

# Re-Engineering Regulatory Capacity for Sustained Economic Development

## Known facts

## Significance of Banks in Nigeria

- While the total number of Deposit Money Banks (DMBs) decreased by 73% from 90 in 2001 to 24 in 2008, the total assets increased by 143% between 2005 and 2007 and 45% between 2007 and 2008
- Share of financial companies of market capitalisation increased from 28% in 2003 to 67% in 2007
- Total assets of DMBs as a proportion of GDP increased from 47.6% in 2001 to 66.8% in 2008
- Contributed to private sector-led economy as bank credit to the sector increased from average of 14.4% (2000 – 2006) to 33.8% in 2008
- Dominates the financial landscape as it acquires increased control over the insurance and securities sectors

# Re-Engineering Regulatory Capacity for Sustained Economic Development

## Key Regulatory Issues

### 1. Regulatory Structure

### 2. Regulatory Backing / Support

#### ➤ Political Support

#### ➤ Legislative Backing

17 December, 2009

## Regulatory Gaps/Challenges

- Roles and powers of Lead Regulator not clearly defined
- Limited coordination among regulators – resulting regulatory overlaps
- Regulation and supervision of consolidated conglomerates inadequate / weak
- High risk of regulatory arbitrage by regulated entities
- Regulatory authorities enjoy tremendous executive support
- Regulatory authorities and legislative interactions support can be improved

NESG Summit 2009

## Possible Regulatory Responses

- Can retain non-integrated structure but create a new department in CBN with the mandate of coordinating and monitoring institutions that have impact on the system and other cross border issues, also be responsible for FSRCC, macro prudential regulation/systemic risks
- High level cooperation is necessary between regulators, MOUs, robust information sharing framework
- Shared regulatory services ( training, IT and database, etc)
- Continue to engage the political leadership and enhance their skills on regulatory activities
- Policy directives should remain consistent with the overall objectives of enabling laws
- Avoid policy reversals due to short term concerns
- Continuously engage the legislature
- Review the existing laws to make them more practicable under current regulatory environments

# Re-Engineering Regulatory Capacity for Sustained Economic Development

## Key Regulatory Issues

- Funding
- Manpower Development
- Regulatory Review

17 December, 2009

## Regulatory Gaps/Challenges

- Some regulators lack adequate financial resources and autonomy
- Inadequate skills & weak supervisory culture
- Non -standardization of training programmes and resources
- inadequate compensation package for regulatory staff
- Mandatory application of some Public service personnel policies
- Cost effectiveness of regulations
- Transparency
- Accountability
- Flexibility

NESG Summit 2009

## Possible Regulatory Responses

- Regulators should be allowed to generate their finances from the industry they regulate
- Regulatory skills should be upgraded and enhanced
- Training across regulatory institutions should be standardized
- Ensure appropriate reward and sanctions
- Public service HR policies should not apply
- Ensure cost effectiveness of regulations
- Regulatory processes must be transparent
- Regulators and auditors should be made accountable for their actions/inactions
- There should be flexibility in regulatory procedure in order to account for changing environmental conditions
- Institutionalise peer/external review against international best practices

3

# Re-Engineering Regulatory Capacity for Sustained Economic Development

## Key Regulatory Issues

### 3. Prudential Regulation

- Preconditions for entry
- Disclosure requirement
- Corporate governance and risk management system
- Enforcement
- Resolution of problems / crisis

### 4. Surveillance

### 5. Self Regulatory organization and Market discipline

17 December, 2009

## Regulatory Gaps/Challenges

- Varied standards for Fit and proper persons requirements
- Inadequate Disclosure requirement
- Weak Corporate governance and risk management system
- Regulatory capture / timidity resulting in weak enforcement and lack of level playing field
- Resolution – delayed problem resolution, regulatory forbearance
- Weak coordination between off-site and on-site supervision
- Compliance function not recognized by many enabling laws of regulators
- Non – standardisation of processes and procedures
- Inadequate cross border and consolidated supervision. Our banks are in 29 African and 6 other countries
- SROs do not sufficiently support regulatory efforts

NESG Summit 2009

## Possible Regulatory Responses

- Pre-entry conditions need to be standardized and strictly applied
- Adoption of IFRS should be a priority
- Adoption of financial services industry code of sound corporate governance and risk management frameworks should be accelerated
- Ensure level playing field in enforcement and strict application of sanctions
- Ensure prompt resolution of problems
- Temptation for regulatory forbearances must be eliminated or at least minimized
- Finalise and adopt system wide contingency planning framework
- Off-site supervision should provide useful input for on-site exams, adopt RBS
- Promote strong compliance culture and provide for compliance Officers for all operators and empower them by law
- Develop financial soundness indicators
- Adopt cross border and consolidated supervision framework