CENTRAL BANK OF NIGERIA

UNDERSTANDING MONETARY POLICY SERIES NO 7

BANKING SECTOR REFORMS IN NIGERIA

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Aims and Scope

Understanding Monetary Policy Series are designed to improve monetary policy communication as well as economic literacy. The series attempt to bring the technical aspects of monetary policy closer to the critical stakeholders who may not have had formal training in Monetary Management. The contents of the publication are therefore, intended for general information only. While necessary care was taken to ensure the inclusion of information in the publication to aid proper understanding of the monetary policy process and concepts, the Bank would not be liable for the interpretation or application of any piece of information contained herein.

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Central Bank of Nigeria

Mandate

▪Ensure Monetary and Price Stability

▪Issue Legal Tender Currency in Nigeria

▪Maintain External Reserves to safeguard the international value of the Legal Tender Currency

▪Promote a Sound Financial System in Nigeria

▪Act as Banker and Provide Economic and Financial Advice to the Federal Government

Vision

"By 2015, be the Model Central Bank delivering Price and Financial System Stability and promoting Sustainable Economic Development"

Mission Statement

"To be proactive in providing a stable framework for the economic development of Nigeria through the effective, efficient and transparent implementation of monetary and exchange rate policy and management of the financial sector"

Core Values

- Meritocracy
- Leadership
- Learning
- Customer - Focus

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SECTION ONE

Introduction

The financial system encompasses all functions that direct real resources to ultimate users. In a market economy, the financial system is regarded as the central nervous system. It is more than just a set of institutions that aid payments and extend credit. It also contains a number of distinct but co-dependent components all of which are vital to its effective and efficient functioning. These components include financial intermediaries such as banks and insurance companies, acting as principal agents for assuming liabilities and acquiring claims. The second component is the markets in which financial assets are exchanged, while the third is the infrastructural component, which is necessary for the effective interaction of intermediaries and markets.

Banks are a key component of the financial system and play a very critical role in national economic development. They mobilise savings for investment purposes which further generates growth and employment. The real sector of the economy relies on the banking sector for credit. The fiscal authority also raises funds through the banking system to finance government developmental programmes and strategic objectives. These strategic roles of the banking system in national economic development make a sound banking system essential.

SECTION TWO

Conceptual Issues

2.1 Financial Institutions

Financial institutions are organisations that provide financial services to their members or customers, the most important role being financial intermediation, which entails channelling funds from surplus to deficit agents. A financial intermediary provides the network to connect surplus and deficit units. To effectively perform this role, financial institutions are regulated by the government. The three major types of financial institutions are; deposit-taking institutions such as banks, mortgage institutions and co-operative societies; Insurance companies and pension funds; and brokers, underwriters, registrars and investment funds.

2.1.1 Banks

Banks as financial intermediaries accept deposits and channel them into credit creation. Primarily, the responsibility of banks is to connect the deficit spending units to the surplus spending units in an economy. This responsibility evolved over time and expanded to include investment management, maintenance of payments system, trade transactions, cards and e-payments, e.t.c.

The Banking Sector, which is also referred to as the banking system, consists of the totality of all deposit-taking financial institutions in an entire jurisdiction. Globally, the banking sector is a highly regulated sector in most economies. These regulations are administrative guidelines that constitute or constrain rights and allocate responsibilities of institutions within the financial sector. The purpose of regulations is to maintain the integrity of the banking system by subjecting banks to certain requirements, restrictions and guidelines.

2.2 Role of the Banking Sector in Economic Development

Banks, basically provide financial intermediation services. They channel funds from investors to companies in need of those funds in the form of loans, thereby facilitating the flow of money through the economy. This is crucial for economic growth and the very survival of the institutions themselves as they make profit, known as spread, from intermediation.

Banks also allocate resources from surplus spending units to deficit spending units. In doing this, banks create avenues for investment of funds which would otherwise remain idle.

Risk sharing is also being facilitated by banks. The repayment risk exposure to depositors is assumed by banks, which have more information about borrowers and possess counterparty advantage in terms of expertise and resources in credit operations and recoveries. This spreads or reduces risk faced by economic agents, especially individual depositors.

The banking system generates wealth in the economy and facilitates income generation for economic agents. The existence of a positive relationship between loan and output has been established in literature, such that a decrease in loan growth over time reduces output growth.

In modern times, the scope of services provided by banks has expanded substantially. As such, different transactions by banks have continued to facilitate the exchange of goods and services in the economy.

In general, the financial system plays pivotal roles in the growth and development process of economies. The banking sector provides a central link within the financial system and must therefore be stable and efficient to effectively perform its role of financial intermediation in the growth process. This requires a strong framework for prudential supervision, resilient financial safeguards, dynamic risk management policy and transparent corporate governance principles.

2.3 Banking Reforms

Reforms are substantial changes in banking sector regulations aimed at improving the conditions of individual banks and/or the entire industry. Reforms are regarded as essential in the banking sector due to the dynamics of the business of banking and importance of the industry as an engine of growth in an economy. Through reforms, the monetary authority, usually central banks, remove faults or abuses, repair, restore or correct certain anomalies that may lead to systemic failure and erode public confidence in the system.

SECTION THREE

Rationale for Banking Reforms in Nigeria

Banking reforms are often pursued in response to either shocks or conscious government policy. Banking sector reforms that are associated with conscious government policy are often in response to industry changes such as deregulation. Shocks could emanate from internal sources such as pressure by stakeholders for performance improvements or from external sources such as globalisation and requirements of multilateral financial institutions. In most cases, consolidation exercises rejuvenate banks to remain competitive and innovative in financial service delivery. As a result, banks tend to witness significant post-reform growth.

The reform exercises in Nigeria of 1952 and 1994 were linked to domestic banking crisis while those of 1969, 2001 and 2004 were stirred by government economic policy to mobilise financial resources for economic growth and to entrench banking culture in the economy. The exercises of 1986 and 2009 were attributed to external shocks emanating from conditions imposed by the International Monetary Fund (IMF) through the Structural Adjustment Programme (SAP), which focused on market liberalisation and extensive divestment of state owned shares in banks, and the 2007 global financial crisis, respectively.

In order to ensure the achievement of broad macroeconomic goals of price stability, full employment, high economic growth and internal and external balance, economic reforms are undertaken to ensure that the economy functions efficiently. Consequently, banking reform in Nigeria is a vital part of the country-wide reform programme undertaken to reposition the Nigerian economy in order to achieve the objective of becoming one of the 20 largest economies by the year 2020. As part of the vision, the banking sector is expected to efficiently play its critical role of intermediation and Nigerian banks to be among global players in the international markets.

The various reforms in Nigeria were targeted at making the banking system more effective by strengthening its growth potentials. Also, in view of the fact that banks take deposits from the public, there is a need for periodic reforms in order to foster financial stability and engender confidence in the financial sector.

The recent experience from the global financial crisis further underscored the importance of regular reforms in the banking system in order to dampen the effects of shocks that emanate from crises. The global economy was hit by an unprecedented financial and economic crisis between 2007 and 2009 that resulted in a global recession. This crisis led to the collapse of many world-renowned financial institutions cutting across different industries.

The Nigerian economy was hit by the second round effect of the crisis as the stock market collapsed by about 70 per cent between 2008 and 2009. Many Nigerian banks sustained huge losses, particularly as a result of their extensive exposure to margin lending in the capital market and credit to downstream oil and gas firms. Thus, the Central Bank of Nigeria had to rescue 8 of the banks through capital and liquidity injections, in order to restore confidence and sanity in the banking system.

A holistic investigation into the banking crisis of 2008 in Nigeria found eight interrelated factors responsible. These were macroeconomic instability caused by large and sudden capital inflows – referred to in the literature as hot money, corporate governance failures in banks, lack of investor and consumer sophistication, inadequate disclosure and transparency about the financial position of banks, critical gaps in the regulatory framework and regulations, uneven supervision and enforcement, unstructured governance & management processes at the Central Bank of Nigeria and weaknesses in the business environment. Acting together, these factors brought the entire Nigerian financial system to the brink of failure.

A well-functioning financial system is imperative to individual economic units and to the economy at large. The Nigerian economy's potential for growth is huge and to realise this potential, measures to establish financial stability, facilitate a healthy evolution of the financial sector and ensure that the banking sector contributes to the development of the real economy were introduced.

SECTION FOUR

Banking Sector Reforms in Nigeria

4.1 History of Banking Sector Reforms in Nigeria

The structure of the banking industry in Nigeria evolved from the pristine era of "free banking" of 1892-1951, that was associated with private ownership of banks and absence of domestic banking legislation. The period 1952-1985 was characterised by regulatory interventions by government and significant government holding of ownership stakes in banks. From 1986, government liberalised banking business, divested its ownership stakes and enforced regulatory standards that eventually culminated into the 2009 reforms.

The total number of banks in Nigeria from 1892 to 2009 fluctuated with episodes of reforms. For instance, the number of banks in Nigeria increased from 41 banks in 1986 to 120 in 1994, and decreased from 89 in 2004 to 25 by 2005 and further to 21 banks in 2012. Likewise, changes in the number of bank branches reflected the outcomes of reforms. The impact of banking sector reforms could be measured by six broad metrics: the extent of controls on credit; interest rate; entry barriers; restrictions on financial firms and markets; restrictions on international financial transactions and the number of state-owned financial firms.

The period between 1892, when modern banking services commenced in Nigeria, and 1951 witnessed the emergence of foreign and indigenous banks that operated on a self-regulatory basis. In that era, there was no domestic legislation for the operation of banking services nor a central bank or a Ministry of Finance or Treasury to regulate banking activities. Though the West African Currency Board (WACB) was already in operation from 1912, it lacked the discretionary powers to regulate banking services. The deficiency of the WACB and the mass failure of indigenous banks due to weak operational standards and lack of managerial and technical know-how encouraged agitations for an indigenous institution to regulate banking services and nurture the growth of the industry. As a result, the first domestic legislation on banking services (the Banking Ordinance of 1952) was enacted as the pioneering attempt at banking sector reforms in Nigeria.

The 1952 Banking Ordinance and the 1958 CBN Act created a crisis-free era of banking operations in Nigeria up till 1968 during which period, only two indigenous banks failed as compared to the mass failure of indigenous banks in the pre-1952 era. In 1969, another banking Act was enacted as a reform measure to strengthen the domestic banking environment. The 1969 Act stipulated minimum share capital requirements for banks and established a regulatory framework. In part, a benchmark was set for cash reserve ratio and liquidity ratio, banking supervision varying the conditions of banking license, merger and acquisition of banks, the imposition of holding action and the management of distressed banks. The 1969 Act was basically driven by deliberate policy of government to mobilise financial resources for economic growth and to entrench banking culture in the economy.

The 1986 economic recovery programme, popularly known as the Structural Adjustment programme (SAP), focused on market liberalisation and extensive divestment of state owned shares in banks. A significant aspect of the reforms was to strengthen banks to finance economic growth and to stimulate the economy out of the recession that began in the early 1980s. From the initiation of SAP in 1986 to the reforms of 2009, considerable measures were implemented as part of banking sector reforms in Nigeria.

In 1994, another era of banking sector reforms began with the enactment of the Failed Banks (Recovery of Debts) and Financial Malpractices Act of 1994, which resulted in the liquidation of 30 distressed banks, the imposition of ceilings on interest rates and an upward review of the stipulated minimum share capital requirements for banks.

The universal banking reforms were introduced in Nigeria in January 2001 to remove restrictions that led to imbalances in opportunities between the merchant and commercial banks. In 2004, the CBN announced a 13-point agenda for a comprehensive banking sector reform that was expected to strengthen and reposition the Nigerian banking system. The key features of the reform were: the minimum capital base for banks was raised from N2 billion to N25 billion with full compliance on or before the end of December 2005, consolidation of banking institutions through mergers and acquisitions, adoption of risk-focused and rule-based regulatory framework, corporate governance frameworks and the automation of the process of rendering returns by banks and other financial institutions through the Electronic Financial Analysis and Surveillance System (e-FASS). The reforms resulted in the liquidation of 14 terminally distressed banks.

The 2009 banking reforms were necessitated by the challenges of the 2007 global financial crisis. The reforms focused on improving the quality of banks and financial stability. The exercise was designed to ensure a diversified, strong and reliable banking sector in Nigeria to ensure the safety of depositors' money, be a competent and competitive player in the regional and global financial system of the 21st century.

The Asset Management Company of Nigeria was created as a distress resolution mechanism to foster a healthy financial sector evolution. In addition, a three-tier banking model was introduced as part of measures to enhance financial inclusion. Significant aspects of the banking sector reforms were geared towards providing the appropriate incentives for banks to assume a leading role in stimulating the private sector to contribute more to economic growth.

From the first banking reforms of 1952 to those of 2009, considerable measures were implemented to strengthen the banking industry in Nigeria. Overall, the main issue that emerged post-2009 was macro-prudential regulation: requiring that stress tests be considered to banks regularly in order to determine the extent of soundness and vulnerabilities of the banking system. Other issues that emerged from the 2009 banking reform exercise related to risk management, corporate governance, financial innovations, consumer protection, payments system, security of electronic banking; uniform year-end accounting period and compliance with International Financial Reporting Standards (IFRS).

4.2 The Bank Consolidation Exercise

In 2004, the Central Bank of Nigeria embarked on a banking sector reform (Bank Consolidation), which among other things, sought to strengthen the banking system and improve its operational efficiency. Nigerian banks were generally weak and inefficient at that time. The Central Bank of Nigeria's surveillance report of March 2004 indicated that 62 banks out of 89 were classified as sound/satisfactory and 14 as marginal. The number of unsound banks rose from 9 at end-December 2003 to 11 in May 2004. There was serious over-dependence on public sector funds and Central Bank credits as well as income from foreign exchange trading by the banks. Besides being grossly undercapitalised, the banking industry was characterised by numerous weaknesses including poor corporate governance, poor asset quality, inaccurate reporting and non-compliance with regulatory requirements, falling ethics and de-marketing of other banks in the industry. Others were gross insider abuses resulting in huge non-performing insider related credits, oligopolistic structure with 10 of the 89 banks controlling more than 50 per cent of the industry assets and liabilities, lack of capacity to support the real sector of the economy, and lack of competitiveness in savings mobilization. The situation was such that weak banks paid higher interest rates in an attempt to attract more deposits. As at end-May 2004, banks indebtedness to the Central Bank was about N71.36 billion.

The banking consolidation reform was meant to address these weaknesses through recapitalisation of banks with minimum paid-up capital of N25 billion. Also, the reform attempted to address other weaknesses such as: ensuring less reliance on the public sector funds; adoption of risk-focused and rule-based regulatory framework; adoption of zero tolerance in the regulatory framework for data/information rendition/reporting and infractions; strict enforcement of corporate governance principles; expeditious process for rendition of returns by banks and other financial institutions through e-FASS; revision and updating of relevant laws for effective corporate governance; ensuring greater transparency and accountability in the implementation of banking laws and regulation; and the establishment of an asset management company as an important element of distress resolution.

The consolidation exercise impacted the banking sector positively. The banking system was transformed from 89 banks to 25 through regulatory merger and acquisition and later to 24 through market-induced mergers and acquisition; this gives room for a more efficient supervision. Bank branches grew from 2,900 in 2005 to almost 5,500 in mid-2009. Besides deepening of the capital market, the banks were positioned to actively participate in a wider range of activities, including financing of infrastructure and the oil sector.

4.3 Impact of the Global Economic Meltdown

While the consolidation exercise lasted, certain developments in the economy and within the banking system put the banking sector at serious risk. Between 2004 and 2008, Nigeria enjoyed high income in oil price which resulted in huge inflow of foreign exchange and robust economic growth. This, coupled with appreciable level of foreign direct investment inflows, resulted in a substantial amount of liquidity in the economy.

The excess liquidity found its way into the capital market as shown in the unprecedented rally in stock prices on the Nigerian Stock Exchange between 2006 and March 2008. The liquidity surfeit also allowed banks to raise capital. Fresh capital raised by Deposit Money Banks (DMBs) between 2006 and Q1 2008 was N1.6 trillion. The increase in capital supported banks' balance sheet growth, with banking sector assets as percentage of GDP increasing to 60.0 per cent from about 30.0 per cent in 2004. With significant capital and greater liquidity, banks were under immense pressure to create risk assets amidst limited product innovation and diversification. This, coupled with poor risk management practices, ultimately led to asset concentration in margin lending and oil marketing. As at end-December 2008, banks' total exposure to the oil industry was over N754.0 billion, representing over 10.0 per cent of the industry total and over 27.0 per cent of shareholders' funds.

In mid-2008 when the global financial and economic crises set in, the domestic financial system was already engulfed by several interdependent issues that led to the re-emergence of an extremely fragile financial system similar to the preconsolidation era. Thus, the second round effect of the global crisis eventually hit Nigeria. At that time, the banking sector was ill-equipped to withstand the storm in spite of capitalisation. The financial crisis adversely affected both the oil and gas sector and the capital market, where the Nigerian banks were exposed to the tune of N1.6 trillion as at December 2008. This resulted in a sharp deterioration in the quality of banks' assets which immediately led to concerns over banks' liquidity. Indeed, the Nigerian banking sector was thrown into a severe predicament as many of the banks became distressed.

4.4 Elements of Banking Sector Reforms in Nigeria after the Global Economic Meltdown

The recent reforms which began in 2004 with the consolidation programme were necessitated by the need to strengthen the banks. The policy thrust at the beginning, was to grow the banks and position them to play pivotal roles in driving development across the sectors of the economy. As a result, banks were consolidated through mergers and acquisitions, raising the capital base from N2.0 billion to a minimum of N25.0 billion, which reduced the number of banks from 89 to 25 in 2005, and later to 24.

In furtherance with the policy thrust of improving quality of banks and financial system stability, the blueprint for reforming the Nigerian financial system in the next decade was built around four (4) pillars:

1. Enhancing the quality of banks
2. Establishing financial stability
3. Enabling healthy financial sector evolution
4. Ensuring that the financial sector contributes to the real sector

The four pillars of the banking reforms were designed to comprehensively resolve the problems of the banking system and promote financial stability, among other objectives. Some of the measures taken to achieve this were the following:

- Enforcement of the Code of Corporate Governance for Banks in Nigeria with emphasis on enhanced transparency and disclosures;
- Introduction of the policy on 10-year tenure limit for bank chief executives;
- Implementation of risk based and cross-border supervision;
- Establishment of AMCON to acquire the non-performing loans and recapitalise distressed banks.
- Establishment of the Financial Stability Committee (FSC) to address issues relating to the soundness and stability of the Nigerian financial system;
- Reinvigoration of the Financial Sector Regulation Coordinating Committee (FSRCC), an umbrella platform for the coordination of activities of the various regulators in the financial system;

- Reversal of the universal banking policy and the introduction of a new banking model ;
- Review of existing guidelines and, in collaboration with SEC, the issuance of the Margin Lending Guidelines which placed strict percentage caps on bank exposures to capital market related lending;
- Collaboration with the fiscal authorities to improve the macroeconomic, financial and monetary policy environments; and
- Adoption of a common accounting year end for all banks aimed at improving data integrity and comparability.

Furthermore, the Bank has been collaborating with the Securities and Exchange Commission (SEC) and the Nigerian Stock Exchange (NSE), to reduce the cost of transactions, particularly bond issues, so as to diversify funding sources away from banks as well as attract more foreign portfolio investors into the sector. The CBN, in collaboration with the Bankers' Committee, aims to achieve an environment where a higher and increasing proportion of transactions are carried out through cheques and electronic payments in line with global trends. The enforcement of the T+2 cheque clearing cycle is being stepped up and efforts are ongoing to reduce the cycle to T+1. It is possible to make payments of up to N10.0 million through the clearing system with a cheque.

The Central Bank established the Consumer Protection Department in 2012 to provide a platform through which consumers can seek redress. This is to engender public confidence in the banking system and enhance customer protection. The CBN has also issued a directive for banks to establish Customer Help Desks at their head offices and branches. In addition, the CBN has commenced a comprehensive review of the Guide to Bank Charges with a view to making the charges realistic and consumer friendly.

The CBN has taken steps to integrate the banking system into global best practice financial reporting and disclosure through the adoption of the International Financial Reporting Standards (IFRS) in the Nigerian banking sector by end-2010. This should help to enhance disclosure, foster market discipline, and reduce uncertainties, which limit the risk of unwarranted contagion.

The Universal Banking (UB) model adopted in 2001, allowed banks to diversify into non-bank financial businesses. Following the consolidation programme, banks became awash with capital. Some operators abused the laudable objectives of the UB Model with banks operating as private equity and venture capital funds to the detriment of core banking practices. To address the observed challenges, the CBN reviewed the UB Model with a view to directing banks to focus on core banking business only. Under the new model, licensed banks will be authorised to undertake the following types of business:

- Commercial banking (with either regional, national and international authorisation);
- Merchant (investment) banking;
- Specialised banking (microfinance, mortgage, non-interest banking (regional and national); and

The various measures notwithstanding, there was need for some intervened banks to merge in order to strengthen their capital base and to remain competitive in the market. Accordingly, five (5) Transactions Implementation Agreements (TIAs) had been signed among the banks, and the CBN issued a letter of no objection to the banks being acquired to proceed with the merger of the entities. The signing of legally binding TIAs for the five (5) banks and the full capitalisation of the three (3) new banks by AMCON had resolved the issue of the combined negative asset value of the eight (8) CBN intervened banks. Similarly, the recapitalisation of all the five (5) banks that signed TIAs was completed in 2011.

The introduction of the non-interest banking in Nigeria is expected to herald the entry of new markets and institutional players thus deepening the nation's financial markets and further the quest for financial inclusion. In fact, the first fully licensed non-interest bank in the country (Jaiz Bank Plc.) started business on Friday, January 6, 2012. Similarly, there have been concerted efforts by the Bank to reposition and develop the microfinance bank in Nigeria. The importance of Microfinance in a growing economy cannot be over-emphasised, given its potential in addressing the challenges of a large population that is excluded from full participation in economic activities.

SECTION FIVE

Benefits and Challenges of Banking Reforms in Nigeria

5.1 Benefits of Banking Reforms in Nigeria

Banking reforms in Nigeria has been immensely beneficial to both the financial system as a whole and the success of individual institutions, through rejuvenation of banks and establishment of a competitive and innovative environment for financial service delivery. As a result, banks tend to witness significant growth and returned to the path of profit-making as well as improved balance sheets.

The reforms have brought about a new mindset to the industry as banks put in place best practices in the areas of corporate governance and risk management thereby improving transparency and disclosures.

Banks are better positioned to lend to the private sector. For instance, the additional liquidity of more than N1.7 trillion injected into the banking system through the issuance of AMCON bonds in 2010 and the significant progress made in re-directing credit to the power sector and SMEs at single digit interest rates have contributed to availability of credit to the real sector of the economy. Thus, reforms have saved and helped create thousands of jobs in the economy.

Nigerian Banks have evolved through different reforms to become key players in the global financial market with many of them counted among the Top 20 banks in Africa and among Top 1000 banks in the world. Many Nigerian Banks have become multinational companies with subsidiaries spread all over the world.

The volatility in exchange rate hitherto witnessed in the foreign exchange market has been brought under control. The premium is within the international standard of 5.0 per cent. This was due to better returns on investments in banks as they now make more profit from intermediation as against dependence on profit from speculative activities in the foreign exchange market.

Reforms have fostered greater cooperation between the monetary authorities and the banks through regular meetings and collaboration on policy issues. The use of moral suasion as a tool of monetary policy and financial stability has thus, become more effective.

Reforms have brought about greater public confidence in the banking system with the resolution of distressed banks and adoption of a strict code of corporate governance. Also related to this is the increased use of e-payment services among Nigerians, which has transmitted to expansion in the circle of influence of monetary policy in the economy.

5.2 Challenges of Banking Reforms

The Nigerian banking reform, inspite of laudable achievements recorded, have been confronted with certain challenges. First and foremost is the wrong perception of the intent of such reforms. The introduction of the new banking model, especially specialised banking (non-interest banking), is intended to broaden the scope of financial services offered by banks in Nigeria. However, this has been given a religious connotation. The wrong perception and stiff resistance to the policy could potentially deter prospective investors in the banking industry.
Second, the reluctance of Nigerians to keep pace with global dynamics is another challenge. There is incontrovertible evidence that the excessive liquidity in the system measured by broad money (M2), narrow money (M1) and currency in circulation is partly attributable to the high cash transactions for economic activities, which has continued to undermine the efforts to achieve price stability. Yet, the cash-less policy has faced significant resistance, despite its prospect for economic growth and development and the global trend in the intensity of usage of e-payment.

Third, the cost of doing business in Nigeria is still high when compared with developed economies or some emerging market and developing (EMDC) countries owing to the poor state of infrastructure.

Another challenge is that the high growth rates recorded in the last five years have not been inclusive, implying that it has not reflected in sustainable development. This situation is responsible for the high unemployment and poverty levels, which inevitably engenders the low banking habits in the country.

Another key challenge is the quality of manpower. Real strategic change can only take place with competent and committed workforce that is constantly exposed to training and development. The competitive financial sector environment requires a highly skilled workforce that would effectively contribute to value creation within financial institutions. Hitherto, employee recruitment was merely to comply with regulatory requirements, while training was viewed as a non-revenue function that was costly and unnecessary.

5.3 Conclusion

The banking sector occupies a vital position in the economy and must be subjected to continuous reforms for it to function efficiently. The modest achievements recorded so far have been largely due to greater collaboration and unity of purpose among key stakeholders. Thus, the CBN in its efforts to develop a sound and vibrant banking system should continually strive to ensure that democratisation of policy is sustained and improvement of financial literacy among people. It should also continue to ensure that the banks abide strictly by the code of corporate governance for efficient functioning of the banking industry.

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