



Beyond Banking Sector Consolidation in Nigeria

**BY
CHARLES C. SOLUDO
GOVERNOR
CENTRAL BANK OF NIGERIA**

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Outline

- ? Financial System as Pillar of the New Economy: The Vision, the Reforms
- ? Key Outcomes: The New Face of Banking
- ? Wrapping Up First Phase: Pressure Points?
- ? Beyond Consolidation:
 - ! Opportunities and Complementary Reforms
- ? The Sustainability Question: Medium Term Outlook

Background: Huge Potentials Largely Untapped...

Largest black population in world/Africa (140 million)

US\$107 billion economy and growing

? Fairly developed infrastructural base (7 seaports, 6 international airports; 65 universities, etc.)

? Variety of solid minerals (Coal, gypsum, barites, iron ore, etc.); Largest bitumen deposit in the world

? 8th Oil producer in the world; 6th country with the largest reserve of natural gas.

One of the fastest growing telecommunication sectors in the world (18 million subscriber base from less than 500,000 in 2001)

? Huge untapped investment opportunities in tourism

? 65% of Arable land lying fallow; etc

Background: Financial System dominated by Weak Banking system

? Where Were We?

- | 89 banks with 3,382 branches predominantly in the urban centers as at June 2004, characterized by structural and operational weaknesses such as:
 - Low capital base
 - Dominance of a few banks
 - Insolvency and illiquidity
 - Over-dependence on public sector deposits and foreign exchange trading
 - Poor asset quality
 - Weak corporate governance

- | A system with low depositor confidence

Background

- ! Banks that could not effectively support the real sector of the economy
 - Banking sector with credit to the domestic economy at 24% of GDP, compared to African average of 87% and 272% for developed countries

The Vision, The Objectives...

- ? “Nigeria as Africa’s Financial centre, and CBN as one of the best in the world”
 - ! Within 10 years, Nigerian bank(s) should be among the top 50—100 banks in the world.
- ? Facilitate evolution of a strong and safe banking system
- ? Improve transparency and accountability in the sector
- ? Drive down the cost structure of banks and make them more competitive and development-oriented
- A New Banking System that depositors can trust, and investors can rely upon: to usher in a new economy

Some Elements of the Reforms...

The Reform Agenda

- ! Recapitalization of banks to N25bn shareholders' fund by December 31, 2005
- ! Zero Tolerance on misreporting and infractions
- ! Stricter enforcement of corporate governance principles
- ! Policy framework on Risk Management Systems
 - Strengthening risk management systems in banks
 - Risk-based supervision.
- ! Payments System Reforms

Some elements of reforms...

- ? Stringent application of the contingency planning framework for systemic distress
- ? Closer collaboration with the Economic and Financial Crimes Commission (EFCC) in the establishment of the Financial Intelligence Unit (FIU) and enforcement of the anti-money laundering measures
- ? Currency Reforms: Rehabilitation and effective management of the NSPM, Plc to meet the currency needs of Nigeria and West/Central Africa
- ? Etc.

KEY OUTCOMES: The New Face of Banks in Nigeria

Strengthened Universal banks

- ? Emergence of 25 banks through consolidation (compared to 89 banks before consolidation)
- ? Successful banks accounted for about 93.5% of aggregate deposit liabilities
- ? Larger aggregate capital base: from about \$3 billion to \$5.9 billion
- ? Nearly US\$3 billion new investment--- largest in non-oil sector in one year
- ? Foreign investment inflows of about US\$500 million

KEY OUTCOMES ...

- ? Aggregate capitalization of banks as a share of stock market capitalisation rose from 24% to 38%
- ? Increased consciousness about capital market among the populace
- ? Enhanced liquidity and capitalization of the stock market
- ? Greater depositor confidence
- ? Returns on Investment in banks over 30% in US dollar terms

KEY OUTCOMES ...

- ? All four foreign banks recapitalized despite initial hesitation – NIB, Standard Chartered, Stanbic and Ecobank
- ? Lending to the private sector rose by 31% and led to non-oil sector growth of 8.5% in 2005
- ? More banks can now access credit lines from foreign banks

KEY OUTCOMES ...

- ? Economies of Scale to be Achieved
 - ! Unit costs of operations reduced as overlapping functions scrapped
 - ! Lower interest deposits due to 'safety in bigness' in minds of depositors
- ? Increased potential to finance big transactions--- (higher single obligor limits)
- ? No more Government dominant ownership

KEY OUTCOMES ...

- ? Dilution of ownership--- as most banks become PLCs; and more regulators oversee them---- SEC and NSE.
- ? More effective supervision-- focus on fewer (25) banks rather than 89 mostly sick banks
- ? No more wholly regionally/ethnically based banks
- ? Nigerian banks going regional and global

Wrapping Up: Pressure Points

- ? Concluding Legal challenges to liquidation of failed banks
- ? Blanket guarantee and payment of depositors
- ? Re-verification of banks' capital to avoid 'bubble' capital
- ? Integration challenges within banks
- ? Contingency plans for any 'weak' bank
- ? Expeditious passage of Asset Management Company law; etc
- ? Pressure to ensure adequate returns to shareholders of banks with 'higher' capital
- ? Bridging the Skill and IT Gaps in the Merged Banks

BEYOND CONSOLIDATION: Opportunities for Brighter Future

- ? Aggressive pursuit of stable macro environ
 - ! Inflation; Exch Rate; fiscal responsibility; GDP growth
- ? Fitch; Standard and Poor's (BB-) rating
- ? Debt Relief
- ? Anti-corruption war and AML
- ? De-listing from the FATF list soon?
- ? JVs between Nigerian and Foreign banks
- ? Portfolio and FDI inflows growing
- ? Deepening of the bond/capital market
- ? Pension Funds and long-term funds

BEYOND CONSOLIDATION: Other Complementary Reforms

- ? Zero tolerance for infractions, misreporting, etc.
- ? IT and New Ways of Doing Business
eFASS; RTGS; --- no place to hide– for banks to lie
about their state of affairs
- ? Amendment of NDIC, CBN Act and Banks and
Other Financial Institutions Act (BOFIA) to
strengthen regulatory functions
- ? Restructuring/Strengthening Banking Supervision
Department (risk-based; skills enhancement)
 - ! New corporate governance code issued to operators

BEYOND CONSOLIDATION: Other Complementary Reforms

- ? Rule-based supervision: transparency
- ? Further Liberalization of Forex Market
- ? Effective Monetary Policy Framework
- ? Payments System reforms (e-payment, etc)
- ? Introduction of Commercial Courts and Reform of Mortgage system
- ? Currency Restructuring; reforms of NSPM, Plc and currency management (outsourcing)
- ? Microfinance Policy and SME financing
- ? New African Investment Bank coming soon

BEYOND CONSOLIDATION...

- ? Training: Intensive and extensive training for:
 - ! CBN Staff--- re-orientation and skills
 - ! Board members of universal banks and Microfinance Banks (MFBs)
 - ! Staff of banks--- on critical skills in the industry and managing Change/transition in the 'new' industry
- ? Locking-in Reforms through international benchmarking for Nigerian banks:
 - ! Partnership with foreign banks in reserve management accelerates internationalization and global integration
 - ! International Rating Agencies for Nigerian banks

SUSTAINABILITY QUESTION: Medium Term Outlook

- ? Reforms Likely to be sustained due to ownership
 - ! International oil market remains buoyant (unlikely to fall below US\$40 per barrel in the medium term); boom in the gas sector and solid minerals sector
 - ! NEEDS II: 2007—2011; and SEEDS (continued institutional/structural and economic reforms at all levels of government)
 - ! Financial sector reforms continue as the wheel and lubricant of the economy
 - ! Macroeconomic Stability---- stable prices (interest rate, exchange rate, CPI)
 - ! Fight against Corruption continues
 - ! Continuing improvement in Infrastructure and Security

SUSTAINABILITY QUESTION...

- ? Institutionalizing Reforms--- Legal (Bills at the National Assembly, eg. Fiscal Resp; CBN/BOFIA Acts; etc
- ? People: Ownership of reforms and Skills within institutions continue to improve
- ? Niger Delta not likely long-term threat
- ? Confident of Successful Political Transition
- ? There is no better time to be part of the new Industry!

? THANK YOU FOR LISTENING