



Financial System Strategy 2020



FSS 2020 International Conference

Regulation



Presentation Outline

- Industry/Sector Overview
- Current Position Assessment
 - Industry Structure (Players, Regulators, Products etc)
 - Industry Trends
- Industry Issues, Gaps & Key Success Factors
- Industry Vision and Mission
- Proposed Industry Model
- Strategic Objectives & Initiatives
- Implementation Plan & Timelines



■ SECTOR OVERVIEW



Industry/Sector Overview

- Multiple Regulatory Structure
- Functional Regulation/Approach
 - CBN – Banking
 - SEC – Securities/Capital market
 - NAICOM – Insurance
 - PENCOM – Pension
- Quasi Regulatory Institutions (NDIC, DMO, NASB, IST, BOI, NEXIM, NACRB, FMB)
- SROs (NSE, ASCE, CIB, ICAN, CIS, NIA, Industry Associations)



NIGERIA: Current Position Assessment



Industry/Sector Structure: The Matrix

| Financial Institutions, Operators, Functions, Products & Services | Regulating Agencies | | | | |
|---|---------------------|-----|-------------|--------|-----|
| | CBN | SEC | NAICOM | PENCOM | DMO |
| Securities Exchanges | | X | | | |
| Banks | X | X | X [NDIC] | | |
| Other FIs –Deposit Taking | X | | | | |
| Other FIs – Non Deposit Taking | | X | | | |
| Issuing Houses** | X | X | | | |
| Underwriters | X | X | | | |
| Fund Managers (Public, Private)* | X | X | | | |
| Brokers/Dealers | | X | | | |
| Registrars | | X | | | |
| Trustees | | X | | | |



Industry/Sector Structure: The Matrix

| Financial Institutions, Operators, Functions, Products & Services | Regulating Agencies | | | | |
|---|---------------------|-----|--------|--------|-----|
| | CBN | SEC | NAICOM | PENCOM | DMO |
| Pension Fund Administrators | | | | X | |
| Pension Fund Custodians** | X | | | X | |
| Central Securities Clearing System | | X | | | |
| Securities, Corporate, Municipal & States Bonds | | X | | | |
| Federal Govt. Bonds | | | | | X |
| Insurance Companies | | X | X | | |
| Insurance Brokers/Actuaries/Lost Adjusters | | | X | | |
| Insurance Products | | | X | | |
| Mortgage Banks | X | X | | | |



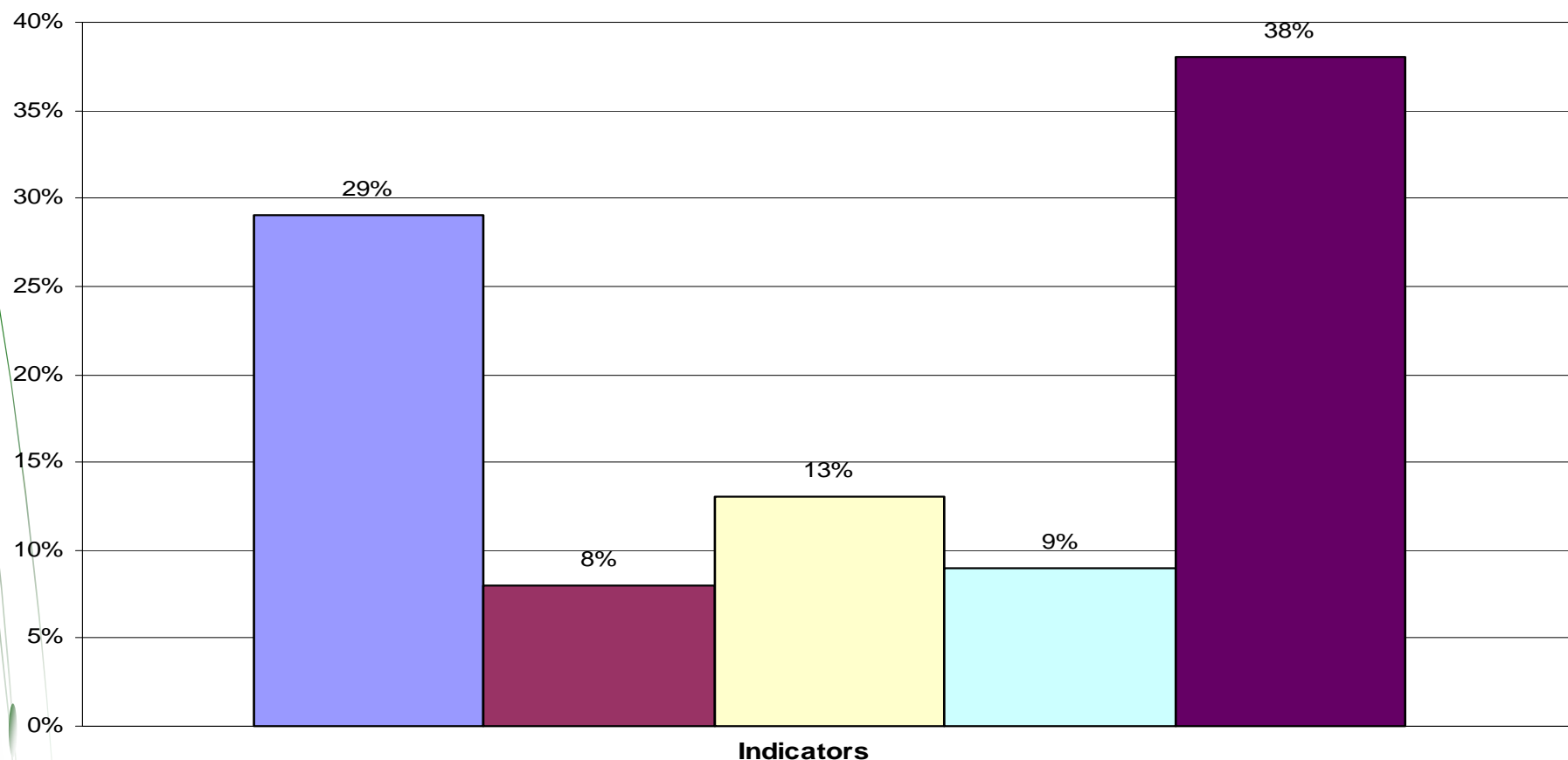
Industry/Sector Trends

Regulation – Driven Reforms

- Structural Reforms
- Banking Sector Reforms
- Insurance Sector Consolidation
- IT Initiatives – CBN, NIBSS, SEC, NSE
- Monetary Policy, e.g. PSI, Inflation, MPR
- Capital Market Reforms (IOSCO,MMOU, New Capital Requirements, etc)
- Pension Reforms
- Mortgage Reforms (new securities – REITS, Bonds, Securitization, etc)

Industry/Sector Trends

Trend in Regulatory Structure
Source: Luna Martinez and Rose (2003)



■ Single Supervisor
■ Banks and Securities Firms
■ Banks and Insurance
■ Securities Firms and Insurance
■ Multiple Supervisor



Industry/Sector Trends

Key Drivers

- Globalization
- Deregulation and Technology Innovation
- Increasing Complexity of the Financial Instruments
- Increased Competition
- Emergence of Financial Conglomerates



Industry Issues

- Overlapping Role of Regulators
- Weak Coordination amongst Regulators
- Technology and Infrastructure
- Over Reliance on Statutory Regulation
- Funding and Cost of Regulation



Industry Gaps

- Overlapping Role of Regulators
- Weak Coordination amongst Regulators
- Technology and Infrastructure
- Over Reliance on Statutory Regulation
- Funding and Cost of Regulation



Key Success Factors

- Autonomy
- Funding
- Rigorous Anti-Inflation Strategy
- Separation of Regulation and Supervision
- Further Regulatory/Industry Consolidation



■ SECTOR VISION AND MISSION



Vision

“To be a leading regulatory system that is transparent, efficient and safe; which would enable Nigeria’s financial markets to be among the top 20 in the world by 2020”



Mission

“To provide a sound regulatory framework that would lead to an efficient and safe financial system that would support rapid and sustainable economic growth in Nigeria”

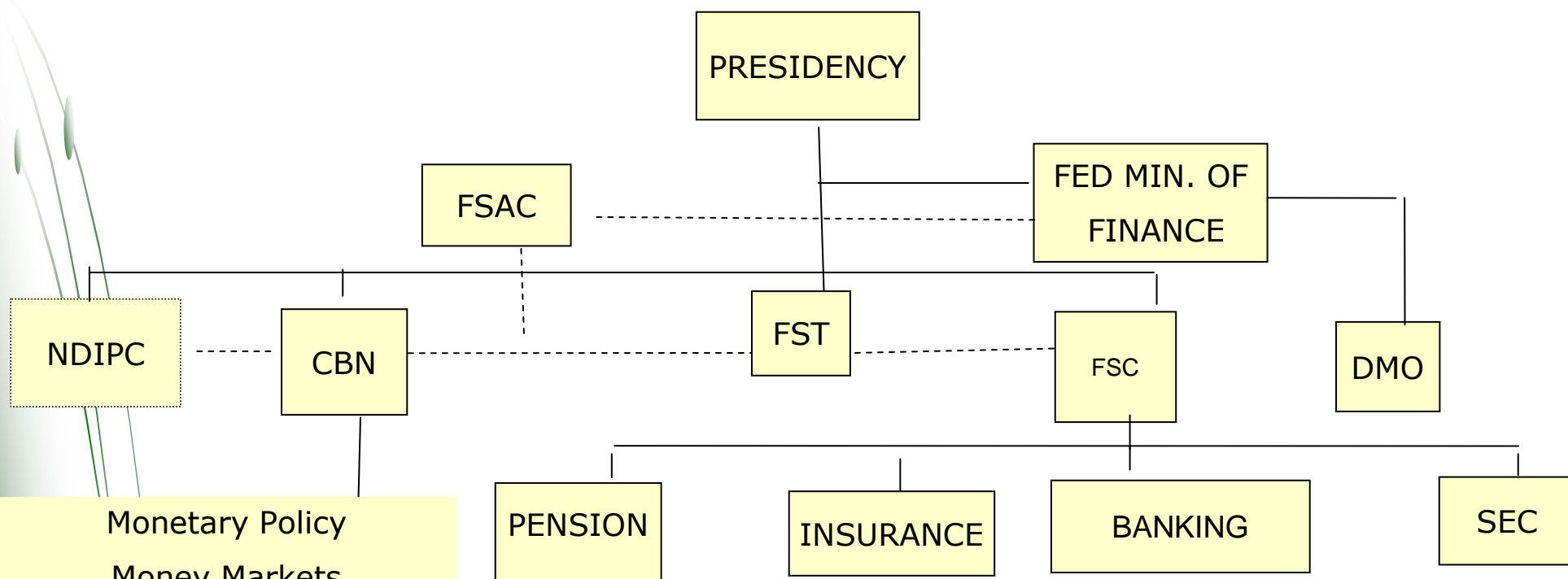


Vivid Description of Vision

By the year 2020,

- Nigeria's Regulatory System would be seen as one of the world's most transparent, efficient and safe.
- The Regulatory structure would enable Nigeria's financial system be among the top 20 leading economies in the world.
- Investors would be attracted into the Nigerian economy leading to phenomenal growth in the country's economy.
- The Regulatory structure would be underpinned by a strong linkage through cooperative agreements and alliances with other leading regulatory agencies

Proposed Industry Model



Monetary Policy
Money Markets
Payment Systems
Currency Management
Foreign Exchange Management
Foreign Reserve Management

KEY:

FSAC is the Advisory Council
Membership comprises of CBN Gov.
CEO of FSC, MOF, NDIC, FST

NDICC Nigerian Depositors and
Investor

Protection Corporation



Strategic Objectives & Initiatives

- Objective 1: Develop regulatory capacity and infrastructure for an effective and efficient financial system
 - Initiative 1: Develop human resources capacity for effective and efficient supervision by;
 - Developing a framework for exchange of personnel between operators and regulators (to foster industry knowledge)
 - Establishing a regulatory training institute to build operational competencies and qualifications.
 - Initiative 2: Create operational framework for regulatory supervision
 - Initiative 3: Converge the NASB's rules and processes with international standards.
 - Initiative 4: Create system-wide compliance manuals for industry operations.
 - Initiative 5: Upgrade the jurisdiction of the IST to the Financial Services Tribunal



Strategic Objectives & Initiatives

- Objective 2: Develop a regulatory environment that will attract and retain investments into the Nigerian financial system.
 - Initiative 1: Update corporate governance codes in line with international standards
 - Initiative 2: Mandate compulsory adherence by the Board of Directors to corporate governance codes
 - Initiative 3: Review and update rules and regulations for governing SROs in line with current industry dynamics
 - Initiative 4: Develop a code of business conduct for the Financial Services Industry operators
 - Initiative 5: Develop and enforce capital adequacy standards for risk based supervision



Strategic Objectives & Initiatives

■ Objective 2: Continued

- Initiative 6: Review current policy to reduce incidence of financial crime and money laundering
- Initiative 7: Review consumer protection laws
- Initiative 8: Review funding structures for regulatory agencies
- Initiative 9: Conduct frequent integrity checks on corporate reporting by encouraging on-line real time reporting
- Initiative 10: Zero tolerance on misrepresentation, misleading and falsified reports.



Strategic Objectives & Initiatives

- **Objective 3:** Develop a regulatory environment that will attract and retain investments into the Nigerian financial system.
 - **Initiative 1:** Streamline all existing regulatory laws
 - **Initiative 2:** Create statutory laws to empower the existing FRSCC to perform a coordinated supervisory role over the Financial system
 - **Initiative 3:** Commence process of first phase of integrating existing regulatory institutions (NAICOM, PENCOM & SEC) under a single Regulatory body to be named Financial Services Commission (FSC)
 - **Initiative 4:** Strengthen and review the structure of SROs to assume greater role in individual supervision



Strategic Objectives & Initiatives




■ Objective 3: Continued

- Initiative 5: Train officials of regulatory bodies to approach regulation from a market-oriented perspective
- Initiative 6: Consolidate all regulatory institutions (including Banking Supervision) under a single regulatory body (FSC), with CBN concentrating on Monetary Policy, Currency Management, Foreign Exchange Management and Foreign Reserve Management functions.
- Initiative 7: Implement principles of supervision of financial conglomerates and cross-border relationships



■ IMPLEMENTATION PLAN AND TIMELINES

Implementation Plan

| Objectives | Priority | Responsibility | Sequencing and Timing | | | | | | | | | | | | | |
|--|----------|----------------|---|---|------|------|------|------|-----------|------|------|------|------|------|------|------|
| | | | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
| Objective 1: Develop regulatory capacity and infrastructure for an effective and efficient financial system | | | SHORT TERM | | | | | | LONG TERM | | | | | | | |
| | | |  | | | | | | | | | | | | | |
| Initiative 1: Develop human resources capacity for effective and efficient supervision by; - Developing a framework for exchange of personnel between operators and regulators (to foster industry knowledge) - Establishing a regulatory training institute to build operational competencies and qualifications. | Medium | All Regulators | |  | | | | | | | | | | | | |
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| | | | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
| Objective 1: Continued | | | SHORT TERM | | | | MEDIUM TERM | | | | LONG TERM | | | | | |
| Initiative 2: Create operational framework for regulatory supervision | Medium | FRSCC | ➔ | | | | | | | | | | | | | |
| Initiative 3: Converge the Nigerian Accounting Standards Board's rules and processes with international standards. | Medium | NASB | ➔ | | | | | | | | | | | | | |
| Initiative 4: Create system-wide compliance manuals for industry operations. | Medium | All Regulators | ➔ | | | | | | | | | | | | | |
| Initiative 5: Upgrade the jurisdiction of the Investment and Securities Tribunal (IST) to Financial Services Tribunal (FST) | High | National Assembly and All Regulators | ➔ | | | | | | | | | | | | | |

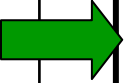
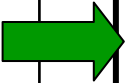

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| Initiative 1: Update corporate governance codes in line with international standards | Medium | SEC | | | | | | | | | | | | | | |
| Initiative 2: Mandate compulsory adherence by the Board of Directors to corporate governance codes | Medium | SEC | | | | | | | | | | | | | | |
| Initiative 3: Review and update rules and regulations for governing SROs in line with current industry dynamics | Medium | All Regulators | | | | | | | | | | | | | | |

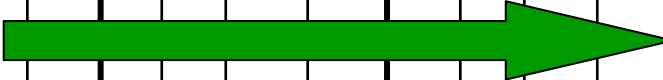


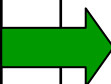
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| Initiative 4: Develop a code of business conduct for the Financial Services Industry operators | Medium | FRSCC | ➔ | | | | | | | | | | | | | |
| Initiative 5: Develop and enforce capital adequacy standards for risk based supervision | High | SEC, CBN | | ➔ | | | | | | | | | | | | |
| Initiative 6: Review current policy to reduce incidence of financial crime and money laundering | High | National Assembly | ➔ | | | | | | | | | | | | | |
| Initiative 7: Review consumer protection laws | High | National Assembly | ➔ | | | | | | | | | | | | | |





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| Initiative 8: Review funding structures for regulatory agencies | High | National Assembly |  | | | | | | | | | | | | | |
| Initiative 9: Conduct frequent integrity checks on corporate reporting by encouraging on-line real time reporting | High | All Regulators |  | | | | | | | | | | | | | |
| Initiative 10: Zero tolerance on misrepresentation, misleading and falsified reports. | High | All Regulators |  | | | | | | | | | | | | | |

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| Objective 3: Continued | | | SHORT TERM | | | | | | MEDIUM TERM | | | | | LONG TERM | | | |
| Initiative 4: Strengthen and review the structure of SROs to assume greater role in individual supervision | High | SROs, Industry Associations |  | | | | | | | | | | | | | | |
| Initiative 5: Train officials of regulatory bodies to approach regulation from a market-oriented perspective | Medium | All Regulators |  | | | | | | | | | | | | | | |
| Initiative 6: Consolidate all regulatory institutions (including Banking Supervision) under a single regulatory body (FSC), with CBN concentrating on Monetary Policy, Currency Management, Foreign Exchange Management and Foreign Reserve Management functions. | High | National Assembly | | | | | | | | |  | | | | | | |
| Initiative 7: Implement principles of supervision of financial conglomerates and cross-border relationships | High | All Regulators | |  | | | | | | | | | | | | | |

31

Risk/Mitigating Factors

Direct:

- Lack of Buy-in amongst Stakeholders
- Weak Coordination amongst Regulators
- Lack of Confidence (Regulation & Regulators)
- Inadequate Technology & Infrastructure
- High Cost of Regulation
- Inadequate Investor/Consumer Protection

Indirect:

- Inconsistency in Govt. Policy
- Corruption, Non-compliance with rule of law
- Funding
- Inadequate Capacity
- Rudimentary Market
- Multiplicity of Regulators



Conclusion

Thank You