ADDRESS BY CHIEF (DR.) J. O. SANUSI (CON), GOVERNOR, CENTRAL BANK OF NIGERIA ON THE OCCASION OF FIRST STAKEHOLDERS' ANNUAL DINNER OF THE ASSOCIATION OF CORPORATE AFFAIRS MANAGERS OF BANKS (ACAMB)

His Excellency, Deputy Governor of Lagos State, Mr. Femi Pedro,
Chairman of this Occasion, Dr. Oladimeji Alo,
1st Guest Speaker and Managing Director
MTN Nig. Ltd., Mr. Adrian Wood,
2nd Guest Speaker – V.C. Pan African University, Prof. Alos,
Banks' Chief Executives, here present,
President of the Association of other Corporate Affairs
Managers of Banks, Mr. Lanre Alabi,
Executives and Members of the Association,
Invited Guests,
Distinguished Ladies and Gentlemen.

I thank the Association of Corporate Affairs Managers of Banks (ACAMB) for inviting me to its First Annual Dinner as the Special Guest of Honour. As one who has been keenly interested in your activities, I would like to use this opportunity to commend your initiatives and collective efforts to launder the image of the banking industry, which had, for some time now been smeared with the malfeasance of a few operators. In my opinion, you have made satisfactory progress, which I enjoin you to sustain.

2. The world over, banks are regarded as special institutions because of their distinctive role in the economy as the repository of

liquidity, the core payments mechanism, and the principal source of finance for productive activities.

3. As financial intermediaries, banks are highly leveraged organizations and can sustain their operations if only they enjoy the confidence of the financial market. Moreover, as credit institutions, banks are linked to one another through a complex chain of inter-bank relationships, which provides a mechanism for accelerating contagion in the case of a distress in one bank, and thus create distress in the entire financial system. The soundness and stability of the banking system must, therefore, be ensured and not taken for granted. The responsibility of building and sustaining a sound banking system, which will galvanize the required confidence falls heavily on banks as individual institutions and collectively at the industry level, with the Central Bank playing a stabilizing role.

4. The importance of good corporate governance in this endeavour, cannot be over emphasized. It has been established that, with the possible exception of a serious macroeconomic disturbance, no single factor contributes more to institutional problems than lack of effective governance. On the other hand,

improvement in corporate governance would enhance the soundness, efficiency and competitiveness of the system.

5. Distinguished Guests, you may wish to ask, what is good corporate governance? Good corporate governance is about building credibility, ensuring transparency and accountability as well as maintaining an effective channel of information disclosure that would foster good corporate performance. The importance of ownership and internal governance cannot be overestimated in this regard. For example, a good bank can survive even under a sub-optimal regulatory environment, whereas a good bank cannot survive under a bad system of ownership governance.

6. Proverbially, quite often the regulatory authorities try to chase the horse after it has escaped from the barn, but it is the owner who really controls the barn and holds the key to its door. Thus, banks must recognize that they have primary responsibility for ensuring their own soundness and survival. In this context, for good corporate governance to subsist, the following critical requirements must be met:

i. People that control and manage the business of banking must be men of integrity, above board and trustworthy.

ii. Those in the business of banking must possess necessary skills and experience as credit losses are often explained by management failures and deficient technical skills. In this regard, at both the individual bank and industry levels, efforts to broaden and strengthen training programmes to provide a solid core of professional bankers in the country must be intensified.

iii. Disclosure and transparency are key pillars of a corporate governance framework, as they provide stakeholders with necessary information to form their judgment on the soundness or otherwise of the institutions they do business with. For transparency to be meaningful, therefore, information should be accessible, timely, relevant and qualitative.

iv. Good corporate governance starts with the owners and extends through the board of directors, the management and the employees. Bankers are therefore expected to exhibit good and professional behaviour that will uphold the integrity of the industry and, thereby, instill confidence in the system. These are the essential blocks for building a good corporate image for any financial institution.

7. Distinguished Ladies and Gentlemen, let me at this point make some brief remarks on the future of banking in Nigeria, which I think is the theme of your discussion this evening. The new world of banking is characterized by the following features: consolidation of institutions; globalization of operations; development of new technologies; and universalization of financial services. These developments pose serious challenges for financial institutions as well as the regulatory/supervisory authorities. It is important to note that, whether we like it or not, Nigeria is a part of the global community and cannot afford to ignore the process of change.

8. Firstly, in most parts of the developed world and the emerging markets, the total number of banking institutions has been declining, while the average size of each institution is increasing through mergers and acquisitions. Indeed, we have seen the creation of the world's largest banking groups through mergers, during the last two years. Secondly, reflecting the effect of globalization and liberalization, national borders no longer constitute barriers to financial institutions in their expansion and quest for opportunities for

growth and increased profitability. Consequently, industrial country banking groups have embarked on the exploitation of the growth potentials in the emerging markets. Thirdly, development in technology, especially the growth in internet banking, has allowed conglomerates to invade the retail banking markets, with many banks using their on-line operations to expand into foreign markets, without incurring the high cost of building retail network of branches.

9. Finally, the emergence of universal banking is increasingly blurring the boundary between bank and non-bank financial services. This trend has already gained a strong foothold in a number of European countries, as reflected by widespread distribution of insurance products through bank branches, a development otherwise known as “bancassurance”. In a country like the United States of America, the law that separated commercial from investment banking (the Glass-Steagall Act) has since 1999 been repealed. In the same vein, we in Nigeria have adopted the universal banking system since 2000. The rationale is that developments in technologies and financial products have made any separation of the various financial services artificial and rendered the regulatory enforcement ineffective. Particularly, the emergence of financial innovation has encouraged

the use of financial derivatives for off-balance sheet operations, which have rendered the traditional risk-management techniques obsolete.

10. The logical conclusion from these developments is that the Nigerian banking system cannot be insulated from the rest of the world. They have to be as competitive as their foreign counterparts if they are to survive as ongoing concerns. In this regard, our banks have to be adequately capitalized and should enthrone enhanced management efficiency, as well as invest in technological and staff developments, if they are to be relevant in the new world of banking.

11. The regulatory authorities on their part, also face daunting challenges that require greater focus, increased transparency, and strengthening of prudential regulations and supervision that would address the risks arising from increasing liberalization and globalization of banking services. In this context, national authorities in various countries are pushing for greater transparency and disclosures that will facilitate the discipline of the market and enhance the effectiveness of supervision in assessing the risk profiles of financial institutions. In many countries, the weaknesses of the capital-adequacy ratio recommendations by the Basel Committee in 1988, which allow bank managers to engage in regulatory capital

arbitrage, through the use of credit derivatives and securitisation, are being addressed in an effective manner.

12. In this endeavour, regulatory authorities, at the national level, have relied on technical support from international agencies, such as the IMF, World Bank and Bank for International Settlements (BIS) to complement their own efforts in addressing the challenges that globalization poses for the stability of the financial system. The international agencies also have been encouraging the adoption and harmonization of international accounting and auditing standards as well as information disclosure.

13. Finally, Ladies and Gentlemen, let me conclude by challenging Nigerian banks to reposition themselves and re-focus their operations beyond the current narrow short-term profit maximization objective and show greater commitment to building a stable and viable economy. I should note, in this regard, that the establishment of the Small and Medium Industries Equity Investment Scheme (SMIEIS) represents a laudable initiative. Cognizant of the important and revolutionary role, which the Small and Medium Scale enterprises can play and, indeed, have played in the industrial development and overall economic growth of other countries, particularly those of

South East Asia, it is a scheme that holds great prospects for Nigeria's industrial development. Notwithstanding the initial delays experienced since the SMIEIS took off in August, 2001, we have made satisfactory progress and prospects for improved performance this year are high.

14. I, hereby, challenge the ACAMB to educate the public and effectively market the scheme, recognizing that in the medium to long-term, the gains would be to the mutual benefits of all stakeholders in the economy, including the banks.

15. Thank you and God bless.

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