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TO: ALL LICENSED BANKS

GUIDELINES FOR THE PRACTICE OF UNIVERSAL BANKING IN NIGERIA

1.0 **INTRODUCTION**

Following the CBN approval-in-principle of the adoption of Universal Banking (UB) in Nigeria, and the subsequent ratification of the Report of the Committee on the Preparation of Guidelines for same, the Governor of the Central Bank of Nigeria in the exercise of the powers conferred on him by the provisions of Section 61 of Banks and Other Financial Institutions Decree (BOFID) 1991 as amended, has approved the issuance of the following guidelines to all banks for the implementation of universal banking in Nigeria with effect from January 1, 2001.

To give effect to the adoption of the concept therefore, banking business in Nigeria shall be defined as:

“the business of receiving deposits on current, savings or other accounts; paying or collecting cheques drawn or paid in by customers; provision of finance, consultancy and advisory services relating to corporate and investment matters; making or managing investment on behalf of any person; and the provision of insurance marketing services and capital market business or such other services as the Governor of the Central Bank of Nigeria, may, by gazette, designate as banking business.”

Banks are free to choose which activity or activities to undertake (money or capital market activities or insurance marketing services or a combination thereof) and are expected to comply with the guidelines specified for such activity or activities. Consequently, a bank will be regulated based on the type of activities it engages in.

In view of the above, a single uniform licence will be issued to all conventional banks desirous of practising Universal Banking without delineation as to ‘commercial’ or ‘merchant’, after returning the old licence to the Central Bank for cancellation.

Non-conventional banks like the development and other specialised institutions shall continue to perform their specialised roles.

2.0 **ACTIVITIES THAT BANKS CAN UNDERTAKE:**

Apart from the conventional banking functions like receiving deposits on current, savings, or other accounts, paying or collecting cheques drawn by or paid in by customers, provision of finance or credit facilities, banks, under the UB programme, can choose to undertake one, or a combination of the following:

- Clearing House activities
- **Capital Market Activities e.g.** Underwriting/Issuing House activities
- Insurance services

3.0 **RELEVANT GUIDELINES:**

3.1 **Clearing House Activities**

Banks undertaking central clearing house activities will be expected to meet the capital requirement, branch network and a minimum level of information technology as will be specified eventually by the Nigerian Inter-bank Settlement System/Nigerian Automated Clearing System (NIBSS/NACS) project.

Banks are also expected to comply with the current Clearing House Rules.

Pending the conclusion of the NIBSS project, all banks under the UB can apply to be admitted into the Clearing House based on the existing Clearing House Rules.

3.2 **Underwriting/Issuing House Activities**

Underwriting in Nigeria includes standby and firm underwriting. Issuing house activities essentially involve arranging the issue of equity and/or debt instruments on behalf of another company, local, state or federal governments and the provision of advisory services on funding opportunities, capital restructuring, etc.

Banks embarking on underwriting/issuing house activities under UB practice in Nigeria are expected to comply with the following regulations:

- i) Meet the **registration and all other regulatory** requirements specified by the capital market regulator, that is, the Securities and Exchange Commission.
- ii) Classify as loans all securities acquired under underwriting commitment and not disposed of within **twelve** months, which, furthermore, should be subjected to the prudential requirements and restrictions on loans e.g the single obligor restriction, loan loss provision, etc.
- iii) Ensure that underwriting on firm commitments does not exceed the single obligor limit of 35% of shareholders funds unimpaired by losses. Furthermore,

the prevailing prudential lending ratio between deposits and loans and advances should be maintained.

- iv) Ensure that their stand-by commitments should not exceed the limit of 1.75 times their shareholders funds unimpaired by losses.
- v) Maintain adequate and separate records for all capital market activities.
- vi) ***Use existing return formats*** to render separate returns on capital market activities as determined by the respective regulator - i.e CBN, SEC, etc. ***pending the harmonisation of the return formats.***
- vii) Disclose their capital market activities in both the regulatory returns and the published accounts.

3.3 Insurance Activities

Banks can provide insurance services as specified below.

- a) Agency services)
- b) Brokerage services) (a & b marketing services)
- c) Underwriting services)
- d) Loss adjusting services) (c & d underwriting services)
- e) Re-insurance services)
- f) Retrocessionaire services) (e & f - reinsurance services)

Banks may provide insurance marketing services (a) and b) above) directly. However, banks may provide underwriting (c) and d) above) and re-insurance services indirectly through a subsidiary or an associated company.

Banks can therefore undertake insurance services as specified under the insurance guidelines as outlined below and can invest in subsidiary companies that engage in financial activities only as provided for in Section 21 (d) of BOFID 1991, as amended.

The following regulations are for banks that may wish to engage in insurance business under universal banking.

- i) An insurance subsidiary of a bank shall comply with the capitalization requirements under the Insurance Decree No.2 of 1997 and any subsequent amendments;
- ii) All insurance activities wherever they occur shall be licensed and regulated by NAICOM and subject to the provisions of the Insurance Decree of 1997 or such other insurance laws as may be enacted.

- iii) An insurance policy should not be rejected solely because the policy has been issued or underwritten by a person not associated with the bank when such insurance is required in connection with a loan or extension of credit.
- iv) A debtor, insurer, or insurance agent or broker must not pay a separate charge for the handling of insurance that is required in connection with a loan unless such is required when the bank's affiliate is the licensed insurance agent or broker providing the insurance.
- v) There should be no payment or receipt of any commission or brokerage fee for service as a broker or agent unless such a person is properly licensed by NAICOM.
- vi) A bank shall not release any insurance information about a customer to any person other than an employee, agent, subsidiary, or affiliate of a bank for the purpose of soliciting or selling insurance without the consent of the customer.
- vii) A bank shall not use health information obtained from the insurance records of customers for any purpose, without the customer's consent except for activities as licensed insurance agent or brokers.
- viii) A bank shall not insist, for extension of credit, on the condition that the customer obtains insurance from the bank's affiliate/associate or a particular insurer, agent, or a broker, but must inform the customer or prospective customer that insurance is required in order to obtain a loan, and that approval of a loan is contingent upon the customer obtaining insurance, or that insurance is available from the institution.
- ix) Banks shall not require that, when a customer's application for a loan is pending and insurance is offered to the customer or it is required in connection with the loan, a written disclosure be provided to the customer indicating that his choice of an insurance provider will not affect the credit decision or credit terms except that the bank may impose reasonable requirements concerning the credit worthiness of the insurance provider and scope of coverage.
- x) The bank shall clearly and conspicuously disclose to the customer, prior to the sale of any insurance policy, that such policy is not:
 - (a) a deposit;
 - (b) insured by the NDIC;
 - (c) guaranteed by the bank; and
 - (d) an investment.
- xi) Credit and insurance transactions should be completed through separate documents when a customer obtains insurance and credit from a bank;

- xii) An insurance company shall not transfer its funds to a bank which is either its holding or associated company without clearance from NAICOM ***except for the purpose of investment.***
- xiii) A bank shall not issue instructions to its insurance subsidiary or associate that will affect the insurance funds adversely or commit insurance funds to a purpose outside insurance, except dividends declared;
- xiv) A bank shall not include the expenses of insurance premiums in the primary credit transaction without the customer's consent, where the customer obtains insurance and credit from a bank;
- xv) Banks shall be required to maintain separate and distinct records relating to insurance transactions and such records should be made available to the appropriate regulators;
- xvi) *Banks should also disclose specifically among other things earnings from insurance activities in their published accounts.*

4.0 SUPERVISORY FRAMEWORK UNDER UNIVERSAL BANKING

UB practice in Nigeria is expected to engender the emergence and existence of financial conglomerates and large banking groups which will involve the different regulatory authorities in Nigeria - CBN, SEC, NAICOM and CAC. Greater co-operation and co-ordination will therefore be expected among these regulatory authorities ***particularly through the FSRCC of which the CBN is the Chairman.***

The CBN however, would be the lead regulator, where a bank undertakes other financial activities specified under the UB practice in Nigeria. Consequently, the CBN would be responsible for the consolidated supervision of such banks.

5.0 NEED FOR SELF REGULATORY ORGANISATIONS:

The involvement of the industry operators in the preparation of UB guidelines underlines the need for the co-operation of the operators in the smooth operation of UB in Nigeria. In the same manner, the co-operation of Self

Regulatory Organisations (SROs) is a crucial tool for the effective regulation of UB practice in Nigeria. Consequently the CBN and the other regulators will continue to encourage the emergence and survival of, and co-operation among, SROs, under the Universal Banking system.



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