

Postulations on the Nigerian Banking Industry Evolution

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The Nigerian banking industry is obviously evolving at a pretty fast speed. Only a few years ago, the industry's statutory capitalization-minimum shot up from 'mere' N2billion to about N25 billion. There were attendant developments to this rapid growth namely the multi-country branch growth, rapid expansions in domestic branch network, expansions in the number of "generic" products offered by various banks and so on. Some levels of acceptance were equally accorded Nigerian banks within the international banking space. In addition to these and aside the adverts which these banks sponsored in international media, many international rating agencies assigned to them very fantastic albeit controversial grades. But these are largely on the positive side. The negative side of this evolution the industry smelt the supposed moral steel of the regulators necessary for its effective supervision and monitoring of the operations of the banks. In turn the fruits of gross abuse of corporate governance standards ripened and threatened the continued survival of the banks and safety of deposits.

The current regime of the CBN has demonstrated rare courage and has brought that scenario to a halt and hence unleashed a new dimension in the industry's evolutionary process. We make some postulations here regarding the nature and form of the evolution. The first and very obvious ones are the possibilities of more bank consolidation rounds as well as foreign participation in the industry. The former is reasonably given and understood as it is tied to the weakened status of many banks in recent times. In the latter it should be said that prior to the current regime, the CBN had in the prevailing spirit of the "one-team" mindedness between its leadership and the banks which are predominantly owned by Nigerians decided to raise the entry bar to foreigners. Other secondary reasons for this non-market initiative were not compelling. The current CBN is definitely undoing itself in that respect by not only making it obvious that it was opposed to that old policy but has on its own been marketing Nigerian banks' to foreigners.

A second possible turn in the development of the industry may have much to do with the Act upon which the Central bank's authority is predicated. Signs of this manifested as indicted banks, and debtors sought recourse in the National Assembly. In spite of the fact that the leadership of the houses identified with the CBN, heads of relevant committee seemed to query the authority of CBN to carry out recent sweeping actions. In short, what emanated from the power-show related to the (a) extent of independence that the CBN should be allowed to exercise (b) extent of possible government involvement particularly the legislative arm in some aspects of the central bank's money creation/printing, spending or disbursement activities. Some analyst have in suggesting responses to current actions by the central bank alluded to the hurried passage of the CBN act under the Obasanjo regime, as the remote source of the excessive powers displayed by the CBN and as such there is need for a review of the legal foundations upon which the CBN stands.

Another evolving development is the emergence of a new central banking institution with enhanced capacity to contain the excesses of participating banks. This of course is tied to a new order of full disclosure and transparency known as one side of the antidote for controlling the "cowboy" banking that was fast taking root. But there are many constraining conditions. The first possible constraint is an extreme possibility usually of assassinating or attempting to assassinate patriotic Nigerians who investigate or conducts intelligence that lead to the truth. Akunyili under NAFDAC suffered such fate.

Many equally lost their lives: Bola Ige, Dele Giwa, as well as many journalists. By his patriotic actions Sanusi exposed so much truth that have not gone down well with “human establishments” in this country that have hitherto lived on opportunities created by economic and financial crimes either unquestioned or unsanctioned. A second potential constraint in this regard relates to how much support that the governor himself as a reform-leader will get from the CBN’s workforce. Vibes from the central bank at the outset of the current measures clearly indicated that some of its many members were not happy. But this should be expected. The discoveries and actions by Sanusi were severe indictments on the entire senior management hierarchy of the central bank under which nose and direction the supervisory failures and compromises that created the nigh-crashed banks and threatened the entire financial system stability took place. This category of employees out of fear may continue to resist and subtly frustrate the changes currently taking place within the central bank. Tied to the last two points is also the issue of the success of the CBN in calming the dusts and storms raised by its recent actions. If these tornadoes are successfully calmed to its favour, then there will be increased likelihood of the current regime recording substantial successes in its future reform plans. The last in my thinking will depend on the level of support that the president of the federal republic gives to the governor.

The fourth possible development in the industry is the possibility of much more formalized relationship between the central bank of Nigeria and such agencies as the Securities and Exchange Commission, the Nigerian Stock Exchange, the Nigerian Insurance Commission etc, in all issues in which some level of collaborative supervision is expected. Had the SEC and NSE been at their best, even when the CBN and NDIC failed to act on the irregularities detected the SEC and NSE who equally have some oversight responsibilities over these companies should have done something. On the contrary, they kept mum and in sometimes praised the firms – for manipulating and enhancing the – for the value of their shares. Well much of this expected collaboration are consistent with the notion of consolidated supervision as it may have to define extra-structural forms of relationships which ensures that regulating bodies must act decisively when sleazes are noticed or get penalized too! The specific nature and details will not be known at this stage, but will evolve over time.

There will also be the inevitable emergence of heterogonous structures, processes, strategies and products among the competing banks. Until recently virtually all Nigerian banks (aside the ones largely owned by foreigners) are fundamentally the same in all things except their colours and logo. Even the logo looks almost same if you carry out some minor adjustments on them. The primary reason why this situation has persisted is that the banks have not been challenged in any special way to be ingenious beyond traditional thresholds. For that reason every participant competes within the muddled waters looking for same accounts: same governments, same oil companies, same stock broking firms etc. The products offered and the way they are offered by these banks are basically the same. Perhaps what may be different would be the facial and corporeal configurations of the lady marketers selling the products. Patronage may therefore be dependent on the additional offers which these ladies may be able to make. But Sanusi’s reforms may be able to get more bank’s thinking and searching for ways of strategically differentiating their products and service offerings for enhanced profitability.

In concluding, there are many more failure possibilities that will define the future of the industry following Sanusi’s actions. One thing is however important: an era of truly genuine banking in Nigeria seems to be very close.

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