

SENSITIZATION WORKSHOP ON RISK-BASED SUPERVISION IN NIGERIA

The Central Bank of Nigeria (CBN) and Nigeria Deposit Insurance Corporation (NDIC), organized in Lagos and Abuja a sensitization workshop on the “Introduction of Risk - Based Supervision (RBS) in Nigeria” between 8th and 18th May, 2006. During the two weeks period, five (5) runs of two (2) days each were held and participants were drawn from the CBN, NDIC and the twenty-five banks operating in the country.

It will be recalled that, as part of the 13-point agenda to reform the Nigerian banking industry as unveiled in July 2004, the Governor stated that the Bank would work towards the adoption of risk based supervision in line with global trends and standards. Towards this end, the managements of the CBN and NDIC approved in November 2005, the “Framework for Risk-Based Supervision of Banks in Nigeria” and directed that its implementation should commence in September 2006.

RBS WILL FACILITATE THE ACHIEVEMENT OF FINANCIAL STABILITY

Our present approach to the supervision of banks is largely rule/compliance based and has been proven to be largely reactionary and unable to cope with emerging challenges associated with diversified and complex operations in a mega bank. RBS, on the other hand, is a proactive, and efficient supervisory process, which focuses attention on the risk profile of the supervised financial institution and enables the bank supervisor to develop a supervisory package for each bank, efficiently allocate resources based on the risk profile of individual banks and proactively monitor and supervise banks to facilitate the attainment of the supervisory objective of promoting the soundness, safety and stability of our financial system.

By placing premium on risk mitigation rather than risk avoidance, RBS seeks to encourage each bank to develop and continuously update its internal risk management systems to ensure that it is commensurate with the scope and complexity of its operations. Indeed, the implementation of RBS in Nigeria will help to prepare our banks

for the eventual implementation of the New Capital Accord (BASEL II). As part of the preparations towards the commencement of RBS in Nigeria, the Board and Management of banks have been directed to institute effective Risk Management systems in their banks to enable them identify, measure, monitor and control risks in their institutions.

WORKSHOP OBJECTIVES

In order to have a smooth take –off of the new supervisory vision, it is important to ensure that all major stakeholders are carried along. Towards this end, the managements of the CBN and NDIC approved the conduct of the sensitization workshop as a way of promoting its awareness, appreciation and good understanding. The workshop which was facilitated by Messrs H.Pierson Associates, a firm of Risk and Financial Management Consultants, attracted a broad spectrum of participants which included executive and senior staff in the supervisory departments of both the CBN and NDIC as well as senior officers of banks responsible for risk management.

The workshop titled **“Introducing Risk-Based Supervision in the Nigerian Banking Industry”** was intended to achieve the following objectives:

- (i) Sensitize supervisors and bank operators on the rationale for Risk-Based Supervision framework developed by CBN/NDIC for the Nigerian Banking Sector;
- (ii) Deepen the knowledge of participants in the Risk Based Supervision framework;
- (iii) Introduce participants to the requisite tools, techniques, and methodology for evaluating and monitoring banks’ risk profiles under RBS; and
- (iv) Enable bank operators to appreciate their roles under the risk-based supervision approach.

The workshop commenced at the CBN Learning Centre, Lagos where two (2) runs of two days each were conducted between the 8th and 11th May, 2006 for executives and senior staff of the Lagos offices of the relevant supervisory departments of CBN and

NDIC. On the 12th & 13th May, 2006, it was the turn of bank operators when their staff with responsibility for risk management also attended the workshop held at the Golden Gate Restaurant, Ikoyi, Lagos. The two runs of the workshop organized for Abuja staff of the relevant departments of both the CBN and NDIC were held at the main auditorium of the Bank's new Head Office between 15th and 18th May, 2006.

During the workshop, participants were taken through relevant topics like "Origin & Concept of RBS, Countries Experiences, RBS Process, Understanding the framework for RBS of banks in Nigeria, Examination Procedure, Financial Institutions Risk Management Process, RBS Implementation Challenges among others. In particular, the workshop noted that the migration to RBS would not be without challenges salient among which are:

- Ability to manage the change within the supervisors
- Human Resources Issues and capacity building of the supervisors and the External Auditors.
- Quality Assurance and Enforcement Functions
- Other Operational Obstacles include Strategy Design, Risk Profiling of Banks, Development of the RBS Manual.
- Technological Obstacles which include upgrading of the IT environment and development of data base and risk-based audit.

The Workshop methodology included lecture presentations, discussions, questions/answers and syndicate sessions for the review of case studies. A total of 594 participants including 389 from the CBN benefited from the five runs of the workshop in both Lagos and Abuja.

Arrangements are being finalized to hold a one- day retreat version of the workshop for the Top Management Executives of CBN, NDIC, and the banks.

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