Towards Financial System Stability: Recent Policy Reforms in the Nigerian Banking Sector

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Outline

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Introduction…

- The contagion effects of the recent global financial turmoil re-echoed the need for economies to have sound, efficient and safe financial systems to mitigate external shocks and domestic macroeconomic distortions

- While there were no significant first round impact, subsequent developments in the global economy had severe second-round consequences for the Nigerian economy, particularly the financial system and the banking sector

- The decline in global demand for primary products and fall in commodities prices, including oil prices, had draining effects on the economy and constraint public investments. Private capital inflows, including foreign investment dwindled, external reserves declined and balance of payment position deteriorated

Intro….

- The banking sector was hardest hit as banks capital base eroded due to significant exposure the equity market (as asset prices fell) and the downstream oil sector. The banks balance sheets were lined with huge NPLs and bad (toxic) assets –
- The high leverage of many of the banks posed significant threat to the banking system stability, as it signaled systemic crisis in the sector
- It was obvious that urgent steps needed to be taken to forestall further degeneration of the situation and revive public confidence in the financial system

Threats to Financial System Stability

- The CBN/NDIC special examination and audit of the books of banks (2009) revealed:
- Substantial volume of unsecured and non-performing loans in the books of some banks
- Evidence of gross neglect of internal control mechanism and due diligence in financial transactions and services by banks
- Severe lapses in regulatory oversight and surveillance by regulatory authorities
- Poor corporate governance and unethical conduct by banks management and top executives
- Illiquidity and severe insolvency in some banks – distress signals and perpetual recourse to the expanded discount window for funds

The Banking Sector Reforms…

Banking sector and Financial System Stability:

- The CBN launched a comprehensive banking system reform based on four cardinal objectives of :

- Enhancing the quality of banks
- By providing an industry-wide remedial measures to address the key causes of the crisis, facilitate the implementation of risk based supervision, and enhance the capacity in professionalism in banking practices

- Establishing Financial Stability
- By providing the necessary financial system infrastructure, including strengthening the Financial Stability Committee in the CBN and the implementation of a macro-prudential and risk based supervisory rules

- Enabling healthy Financial Sector Evolution
- By providing a comprehensive review of the existing banking model to allow for specialization of banking products and services that reflect competences and efficiency – including non-interest banking

- Ensuring that the financial sector contributes to the real economy

The Banking Sector Reforms…

Two major areas needed immediate Action:

Corporate Governance

- Sack, replaced and prosecuted erring chief executives and top management personnel of mis-managed banks. Publish name of major loan defaulters

- Review the tenure of bank chief executives and credentials of Management Boards/ audit firms

- Establish mechanism for capacity building and re-training of top management personnel of banks, including executive and non-executive directors

Banks Bail–out and Re-capitalization

- Injection of N620billion by the CBN to 8 banks in critical conditions
- Establishment of the Asset Management Company (AMCON) to absorb the toxic assets of the banks, inject liquidity and recapitalize

Banking Sector Reforms -Addressing the Real Sector…

- Ensuring that the financial sector contributes to the real economy
- N500 billion– Critical Infrastructure Fund, of which N200 billion is for refinancing/restructuring of existing SME loans
- N300 billion long term fund for Power and Aviation, of which N250 billion is for the Power sector and N50 billion is for the Aviation sector
- N200 billion for Commercial Agriculture Credit Scheme
- The Nigerian Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL)
- Small and Medium Enterprise Equity Investment Scheme (SMEEIS), Small and Medium Enterprise Credit Guarantee Scheme (SMECGS)

The Banking Sector Reforms… - AMCON

- AMCON as a resolution vehicle absorbed the toxic assets of intervened banks and provided liquidity to facilitate the re-capitalization of the banks – *AMCON is to be sustained by a contributing fund from the banks and not from the public purse*

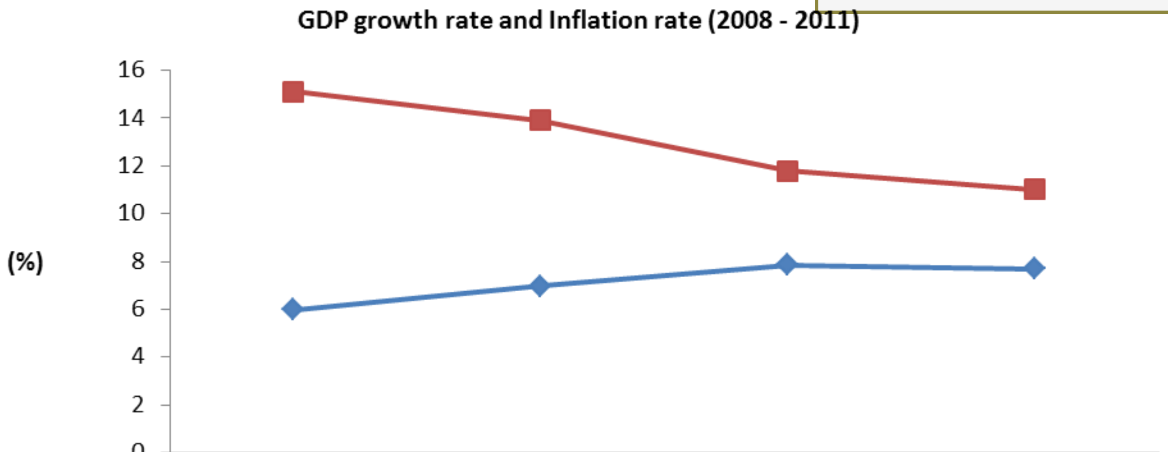
- AMCON injected N739.0 billion to recapitalize three banks and thus, depositors' funds are secured – no bank collapsed and no deposit lost

- As at end of 2011, in series of tranches, AMCON has issued 3-year bonds valued at N4.7 trillion towards the purchase of toxic assets, liquidity and recapitalization of banks

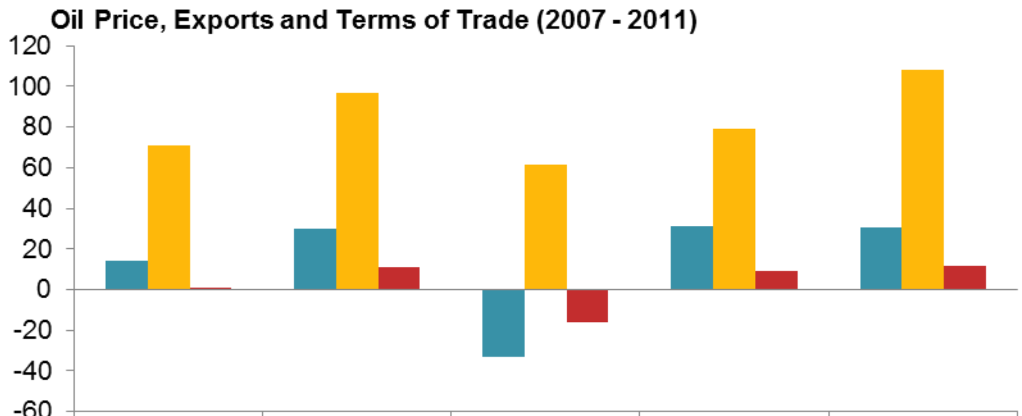
- The CBN has purchased AMCON bonds valued at N1.8 trillion

Other Banking Sector Reforms: Bankers Committee Initiatives

- Enhancing payment and clearing system infrastructure –
  - RTGS
  - Mobile banking
  - ATM, POS
  - NIPPS (Interface)
  - cash-less scheme (encouraging e-payments and automated banking services)
- Sustainable Banking Principles and Practices
  - Addressing environmental and social concerns in banking practices
  - Developing sustainable lending principles towards environmental protection, social well being and overall economic prosperity – particularly as it concerns Oil and Gas, Agriculture and Power sectors
  - Gender Empowerment – Low interest rate (single digit) facility for rural women and women SMEs; encourage women elevation to top executive positions in the financial sector

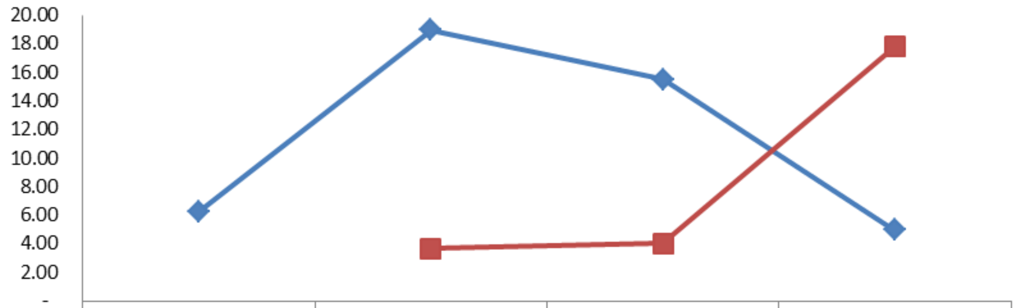


	2008	2009	2010	2011
GDP	5.98	6.96	7.85	7.69
Inflation rate	15.1	13.9	11.8	11



	2007	2008	2009	2010	2011
EXPORT	13.9	30.1	-33.4	31.2	30.8
OIL PRICE	71.1	97	61.8	79	108.1
TOT	0.7	11.3	-16.2	9.3	11.5

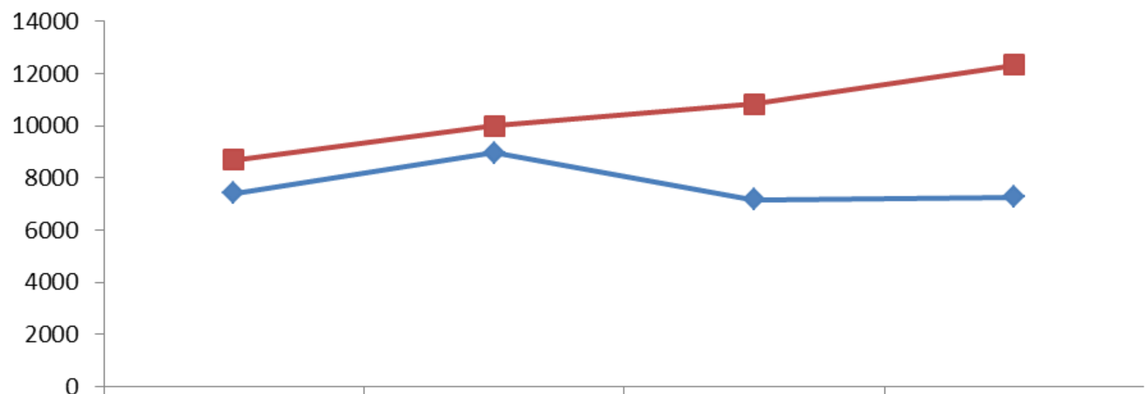
Non-Performing Loans and Capital Adequacy Ratio (2008 - 2011)



	2008	2009	2010	2011
NPL	6.25	18.94	15.48	4.95
Capital Adequacy Ratio (%)		3.65	4.03	17.79

NPL   Capital Adequacy Ratio (%)

Trends in Total Credit and Total Deposit of Banks (2008 - 2011)



	2008	2009	2010	2011
Total Credit (bn)	7411.43	8955.87	7166.77	7273.77
Total Deposit (bn)	8703	10000.99	10837.14	12330.26

Total Credit (bn)   Total Deposit (bn)

Concluding Remarks

- It is on record that no bank has been allowed to fail in Nigeria and hence no depositor's fund was lost neither were public resources used to bailout banks
- Inflation rate was tamed as GDP growth rate rose. The quality of bank credit improved significantly as NPL ratio reduced drastically. Banks capital base strengthened as CAR rose to 17.79%
- While the banking sector reforms has been able to strengthen the banks and reassured financial system stability, there are still challenges
- The current developments in the Euro zone , including the sovereign debt crisis, austerity measures and downgrade of some major economies in the zone – may pose potential threat to trade, investment and foreign capital inflow for Nigeria
- Given the dynamic nature of the sector and its integration to the global financial network, new challenges are inevitable, however the flexibility to adjust efficiently to changing financial and economic conditions is the important factor to be sustained

Thank you for your attention