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**CIRCULAR TO ALL BANKS OTHER FINANCIAL INSTITUTIONS**

**THE PRACTICE OF A BOARD CHAIRMAN SERVING SIMULTANEOUSLY AS A CHAIRMAN/MEMBER OF BOARD COMMITTEE(S) IN NIGERIAN BANKS**

1. Following the wide consultation with the industry, regarding the practice of a Board Chairman serving simultaneously as a chairman/member of Board Committee[s] in Nigerian banks, it has become clear that, whereas the practice may be permissible in some jurisdictions without very negative consequences, this cannot be said to be the case, in the particular case of Nigeria.
2. It is on record that the various financial crises experienced in Nigeria between 1930 and 1999 which led to the demise of a number of banks, can be traced to several factors, including most notably the role of the personalities who were at the helm of affairs of the affected banks. This was as a result of the lack of a clear-cut regulatory policy, which left the banks with weak corporate governance structures to adopt arrangements that were inherently inadequate and risky.
3. Although the composition of board committees in banks varies from one bank to another, there are numerous instances of banks' chairmen serving as members or, in most cases as chairmen of board committees. In most of these cases the arrangements were bedeviled with abuses. The reports on the recent examination of some banks also point to the unwholesome trend.

4. There is therefore the need, proactively, to prevent the reoccurrence of such crises and their possible adverse consequences on Nigerian banks in the near future.
5. The Chairman of a bank's board will need to exhibit a very high level of impartiality, backed up by sound knowledge and experience in order to be effective and enjoy the respect of the other members of the board. The chairman must also maintain, to a great extent, neutrality and fairness in steering the affairs of the board.
6. From the foregoing, and based on the discussion at the Bankers Committee meeting of 25<sup>th</sup> June, 2002, it has become imperative to accept that the practice of the board chairman serving simultaneously as a chairman/member of board committee[s] in banks is against the concept of independence, sound corporate structure and best practice.
7. Consequently, all banks are hereby advised to stop the practice forthwith in order, proactively, to prevent the adverse implications of such improper arrangements. The existing chairmen are therefore advised to step down from the membership or chairing of Board Committees within one (1) month of the date of this circular.



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