Beyond Banking Sector Consolidation in 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 environment
  - 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