provisions of established agreements.

6.0 Conclusion

Distinguished guests, ladies and gentlemen, I believe the foregoing remarks have provided you the necessary insight and direction for deliberations at today’s and future meetings of your College. Given the impressive turnout of this event, I foresee greater cooperation and

partnership among the various supervisors in ECOWAS. I therefore urge you all to participate fully in the proceedings, and come up with expert recommendations for the consideration of the Committee of Governors. I believe that we all share in the common goal of safe and sound cross-border financial institutions, that partners with the host countries to promote sustainable economic growth, while upholding the highest standards of corporate governance and regulatory compliance.

Finally, I encourage you to take some time to move round and appreciate the beautiful city of Abuja, and explore the limitless opportunities that abound in our great country.

On this note, permit me ladies and gentlemen, to formally declare the meeting open. I thank you for your attention.