FINANCIAL SECTOR REFORMS

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1.0.0 Introduction

"Reform" simply refers to bringing about change that is capable of provoking improvement. This may take the form of removing undesirable qualities or processes; it could also take the form of injecting new rules, procedures, processes, etc.

In order to provoke necessary improvements, the Federal government of Nigeria embarked on reformation in several sectors of the economy such as political, economical, financial, industrial, solid mineral, oil and gas energy, telecommunications, legal etc. some of the reforms actually started prior to the commencement of the current dispensation but were accelerated while some other reforms were conceptualized and executed or in the process of execution in the current dispensation.

For the purpose of this paper, we shall however limit ourselves to the financial sector which, most often, is myopically considered as banking and non-banking financial institutions only. It therefore implies that we shall extend our discussion beyond the development in banks and insurance sub-sectors of the industry.

2.0.0 Financial Sector or System

The financial system consists of various financial institutions, operators and instruments that gave the system its character and uniqueness. According to the Central Bank of Nigeria research Series (1993), the financial system refers to a set of rules and regulations and the aggregation of financial arrangements, institutions, agents, that interact with each other and the rest of the world to foster economic growth and development of a nation.

From the foregoing, it is safe to conclude that the financial system is a prime more of economic development. It achieves this through:

* the intermediation process, which entails providing a medium of exchange necessary for mobilization of savings from surplus to deficit economic units. This arrangement enhances productive activities and thus positively influences aggregate output and economic growth;

* It also provides mechanisms for organizing and managing the payments system, mechanisms for the collection and transfer of savings by banks and other depository institutions;

* Arrangements covering the workings of the money market in respect of short-term financial instruments;

* arrangements covering the activities of financial markets complementary to the money and capital markets e.g. the foreign exchange market, the arrangement for risk insurance, the future market etc.

* Arrangement covering assurance and regulation-Audit, NDIC, SEC.

3.0.0 Constituents of Financial Sector

3.1.0 Banking Sub-Sector

Universal banks, Micro-Finance Institutions or banks; and Community banks which must now convert to micro-finance banks.

3.2.0 Non-Banking Financial Institutions

Insurance (Life, General and Composite), Re-insurance and Insurance Brokerage Companies, Risk Surveyors and Loss Adjusters.

3.3.0 Support Service

Accountancy, Audit, Taxation, and Legal Services Providers.

4.0.0 Functions of Financial Systems

* Facilitate effective economy management.
* Insulate the economy as much as possible and as mush as desirable form vicissitudes of international economic scenes.

* Assist in achieving significant transformation of the rural sector.

* Assist in achieving a greater integration and linkages in agriculture, commerce and industry.

5.1.1 Reform in Banking Sector

Nigerian banking systems have undergone series of reform prior to the year 2004, in terms of the number of institutions, ownership structure, as well as depth of operations. These changes have been influenced largely by challenges posed by deregulation of financial sector, globalization of operations, technological innovations, and adoption of supervisory and prudential requirements that conform to international standards.

The pre-IBB reforms saw the rising and falling of banks such as Agbomagbe which metamorphosised into Wema Bank, Bank of the North, ACB etc.

Upon liberalization of the economy by the IBB government, there was an influx of new generation banks such as Abacus Merchant Bank, Alpha Merchant Bank, north-South Bank, First City merchant Bank (Now First City Monument Bank), Commerce Bank etc. this era brought finance companies such as Forum Group, Public Finance Group, First Marina etc. while a new vista-Mortgage / Savings and

Loans banks also joined the industry. Part of the reform of that era was also the establishment of Peoples Bank, Community Banks and Discount Houses. The

Nigeria Deposit Insurance Corporation was created to protect the depositors of the numerous banks. Most importantly, the era was witnessed by introduction of prudential guidelines which made some old generation banks to become candidates of undertakers.

The government of Abacha was laboured with clearing the mess created by several liquidated, distressed or insolvent banks. This necessitated the government to enact the Failed Banks Decree which was used to try suspects at the Failed Banks Tribunal in those days.

The reforms introduced by the current dispensation of President Obasanjo were an attempt to discard the commercial bank – merchant bank dichotomy by the creation of Universal banks and their attendant minimum paid-up capital requirement of N25billion.

Also, SME Fund was introduced and banks were expected to set aside a certain percentage of the income before tax, lend same to SME through equity participation.

On July 6, 2004, a new policy was announced by the Governor of Central Bank of Nigeria – Professor Charles Soludo, directing banks to increase their shareholders funds to N25billion (Twenty Five Billion Naira Only) each. This directive was initially misconstrued but was later accepted as minimum share capital. Interestingly, the banks were expected to comply by December 31, 2005. One of the most important segments of the directive was consolidations through mergers and acquisitions and the desire of government to reduce the number of banking institutions.

5.1.2 Reasons Advanced For This Reform Include:

* curbing distress in the banking sector thereby building the confidence of the banking public in the institutions.

* A measure to reduce the high interest rates charged by banks and to ensure price stability.

* The SME Fund was to enable bank provide fund to SME operators through equity participation, and assist them in human and management development.

* To enable the banks to use their new capacity to increase lending to the manufacturing and agricultural sectors so as to generate employment and

* Although a passive reason, the consolidation was to lend weight to the integration of the ECOWAS financial systems.

By December 31, 2005, the sector which was boastful of about 89 deposit money banks was reduced to 25. Over twenty (20) banks are either being liquidated or in the process of being liquidated. It is understood that the sector may go through another reform which will equally bother on Increase in share capital.

5.1.3 Review of Bank Reform

The fear of distress has reduced considerably. However, a number of dying banks that succeeded in overcoming the recapitalization issues are now operating in the sector. The health status of such banks are still doubtful, although the regulatory authorities believe otherwise.

* The Asset Management Companies that are to manage the assets of moribund or liquidated banks are yet to be put in place.

* The much touted job creation which the mergers were to facilitate is now a mirage while staff of even the successful banks were relieved of their posts.

* Only a handful of SME can lay claims to securing capital participation from the banks, interest rate has refused to obey the law of gravity.

5.2.0 Reform in Other Banking Sectors

5.2.1 Micro-Finance and Community Banks

A directive was issued to community banks to transform to Micro-Finance Institutions and such MFIs may choose to operate, depending on ability to meet with minimum share capital, within a local government or within a state. I dare to say that our economy is the first where MFIs will be regulated.

5.2.2 Mortgage/Savings and Loans Banks

It is being expected that the operators in the Mortgage banking sub-sector will be directed in increase their share capital. However, not much has been felt of this sub-sector.

6.0.0 Reforms in Non-Banking Financial Institutions

6.1.1 Reform in Insurance Sector

During the IBB era, interest in insurance formation increased and companies such as Cornerstone Insurance, Financial Assurance (now Sterling Assurance), Goldlink Insurance and others Insurance Companies came into existence. The insurance companies were then operating under the Insurance Decree of 1976. it was also during this era that Nigeria Insurance Commission was created to regulate the sub-sector.

The current administration had earlier increased the share capital of insurance company to N350M for consolidated firms. Brokers were then expected to increase their share capital to N5M. the effect of this earlier directive was acquisition and merger of some insurance companies by both Insurance companies and banks as the case may be. The major clause introduced by the new Insurance Act is the "no premium, no cover" and that the seat of Chief Executives must be occupied by professional insurance practitioners

Consequent to the "successful reform in the banking sector" the Nigeria Insurance Commission directed that all insurance companies must:

* increase their share capital to N3 billion for general business and N2billion for life business, and

* Separation of life and non-life businesses which must be managed by different entities. It was the aspiration of the government that with the new level of share capital, the insurance companies will be able to participate in the Oil and Gas risk management.

6.1.2 Interim Review of Insurance Reform

The outcome of this restructuring exercise is still being awaited as the operators in this sector are still discussing and strategizing towards meeting up with the requirements of the directive.

While not being pessimistic, the possibility of securing the success rate recorded by the banking sector is quite slim. The public offers embarked upon by banks such as Intercontinental, Zenith etc. may make the exercise a tough one to accomplish.

* Information in the industry revealed that loss of jobs are being recorded already.

* There may be demise of Re-insurance Companies in Nigeria.

* The participation of local insurers in the Oil and Gas risk management, if attained, will be a good development for the economy.

* Insurance experts may be under-utilized since many of them are by now joining the already saturated labour market. Meanwhile the rule of exclusion of non-professionals from occupying the seat of CEO was tested and it failed.

6.2.0 Other Financial Institutions

Leasing Firms: No development is currently noticed in the leasing sub-sector other than that they fall under the supervision of Central Bank of Nigeria.

Capital Ventures; are relatively new institutions. They provide funding to organizations through equity participation with option to divest at an agreed time. The operators do not currently have minimum share capital stipulation. However, they are under the supervision of Security and Exchange Commission.

Stock-Broking: The minimum paid-up capital of stock brokers was increased and compliance is currently being monitored by the regulatory authorities. A tribunal was created to put on trial, any Capital Market operator who may get involved in unprofessional act. There is also a fledging professional body – Chartered Institute of Stock Brokers.

Pension Fund: a major step that is as weighty as the consolidation in the banking sector was the pension fund institutions that were created. According to the Pension Fund Act of 2004, the PFAs are now to manage pensions of both the public and private concerns. Pension is expected to be funded, either jointly by both the employees and employers or solely by the employers.

Employees now have liberty to choose who manages their funds at any time with unhindered access to their accounts with such PFAs.

* Pension Fund Custodians are to invest on behalf of the employees, on the instruction of the PFAs.

* This arrangement will certainly provide funds that can be released on long term basis for economic development of the nation.

* It will also provide a future for all employees that are diligent in the operation of the scheme.

* However, the development brought about loss of income for the insurance companies who had hitherto engaged in pension fund management.

7.6.0 Support Service

7.6.1 Audit/Assurance

Audit constitutes the most glaring support service in the finance industry. Whichever sector or sub-sector you may find yourself, there is always a need for assurance. To ensure that the assurance is undiluted, in April 2006, the Institute of Chartered Accountants of Nigeria issued ten Exposure Drafts (1-10) on Nigeria Standard on Auditing and one Exposure Draft on Nigerian Standards on Quality Control. It is expected that these exposures will become standards in due course.

It was recently moved by the Governor of Central Bank of Nigeria that Auditors of banks must be changed within a particular circle of time and ICAN is against this idea, more so when the Standard on Quality Control is addressing the anxiety or fear of the CBN Governor.

Interestingly, in August 2006, ICAN organized a seminar whose purpose was to synthesized and persuade by moral suasion, the need to embrace merger of accounting firms. I must say that this is an audacious task for both the institute and the practitioners.

7.6.2 The Nigeria Accounting Standards Board

Statements of Accounting Standards which will make reporting in the sector to be uniform were issued overtime. The NASB has indicated her plan to visit companies to confirm the veracity of statements of account.

7.6.3 Taxation

The tax management in the nation is taking a new dimension as the Revenue Authorities are becoming alive to their duties.

The **Federal Inland Revenue Service** has infused high quality technical staff into her systems. Tax Stations/Offices now work with the business-mind set as demonstrated by the presence of FIRS at the on-going Lagos Trade Fair. If and when approved, the remuneration of tax officials at federal level will intimidate bankers and telecommunications employees. This will imply that service will be delivered with utmost professionalism. Tax offices had been re-designated as Integrated Tax Offices. Files of companies are moved to the office closest to their place of business.

The FIRS shut down some companies in Abuja and Agbara for nonpayment of taxes while there was a report of same action being contemplated for Lagos. It was strange that the man that faced the tax enforcement team at Agbara was the Personnel Manager.

The FIRS instituted tax investigation into the activities of some Oil Companies including the NNPC. While there is no record of any one being sentenced for tax evasion in Nigeria, there may be more than we envisage in the nearest future.

State Governments are also making their Revenue Boards to be autonomous. Some of them are already seeking the support or assistance of consultants to bridge their area of deficiency while building-up capacity.

8.0.0 Implications and Challenges to Administrators

For the purpose of this discourse, we shall consider anyone that is saddled with the responsibilities of seeing to the effective running of an organization as Administrator. Such people shall include the Chief Executive Officers, Managers – Line and Staff, policy makers in the private and public sectors and your good-self.

* Administrators involved in policy execution must continually update themselves frequently than ever before as there shall be no excuses for ignorance.

* Administrators responsible for policy making must consider other issues other than cost-benefit-analysis or peer review as Nigeria does not operate at the same pedestal with most of the nations we often compare her with. We cannot afford to be in haste at all times.

* As far as possible, professional advisers may be required to construct a model of policy, taking all factors into consideration.

* Administrators were made to study and must not relax (as reforms may continue) in studying the theory and practice the implementation of merger and acquisition scheme within short time.

* It was a indeed a stressful exercise to find willing partners, craft an acceptable Memorandum of understanding (MOU), secure the board approval only for the MOU to be abandoned mid-way by other parties.

* For those who find it difficult to relinquish control, it was indeed a big challenge as they are faced with the situation of either taking the bitter pill or sink.

* The emphasis on vicarious liability of directors, especially in the banking sectors, will make it the point of duty for all directors to consider carefully, anyone that is being proposed or considered for directorship.

* The administrators were indeed challenged in the area of culture harmonization. Those who find the exercise tough laid off staff of company being acquired.

* The law of survival became evident in some of the actions taken by successful organizations. Moral and Ethics were least respected as rumours were peddled to the detriment of other practitioners.

* The EFCC directives also put confidentiality norms between professionals and their clients/customers at task.

* The SME Fund and other funds have not been available to many administrators for the management of their companies. Therefore, organizations must continue to strategize on how best to cope in this volatile environment.

* Administrators must be quick in understanding and fast in responding to government directives as political solutions many not be available.

9.0.0 Summary, Conclusion and Recommendations

The financial sector remains highly volatile and it holds the key to the development of other sectors. The government, foreign economies and private investors are much interested in its development.

Therefore, it will be a suicide mission for any administrator to stay aloof by simply believing that reforms in the financial sector are of no consequence to him.

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Source: Journal of Professional Administration; vol8, No.1. April 2007 (pages: 7-13)