THE ROLE OF THE FINANCIAL SECTOR SURVEILLANCE COMMITTEE OF THE CENTRAL BANK OF NIGERIA IN ANTI-MONEY LAUNDERING, FRAUD AND OTHER MISUSE

Director-General, Commonwealth Business Council,
Fellow Governors,
Distinguished Ladies and Gentlemen.

1. I feel highly honoured to be invited to participate in this year's Banking and Financial Services Symposium, under the auspices of the Commonwealth Business Council, and for the opportunity to share my thoughts with you on: The Role of the Financial Sector Surveillance Committee of the Central Bank of Nigeria in Anti-money Laundering, Fraud and Other Misuse. I wish to commend the Council for providing a platform for sharing experiences on various topical financial sector issues of global concern, which would enhance the growth and development of the financial sector, in particular, and the macroeconomy in general.

I. THE FINANCIAL SECTOR AND THE ROLE OF THE CENTRAL BANK:

2. Permit me to examine, briefly, the special role of the financial sector in the economy, in order to put this discussion in proper perspective. The financial sector constitutes the system which provides the

mechanism for settling personal and business transactions, including funds transfer to facilitate both domestic and international trade. The system, therefore, represents an important nerve centre of the economy, which controls and lubricates its operations. Besides, the financial sector provides the institutional framework for the conduct of monetary policy and its transmission mechanism. The sector performs the crucial role of financial intermediation, thus influencing savings and investment in the process as well as facilitate the effectiveness of monetary policy. Simply stated, without an efficient financial sector, there would be very little hope for any economy to mobilize the real resources necessary for economic growth and stability.

3. The need to ensure a stable and sound financial sector is aptly underscored by William J. Mcdonough, President of the Federal Reserve Bank of New York, who once remarked "if money and credit are the lifeblood of a market economy, the banking system is its beating heart". Banks are the major providers of liquidity to the economy, the principal depositories of the public's financial savings, and managers of the

nation's payments system. The goal of ensuring the stability of the financial system is, therefore, of paramount importance as bank failures may undermine public confidence in the system, force a sudden contraction of money supply as well as subsequent failure of the payments system which would cause severe dislocation of the real sector.

4. The precise functions of central banks vary widely among countries, but they are essentially charged with the conduct of monetary policy, including determination of short-term interest rates, exchange rate management, financial sector surveillance and enforcement of prudential requirements, as well as issuing guidelines and directives on the lending activities of financial institutions. Central bank's ability to perform these functions will, however, depend largely on its autonomy in theory and practice, and the country's state of development as well as the legal infrastructure.

5. Central banks in developing economies have the additional responsibility of development financing and spearheading financial sector reforms to enable the financial sector play its expected roles. The reforms

should emphasize the use of indirect market-based instruments, provide measures to strengthen operational capacities of the banking system, foster efficiency in money and securities markets and overhaul the payments system.

II. THE ROLE OF THE FINANCIAL SECTOR SURVEILLANCE COMMITTEE OF THE CENTRAL BANK OF NIGERIA

6. The responsibility for monetary and financial policy formulation and implementation in Nigeria rests with the CBN. The Bank was established in 1958 by an act of Parliament and charged with the principal function of promoting and sustaining monetary stability and a sound financial system. In 1991, the existing Acts were amended considerably to strengthen the powers of the Bank. The CBN Act No. 24 and Banks and Other Financial Institutions Act (BOFIA) No. 25, both of 1991, were the results of the amendment. Further amendments to the Acts in 1998 and 1999 conferred both operational and administrative autonomy on the CBN. The need to grant the Bank operational autonomy was informed by the political interference which hitherto hindered the effective performance of the Bank.

7. The surveillance function of the CBN is largely vested in the Financial Sector Surveillance Committee (FSSC), which has the ultimate objective of ensuring financial sector soundness and stability. The FSSC also monitors the sector to avoid its being used as a conduit for laundering money or perpetrating other fraudulent activities. The Committee was established in March 2002 as an offshoot of the Monetary Policy Committee (MPC) with the intention of giving proper focus to financial sector surveillance and monetary management.

8. The CBN had, since 1990, taken steps to strengthen the financial sector through various regulatory, prudential and contingency measures, aimed at ensuring the soundness and stability of the sector, as well as enhancing the institutional framework and transmission mechanism of monetary policy. Specifically, the Bank has designed measures to enhance the capital base of banks and promote a more professional approach to bank lending and provisioning for non-performing facilities. It adopted and enforced the risk-weighted system of capital adequacy ratio recommended by the Basle Committee,

as well as introduced a set of prudential guidelines and mandatory uniform accounting standards for all licensed banks. With the adoption of universal banking in Nigeria in 2001, the need to consolidate and strengthen the regulatory and supervisory framework of the CBN has become more compelling than ever before.

9. After the restructuring, the MPC continued to focus on monetary policy issues, while the FSSC deals with issues pertaining to regulation and supervision. The FSSC is comprised of fifteen members including the Governor, four Deputy Governors and relevant departmental directors, with the Governor as the Chairman. The Committee meets every fortnight to review financial sector developments, including compliance with prudential guidelines, and take appropriate steps to ensure financial market stability.

10. The general focus of the FSSC is to ensure good corporate governance in financial institutions, which contributes to a sound banking and financial system. 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. It is in this regard that, at the instance of the CBN, the Bankers' Committee established the Code of Ethics and Professionalism for the banking and financial industry to instill discipline and professionalism in the industry.

11. The scope of the Committee's function includes spot checks on, and special examination of, banks in order to check negative trends in the industry and unprofessional conduct by the operators, ranging from insider abuse, falsification of books of accounts, foreign exchange malpractices and contravention of the prudential guidelines to non-disclosure of information and non-documentation of relevant transactions. The Bank has imposed appropriate sanctions on errant institutions, including fines and the suspension of foreign exchange dealership licenses. Only in 2001, the CBN established the Other Financial Institutions Department to strengthen surveillance of non-banks, while its Director is a member of the Committee.

12. Furthermore, the Committee designed and enforces the Contingency Framework for Systemic Bank Distress, which provides early warning signals on the health of deposit money banks and stipulates the

measures to be adopted in dealing with individual bank problems so as to avert systemic distress. In fact, two technically insolvent banks were liquidated between 2002 and 2003, on the recommendation of the Committee.

III. THE ROLE OF THE CBN IN CHECKING FINANCIAL CRIMES

13. The CBN has enhanced its internal structure as well as equipped staff in sensitive operational areas with the relevant tools for identifying and tracking illegal activities in order to check the wave of financial crime. For example, the Bank established the International Financial Transaction Surveillance Office (IFTSO) in its Foreign Operations Department, with responsibility for combating advance fee fraud at the global level. Also, the Surveillance Unit of the Monitoring and Enforcement Group of the Bank Examination Department was assigned with the primary responsibility of ensuring that banks, bureaux de change and non-bank financial institutions complied with the provisions of the Money Laundering Act.

14. The Bank has enhanced its surveillance of the financial system to ensure strict observance of the

recommendations of the Financial Action Task Force (FATF) by banks and other financial institutions in Nigeria. Banks are also required to appoint high-ranking officers as Chief Compliance Officers (CCOs) at their head offices and Compliance Officers (COs) in each of their branches to complement such efforts, while reported cases of advance fee fraud are properly investigated. It is noteworthy that, following its oversight activities, the Bank has been able to track fake web sites used by fraudsters and, with the collaboration of the Police, contacted internet service providers hosting such web sites to close them.

Know Your Customer (KYC) Principle

15. Essentially, the "Know Your Customer" principle seeks to ensure that the financial system is not used to facilitate fraud, including money laundering. The CBN issued the KYC directives in 2001 to remind financial institutions of the need to faithfully implement the various provisions of the Money Laundering Guidance Notes and observe the Code of Ethics and Professionalism issued by the Bankers' Committee. It also required them to develop policies, practices and procedures that will ensure a rigorous customer due

diligence in order to protect their institutions from being used for criminal activities.

16. Specifically, the KYC principle requires financial institutions to observe the following customer identification and record-keeping rules:

i) avoid keeping anonymous accounts or accounts in fictitious names;

ii) verify with the Corporate Affairs Commission the proof of incorporation of their corporate customers, their structures, addresses, directors, memorandum and articles of association; and the customer's business activities;

iii) subject to strict safeguards, detect or monitor the physical cross-border transportation of cash and bearer negotiable instruments (without impeding the freedom of capital movements);

iv) have clear procedures on and communicate to all their personnel how they should promptly report suspicious transactions to the Money Laundering Reporting Officers and to other competent authorities;

v) investigate the sources of funds before accepting as a customer, a Politically Exposed Person (PEP), and the decision to open such account should be taken at the Senior Management level;

vi) apply effective customer identification procedures and on-going monitoring standards for telephone and electronic banking customers and proactively assess various issues posed by emerging technologies; and

vii) undertake regular reviews of existing records of customers, especially when a transaction of significance takes place or when there is a material change in the way the account is operated.

17. The KYC principle requires bank directors, management and internal and external auditors to report on the procedure in place and its effectiveness. The failure of any officer to observe such internal procedure is considered a serious misconduct and could attract penalties, including termination of appointment and blacklisting from employment in the financial services industry, while the defaulting

institution is made to bear the financial loss suffered by any victim of a financial crime. It is heart warming to note that a high degree of compliance, especially by banks, has been recorded in this respect.

18. The "KYC Manual" contains a comprehensive guide for banks and other financial institutions in Nigeria on the procedure to be adopted for obtaining adequate information for proper knowledge of their customers. This will enable them to minimize the risk of illicit activities, protect themselves against being used to launder the proceeds of crime, and against fraud and reputational risks. To ensure appropriate blend of the provisions of the KYC Manual with international standards and further enhance the operators' awareness, the CBN, in collaboration with Commerzbank of Frankfurt, Germany, recently organized a workshop on the "Know Your Customer Guidelines by the Financial Services Authority (FSA), London". This was intended to expose banks in Nigeria to the requirements of the FSA because of their correspondent relationship with other banks in the United Kingdom.

<u>Information-Sharing</u>

19. The CBN, in collaboration with other agencies, has played a leading role in the fight against money laundering. The Bank's initiative in this regard includes: public enlightenment campaigns, seminars, workshops, conferences and press releases to enhance awareness on the scourge; as well as joint press conferences with the Nigeria Police on advance fee fraud, with a view to exposing fraudsters to the general public. Furthermore, the Bank, under the platform of the Financial Services Regulation Coordinating Committee (FSRCC), collaborates with the other regulatory and supervisory agencies in the financial sector, to address more effectively, through regular consultation, issues of common interest, including information-sharing and handling of financial crime.

20. The Central Bank of Nigeria also collaborates with the Nigeria Police and international security agencies such as the U.S. Secret Service and the Scotland Yard, among others, in effecting arrests, prosecuting offenders and co-ordinating measures against international advance fee fraud activities. At the national level, Nigeria has signed Memoranda of Understanding with various countries, including China,

Turkey, Iran and Uganda, for information-sharing and other actions aimed at combating financial crime.

The New Emphasis On Anti-Terrorism

21. Although evidence of terrorist financing is yet to be established in the country, the security agencies have included terrorist funding among the vices on which they have beamed their searchlight since the September 11, 2001 terrorist attack in the United States of America. Consequently, in 2002, financial institutions in Nigeria were directed to render returns on suspected terrorist organizations/individuals operating accounts in Nigerian banks. Besides, the Central Bank of Nigeria has evolved a mechanism for screening funds meant for the establishment, acquisition and recapitalization of banks to ensure that they are not laundered funds. It is in this regard, that a number of banks were sanctioned for failing to report suspected transactions involving funds deposited with them, for investment in banks.

Challenges

22. Despite these positive developments, a major challenge still remains. There is need to plug the leakages in the efforts of relevant authorities involved

in combating money laundering, by strenthening existing anti-money laundering laws to cover financial institutions other than banks, such as capital market/stock brokerage firms and insurance companies. The enhancement should also include provisions that offer protection to financial institutions and their employees who make reports on suspicious transactions in their institutions. There is also a need to establish courts for handling cases of money laundering, in order to expedite the prosecution of such cases.

23. Other constraints include infrastructural and logistic deficiencies, as well as limited technical capacity on the part of the regulatory and security agencies. The fight against economic and financial crimes calls for adequate capacity-building in terms of continuous training of both the regulators and security agents through attachment and exchange programmes, as well as the provision of modern equipment, to enable them cope with the increasing sophistication of the fraudsters and criminals. This will facilitate the development of a robust and reliable database that will enable the relevant authorities to be proactive in

dealing with the criminals. Furthermore, Nigeria requires the co-operation of the developed countries in facilitating mutual understanding on information-sharing, in order to successfully combat money laundering, terrorist financing and other forms of economic and financial crimes.

IV. CONCLUDING REMARKS

24. In conclusion, Mr. Chairman, Distinguished Ladies and Gentlemen, the enhanced operational independence of the CBN has provided a unique opportunity for the Bank to reposition itself for the challenges of the future. In fact, the Management of the Bank embarked on a restructuring/re-engineering programme in October 1999, with the aim of enhancing the efficiency of the Bank's operations.

25. As supervisors and regulators of the financial system, we at CBN have virtually implemented all the Basle Core Principles on banking supervision; adopted the code of good practices in monetary and financial policies; the international standards on auditing; and are moving towards the full adoption of International Accounting Standards. The CBN is also making strides

in implementing the recommendations of the FATF to combat money laundering and advance fee fraud, as well as sustain the strengthening of its regulatory and supervisory framework, for greater results.

26. Nigeria has also made some progress in the areas of criminal justice, law enforcement and is actively co-operating with international agencies and institutions to sustain these efforts. Nigeria will continue to count on the international community for enhanced co-operation in the areas of security and information-sharing, so as to be better equipped to cope with existing and emerging challenges in financial sector surveillance.

27. I thank you for your kind attention.

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ABUJA.

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