FOREWORD

In 1999, the Nigerian financial services industry, particularly the banking sector, witnessed further developments characterized by increased complexity, competitiveness and reforms, and the impact of a globalised environment that is increasingly driven by information technology. These, coupled with the instrument autonomy granted to the CBN further tasked its capacity to ensure the effective promotion of monetary stability and a sound financial system. As the apex institution in the financial sector, the CBN took major steps to restructure and re-engineer its operations and processes, with a new focus on efficient and prompt service delivery to its stakeholders, to ensure sustainable economic growth and development.

The stability and soundness of the financial system largely depends on the efficiency and effectiveness of the supervisory processes. The regulation and supervision of banks and other financial institutions are being refocused, to create and sustain an enabling environment for a sound financial system. With further amendments to the Central Bank Act and Banks and Other Financial Institutions Act in 1999, the CBN became better positioned to enhance the safety and soundness of the financial sector. The effectiveness of monetary and banking policies which, hitherto, had been constrained by the distress in the system, is now assured.

Towards the promotion of a safe and sound financial system in the country, the Bank, in the year under focus, sustained its efforts at resolving the distress scourge that has bedevilled the financial system. New investors were encouraged to recapitalise/restructure some distressed banks while other resolution strategies were in advanced stages of implementation, in respect of the remaining distressed banks.

In order to ensure an adequate capital base for new banks, the minimum paid-up capital requirement was increased from N500 million to N1 billion.

In response to its instrument autonomy, and the increased supervisory responsibilities entrusted upon it, the Bank took steps to strengthen the operations of the other financial institutions sub-sector. The minimum paid-up capital for primary mortgage institutions was increased from N20 million to N100 million with August 2001 as the deadline for compliance. The Bank also set up a Monetary Policy Committee to promote efficient monetary management.

The Bank Examination and Banking Supervision Departments held retreats to appraise their performance and fashion out ways of improving their service delivery. During the year, efforts were made to enhance the performance of the Banking Analysis System. In line with the global concern about the Y2K problem, the Bank took steps to sensitise the financial institutions. They were put under strict surveillance to ensure that their IT applications were Y2K compliant.

In line with its effort to ensure a level playing field, five (5) additional approvals were given for conversion of merchant banks to commercial banks. As a result of the clamour for universal banking, the Bank came to the conclusion that the time was ripe for its introduction. Consequently, efforts have commenced to produce the necessary guidelines.

We are encouraged by the commendations we have received on the quality and usefulness of last year's report. This has no doubt given us the impetus to strive for continuous improvement in this and subsequent reports.

DR. SHAMSUDDEEN USMAN

DEPUTY GOVERNOR
DOMESTIC MONETARY AND BANKING POLICY
CENTRAL BANK OF NIGERIA

PREFACE

To effectively execute the duty of promoting monetary stability and a sound financial structure in Nigeria, information dissemination on the statutory responsibilities, activities, constraints and challenges of the supervisory function, constitute a vital tool. The Banking Supervision Annual Report is therefore intended to provide a vehicle for reaching out to all stakeholders. In line with earlier editions, this edition is arranged into five chapters.

Chapter one deals with recent developments in the financial services industry. In this section, the need for cooperation and coordination of the activities of the numerous regulatory and supervisory agencies on issues of common concern was addressed. The crucial role of the Financial Services Regulation Coordinating Committee (FSRCC) in this regard, was re-echoed. Also, the chapter addresses the desirability of extending the assessment of banks' performance beyond the traditional CAMEL parameters to recognise the business, control, and operational risk profiles of institutions. To this end, a new approach to bank rating which revolves around the concept of a risk-focused supervision is being canvassed. Furthermore, the chapter highlights the revised guidelines for discount houses and finance companies which are aimed at enhancing the performance of the other Financial Institutions sub-sector. Other issues

covered in the section include the development of a Web-enabled CRMS as well as updates on the licensing of new banks and distress resolution in the financial system.

Chapter two is devoted to a number of current issues in supervision. These include the rapid development in information technology and its challenges as well as prospects for supervision, the re-emergence of foreign-owned banks in response to the favourable investment climate and the implications for cross border supervision. An update on the Year 2000 compliance by financial institutions is also contained in the section. Since the efficient functioning of the nation's economy is largely dependent on the strength of the financial system, some survival strategies for banks in a competitive environment such as ours, were identified in this chapter. With the expected adoption of universal banking (UB), the attendant supervisory challenges ought to agitate the minds of supervisors. The article on UB, therefore, attempts to give an insight into some of the supervisory issues involved. In 1999, the foreign exchange market was further deregulated with the re-introduction of the Interbank Foreign Exchange Market (IFEM). The implications of the reform for supervision is accordingly examined in this chapter. The responsibilities of supervisors in fraud prevention as well as the dismantling of barriers on international trade through globalisation, fostered by advances in information technology and the impact of such globalisation on the Nigerian financial system, are other issues treated in this section.

To further enhance the effectiveness of the CBN as the regulator and supervisor of the financial system, some amendments were made in 1999 to the relevant enabling laws, namely the Banks and Other Financial Institutions' (BOFI)

Act 1991 as amended and the CBN Act 1991. The relevant amendments are highlighted in chapter three.

Chapter four is a general review of the performance of the banking sector during the year, while chapter five deals with capacity building for supervision. Due to the increased complexity of financial activities, there is the need to beef up regulatory and supervisory capacity. Hence, various proposals aimed at improving the supervisory apparatus for enhanced efficiency formed the critical issues dealt with during the Supervisors' Retreat as well as the Bank Examiners Conference which took place during the year.

Conscious efforts have been made to improve the quality and standard of the current edition. The Directors of Bank Examination and Banking Supervision Departments express their profound gratitude to the Governor, the Deputy Governor, Domestic Monetary and Banking Policy and the entire management of the CBN for their unflinching support for this project. Similarly, the efforts of the members of the Banking

Supervision Annual Report Committee and other staff who contributed inputs and provided secretarial assistance towards the successful preparation of this Report, are highly appreciated.

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BANK EXAMINATION DEPT.

O. I. IMALA
DIRECTOR
BANKING SUPERVISION DEPT.

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The Banking Supervision Annual Report is a publication of the Bank Examination and Banking Supervision Departments of the Central Bank of Nigeria. The publication reviews policy and operational issues affecting the financial sector and its regulation/supervision, with the main objective of disseminating information on current issues.

Any enquiry regarding the publication should be addressed to the Director of Banking Supervision, Central Bank of Nigeria, Zaria Street, Off Samuel Ladoke Akintola Boulevard, P.M.B. 0187, Garki, Abuja - Nigeria.

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CHAPTER ONE

1.00 DEVELOPMENTS IN THE FINANCIAL SERVICES INDUSTRY

1.01 CO-OPERATION AMONG SUPERVISORY AGENCIES

The financial sector liberalisation which came with the introduction of the Structural Adjustment Programme (SAP) in 1986 resulted in an upsurge in the number and variety of financial institutions, instruments, markets and products, thus necessitating the establishment of many regulatory and supervisory agencies. With deregulation, financial conglomerates emerged. Under such a regime, supervision of institutions on a solo basis at best could only result in an incomplete assessment of the institutions to the detriment of the entire financial system. There was therefore the need to co-ordinate supervision in order to ensure and promote a safe, sound, and virile financial system in the country.

The CBN in April, 1994 undertook to facilitate a formal framework for the co-ordination of regulatory and supervisory activities in the Nigerian financial sector. Consequently, the Financial Services Coordinating Committee (FSCC) was inaugurated in May 1994 to address more effectively through consultations and regular inter-agency meetings, issues of common concern to regulatory and supervisory bodies. The name of the Committee was subsequently changed to Financial Services Regulation Coordinating Committee (FSRCC). Although the Committee has been in existence since 1994, it was only accorded legal status by the 1998 amendment to Section 38 of the CBN Act 1991 and formally inaugurated by the Governor in May, 1999. The Committee comprises the Central Bank of Nigeria (as Chairman), Securities and Exchange Commission, National Insurance Commission, Corporate Affairs Commission and the Federal Ministry of Finance. In order to enhance the effectiveness of the Committee, the Nigeria Deposit Insurance Corporation, The Nigerian Stock Exchange and National Board for Community Banks were co-opted as observers.

The objectives of the reconstituted Committee were to:

a] coordinate the supervision of financial institutions;

b] cause the reduction of arbitrage opportunities usually created by differing regulatory and supervisory standards among supervisory authorities in the country;

c] deliberate on problems experienced by any member in its relationship with any financial institution;

d] eliminate any information gap encountered by any regulatory agency in its relationship with any group of financial institutions;

e] articulate the strategies for the promotion of safe, sound and efficient practices by financial intermediaries; and

f] deliberate on such other issues as may be specified from time to time.

During the period under review, the FSRCC successfully reconstituted the five standing sub-committees to execute its activities. The five sub-committees were inaugurated by the Deputy Governor, (DM & BP) of CBN on Thursday, 5th August, 1999, with their respective terms of reference as follows:

a] **The Financial Sector Distress Sub-Committee was to:**

- identify the causes of distress in the financial system;
- examine the depth of financial sector distress;
- examine resolution options adopted so far; and
- recommend any other solutions and measures to avert any future systemic distress.

b] **The Harmonisation and Coordinating Sub-Committee was to:**

- examine the regulatory and supervisory standards of each member;

- identify any gaps or absence of supervision and formulate appropriate minimum standards;
- identify areas of overlap among the functions and activities of the regulatory institutions with a view to harmonisation;
- recommend areas of joint supervision and enforcement;
- propose ways and means of assisting capacity building among the members; and
- adopt any other measures that could assist in effecting due harmonisation and coordination of supervisory standards from time to time.

c] **The Information Sharing Sub-Committee was to:**

- identify the types of information that needed to be shared;
- identify the constraints that militated against information sharing and recommend solutions to remove such constraints;
- recommend the mechanism and procedures for

- information sharing and resolution of conflicts in information sharing;
- recommend measures to guard against the misuse of information; and
- handle any other related mandate that might be assigned by the FSRCC from time to time.

d] **The Legal and Enforcement Sub-Committee was to**:

- examine the existing legal/regulatory frameworks of the members, with a view to identifying areas of overlaps, gaps, conflicts, ambiguities and inconsistencies;
- identify areas of enforcement cooperation and make appropriate recommendations to promote such cooperation;
- prepare a draft Memorandum of Understanding (MOU) to facilitate the achievement of the objectives of the FSRCC; and
- tackle any other matters assigned to it from time to time by the FSRCC.

-

e] **The Financial Market Development Sub-committee was to:**

- identify and recommend areas requiring development within the financial system;
- identify problem areas requiring urgent attention and make appropriate recommendations for solutions;
- make periodic reports on the health of the financial system; and
- tackle any other matters assigned to it from time to time by the FSRCC.

The FSRCC, working through its five Sub-Committees, had focused on issues concerning the regulatory responsibilities of members through the sharing of experiences and exchange of relevant information.

Moreover, problems, gaps, conflict areas and inconsistencies in the different enabling laws of the member organisations were identified and appropriate recommendations were proffered.

The major issues deliberated upon by the Committee included financial sector distress in Nigeria, the framework for information sharing among the regulatory authorities and the prospects for the harmonisation of regulatory and supervisory standards. In addition, the underlisted specific issues were addressed during the year:

- adoption of the Code of Good Practices and Transparency in Monetary and Financial Policies by member institutions.
- training of operators in the insurance sub-sector by Financial Institutions Training Centre (FITC);
- establishment of Capital Market Desk at the Federal Ministry of Finance (FMF);
- framework for the protection of uninsured deposits of community banks; and
- proposal by the Nigerian Stock Exchange on the integration of financial regulators in Nigeria via the VSAT.

With the efforts towards the adoption of universal banking (in Nigeria), the FSRCC is expected to play a vital role in the area of consolidated supervision of the financial system.

1.02 NEW APPROACH TO BANK RATING

One of the supervisory roles of the Central Bank of Nigeria is to determine banks' performance levels and identify constraining factors with a view to instituting appropriate measures to address such constraints. Bank rating has become one of the most efficient and effective tools used to achieve this role. It provides a useful framework for determining the performance of individual institutions on the basis of which useful conclusions can be made on how well the entire system is performing.

Hitherto, a bank's performance was often evaluated in terms of capital adequacy, assets quality, management, earnings and liquidity (CAMEL). These, except management, were usually quantitatively measured. However, recent studies have shown that there are other important qualitative factors and extraneous risks which should equally be evaluated in order to appropriately categorise a bank. This has led to a new approach to bank rating, which involves the application of both quantitative and qualitative tools in risk measurement.

In the new approach, risks are categorised into two groups, viz: business and control risks. Nine evaluation factors have been identified. Business risks comprise six factors namely capital, assets, market, earnings, liabilities and business while control risks include internal and other controls, organisation and management. These factors are given the acronym CAMELBCOM.

Each of the quantitative factors is assessed using key ratios and trend analysis while the qualitative ones are assessed to highlight weaknesses or risks inherent in business activities. The bank being assessed is thereafter subjected to peer group comparison.

The following analysis highlights the additional issues to be considered in the new approach:

(a) **BUSINESS**

- understand and evaluate the economic and political environment, and the market in which the bank operates;
- evaluate the competitive framework and the bank's position within it;
- assess the potential threats or opportunities posed to the bank by its environment e.g access to markets and barriers to entry for new market entrants;
- review the bank's key products, their importance, riskiness and complexity.
- evaluate concentrations in markets, products and countries;
- assess the impact the strategic plan is likely to have on the business;
- consider the impact of other group companies, parent and closely linked entities on the bank;
- assess the impact of shareholders, including dividend policy,

and their ability to provide additional capital;

- assess the recruitment, training and staff retention policy;
- consider the remuneration strategy including bonus schemes and the impact of losing key employees;
- assess other risks impacting on the business, such as litigation risk, reputation risk, event risk and IT risk;
- assess the composition, concentration, geographical spread, source, stability and loyalty of customers, including their price sensitivity and level of sophistication;
- evaluate the bank's ability to attract and retain new customers;
- assess the likely quality, sustainability and volatility of future profitability, taking into account factors such as the planned business activity.

(b) **CONTROLS**

- assess whether there are adequate controls of the business and records;
- ensure that the decision making framework is clear and documented, with appropriate delegated authorities and clear accountability at all levels;

- review whether risks (such as credit, market and liquidity) are identified, evaluated, monitored and reported in an appropriate and timely manner;
- assess the appropriateness of personnel involved in the risk management framework, including their independence and experience;
- review the adequacy of controls and policies, including the setting of limits, monitoring of utilisation and production of exception reports;
- review controls over significant business units, IT, new product approval and money laundering;
- consider the adequacy, accuracy and timeliness of financial and management reporting at all levels to appropriate personnel, including monitoring of performance against budget;
- assess the independence, quality and effectiveness of audit (internal and external) and compliance functions;
- review the experience and qualifications of staff, and the appropriateness of the audit coverage.

(c) **ORGANISATION**

- assess the organisational structure;
- assess the transparency of the legal structure, including whether close links and shareholder controls are easily identifiable;
- assess the independence and /or inter-relationship of the bank with other parts of the group, including controls exercised over the bank by other parts of the group;
- consider whether the bank has clear reporting lines on a legal, functional or geographical basis and that reconciliation between legal and business reporting is undertaken where appropriate;
- consider the balance between functional and legal responsibilities; and
- assess whether the bank has adequate distinction at all levels between those committing the organisation to a transaction, recording it, settling it and controlling it.

(d) **MARKET RISKS**

- review the size of the bank’s trading e.g investment in securities;

- evaluate the performance of the trading activities, such as the volatility in profitability; and
- review the positions taken (such as FX, interest rates, equity) and the capital supporting them.

The new approach, if properly applied, will help the supervisors to determine the strengths and weaknesses of banks more accurately thereby enhancing the application of risk-focused examination concept.

1.03 ENHANCING THE PERFORMANCE OF THE OTHER FINANCIAL INSTITUTIONS

In its continued efforts towards enhancing the performance of the other financial institutions, the Central Bank of Nigeria reviewed the operational guidelines for discount houses and finance companies. Draft guidelines for the primary mortgage institutions are also being prepared. The development finance institutions [DFIs], however, continued to operate under their respective enabling decrees.

The following were some of the measures adopted in 1999 to enhance the performance of the other financial institutions:-

(a) **Discount Houses**

Revised guidelines for the discount houses were issued with the following major changes:

1. Expansion of the objectives and principal activities of

discount houses to include rendering of fund/portfolio management, financial advisory services and the acceptance of short-term wholesale deposits from the public.

2. Increase in the minimum paid-up capital requirement from N100 million [One hundred million naira] to N200 million [Two hundred million naira] and the non-refundable application fee from N10,000 [Ten thousand naira] to N100,000 [One hundred thousand naira]

3. Reduction in the investment of deposit liabilities in treasury bills from 70% to 60%.

4. Permission to enter into repurchase transactions with the CBN using eligible securities. All repurchase transactions (Repos) by discount houses were to be reported on-balance sheet if the securities used were owned by the discount houses, with the affected assets remaining in the books of the sellers (discounting houses), while the cash received by them would be recognised as a liability.

(b) **<u>Development Finance Institutions (DFIs)</u>**

There were nine [9] DFIs under the CBN's supervisory purview during the period under review. All had problems of under-capitalisation and poor asset quality. To sanitise the sub-sector, efforts were made to prescribe prudential standards comprising capital adequacy ratio of 15%, adjusted capital requirement of 1:10, borrowing/lending ratio of 80%.

In order to encourage rendition of returns by the DFIs, meetings were held with the defaulting institutions on how to complete the required returns while the process of revising the quarterly returns format to reflect their activities was initiated.

(c) **Finance Companies**

In an effort to sanitise the finance companies sub-sector which was characterised by severe distress, verification/spot checks were carried out on some finance companies while others were assessed off-site on the basis of their periodic returns. The purpose was to identify those that were healthy and viable and consequently take appropriate policy measures on those that had closed shop, stopped rendering returns, stopped carrying out finance company business or had their capital eroded.

With the introduction of the revised guidelines for finance companies in 1999, the minimum paid-up capital requirement was raised from N5 million to N20 million, with a compliance deadline of April 2001. Finance companies that fail to meet the deadline would have their authorisations determined.

The Technical Committee on Problem Finance Companies was reconstituted during the year to consider cases of failed finance companies with a view to referring the errant managers and debtors to the Police for investigation, prosecution and recovery of debts.

(d) **Primary Mortgage Institutions (PMIs)**

Following the transfer of PMIs to the CBN in 1997 and in order to overcome the problem created by the continued existence of the enabling decree for the PMIs, the CBN took the following steps:

- It created policy files for all the PMIs and obtained statistical information on their capital adequacy, total asset to mortgage lending and liquidity.
- The Bank conducted spot checks on the PMIs and, in consultation with the Federal Mortgage Bank of Nigeria Ltd. (FMBN), increased their minimum paid-up capital from ₦20 million to ₦100 million, with a two-year compliance period

ending August 31, 2001.

1.04 **FRAMEWORK FOR RISK FOCUSED SUPERVISION OF BANKS IN NIGERIA**

The conventional supervisory techniques placed more emphasis on the appraisal of the quality of assets, particularly the risk assets. Often times, supervisors had merely sought to determine whether the risk assets were performing or not. The ascertainment of the root cause of the poor asset performance was often superficially addressed with off-hand remarks on the borrowers' inability or failure to service the facilities. Not much indepth assessment was made, for example, of the inherent structural limitations which, ab initio, had rendered the assets unviable. Such critical factors as the quality of management, internal controls, information processing systems and sundry business/market risks of the financial institutions usually rendered an asset vulnerable to failure from the onset.

The recognition of the risk profile of an institution presupposes that appropriate measures had been instituted to hedge against these risks. The control of the inherent risks of a business can be termed risk management which ultimately rests with the Board. Risk management, however, must be driven from the top down by the people charged with the overall responsibility of running the business. An appropriate

framework would be based on proper identification of the risk exposure of a financial institution.

Basically, financial institutions are faced with two broad categories of risks. These are systematic and unsystematic risks. Systematic risks are those risks which cannot be completely diversified away because they are associated with movements in the economy. Also known as business risks, they include such market risks as interest rates, inflation, exchange rates and government spending which impact on vital survival pivots like capital, assets, earnings, liquidity and liabilities. On the other hand, the unsystematic or specific risks category are unique to the institution. They involve such factors as managerial performance, internal controls and information processing systems. Such risks are regarded as control or operational risks and are diversifiable through effective risk management processes. Operational risk is the unexpected loss that may result from deficiencies in information systems, managerial expertise and/or internal controls which are associated with human error, systems failure and inadequate controls and procedures. These control risks, impact severely on the overall performance of an institution. A loan facility, for instance, may fail to perform because of the poor appraisal and packaging, which are indicative of management inefficiency.

The importance of operational risk management, undoubtedly, informed the Basle Committee's devotion of several sections of the Core Principles For Effective Banking Supervision to risk supervision. Principles 11 to 15 and 21 of the document dealt with the subject of risk and thus, would logically form the framework for the development of a risk-focused supervision culture.

Briefly enunciated, the Principles require that supervisors must be satisfied that banks have in place:

- adequate policies and procedures for identifying, monitoring and controlling country risk and transfer risk;
- systems that accurately measure, monitor and adequately control market risks;
- a comprehensive risk management process (including appropriate Board and Senior Management oversight) to identify, measure, monitor and control all other material risks and where appropriate, to hold capital against these risks;
- adequate records drawn up in accordance with consistent

accounting policies and practices that enable the supervisors to obtain a true and fair view of the financial condition of the bank;

- internal controls that are adequate for the nature and scale of their business; and
- adequate policies and practices (including strict “know-your-customer” rules) that promote high ethical and professional standards in the financial system.

For effective risk-focused supervision therefore, supervisors must :

(i) be able to identify or ascertain the peculiar risk profile of each financial institution;

(ii) have regular contact with the management of financial institutions and thorough understanding of their operations;

(iii) ensure that internal controls do not only exist but are effective. No matter how impressive they appear on paper, internal controls are of little value unless they are thoroughly understood and strictly adhered to;

(iv) evolve procedures and training for comprehensive supervision;

(v) constantly review the legal framework to strengthen supervisory controls on the wide range of business risks;

(vi) set risk acceptance levels to facilitate measurement. In this case, supervisors must have power to impose specific limits or specific capital charge on market risk exposures, if necessary; and

(vii) adopt pragmatic problem-solving methods. For instance, training programmes such as seminars, workshops, secondment of supervisors to nascent financial institutions like community banks, primary mortgage institutions and finance companies can be organised to eradicate the endemic poor management syndrome in these institutions.

With the continuing developments of new financial products (derivatives, options, futures) and the growing importance of new payment systems, settlements and custody business, the prevalence of operational risk is rising. Its supervision should therefore agitate the minds and elicit the interest of supervisors. This implies that supervision can no longer be limited to the superficial ascertainment of the quality of assets only. Risk-focused supervision would therefore be adopted as an integral part of the supervisory process. In line with the above, the CBN has set in motion the process of its implementation.

1.05 **THE WEB-ENABLED CREDIT RISK MANAGEMENT SYSTYEM (CRMS)**

In an effort to enhance the effectiveness and efficiency of the CRMS, an entirely new system called the Web-enabled CRMS was developed. When fully operational, financial institutions would be able to access the CRMS via the Internet. The on-line and web-enabled version of the CRMS was designed to make rendition of returns and the retrieval of information faster and less cumbersome.

The development of the Y2K - compliant version of the CRMS was completed in October, 1999 while the testing of the system was concluded in November, 1999; after which a training session for all banks and

discount houses was held at the Financial Institutions Training Centre, Lagos.

It was expected that banks would embrace the system by rendering accurate returns that would produce a credible database from which they would also make on-line status enquiries in respect of their old and prospective borrowers.

As at 31st December, 1999, 27,272 borrowers had been reported to the Credit Bureau by commercial, merchant and development banks for the allocation of borrower codes. Out of this figure, credit returns had been sent for 11,923 borrowers by 86 banks. This revealed a total credit exposure of ₦201.2 billion which was less than 50% of the total risk assets of banks for the month of December, 1999. Adequate monitoring devices had, however, been put in place to ensure compliance. Presently, only banks participate in the CRMS but plans are in top gear to incorporate other financial institutions in the second quarter of year 2000, when the new system would have stabilised.

1.06 UPDATE ON LICENSING OF NEW BANKS AND OTHER FINANCIAL INSTITUTIONS

A. BANKS

Following the lifting of embargo on the licensing of new banks in 1999, a total of nine (9) applications were received out of which four were from foreign investors while five were from local investors. Out of the number, only Standard Chartered Bank Nigeria Limited, a foreign-owned bank was granted a commercial banking licence during the year, having met all the requirements. The bank commenced operations on 15th September, 1999 while the other eight (8) applications were at various stages of processing.

During the period, the minimum paid-up capital requirement for a new bank was increased from N500 million to N1 billion as shown in the Guidelines for new banking licence. The objective was to ensure that new entrants to the industry were adequately capitalised from inception in order to avoid the recurrence of distress associated with inadequate capital base.

B. FINANCE COMPANIES

During the period under review, an operating licence was granted to Opticom Leasing Company Limited to commence finance company business thus bringing the number of licensed finance companies to 280. Only one (1) new application was received during the year thereby bringing the cumulative number of applications received to date to 1809. An approval-in-principle was also granted to Liquid Investment Trust Finance and Securities Limited while the issuance of the final licence was awaiting the fulfilment of certain conditions.

C. DISCOUNT HOUSES

The guidelines for the operation of discount houses were reviewed in 1999. A major feature in the revised guidelines was the increase in the minimum paid-up capital from ₦100 million to ₦200 million. No new licence was issued during the period and therefore the number of discount houses operating in the system remained at five at the close of 1999.

D. BUREAUX DE CHANGE

No new licence was issued in 1999. However, six new applications were received bringing the cumulative total to 653. The total number of licensed bureaux de change as at the end of 1999 stood at 260.

E. COMMUNITY BANKS

The number of provisionally licenced community banks remained at 1,015 in 1999. No new licence was issued during the period.

F. **PRIMARY MORTGAGE INSTITUTIONS**

The number of licensed primary mortgage institutions stood at 195 as at December 1999. A draft guideline for the sub-sector was being prepared as at the end of the year.

1.07 UPDATE ON DISTRESS RESOLUTION IN THE FINANCIAL SYSTEM

Following the reconstitution and resuscitation in 1999 of the Joint CBN/NDIC Executive and Technical Committees on Problem Banks, the scourge of distress in the banking sector, which considerably weakened depositors confidence in banks in the last five years, had been effectively brought under control. The amendment to the laws which gave the Central Bank of Nigeria (CBN) the power to liquidate banks also helped the Bank in tackling the problem of distress. As at 31st December, 1999, the number of distressed banks dropped to 10 from 22 as at 31st December, 1998. This was largely due to the recapitalisation efforts of the shareholders of the affected banks and the interest shown by new investors.

During the period, investors were encouraged to acquire, take over and recapitalise the distressed banks. Consequently, an approval-in-principle was granted to two investors, O dua Group and Stanmark Nigeria Limited to jointly acquire the National Bank of Nigeria following the success of their bids. Arrangements were also completed to grant approvals-in-principle to the successful bidders for six (6) of the distressed banks.

The recapitalisation/restructuring plans from the prospective investors, in respect of the other four (4) ailing banks, had been received. The evaluation of the plans, including the screening of nominees to the board of directors and top management, had reached an advanced stage.

In the last one year, the CBN had taken a number of measures to strengthen the operations of community banks. A new supervisory/monitoring structure and operational guidelines had been proposed while a national survey had been conducted to determine the actual number of operational community banks. The on-going pre-licensing inspection of the community banks was designed to eliminate the distress that had plagued the sub-sector for a long time.

With the power granted to the Central Bank of Nigeria to liquidate institutions under its supervisory purview, it is expected that in the future more robust actions would be taken to address the issue of failing institutions**.**

CHAPTER TWO

2.00 ISSUES IN SUPERVISION

2.01 DEVELOPMENTS IN INFORMATION TECHNOLOGY (IT) AND THE CHALLENGES AND PROSPECTS FOR SUPERVISION

Information Technology (IT) has taken centre stage in human development efforts with the financial services industry becoming increasingly a very important player in its usage. Although the Nigerian financial services industry entered the IT race late, relative to its counterparts in the developed world, the expansion of communication infrastructure has made it possible for some Nigerian banks to join the league of advanced IT users the world over. This has also made Nigerian financial services industry to be vulnerable to the adverse developments in IT .

The century date-change created serious anxiety to hardware manufacturers, software developers and IT users. During the period 1997 to 1999, the Central Bank of Nigeria and the Nigeria Deposit Insurance Corporation took measures to ensure that the banks and the other financial services providers were Y2K compliant.

Another development in IT was in the area of product delivery. A lot of products including electronic purse, on-line banking and money transfer services were introduced to reduce the tendency to carry cash, while many banks were linked with organisations transferring money from other countries into Nigeria.

Networking of computers has played a great role in high speed information dissemination, thereby serving as a powerful tool for efficient service delivery in the financial services industry. This development, however, came with various prospects and challenges for supervisors.

One of the challenges facing supervisors in this IT age is that transactions are increasingly being recorded in electronic and digital form which can only be read and understood by associated software. Transactions pass through several platforms, and in some cases, many countries, without all the platforms being identified.

Another challenge that faces supervision especially in Nigeria, is communication. Supervisors find it difficult to link up with the Internet to gather information from other supervisory bodies or even to supervise Internet banking. Connectivity is problematic.

Furthermore, supervisors are faced with the challenge of cybercrime. Hackers employ tactics to cover their trails as they move from one database to another. Among other concerns are systems failure and loss of audit trail.

Prospects for effective supervisory activities exist in this information age. Supervisors need the knowledge of IT and how it works to effectively be of relevance. They should be able to use the IT resources that will enable them examine financial instruments that are IT dependent and have good knowledge of security and controls built around application systems in the institutions they examine. This calls for training and re-training for the supervisor in the ever dynamic IT world. In the area of software, especially application systems, efforts should be made to encourage the use of good locally produced applications as this would encourage local capacity building in that sector. This would also enable the supervisors to interact freely with such developers and create a better understanding of the working of such applications.

Supervisors of banks in the information age would need unrestricted access to the information superhighway at all times to keep abreast of developments in IT globally and banking supervision in particular.

Supervisors should be abreast of the latest versions of firewalls and encryption methodologies that could mitigate criminal activities within the network they operate. A database of all the staff leaving IT systems of banks and other financial institutions should be maintained to ensure that ex-staff with criminal records are not allowed into IT systems of other institutions either as employees or service providers.

With audit and examination software being developed, supervisors can cover a larger proportion of the transactions of the institutions being examined. There are opportunities for the training and re-training of IT system supervisors to effectively monitor IT systems of institutions being supervised. To this end, the CBN, in 1999, proposed a survey of banking applications software in the system.

In the Central Bank of Nigeria, many applications have been developed to aid supervision of banks and other financial institutions. Some of these applications include Banking Analysis System (BAS), Credit Risk Management System (CRMS) and Foreign Exchange Monitoring System (FEMS). The CBN is also in the process of developing yet another application that will facilitate on-site examination of banks and other financial institutions. The Bank Examination

Department has commenced the process of making all Bank Examiners IT-literate, with the aim of enhancing their ability to examine IT-systems. The collaboration between the CBN and NDIC in this regard would ensure a common database.

2.02 **THE RE-EMERGENCE OF FOREIGN-OWNED BANKS AND THE CHALLENGES OF CROSS-BORDER SUPERVISION**

Following the various changes that took place in the country between 1995 and 1999 including the promulgation of the Nigerian Investment Promotion Commission Act and the amendments to the banking laws, the CBN, in 1999, lifted the embargo on the licensing of new banks. The improvement in the political environment following the enthronement of a democratic government in 1999 reduced drastically the risk of investing in the country. Consequently, the year 1999 witnessed renewed interest of foreign investors in the Nigerian banking sector. Nine applications were received out of which four were from foreign investors. By December 1999, one new licence had been issued while other applications were at various stages of processing.

The re-emergence of foreign banks in the Nigerian financial system poses several challenges for cross-border supervision which include the following:-

(1) The non-existence of cross-border supervision makes it difficult to

enforce agreements reached by supervisors. Thus, reliance will be based more on the extent of co-operation that could be obtained from the home-country supervisory authorities.

(2) Assumption of additional risks including country, foreign exchange, market and other non-credit risks as well as traditional credit risks.

(3) The absence of adequate supervisory capacity to match the level of sophistication arising from the influx of the foreign banks.

(4) The problem of applying the principle of confidentiality by the home-country supervisors to information made available to them in the course of the performance of their supervisory functions.

(5) The relatively unsophisticated accounting practices and disclosure requirements, for detecting cross-border transactions, that are being used to conceal problems in the domestic operations, through the booking of problem assets with subsidiaries or other offshore entities.

(6) Lack of uniformity in incentives for prudent behaviour across different jurisdictions.

(7) Inability to effectively establish close contacts between the home and host country supervisors and make practical arrangements for

supervision of financial conglomerates.

(8) Another important challenge is the added responsibility in the area of investigation into serious criminal activities such as terrorism, theft, kidnapping, drug trafficking, extortion and money laundering which may often be initiated by a home-country law enforcement authority requiring the support of the host-country for prima facie evidence that offence has been committed. While banking supervisors are not law enforcement authorities and should normally not be expected to undertake formal investigations into criminal matters, they however need to ensure that foreign-owned banks remain vigilant for evidence of such criminal activities and that the host-country would be required to report such evidence acquired in the course of its supervisory activities to the appropriate authorities.

In the light of the various challenges enumerated above, it becomes imperative that the following issues should be addressed:

a) The need to eliminate or at least minimise divergence in national rules and gaps in supervision so that neither discriminatory regulatory burdens or unfair competitive advantages are exploited. This will no doubt promote system fairness and equity as well as create symmetry in the domestic regulators' work on capital adequacy and other Prudential standards by adjusting national interests for broader international objectives.

(b) There should be concerted effort in the area of regular review of the home-country authorities' statutory powers, experience and scope of administrative practices.

(c) The ability of supervisors to identify which country performs the role of home-country supervisor.

(d) The host and the home-countries must ensure that the foreign banks have adequate policies and procedures for identifying, monitoring and controlling country and transfer risks in their international lending and investment activities and for maintaining appropriate reserves against such risks.

(e) The host and the home-countries have the added responsibility of ensuring that the international banks have in place internal controls that are adequate for the nature and scale of their business which obviously are on the increase.

(f) Efforts should be made to ensure that the foreign banks' businesses are conducted with the same high standards as are required of domestic institutions. Supervisors must have the powers to share information needed by the home-country supervisors of these banks for carrying out consolidated supervision.

(g) There is the obvious and urgent need for improved communication and sharing of information among supervisors to understand better the risks of the international banking system and to develop objective supervisory standards.

(h) On international cooperation for supervision, there is the urgent need for early completion of the collaborative effort between the Basle Committee and the International Federation of Accountants in the area of developing acceptable standards for the auditing of international commercial banks to ensure that the nature and quality of audit reports for regulatory purposes form part of the standards to be produced.

The above issues call for serious attention by the regulators, particularly in the area of policy formulation and implementation, to ensure a safe and sound financial system. The re-entry of foreign banks into the Nigerian financial system will bring about substantial product innovation while increased competition will enhance service delivery and product quality.

2.03 UPDATE ON YEAR 2000 COMPLIANCE

The Committee that was set up in 1997 to ensure Year 2000 compliance by banks and other financial institutions continued its work during the period. Field trips were undertaken in three phases to assess the compliance status of all the financial institutions. At the conclusion of the initial coverage in February, 1999, the status was as follows:

- 48% had made efforts at achieving compliance and were likely to conclude their implementation programme by June, 1999.
- 34% had made efforts at achieving compliance but might not be able to conclude their implementation programme before 31st December, 1999.
- 28% had not shown sufficient interest in addressing the problem because of lack of top management involvement, insufficient funds or distressed conditions.

It was noteworthy that, to further aid the banks and discount houses to combat the problem, the CBN also developed a Test Guideline which was circulated to all financial institutions and their auditors to serve as a benchmark for their testing programmes. In the Guideline, the 30th of June, 1999 was given as the deadline for achieving compliance. Thereafter, further visits were undertaken with the focus on:

(a) testing documentation and contingency plans of those that had completed their implementation programme.

(b) determining banks that were slow in achieving compliance. The knowledge gained from other banks and from Y2K literature were made available to them to support and encourage them.

(c) Identifying the healthy banks that had not shown sufficient interest in addressing the problem. These institutions were placed under supervisory pressure.

In the report of the last verification visit on 31st December, 1999, the overall assessment was that, based on available documentation and work done, all the healthy banks and discount houses had taken adequate measures to achieve full compliance and also had in place realistic contingency plans.

The Committee would be expected to carry out its monitoring function to ensure compliance by banks and other financial institutions in the following year.

2.04 SURVIVAL STRATEGIES FOR BANKS IN A COMPETITIVE ENVIRONMENT

The efficient functioning of a nation s economy depends on the strength of its financial system. The primary function of a financial system is resource allocation. Of the major players in any country s financial system, banks are foremost and highly visible.

Traditionally, banks solicit for and accept deposits, which they use to create money in the economy through granting of loans and advances at an agreed rate of interest. Credit creation is thus the singular most important source of income for a bank. Due to the level of competition in the banking sector and the dynamism of the environment, the traditional function of granting loans and advances as the core business of banking had, however, started to decline. Consequently, any strategy that was based solely on this core business had limited growth opportunities. In the face of competition, therefore, banks must devise more effective survival strategies.

Banks in Nigeria were faced with several constraints in the adoption and implementation of their survival strategies. Such constraints included:-

1. A limited pool of experienced and competent bankers, stretched thinly among the large number of banks.
2. Board membership with limited knowledge of their

responsibilities.

3. Low level of information technology application.
4. Inconsistencies in government macro-economic policies.
5. A low capital base relative to the character and volume of risk assets in the sector as many of the existing banks barely met the minimum statutory paid-up capital requirement of ₦500 million.
6. Uneven-playing field among the operators was also another constraint. Merchant banks were precluded from operating current accounts for their customers or soliciting for and accepting deposits below the prescribed minimum while commercial banks could not undertake capital market transactions.

In order to promote the safety and soundness of the financial system, the CBN put in place necessary laws and regulations, implemented the prudential guidelines and adopted the Basle Core Principles for Effective Banking Supervision. The following survival strategies can however be adopted by banks in a competitive environment:

[a] **Loan Portfolio Management**

Among the factors that would determine the success of a bank is the quality of its loan portfolio. As the consumers demand more and assume higher bargaining power, enhanced by increasing options, the cost of funds and other factors will rise. As margins decrease, banks with low turnover in this aspect or those with large loan portfolio, become vulnerable. The strategy here is for banks to be more prudent in their credit management.

[b] <u>Recapitalization</u>

Banks must constantly review their capital base in tandem with the growth in their assets in order to provide adequate cushion to absorb losses.

[c] <u>Mergers/Acquisitions</u>

Mergers and acquisitions enhance banks market share and profitability. Given the prevailing macro-economic circumstances in Nigeria, banks which cannot competitively stand on their own should embrace the option as a survival strategy to diversify their risks and ensure continued growth.

[d] <u>Information Technology</u>

Information technology has radically changed the way banking business is conducted. The volume and speed of banking transactions have increased tremendously as a result of the application of information technology to banking business. The application of information technology in banking has been most popular in electronic funds transfer (EFT). Banks which embrace information technology (IT) will gain a competitive advantage through cost-effective service delivery systems.

[e] **Diversification and Expansion**

The approval-in-principle for the adoption of Universal Banking in Nigeria is a major policy shift which offers another strategic element which banks can explore to advantage for their survival. Operators should, therefore, seize the initiative to explore fully to their own advantage, the diversification and expansion opportunities that would be offered by the new policy initiative. In addition, banks can increase their branch network to enhance their survival chances.

[f] Conversion of Merchant Banks to Commercial Banks

Given the competitive nature of the banking sector, there is the need for banks to strategically reposition themselves to enhance their performance. In this respect, merchant banks have the option to convert to commercial banks but the eventual adoption of universal banking would make this unnecessary.

[g] New products/services

In order to increase their market share, banks have introduced new products and adopted vigorous advertising strategies. For their continued survival, banks would have to develop and market on a continuous basis, more innovative and customer-oriented products.

[h] Investment in Human Resources

The increasingly competitive environment in the banking industry has engendered poaching of not only deposits and customers but also staff. In a situation where entry into the industry is attractive, staffing becomes a problem as the growth of the pool of trained personnel falls below that of the industry. In order to survive under this condition, banks must find new ways of operating with a higher personnel efficiency ratio through specialisation and enhanced application of information technology.

[I] Management/Board of Directors

The survival of a bank depends on the soundness and dedication of its management and the quality of the board of directors which should be purposeful, visionary and capable of designing and implementing strategic repositioning programmes.

[J] Globalisation

Nigerian banks must embrace globalisation and tap the opportunities for growth as presented by international financial markets particularly in the West-African sub-region and the African continent. Banks must note that, within the sub-region, barriers against trade are continuously being removed by ECOWAS to facilitate uninhibited flow of economic activities. They should therefore capitalize on the liberalization.

2.05 THE CHALLENGES OF UNIVERSAL BANKING FOR SUPERVISION

Universal Banking (UB), in a broad sense, involves an all-purpose banking business which allows banks to offer a wide range of services, such as wholesale and retail banking, trading in financial instruments, underwriting of new debts and equities and sale of insurance products, based on specialisation and comparative advantage.

The adoption of universal banking (UB) implies that Nigerian banks would be free to go into any area of banking and, indeed, financial services instead of the current situation where banks are classified into commercial and merchant banks. Thus, it is expected that the immediate fallout of the new concept would be the removal of the distinction between commercial and merchant banking business.

To ensure a successful implementation of universal banking, a committee was set up by the CBN to work out the modalities for its smooth take off. Among other guidelines, the committee would be expected to give a proper definition of the type of UB to be adopted as well as sensitize and educate the public and the banking sector before the actual take off. The main challenges of the new concept to supervisors are:-

(i) the determination of the mode of supervision to be adopted;

(ii) putting in place an appropriate and comprehensive legal framework;

(iii) coordination among regulators/supervisors and the issue of lead regulator;

(iv) the issue of executive capacity;

(v) establishment of a safety net;

(vi) coping with the complexities of the financial conglomerates that would emerge;

(vii) resolving conflict of interests; and

(viii) establishment of appropriate prudential standards.

The adoption of universal banking makes consolidated supervision imperative. Consolidated supervision is not a new concept. The idea had already been subjected to wide discussions as a result of the emergence of banks with considerable stakes in other financial subsidiaries such as brokerage firms, finance companies, discount houses and insurance companies. The extent of consolidated supervision would depend on the scope of UB that would eventually emerge.

There would be a need to determine if there should be a single or multiple regulatory body(ies). The Financial Services Regulation Co-ordinating Committee (FSRCC) would need to come up with modalities for supervising banks engaged in UB.

The array of legislations in the financial system would also need to be harmonised.

Similarly, to tackle the problem of complex financial activities, there should be appropriate training for regulators in the industry to equip them with the necessary skills for the effective supervision of financial conglomerates. By and large, supervisors would have to brace up for a greater responsibility.

2.06 **IMPLICATIONS OF FOREIGN EXCHANGE DEREGULATION ON SUPERVISION**

Effective management of the foreign exchange of any nation is required for the attainment of the desired growth in the economy. The foreign exchange policy forms an integral part of the monetary and fiscal policies as it interplays with other economic variables and policies for the attainment of the desired goals.

Over the years the foreign exchange market in Nigeria had witnessed some dynamic changes. Prior to 1986, a rigid foreign exchange management system with a fixed exchange rate was in place. As part of its deregulation policy under the Structural Adjustment Programme (SAP), the Federal Government introduced the Second Tier Foreign Exchange Market in September, 1986 for the purpose of determining a realistic exchange rate for the Naira. The foreign exchange market witnessed several modifications, the most recent being the re-introduction of the Interbank Foreign Exchange Market in October 1999.

The main features of the Interbank Foreign Exchange Market include the following:-

- Intervention by the Central Bank of Nigeria as and when the need arose;

- Participation by the Central Bank of Nigeria to buy or sell foreign currencies like any other authorised dealer;
- Freedom of the oil companies to sell their stock of foreign exchange to banks or the CBN; and
- Determination of the market price on the basis of bid and offer rates.

The dynamic nature of the deregulated Interbank Foreign Exchange Market (IFEM) has introduced greater challenges for the supervision of the foreign exchange market.

There is the tendency among banks to buy for speculative purposes which could cause distortions in the volume and pricing of the currencies.

In view of the above, it is expected that supervision will monitor the stock of foreign exchange the banks maintain, to curtail speculative purchases and its resultant effect on the market. In addition, supervision should:

(i) ensure that depositors' funds with the banks are not endangered by excessive exposure of banks to exchange rate risk. In doing this, open position limits, which were set for the banks, should be closely monitored;

(ii) ensure that banks put in place internal control systems which allow for daily monitoring and reporting to guarantee that the limits are adhered to and that the source documents and banks' records agreed, while ledger and blotter balances were reconciled;

(iii) emphasize transparency in the flow of information among participants as this would determine the movement of the market variables. This will also entail a more rigorous review of banks' records, documents and returns to ensure that they were not window-dressed;

(iv) include regular and frequent review of interbank transactions;

(v) stimulate cross- fertilisation of ideas between dealers and supervisors. There should be a special focus on the adequacy of documentation as well as ensure that margins made by the banks on sale of foreign exchange to others were within approved limits. In order to ensure that banks adhered to the rules and regulations governing the market, monthly ad-hoc spot-checks were conducted in 1999 to ascertain the level and nature of the utilisation of funds sourced from IFEM.

It is expected that the supervisory departments will improve on their information technology and capacity building in order to meet the challenges and dynamism of the IFEM.

2.07 RESPONSIBILITIES OF BANK SUPERVISORS IN FRAUD PREVENTION

The perpetration of fraud and forgeries in the banking industry has continued to be an issue of concern to the Supervisor.

The number of reported fraud cases increased from 612 in 1998 to 633 in 1999. The amount involved, however, declined from N4 billion to N3.7 billion, while the actual loss also decreased from N1.3 billion to N724 million.

The Central Bank of Nigeria, as the supervisor and regulator of the banking system is interested in ensuring that banks have in place comprehensive and effective internal control systems to minimise the incidence of frauds and whenever they occur, to ensure that they are detected. From the point of view of supervisors, a good internal control system must have the following attributes: dual control, segregation and rotation of duties, an effective and independent inspection function, clearly defined levels of authority and responsibility, existence of an efficient Audit Committee and adequate fidelity insurance cover. It is also the responsibility of the supervisors to:-

1. determine banks' compliance with rules and regulations through an exhaustive review of their internal and external audit reports.
2. ensure that appropriate steps are taken by the board and

management of banks to address issues raised in the audit reports.

3. ensure that fraudulent bank directors and staff are sanctioned with such reports being duly circulated among banks.
4. ensure that banks take advantage of the Credit Risk Management System (Credit Bureau) to monitor fraudulent customers and accomplices.
5. co-operate with the external auditors of banks.
6. ensure that the internal audit programme of banks is comprehensive, adequate and effectively executed.
7. conduct in-depth investigations into the activities of a bank when put on enquiry.

In order to enhance the ability of supervisors to carry out their responsibilities effectively, they must be adequately trained and equipped with modern tools for supervision.

2.08 **Globalisation and the Nigerian Financial System**

Globalisation is the integration of national economies into a global market place in which all nations can freely participate. It is the creation of harmonised trade policies, rules and practices across the globe.

Globalisation had existed for decades, albeit in a lesser form, as a result of inter-dependence of economies and the consequent bilateral and multilateral trade and capital movements between and among nations.

Arguably, the most celebrated aspects of globalisation is the hatching of business mergers, acquisitions and alliances both within and across borders and businesses. There is no doubt that globalisation is the future and ultimate destination of businesses as most of the organisations involved in these alliances are either already controlling or will control the trade in their respective industries.

The development of globalisation is increasingly being fuelled by international financial institutions and regional groupings (IMF, World Bank, BIS, ECOWAS, NAFTA, EU) which promote similar policies across the world, aimed at creating a global economic structure that is based on a private sector-led free market.

The major issues that dominate these groupings are economic cooperation, policy convergence and integration of markets.

Information Technology (IT), has, in recent times, played the most significant role in globalisation. Major financial centres of the world which engage in continuous trading are linked by, and dependent on, information technology. The birth of the Internet brought a new and wider dimension to globalisation, with the emergence of electronic commerce as well as banks and businesses with offices in computer memories. This will in the future make it unnecessary for organisations to locate branches in any country to transact business.

Nigeria has also been a part of the global village, albeit nominally. In recent times Nigerian organisations, including banks, have made incursions into other countries through the establishment of branches, thus ensuring its presence in the major financial centres such as London and New York. The recent Global Depository Receipts programme of UBA PLC which was successfully introduced into the world financial market as well as the listing of South Africa's M-Net/Super Sport on the Nigerian Stock Exchange also indicate the growing relevance of Nigeria in the global market place.

Of significance is the increasing interest shown in the Nigerian economy by foreign investors whose portfolio investments increased from US$9.4 million in 1997 to US$49.7 million in 1998. With the return of vibrancy to the economy and the on-going privatisation of the various enterprises hitherto owned and run by the government, more investors are expected to show interest in the country to facilitate its further integration into the global economy.

The many benefits derivable from globalisation make it imperative for Nigeria to be part of the global market.

The opening up of the economy would attract both portfolio and direct foreign investments to revive the decaying productive and utilities sectors. With the on-going privatisation and the consequent revitalisation of the economy, productivity would be enhanced.

Globalisation and development that goes with it is expected to generate employment and mobility for the labour force.

The increased activities in the economy would create keen competition that will engender more efficiency in the allocation of resources. Changes in the economy would equally encourage technological growth.

With the reforms, modernisation and internationalisation of the Nigerian capital market and the envisaged introduction of more securities in the market, more investment avenues would open up to both local and foreign investors.

The financial system would benefit from the keen competition that would result from the establishment of foreign banks in

Nigeria.

The inflow of foreign capital and expertise into the financial system would help to curtail distress and make the sector more capable of fulfilling its developmental role in the economy.

The improvement in the economy would enhance the relative stability of the currency and further encourage the prospects of its convertibility in the global market.

In spite of the advantages of globalisation, there are some obstacles, glaring imperfections as well as challenges for the countries that embrace it. The collapse of Barings PLC, a foremost British bank, caused by the actions of a single securities trader in far away Singapore, illustrates one of the problems inherent in globalisation. Some of the obstacles to globalisation are as follows:-

i) Legal constraints which inhibit the expansion of businesses across borders. Many countries still maintain their protectionist policies which were put in place to restrict foreign competition in certain sectors of their economies. Therefore, most of such policies would have to be changed for foreign organisations to penetrate those jurisdictions.

ii) The relative political instability of some regions make them unconducive for many multinationals thereby denying these areas of the benefits of globalisation.

iii) The size of businesses in the developing countries make it difficult for them to compete globally.

On the other hand, some of the challenges posed by globalisation are:

(i) Where an economy is controlled predominantly by imported capital and expertise, any political upheaval would result in their swift flight and the rapid decline of economic activities.

(ii) While the developed world is apprehensive of the effects of money laundering and other financial crimes and have taken steps to combat them, the developing countries are lacking in the means to effectively join in the war. Thus, the opening up of the economy to foreign institutions might expand the dimension of such crimes to the level that the capacity to cope with them would be over-stretched.

(iii) The rapid growth of e-commerce and e-banking which are products of information technology (IT), is equally matched by rapid growth in IT-related frauds perpetrated by criminal hackers. This would pose a threat to the renascent economy.

(iv) Maintenance of a stable exchange rate in situations of instability in the global economy.

(v) Ability of the supervisory framework to cope with wider supervisory responsibilities.

(vi) The need for business organisations wishing to go global to establish reliable information systems.

(vi) The need to imbibe the culture of transparency by players in the global market.

Another challenge faced by organisations is the research and development needed to continuously improve their operations and ensure continued relevance in the fast-developing and competitive world of business. The financial sector needs this more to be able to cope with the competition that would be posed by mega-banks as well as virtual banks springing up in various corners of the Internet world.

CHAPTER THREE

3.00 LEGAL FRAMEWORK AND SUPERVISION

3.01 Recent Amendments to Banking Laws

The legal framework for supervision has continued to evolve, with more pragmatic changes in recent years. Further to the major amendments in 1998 to the Banks and Other Financial Institutions (BOFI) Act 1991, as amended, and the Central Bank of Nigeria Act, 1991, as amended, additional amendments were effected in 1999.

Before the recent amendments, the Central Bank of Nigeria (CBN) had no powers to revoke any banking licence granted by the Bank without the prior approval of the President nor the freedom to deal decisively with the problems of distress in the financial system.

The key elements of the recent amendments to the BOFI and the Central Bank of Nigeria Acts are as follows:

1. **Banks and Other Financial Institutions (BOFI) Amendment Act No.40, 1999**

    i. The Governor, with the approval of the Bank's Board of Directors and by a notice published in the Gazette, can now revoke any licence granted under the Act if the bank:

    (a) ceases to carry on in Nigeria the type of banking business for which the licence was issued for any continuous period of 6 months or any period aggregating 6 months during a continuous period of 12 months;

    (b) goes into liquidation or is wound up or otherwise dissolved;

    (c) fails to fulfil or comply with any condition subject to which the licence was granted;

    (d) has insufficient assets to meet its liabilities;

    (e) fails to comply with any obligation imposed upon it by or under the BOFI 1991, and the CBN Acts 1991, as amended.

ii. In respect of a failing bank, where the CBN proposes to revoke the licence pursuant to the above, it is required to give notice of its intention to the bank and the bank may within 30 days make representation (if any) to the CBN in respect thereof. Beyond this, the provision that a bank could appeal against the decision of the CBN through the CBN to the President, where it is dissatified with the Bank's decision as well as the provision that allows the President to reject or approve the recommendation of the CBN with such modification as he may deem fit, have both been expunged.

With the above amendments, the Central Bank of Nigeria has unfettered powers to deal with distressed banks as it deems most appropriate.

iii. The provision that the CBN should obtain the approval of the President for it to remove any manager or officer of a failing bank has also been expunged. Consequently, in dealing with a failing bank, the Bank can remove for reasons to be recorded in writing with effect from such date as may be set out in the order, any manager or officer of the bank notwithstanding anything in any written law or any limitations contained in the memorandum and articles of association of the bank. In addition, this provision can be applied, with necessary modifications, to other financial institutions.

iv. The requirement to obtain Presidential approval to apply to the Federal High Court for an order for the CBN or a person nominated by the Bank to purchase or acquire a failing bank for a nominal fee for the purpose of restructuring and subsequent sale and for an order revoking the licence and requiring its business to be wound-up has also been removed. A less cumbersome process of addressing a failing bank which came into effect with the 1998 amendment to BOFI will continue to apply. According to that amendment, the Nigeria Deposit Insurance Corporation (NDIC) is expected to assume control of a failing bank and where such a bank cannot be rehabilitated it may make appropriate recommendations to the CBN to take other resolution measures which may include the revocation of the bank's licence.

v. While dealing with the problem of a failing bank, the CBN was expected to notify the bank or the director or manager to be affected by its actions before such actions are taken. This has now been removed.

vi. Apart from the above, some of the provisions relating to monetary penalties that were unusually punitive have been reduced and additional penalty clauses inserted when considered necessary. The requirement that penalties collected should be shared among the Federal Government, NDIC and CBN has been deleted.

vii. Consequently all monies paid to the Governor in respect of penalties are expected to be paid into the CBN penalty account.

2. **<u>The Central Bank of Nigeria Act</u>**

i. The requirement that the annual budget of the Bank should be approved by the President has been removed. The Bank's Board of Directors now has the sole responsibility for approving the Bank's annual budget.

ii. The Bank has also been given powers to determine the monetary policies to be implemented each year without any approval from the President.

iii. The need for the Bank to obtain Presidential approval to make regulations for the implementation of the objects and purposes of the Act has been removed.

With the above amendments to both BOFI and CBN Acts, the Central Bank of Nigeria now has the instrument autonomy to implement policies that will ensure that the Bank performs its functions with minimal interference.

Consequently, in line with its new powers, the Bank immediately took steps in 1999, in the area of monetary policy, by setting up a Monetary Policy Committee (MPC), which meets regularly to monitor, review and fine-tune the monetary policies contained in the Monetary Credit, Foreign Trade and Exchange Policy Guidelines.

CHAPTER FOUR

4.00 PERFORMANCE TRENDS IN THE BANKING SECTOR

The developments in 1999 in the financial sector were influenced largely by expansionary fiscal operations and the transfer of public sector accounts from the CBN to commercial/merchant banks and discount houses. While cash reserve requirement which complemented OMO towards the achievement of monetary stability was increased from 8% to 12%, the minimum liquidity ratio for both commercial and merchant banks was also raised from 30% to 40%. The essence of these and other measures were to address the problem of excess liquidity in the system.

A new commercial bank which was licensed during the year commenced operation thereby increasing the total number of banks operating in the system from 89 to 90. The number of commercial banks increased from 52 to 57 in the year under review as a result of conversion of five merchant banks to commercial banks. The total number of bank branches increased moderately from 2225 to 2530. Below are the highlights of banks' performance in 1999.

1. **Deposits**

Commercial and merchant banks' deposit liabilities totalled N535 billion in 1999 as against N369 billion in 1998 indicating an increase of 45%. Distressed banks accounted for N27 billion of the total. The phenomenal increase in deposits was due largely to the transfer of public sector accounts from the CBN to the banks. Out of this, demand, savings, term and miscellaneous deposits amounted to N248 billion (46.26%), N130 billion (24.25%), N138 billion (25.75%) and N20 billion (3.73%), respectively (see Fig. 1.1).

Commercial banks continued to maintain dominance with N493 billion or 92.15% (N331 billion or 90% in 1998) while merchant banks accounted for N42 billion or 7.85% (N38 billion or 10% in 1998) (see Fig. 1.2). The deposit structure of commercial and merchant banks are shown in Fig. 1.3 and 1.4, respectively. Fig. 1.5 reflects the comparative monthly deposits for 1998 and 1999, with the monthly deposits of the current year correspondingly higher in volumes than the previous year. The aggregate credit/deposit ratio was 80% compared with 88.35% and 85.30% in 1997 and 1998, respectively.

2. **Credits**

The aggregate credits of both commercial and merchant banks constituted 35.4% of the total assets of the banking system in 1999 compared with 39.8% in the previous year. At N420 billion, total credits rose by 28.4% over December 1998 level of N327 billion. At N368 billion or 87.62% of the industry total, the aggregate credits of commercial banks increased by 36% from the 1998 level of N270 billion while that of merchant banks declined by 7% from a level of N56 billion to N52 billion (see Fig. 2.1 and Fig. 2.2, respectively).

The non-performing credits for 1999 was N101 billion comprising N92.4 billion (92%) for commercial banks and N8.6 billion (8%) for merchant banks. The provision for non-performing credits amounted to

N64.5 billion in the proportion of 88% (N57 billion) for commercial banks and 12% (N7.5 billion) for merchant banks. The distressed banks' outstanding credits to the economy was N33 billion (7.8%) in the year under review as against N24 billion (7.4%) in the previous year. The annual comparative credit levels of healthy and distressed banks are depicted in Fig. 2.3.

3. **Assets**

At N1,184 billion, total assets of commercial and merchant banks rose by N364.79 billion (44.5%) over the level of N819.2 billion as at December, 1998. Commercial banks maintained their relative dominance of the banking system as their total assets aggregated to N1,055 billion, or 89%, while those of merchant banks amounted to N130 billion, or 11% of the total assets. The total assets of distressed banks were N69.4 billion, or 6% of the industry total. These increased by 38% over the 1998 level (see Fig. 3.1).

4. **Liquidity**

In 1999 the prescribed minimum liquidity ratio was increased from 30% to 40%. The increase was necessitated by the perceived liquidity overhang in the system. Ten (10) out of the ninety (90) banks (8 commercial and 2 merchant) failed to meet the minimum liquidity ratio requirement of 40% for the month of December 1999, compared with 16 banks in the corresponding period of 1998.

5. Capital Adequacy

The total qualifying capital for the purpose of assessing capital adequacy of commercial and merchant banks at the end of December 1999 amounted to N67.5 billion compared with N54.58 billion in 1998. Out of the 90 banks in operation at the end of 1999, 69 banks (39 commercial and 30 merchant) met the prescribed minimum capital adequacy ratio of 8% as against 72 (39 commercial and 33 merchant) in the comparable period of 1998. Eighteen (18) banks in 1999, compared with fifteen (15) banks in 1998, which were insolvent and, in most cases, had their capital base completely eroded by losses, are yet to be recapitalised. Measures have reached advanced stage to get them sold, re-capitalised or liquidated.

6. **Earnings**

Profit before tax of commercial and merchant banks in 1999 amounted to N24.52 billion, an increase of N3.42 billion (16.20%) over the previous year's. The proportion of profit was 80.42% and 19.58% for commercial and merchant banks, respectively. The return on assets declined to 2.07% in 1999 from 2.88% recorded in December 1998.

(See Fig. 4.1 and Fig. 4.2 respectively)

CHAPTER FIVE

5.00 CAPACITY BUILDING FOR SUPERVISION

5.01 Improving Supervisory Processes for Enhanced Efficiency

The imperative for improved supervisory efficiency has generated considerable discourse in recent times. In the face of increasing responsibilities and the developments in information technology, the general consensus is that current supervisory practices and processes have proved incapable of effectively monitoring the financial system. An overhaul of the existing supervisory machinery is, therefore, unavoidable if the CBN is to effectively execute its major responsibility of ensuring monetary stability and soundness of the financial system.

Extensive brainstorming on the subject at the supervisors' retreat and the on-going restructuring/re-engineering exercise in the Bank had thrown up far-reaching proposals for evolving effective supervisory machinery. The major proposals were as follows:

(i) Training - In view of the revolution in information technology, bank supervisors should be conversant with several application softwares to enable them appraise automated information systems of financial institutions. This would necessarily involve continuous training and re-training, based on needs, to make supervisors highly skilled. Further exposure could also be obtained through specialised programmes such as cross-border postings and attachments with financial institutions and regulatory bodies.

(ii) Tools and equipments - Computers and other vital tools such as computer-assisted audit techniques should be available to enable supervisors access directly the electronic information systems of banks. Tools such as the Banking Analysis System (BAS) and the Credit Risk Management System (CRMS) should be further enhanced for optimal utilisation of their potential capabilities.

(iii) Culture Change - Reorientation would enhance supervisors' attitude to work and change their mind-set towards embracing new concepts. To this end, hard work and excellence should be acknowledged and rewarded while the work environment should be made conducive. Supervisors should inculcate good work ethics of discipline and transparency. Timeliness, an essential ingredient of reporting, would be enhanced by reducing all the activities involved in the supervisory process into time budgets through the streamlining of work processes to shorten turn-around time.

(iv) Off-Site Processes - Necessary structures, such as networking, to enhance co-ordination between Banking Supervision and Bank Examination Departments should be provided. For instance, the availability of on-line facilities should enable vital information to be speedily accessed by the two departments. Furthermore, there would be inter/intra-departmental co-ordination as well as co-operation with relevant agencies to ensure uniform regulation.

(v) Risk-focused supervision - The engagement in complex financial activities by banks would necessitate an extension of conventional supervision processes to include adequate focus on the risk environment of the examined institutions.

(vi) Consolidated Supervision - With the emergence of financial supermarkets and conglomerates which involve the interflow of financial resources, consolidated supervision of the affairs of the group would be an effective option to simultaneously capture the financial state of such institutions.

(vii) Wholesale Examination - This new approach would involve an all inclusive examination whereby prudential, forex and money laundering examinations of a bank are combined in a single assignment. This approach is expected to replace the current time-consuming practice of segmented examination.

(viii) Team-Based Supervision - This concept would entail the assignment of a team of supervisors to particular financial institutions for a defined period of time for the purpose of continuous appraisal. The envisaged benefits would be indepth knowledge of the institution's activities as well as closer supervisor/operator relationship for mutual benefit.

(ix) Farming Out of Supervisory Functions - With the increased responsibilities of supervising a wide array of financial institutions the option of farming out some functions to capable professionals has become unavoidable if the supervisory role is to achieve adequate coverage of the financial system. This is viewed against the backdrop of the limited manpower of the supervisory departments to cover all financial institutions.

(x) Intelligence Unit - A unit should be dedicated to intelligence information on the activities of financial institutions. This would reinforce the proactive monitoring of the financial system.

The need to enhance supervisory efficiency emanates from the need to preserve the integrity and reliability of the financial system so as to maintain public confidence, particularly when viewed from the perspective of public criticism of the CBN for any bank failure. Much as this notion might have been misplaced, the Bank can not shirk its primary responsibility of promoting a stable monetary and financial system. One way to achieve this objective is to sharpen its supervisory apparatus.

5.02 **<u>The Supervisors' Retreat</u>**

The Bank Examination and Banking Supervision Departments had their separate retreats during the year. The purpose was to enable the departments reflect on how they had been discharging their responsibilities with a view to repositioning for better performance. Specifically, the retreats had the following objectives: -

- to evaluate the current realities facing the supervisory function;
- to assess the challenges of supervision in the future;
- to identify the gaps between the present and the future; and
- to develop specific action plans to bridge the identified gaps.

The theme of the Bank Examination Department (BED) retreat was the "Challenges of Bank Examination In The New Millennium" while that of the Banking Supervision Department (BSD) was "Towards a Responsive Off-site Supervision". These themes were broken into the following sub-themes that formed the basis of discussion for the syndicate teams at the retreats:

- Legal framework for supervision.
- Monitoring and enforcement of Bank Examiners' recommendations,
- Policy framework for licensing.
- New approaches to bank examination.
- Coping with expanded regulatory purview.
- Using IT to enhance bank supervision
- Improving the quality of supervisory reports.
- The role of the CBN in the management of the financial sector distress.
- Capacity building and examiners' empowerment.
- Transparency, ethics and good conduct in bank supervision.
- Cooperation with other departments and agencies.

i. <u>Identified Challenges/Constraints</u>

Significantly, the sub-themes reflected the constraints facing the supervisory function. These were extensively discussed during the break-out sessions. In summary, the following challenges were specifically identified:

- Conflicting laws that give rise to the incidence of coordinate powers and even confusion in a multiple regulator environment:
- Inadequate provisions in the banking law leading to gaps in regulation. The laws fail to specify the scope of supervision of some specialised financial institutions. For instance, it is silent on licensing and distress resolution strategies for primary mortgage institutions.
- Lack of transparency by the supervised institutions. This is both in the area of organisational practice/attitude towards good business conduct and the accuracy and reliability of information supplied to the regulatory authorities.

Other constraints within the CBN include inadequate welfare package, reward system not performance-based, bureaucratic bottlenecks, inadequate infrastructure in such areas as information technology, communication, office space/location, etc and capacity limitation in the areas of staffing, training, etc.

ii. **Departmental Vision and Objectives**

Having considered the foregoing vis-à-vis the statutory function of the CBN, a vision statement was adopted which was consistent with the overall vision of the Bank viz:

‘To be an expert and a friend, ensuring effective regulatory compliance for the safety and soundness of the financial system’.

The elements of this statement include:

- interaction with internal and external stakeholders;
- a proactive and prompt approach to supervision;
- supervision that is information technology-driven on high ethical standard;
- monitoring and enforcement of examination reports; and
- development of risk-focused and team-based supervisory approach.

The vision was broken down into a number of specific objectives as follows:

- Contents review of legal and policy framework to meet the changing challenges and realities of the financial system.
- Encouragement of self-regulation for market discipline.
- Greater reliance on qualitative factors in licensing of banks.
- Adoption of consolidated approach to supervision.
- A process review and re-engineering of the supervisory

function.

- Employment of information technology to integrate internal and external stakeholders' systems.
- Review and enforcement of examiners' code of conduct and organisational core values.
- Development of an effective management succession plan tied to a structured training plan.
- Establishment of an early warning system and time-specifications for prevention and management of financial sector distress.
- Conduct of regular 'fit and proper persons' test for banks' board and management.
- Development of standardised report formats.
- Improved inter-departmental coordination and cooperation with other agencies.

iii. **Action Plan for the Achievement of the Objectives**

Towards the attainment of the set objectives, some action plans were adopted. The plans range from actions that could be implemented at the departmental level to those that would require management approval. Time frames for implementation were also prescribed for each plan. The ones identified for implementation at the departmental level were articulated in a quick -wins list and implementation has commenced. They include:

- Conspicuous display of the vision statement in the department.
- Establishment of a committee to review the examiners' code of conduct. The final document was approved by management and subscribed to by every examiner. It would be made available to the supervised institutions.
- Review of the guidelines for the licensing of financial institutions. Some of the revised guidelines had already been issued and work was in progress on the others.
- Procurement of mobile computing facilities for the use of examiners on-site.
- Provision of an Internet facility in the Banking Supervision Department.
- A comprehensive survey of the existing banking softwares in the system and the training of examiners on such softwares to further improve the quality of examination.
- Determination of the number of other financial institutions

that are in operation.

- Initiating better interaction with supervised institutions and their auditors.
- Contact with other central banks abroad to explore the possibility of attachment of CBN examiners to the institutions.
- Formulation of a new policy framework for the management of financial sector distress.
- Training in computer audit software for all examiners.

Apart from the above, there are other plans that would require cooperation with other departments as well as the action of top management. These are:

- intensive IT training for supervisory staff and full computerisation of the supervisory processes;
- establishment of a multimedia library;
- take-off of the Other Financial Institutions Department**;**
- strengthening of the capacity of the department by increased manpower;
- decentralisation of specialised training; and
- adoption of performance-based reward system and a review

of the Bank's organisational hierarchy as a whole.

Various sub-committees were set up to ensure the implementation of these plans.

5.03 **The 1999 Bank Examiners' Conference**

The 6th Annual Bank Examiners' Conference was held at the CBN Training Centre from 24th to 26th November, 1999. The theme of the conference was "Cross-border Cooperation with Emphasis on Consolidated Supervision of Banks". In addition, a comprehensive self appraisal of the Bank Examination Department was undertaken in order to find new ways and means of improving the performance of the Department.

The Governor, in his keynote address, noted that increasing globalisation, liberalisation and advances in information technology had given unprecedented impetus to the flow of capital, products, processes and practices across international borders. Some Nigerian banks had branches overseas and for a meaningful determination of their performance, consolidation of the accounts of the whole entity was a necessity. Furthermore, with the agitation for universal banking, consolidated supervision of the whole business entity was a sine qua non, if a true and fair view of the business under the supervisory purview of the CBN was to be ascertained.

The addresses given by the Presidents of the Institute of Chartered Accountants of Nigeria and the Chartered Institute of Bankers of Nigeria focused on the need for close collaboration and co-operation between the regulatory authorities of various countries with emphasis on consolidated supervision of banks in order to achieve the desired stability, safety and soundness in the global financial system.

Four papers were presented, namely, Cross-border Co-operation with Emphasis on Consolidated Supervision of Banks; An Appraisal of Bank Examination in the Nigeria Financial System - Operator's Perspective; Operations of a Discount House, and Bank Rating as a Tool for Bank Supervision.

The Chairman/Chief Executive Officer of Diamond Bank Limited presented the theme paper, "Cross-Border Co-operation with Emphasis on Consolidated Supervision of Banks". He identified the challenges facing bank regulators/ supervisors which included banks' creation of various types of corporate structures across international borders to escape regulation and effective supervision, shifting of activities to off-shore tax havens whereby domestic prudential guidelines could easily be circumvented, unsophisticated accounting practices, limited disclosure requirements and various cross-border incentives which encouraged some institutions to seek out countries in which high-risk activities could go unchecked.

He stressed that the performance of supervisors would be measured by their adherence to the Basle Committee Core Principles For Effective Banking Supervision and the extent to which structures were in place to enable the supervisors exercise global oversight.

The second paper, An Appraisal of Bank Examination in the Nigerian Financial System- Operator's Perspective, was presented by the Vice Chairman/Chief Executive Officer of Intercontinental Bank Limited. He observed that, while the quality of the routine examination reports were fairly high and provided useful information to the banks' management, examiners should be more flexible and objective in their approach. Target examinations should be more frequent but brief and focused on specific issues. He was also of the opinion that the reasons for an investigation of a bank's activities should always be fully disclosed at the start of the investigation and a report on the findings made available to the bank concerned. To ensure that examiners' performance was of a consistently high standard, there should be increased technical training, information technology skills and competence in computer systems audit. He concluded that there should be improvement in the time lag between the completion of the field work and delivery of the report to the banks.

In the paper, Operations of a Discount House, the Managing Director/Chief Executive Officer of Express Discount Limited stated that, the major functions of discount houses in Nigeria were, among others, to assist the regulatory authorities in the implementation of the shift in monetary policy and control of liquidity in the economy from direct to indirect controls, using the Open Market Operations (OMO), and to facilitate greater deepening of the money market. The discount houses' operational domain, he said, was the money market which was essentially anchored on the use of low-risk securities. He was of the opinion that the role of the discount houses could be enhanced by the:

i) creation of a wider spectrum of eligible instruments.

ii) consistency in government policies to avert distorted liquidity and its impact on interest rates.

iii) stability of liquidity ratio requirement.

iv) review of current operational guidelines for discount houses to enhance their operations.

v) activation of the expanded discount window for eligible commercial bills.

(vi) inclusion of the discount houses in the on-going deregulation of the financial sector.

The final paper, Bank Rating as a Tool for Bank Supervision, presented by the Director- General, Financial Institutions Training Centre, stated that the essence of bank rating was to provide an assessment of the financial condition of a bank with particular reference to its ability to meet obligations to depositors as and when due. He emphasised that bank rating should take cognisance of both quantitative and qualitative factors. The quantitative factors would be based on the CAMEL parameters, such as capital adequacy, asset quality, management, earnings and liquidity while the qualitative factors would include issues such as the corporate image of the organisation, the integrity of the directors and the top management staff, reports in the media and public observation. Other parameters for rating include country risk analysis and country exposure measurement and control.

He observed that bank rating in Nigeria, undertaken by some private companies, involved the computation of indices in absolute terms and therefore advised that they should be treated with caution.

In conclusion, he asserted that bank rating was an indispensable tool for bank supervision as it provided a veritable framework for the assessment of the performance of banks. He advised that the regulatory authorities should harmonise the parameters used for bank rating to ensure that they conveyed the same signal at any given time.

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