Keynote Address

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CBN Departmental Directors,
Distinguished Resource Persons/Facilitators,
Distinguished Executives,
Ladies and Gentlemen

It is my pleasure to be part of this year's Executive Seminar holding in Kaduna. This is the sixteenth in the series jointly organized by the Research and Human Resources Departments of the Bank. The forum represents one in which the Executives of the Bank brainstorm on contemporary economic issues to stir the banking and financial sector in particular and, the economy at large, on the path of sustainable growth and development. The forum also provides an avenue for capacity building and human resource improvement through intense dialogue with economic and financial experts on current developments.

The theme for the Seminar "Financial Sector Development: Challenges for Risk-Based Supervision and the Effectiveness of Monetary Policy" is quite auspicious in view of the current threat to the global financial systems. The current financial meltdown could be attributed to weak institutions and inadequate oversight by the supervisory authorities which, culminated into serious financial crisis in the US that quickly spread to Europe and other emerging economies. As we are all aware, the sub-prime crisis which started in the US in 2007, took its toll early in the year resulting in a run on some banks in the United Kingdom notably the Northern Rock, as well as Bradford and Bingley both of which were nationalized thereafter. Following up to this, was the financial crisis that precipitated the collapse of Freddie Mac and Fannie May and Lehman Brothers in the US which led to the

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nationalization of the Washington Mutual. Drawing from this lesson of experience, I therefore urge participants to come out with far-reaching recommendations that would assist the on-going reforms in Nigeria's financial services sector.

Let me reiterate the importance of the financial sector in the fluidity of intermediation and unfettered access to credit to engender investment and ultimately grow the economy. In this regard, banks and other financial intermediaries' play indispensable role in lubricating the financial system towards ensuring that investible funds are efficiently and promptly mobilized from the surplus entities and channeled to the deficit units in order to stimulate investment and grow the economy. This intermediation role requires efficient and effective oversight by the monetary authority to ensure compliance with banking laws, prudential guidelines and other directives, especially under the Basle II framework.

As we all know, the trend in globalization has not only engendered the massive inflow of foreign capital into the Nigerian economy, it has also exposed the financial system to a number of sophisticated financial instruments including derivates, swaps, futures and options, etc, with crucial implications for the effectiveness of monetary policy. Consequently, monetary policy design, formulation and implementation must factor-in these contemporary developments in the financial landscape for it to be effective and supportive of the financial system.

In recognition of the fact that a low-inflationary environment is germane to rapid economic growth and sustainable development, it is pertinent for monetary policy to be encompassing and proactive at all times to rein-in inflation, ensure sound and efficient banking system devoid of distress and crisis that may be detrimental to the economy.

You will recall that as part of the grand desire to ensure a safe and sound financial system, the 'Banking Sector Reform' was embarked upon, spearheaded by the banking sector consolidation in 2004/2005. The bank consolidation at that time was meant not only to eliminate the recurring distress in the banking system, but also to address the widespread unethical behaviour and correct the oligopolistic structure of the system. Thus, banks recapitalized to a minimum shareholders fund of ₦25.0 billion to strengthen their operations and enhance their participation in the global financial market. The development encouraged mergers and acquisition among existing banks and also saw the entrance of foreign participation in the banking sector. The consolidation of the industry has to some extent shielded the sector from the credit crunch currently being experienced in the global financial markets.

In 2006, as part of further efforts to mitigate systemic distress and ensure sound banking and financial system, the Bank embraced the Risk-Based Supervision (RBS) framework which is more risk sensitive to encourage banks to develop and continuously update their internal risk management system commensurate with the scope of their operations in line with the Basel II Accord. The RBS is an approach where the degree of supervisory attention is dependent on the risk profile of banks, and where the resources of the supervisors are focused on those banks that present the greatest risks to the financial system. The RBS, thus represents a shift away from the rigid rules as well as the reactive scope of the transaction and compliance based approach to supervision and regulation hitherto adopted by the monetary authority.

In addition to structural reengineering, the CBN upgraded its ICT infrastructure to link-up with the deposit money banks, Bureaux de Change and other financial institutions to enhance speedy and effective regulatory and surveillance activities.

Consequently, the eFass, Globus and T24, among others, were deployed to ensure prompt connectivity within the financial system to speed-up surveillance activities. Also, the Bank initiated intensive training for its workforce to ensure that they are abreast of developments on supervisory/regulatory issues worldwide.

Like the Asian crisis in the mid-1990s, the world is witnessing another round of financial and economic meltdown provoked by the sub-prime mortgage losses that triggered banking system crisis in the US with widespread effects across Europe and the looming threat of the contagion effects in Asia and the emerging economies. The aftermath of the sub-prime crisis which triggered a condition of credit crunch in the US banking system revealed the inadequacy of existing oversight strategies which now constitutes a great challenge to the supervisory authorities. The preponderance large non-performing debt assets in the banking system exposed the shortcomings in the US supervisory processes and attempts by the Federal Reserve to stem adverse credit conditions and reverse the situation were too little and too late.

You will agree with me that while lessons are still being learnt from the unfolding scenarios in the current global financial crisis, Nigeria, particularly in the course of the pursuit of the Vision 20:2020 which envisioned making the country one of the top 20 economies in the world, must take cognizance of the following. First, the crisis has revealed how ineffective monetary policy could be in the face of volatile and weak oversight of the banking system. Second, it has exposed the vulnerability of the financial system to the holding of large non-performing loans. Third, it has demonstrated that events in a particular economy could have profound and systemic effect on another. The aforementioned are quite relevant given the increasing presence of Nigerian banks in the ECOWAS sub-regional economies.

Let me reiterate that as the global financial markets are fast becoming borderless, highly integrated, driven largely by advancements in ICT and advanced techniques in financial engineering, policy makers must devote adequate attention and resources to monetary policy making, as well as the banking and financial sector supervisory and regulatory processes. This is very critical especially with Nigeria accelerating towards economic integration. Also, as new wave of financial assets, which are sophisticated and complex to evaluate, are increasingly being introduced as globalization intensified, it behooves the monetary authority to evolve cutting-edge ideas/policies to propel the financial sector and the economy. This is necessary to ensure the safety of the depositor's money, engender investment and provide the platform for Nigerian banks to become competent and competitive players in Africa and global financial system in the 21st Century.

Ladies and Gentlemen, I am aware that the resource persons who are experienced professional are on hand to lead discussions at this workshop to elucidate on vexed issues. On this note, I implore all participants to take the full advantage of this workshop by participating fully in all aspects of the discussions. It is my firm conviction that your deliberations will be successful and would reveal important strategies, programmes and additional reforms necessary to strengthen the financial sector, support banking system oversight and monetary policy initiatives.

I also believe that you will conduct the discourse against the backdrop of the on-going global financial crisis and the resultant strings of government intervention with grandiose bail-outs in America, Europe, and Asia which would induce discussions on the state of the Nigerian economy at large and the financial sector in particular, on the extent of their vulnerability, their problems, and the ways to resolving them.

Finally, in order to elevate the Nigerian economy to one of the top 20 economies in the world, we must all realize that the Bank must be abreast of monetary and financial developments so as to tailor policies in the direction that would make the vision realizable. Therefore, it is imperative for the Bank to be more articulate with monetary policy issues and proactive in the surveillance and oversight functions.

Distinguished Ladies and Gentlemen, it is therefore my pleasure to declare the Seminar open and wish you a fruitful deliberation.

I thank you for your attention.