BANKING SUPERVISION UNDER WEST AFRICAN MONETARY ZONE*

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1.0 INTRODUCTION

I feel flattered and highly honoured to be invited by the very disciplined, professional and credible Research Department of the CBN to facilitate at this Seminar. It is a rare opportunity to be privileged to be so considered. I thank you for the consideration.

Let me add that I consider the topic on which you ask me to share my thoughts to be difficult to handle. For some days I kept wondering what I can say for you to appreciate, more so that, I know you are very knowledgeable on the issues involved. The two solid hours scheduled for this paper further heightened my fears that I may not be able to live up to your expectations. The Chairman, I have resolved given my predicament that I will only attempt to raise some issues for which we can deliberate.

The rest of the paper has been organised into seven parts. By way of background information, I have discussed conceptual issues and objectives of banking regulation and supervision in parts 2 and 3 respectively. The basic approaches to banking regulation are mentioned in part 4 before a discussion of supervisory structures in part 5. A review of banking supervision in the first monetary zone in West Africa and the euro zone is undertaken in part 6. Following from that a supervisory model for the West African Monetary Zone (WAMZ) is proposed in part 7. The paper is concluded in part 8.

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* The views expressed in this paper are those of the author. They do not represent the views of the Nigeria Deposit Insurance Corporation (NDIC), the employer of the author.

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2.0 CONCEPTUAL ISSUES

There is need to understand some of the concepts that will be frequently used in this paper. Also, the need for regulation of banks is briefly discussed here.

2.1 Meaning of Regulation and Supervision

Regulation of banks has been defined by Llwellyn (1986) as a body of specific rules or agreed behaviour either imposed by government or other external agency or self imposed by explicit or implicit agreement within the industry that limits the activities and business operations of banks. In a nutshell, it is the codification of public policy towards banks to achieve a defined objective and/or act prudently. Banking regulation has two major components:

(i) the rules or agreed behaviours; and

(ii) the monitoring and scrutiny to determine safety and soundness and ensure compliance.

Supervision on the other hand, is the process of monitoring banks to ensure that they are carrying out their activities in a safe and sound manner and in accordance with laws, rules and regulations. It is a means to determine financial condition and of ensuring compliance with laid down rules and regulations at any given time. Bench (1993) asserted that effective supervision of banks leads to healthy banking industry. Dimitri Vitas (1990) also believed that good regulation and supervision will minimise the negative impact of moral hazard and price shocks on the banking system thereby leading to a reduction in bank failures and banking system distress.

2.2 The Need for Banking Regulation and Supervision

Banks worldwide are more regulated than other institutions because of their roles as financial intermediaries. As financial intermediaries, banks mobilise funds from the surplus spending units at a cost for on lending of such funds to the deficit spending units at a price both within and outside the shores of a country.

In discharging their financial intermediating role, it is the responsibility of banks to ensure that the funds mobilised could be accessed by the depositors as when needed. While in their care, the mobilized funds are advanced as loans and advances at a price to be repaid along with the principal loan. The spread between the cost of funds and the price of the loans granted in this manner is the singular most important source of income for banks.

Banks also provide an efficient payment mechanism in the economy. They provide smooth and efficient system for making payment to settle both business and personal transactions, and international financial obligations on behalf of their customers.

Thus, **savings are stimulated** for investment in the economy by banks. The weight of evidence is that banks in the process of intermediation contribute significantly to real economic development. According to Schumpeter (1934), banks are necessary condition for economic development. This proposition has been supported by several later scholars including Goldsmith (1969) and Cameron et al (1972). Empirical evidence also suggests that there is a positive correlation between real growth of output, investment, bank assets and money supply. Growth in the banking sector when well transmitted would result in the growth of the real sector. The opposite is also possible if the banking sector is repressed and inefficient. It is in recognition of this that John B. Heimann, founding Chairman of Financial Stability Institute (FSI) in June 2001 asserted that "the prosperity and strength of any economy relies heavily upon the proper and prudent functioning of the country's system of financial intermediation. If the financial system is strong, the economy has the ability to grow and the strength to absorb shocks. But if the financial system is weak, it acts as a magnifier of problems, rather than a shock absorber."

In performing their various functions, banks are expected to ensure prudent management of assets and guarantee the safety of depositors' funds. They are expected to adhere strictly to safe and sound banking practices, maintain adequate internal control measures to prevent incidences of frauds, forgeries and other financial malpractices to ensure stability and engender public confidence in the system. The proper management of banks is therefore a pre-requisite for economic prosperity in any country as the vehicle for the implementation of monetary policy. Indeed, the contributions of banks to the development of the economy depends on the quantity and quality of their services and the efficiency with which these services are provided. Here lies the concern of the Regulatory Authorities and hence the "raison detre" for intensive banking regulation and supervision.

3.0 OBJECTIVES OF BANKING REGULATION AND SUPERVISION

The objectives of banking regulation and supervision were advanced by Giddy (1984) as for monetary policy, i.e. the ability of banks to create money through the extension of credit; credit allocation function of banks; the need to ensure competition and innovation by the prevention of cartels; and because banks are depositories of public savings and managers of payments mechanism they are very vulnerable to collapse. The protection of depositors has come to be generally accepted as the most basic reason for banking regulation and supervision. This objective is hinged on the fact that bank depositors have difficulty protecting their interests when compared to other bank creditors and investors.

On his part, Sheng (1990) stated the objectives of supervision as: promotion and development of sound and wide range of financial services to meet the needs of the economy; ensuring efficiency, security and responsiveness of banks to the needs and complaints of customers; ensuring compliance with laid down rules and regulations which are germane to ensuring high standards of banking; and to achieve important developmental and social goals through their compliance with monetary and credit allocation policies. Sinkey J. R. (1989) states the goals of regulation as:

- The protection of depositors;
- The protection of the economy from the vagaries of the banking system; and
- The protection of banks' customers from the monopolistic power of banks.

Dale (1986) had classified prudential regulation of banks into three: preventive, protective and supportive. While preventive regulation is designed to limit the risk undertaken, the protective regulation offers protection in the event of failure. The supportive regulation is in form of a lender of last resort.

In both developed and developing economies, the banking industry determines the financial services available to the economies. Hence, regulation is necessary to break this monopolistic power and prevent abuse. Moreover, in developing economies, banks play their traditional intermediation roles as well as being used as a vehicle for achieving developmental and social goals. Banks in third world countries have to develop indigenous entrepreneurs by channelling credits for their uses. As a result of this, the World Bank (1989) noted that banks in these economies have to be regulated to ensure that they play their proper role in economic development.

In a nutshell, the rationale for bank regulation and supervision can be summarised as follows:

- Efficiency,
- Diversity of choice,
- Competition,
- Stability of banking system,
- Macro economic stability, and
- Developmental and social objectives.

4.0 APPROACHES TO BANKING REGULATION

The four approaches to banking regulation are standard and are applicable in all jurisdictions although with some variations here and there. It is therefore necessary for us to appreciate these approaches and modify them to suit the eventual supervisory structure that will be adopted in the WAMZ. A highlight of each of them is briefly given here.

The first approach relates to information disclosure which are of two types. The disclosure to the general public through the announcement of operating results and full disclosure to bank supervisors where public disclosure may not be necessary in order to protect the clients' secrecy. Information disclosure by banks is basically designed to ensure that supervisors, depositors, investors and the general public are adequately informed of bank's performance/condition. The enforcement of adequate disclosure is paramount. The level of disclosure and timing of information to the various stakeholders should be articulated for banks to comply as a routine. This is an issue in Pillar III (Market Discipline) of the New Capital Accord.

The second approach is self regulation through the use of internal audit and controls, external audit and board audit committee. Self regulation involves the various independent checks and reviews put in place by the bank itself to ensure that its sound procedures do not deteriorate. Self regulation and self discipline are supposed to be more effective than regulation by a government agency because it is based on the conviction of self. It is also developed from industry norms; hence the stigma of non-compliance with peers and competitors are enough to encourage compliance. Basically in all banks, the primary responsibilities for safety and soundness, and prevention and detection of frauds and errors rest with the bank management. Self regulation which is yet to be imbibed in emerging markets works in developed countries where market leaders impose market discipline. Self regulation normally fails due to competition or when market leaders themselves are weak. At such period, self regulation becomes ineffective, indecision and self interest become a determinant.

The third approach is through banking supervision which is in two forms. The on-site examination is to ascertain the financial condition of a bank. It also aims at verifying the accuracy of the periodic reports of the banks sent to the Regulatory Authorities, analyse those aspects of a bank that cannot be adequately monitored through off-site surveillance and confirm and ensure compliance with laid down laws, rules and regulations. On-site examiners assess the quality of assets, management, earnings, capital and funds management as well as accounting and internal control systems. The second form is off-site surveillance. The returns of banks to the Regulatory Authorities are analysed by off-site supervisors for completeness, accuracy and consistency as well as compliance with prudential ratios and regulations. Regulatory Authorities, mainly in emerging markets, which do not have adequate resources rely more on off-site supervision to monitor the financial condition and performance of banks and to identify those banks that may need closer scrutiny. It is an irony of fate that where on-site examination should be emphasized due to low integrity of information from banks, resource constraint make such Regulatory Authorities to rely on off-site supervision. It is useful to add that on-site examination has been found to be more effective than off-site supervision in many jurisdictions due mainly to unreliable information that many banks do send to the Regulatory Authorities.

Finally, deposit insurance scheme is a financial guarantee scheme which seeks to protect depositors' fund against losses associated with bank failures. The scheme promotes a safe, sound and stable banking system. As a means to curtail moral hazard that deposit insurance could engender, the insured limit is always set at a low amount to ensure adequate protection of small savers for which the scheme is primarily designed. It is therefore, necessary for Regulatory Authorities to set up effective monitoring system and increase punitive measures against the abuses in the system.

5.0 BANKING SUPERVISORY STRUCTURES

It has been said that there is no theoretically optimal system or standard blue print of what constitute the best structure of banking system regulation and supervision (Bank for International Settlement, 2000). Factors like differences in political structures, general complexity and state of development of the financial systems; the nature and extent of public disclosure of banks' financial positions; level of market discipline; the availability and robustness of information technology; and the capacities of the regulator(s) dictate regulatory and supervisory approaches world-wide.

The Basel Committee on Banking Supervision in 1997 came out with an implicit framework for the regulation and supervision of banks code named, **The Core Principles for Effective Banking Supervision.** The framework can be interpreted as comprising four distinct yet complementary set of arrangements:

- legal and institutional arrangements for the formulation and implementation of public policy with respect to the financial sector, and the banking system in particular;
- regulatory arrangements regarding the formulation of laws, policies, prescriptions, guidelines or directives applicable to banking institutions (e.g. entry requirements, capital requirements, accounting and disclosure provisions, risk management guidelines);
- supervisory arrangements with respect to the implementation of the banking regulations and the monitoring and policing of their application; and
- safety net arrangements providing a framework for the handling of liquidity and solvency difficulties that can affect individual banking institutions or the banking system as a whole and for the sharing of financial losses that can occur (e.g. deposit insurance scheme or winding-up procedures).

With respect to the supervisory arrangements, the Core Principles describe what could be termed a "cradle to grave" approach covering the licensing of individual banks, the process of ongoing supervision and mechanisms for taking prompt corrective actions in case institutions do not meet regulatory or supervisory requirements (the latter would also include exit arrangements for institutions facing serious losses or default and possibly resulting in the activation of safety net arrangements). The overall objective of this comprehensive process of supervision is to guarantee that banks can be established, operated and restructured in a safe, transparent and efficient manner.

Interestingly the Basel Committee has continued to facilitate collegial approach to cross border supervision through co-operation and resource input in response to the increasing globalization of the financial systems, which raised concerns for standards and competence of regulators worldwide. Such concerns have often been met by agreement on conducts, codes or principles. Consequently, regulatory standards by the Basel Committee on such thresholds like capital adequacy are often adopted at the minimum.

6.0 RECENT DEVELOPMENTS IN THE ORGANISATION OF BANKING SUPERVISION

Before discussing a supervisory model for the WAMZ, there is need to appreciate what obtains in a similar setting. It is also important to mention that the ongoing debate on whether there should be a single supervisor or multiple supervisors within a country or monetary zone is beyond the scope of this paper. This is particularly because the preferred arrangement is yet to emerge as there are variations of the two worldwide. While the single supervisor arrangement, separate from the Central Bank, is being favoured in Europe and some developed countries, the USA favours the multiple supervisors approach.

Those who canvassed for convergence of regulatory structure had put forward a lot of argument in its support. Some of the argument advanced for its adoption could be summarized as follows.

- Less chance for bureaucratic turf battles.
- Consolidated expertise under one roof, which expedites decision making in case of a crises.
- Joint team supervision is possible because of the consolidation of all the regulatory powers in one agency.
- It is more efficient as a one-stop-shop.
- Better co-ordination between the Central Bank and the Regulator is much easier to determine.
- Eliminates conflict and minimise any attendant regulatory bottlenecks.

The protagonist of **multiple regulators approach** have also supported their position with the following argument.

- It ensures that special agencies maintain regulatory oversight over areas in which they have developed expertise.
- It makes room for expedited intervention in particular financial segment thus preventing risks of contagion.
- Central Bank is actively engaged in the supervision of banking system and is able to react quickly to matters germane to the stability of the financial system as well as engendering confidence in it.

In developing countries, a single supervisor model is not only preferred, such a supervisory body should be the Central Bank or it should be under its control. This preference is hinged mainly on the argument that Central Banks in developing countries are perceived to have expertise, independence, and credibility and also better placed to achieve and to maintain adequate funding during trouble times according to Charles A. E. Goodhart (2000). Ruth de Krivoy (2000) has provided three reasons why banking supervisors should come under the Central Bank of Venezuela:

- Outside the Central Bank, there will be political interference with supervisors;
- Outside the Central Bank, there is a greater likelihood of corruption and inefficiency; and
- Outside the Central Bank, funding for banking supervision is less likely to be adequate.

In one of her conclusions, she emphasized that the Central Bank should "play a role in banking supervision, since the Central Bank is the lender of last resort." She thus emphasizes three requirements for the institutional framework that will best serve to promote stable money and sound and safe banking as follows:

- Rests upon politically independent institutions;
- Allows proper coordination between monetary policy and banking regulation and supervision; and
- Enables officials to anticipate systemic risk and to react to it in a timely and efficient manner.

In yet another conclusion, she reasons that "giving supervisory powers to an independent Central Bank is especially advantageous if public institutions are weak, coordination between different public sector agencies is troublesome or skilled human resources are scarce. A Central Bank is usually a country's most prestigious and well-equipped institution, and is in good position to hire, motivate and keep skilled staff."

6.1 Organisation of Banking Supervision in West African Monetary Union (WAMU)

The first monetary zone in West Africa known as West African Monetary Union (WAMU) is composed of eight French-speaking countries, namely: Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo. In 1990, the WAMU Banking Commission was established for the supervision of the banking system within the Union. The Commission is funded by the Central Bank of West African States (BCEAO) and has its Secretariat in Abidjan, Cote d'Ivoire. The Commission carries out both on-site and off-site supervision of 64 banks and 26 other financial institutions in the Union. The total assets of the banking system was 5,300 billion CFA Francs equivalent to about US $7 billion as at 31st December, 2001.

The organisation of banking activities is governed by a uniform Banking Act for all member States of WAMU within a community-based framework. This entails that the WAMU Council of Ministers determines the general framework and ensures the overall cohesion of the community-based mechanism. The functions and powers of the various Authorities involved and the strategy for the coordination of their activities are spelt out in the general framework. Thus, banks and financial institutions are answerable to a triple Authority in varying degrees. The three Authorities are:

- Ministry of Finance in the country of location as the national monetary authority;
- The Central Bank of West African States (BCEAO), the issuing authority which manages the common currency (CFA Franc) and which drafts relevant regulations particularly in the area of banking. It also has the responsibility to supervise banks; and
- The WAMU Banking Commission which is responsible for the regulation and monitoring of the banking system within the Union.

The framework is constantly reviewed in the light of developments in the world and the Union's financial system.

The WAMU Banking Commission has the Governor of BCEAO as Chairman and 17 other members. It meets once in a quarter. It performs the following functions:

- Ensure compliance with requirements on the integrity and qualification of promoters and managers during licensing as well as adequacy of capital, technical and human resources;
- Monitor and determine the maintenance of an adequate balance between expenditure and income, solvency status, and liquidity condition;
- Help to restructure, rehabilitate/or close any failed financial institution in an orderly manner.

The decision of the Commission is legally binding on the parties concerned and could sanction banks that contravene banking laws, rules and regulations. It issues circulars to which banks should comply.

A single licensing mechanism was adopted in 1998 and that simplified the extension of offices by a licensed institution in a country to other member States. The BCEAO is the licensing authority.

The withdrawal of a license is always a problem as even when the Commission has asked that a licence be withdrawn, the Minister of Finance of the country where the failed bank is located may not agree. That is a complicated problem for the Commission. The Commission is proposing that a deposit insurance scheme be established to address the problem of bank closure since depositors will have financial protection up to the insured amount in the event of liquidation.

6.2 Organisation of Banking Supervision in the EURO Zone

Banking supervision in the Euro Zone is the responsibility of each member State. This is generally outside the ambit of their Central Banks. There are various committees put in place to harmonise and coordinate banking supervision within the Zone. Except for these committees, the supervisory structures prior to the establishment of the Zone have largely remained unchanged. Let us briefly highlight the changes.

In furtherance of the protocols and treaties establishing the European Economic and Monetary Union (EMU) in October 1998 the Governing Council of the European Central Bank (ECB) established the Banking Supervision Committee (BSC) of the European System of Central Banks (ESCB). The BSC replaced the Banking Supervisory Subcommittee (BSSC) of the European Monetary Institute following the establishment of ECB and the Eurosystem. The Eurosystem is made up of the eleven national central banks of the countries forming EMU. Membership of the BSC is drawn from the 15 EU members States' Central Banks, the ECB, and banking supervisory authorities in each country.

The BSC is charged with the responsibility to assist in a smooth conduct of supervisory and financial stability policies within the Zone. In order to achieve that, the BSC reviews developments in the banking and financial systems and also monitor the stability of the banking and financial sector and promotes cooperation between the Euro system and banking supervisors. It also performs advisory services to ECB on the Eurosystem and banking supervisors and also serves as the forum for consultations among the EU banking supervisors on issues not related to the supervisory functions of the Eurosystem.

The major role of BSC in the financial stability of EU is in the specification of institutional frame work for financial stability. This is done within a variety of national structures and practices which are harmonised in line with the Treaty establishing the European Community. Under the aegis of the EU Treaty, the Eurosystem is to contribute to the smooth conduct of policies pursued by competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system - Article 105 (5). Article 105(4) of the Treaty and Article 25.1 of the statute of the (ESCB) also accords an advisory function to ECB in the regulatory process of maintenance of the stability of the financial system in the monetary union States. Although Article 105(5) of the Treaty applies only to participating countries, the cooperation within the BSC involves all the Central Banks and Supervisory Authorities of the 15 member states. In order words, the BSC is the major forum for addressing the relevant issues of cooperation between the Eurosystem and the Supervisory Authorities of the EU countries.

The specific issue of prudential supervision within the mandate of the BSC includes, examination of macro-prudential issues, reviewing of development in the financial systems and the promotion of smooth exchange of information between the Eurosystem and banking and other Supervisory Authorities. In addition the BSC serves as the link pin or bridge between ECB and member States' National Central Banks(NCB) for the sharing of useful information on monetary policy and payment and securities settlement systems. This is done in order to facilitate the coordination needed between Central Banks and Banking Supervisors.

The BSC is also involved in macro-prudential analysis in the EU/euro area and at national level on the basis of a commonly agreed body of information. The framework for macro-prudential analysis relies on data obtained from Central Bank and Supervisory Bodies and on the data on the macroeconomic and financial environment relevant to assessing the soundness of the banking sector. These indicators aimed at capturing significant build-ups of risk exposure within the banking system, potential disturbances emerging from outside the banking system and channels of contention through which difficulties at one institution could spread to others. The BSC is also in close collaboration with other multilateral institutions both within and outside the EU States. This is done in order to facilitate a global appreciation of the systemic and cross-border risks to which institutions in the member states are exposed with a view to mitigating them.

Another important organ in the Euro Zone is the Banking Advisory Committee (BAC) which assists the European Commission (Commission) in drawing up new proposals for European banking legislation which are to be presented to European Parliament and European Council. The body is also to see to the diligent application of directives, once adopted, by all the member States. The BAC is composed of high-level representatives from each member State and the Commission. In order to assist the BAC in its work on the correct application of the banking directives, a group on the interpretation of the banking directives examines a number of questions of interpretation either at BAC's request or on its own initiative. While the interpretation of a particular provision of a directive constitutes an important point of reference, it is not however legally binding on member States. The BAC also advises the Commission on the need for EU banking regulations. Such banking regulation issue of priority to the Committee includes the review of capital adequacy rules, presentation of proposals to the Commission on the requisite legislative framework needed to facilitate effective supervision and the review of regulatory structures within and across the financial sectors in order to enhance their cooperation.

The broad mandate of the BAC allows it to extend beyond the geographical borders of the EU . The Commission involves and informs the BAC of wider international discussions in the field of banking regulation, supervision and cooperation.

Finally, another important body within the EU worthy of mention is the Financial Services Policy Group (FSPG). The FSPG consists of the personal representatives of finance ministers of the member States. The body is set up to assist the Commission in drawing-up the Action Plan for Financial Services in the Zone on an ongoing basis.

7.0 BANKING SUPERVISION MODEL FOR WAMZ

Distinguished participants, there is need to emphasize some of the conditions for effective supervision in the WAMZ which have not been adequately addressed. Even though these conditions are largely beyond the control of Supervisory Authorities, weaknesses or shortcomings in them may significantly impair effective banking supervision. These weaknesses should be adequately addressed before we can hope for a unified effective banking supervisory body within the WAMZ. Let us quickly highlight some of them before proceeding to recommend a supervisory structure for the Zone.

7.1 Conditions for Effective Banking Supervision in WAMZ

(a) Sound and Sustainable Macro-economic Policy

Sound and sustainable macro-economic policy has been identified as a critical success factor in the application of the Core Principles for Effective Banking Supervision. This is particularly so in the West African Monetary Zone (WAMZ) owning largely to unstable political structure which has led to policy inconsistencies (in fact policy somersaults), inadequate coordination of monetary and fiscal policies which tend to render them impotent, poor/or even lack of vision and developmental focus and unwieldy public expenditure size, largely financed by deficit budgeting (which are seldom channelled into the productive sector) with the attendant negative impact on employment and general price level. Today most West African countries are net-importer with very insignificant growth in the local economy of the member States.

(b) Effective Market Discipline

Effective market discipline as a precondition requires that there exist a culture of financial transparency and the presence of effective corporate governance. It is thus expected that financial institutions lending decision are carried out in strict commercial sense and without political pressures from the government. Banks are expected to operate credit risk thresholds that are driven strictly by the long term growth outlook and the safety and soundness of their institutions as the focus. In the case of Nigeria for example, because of the poor performance of government-related loans, which led to the distress of some banks, more stringent prudential requirements are currently attached to government borrowings. For example, loans to government, if performing, attracts 50% provision and where such loans display any trait of delinquency 100% provision is enforced. That proactive measure has to a large extent infused some discipline into the banking system in Nigeria.

(c) Procedure for the Efficient Resolution of Problems in Banks

The core principles note the need for Supervisory Authorities to be vested with the powers and authorities required for effective distress resolution. Such distress resolution thresholds are expected to be flexible and robust enough in order to prevent contagion. That would require frameworks for early warning signals (EWS) and a holistic engagements of their thrusts. In this respect the Supervisory Authorities should adopt a proactive and strict policies to resolve the problems at an early stage (H. Onno, Ruding, 2002). Strictness requires the setting of high standard of prudential guidelines to reduce the risks of individual banks or the entire banking system in a country or monetary zone from becoming illiquid or insolvent. Of course, this will only be effective if supervisors are well equipped in numbers, technical skills and resources. The need for being proactive is because delay in taking action can cause a lot of damage even if the action is appropriate.

(d) Mechanisms for Providing an Appropriate Level of Systemic Protection (Or Financial Safety Net)

The key aspects of financial safety net includes prudential regulation and supervision, a lender of last resort facility and deposit insurance according to

Financial Stability Forum, (FSF) in 2001. An effective mechanisms in all the three areas has been emphasized. A country with a well developed mechanism in only one or two of these three areas is likely to face insurmountable obstacles in finding effective solutions for preventing, or resolving, serious difficulties in its banking system. The FSF (2001) stated that a deposit insurance system "needs to be supported by strong prudential regulation and supervision, sound accounting and disclosure regimes, and the enforcement of effective laws." The FSF has posited that it is vital to establish a financial safety net in each country as in its absence, the risks of a destabilisation of the banking system will grow.

Apart from Nigeria that has an effective financial safety net that includes an Explicit Deposit Insurance Scheme (EDIS) the other States in the WAMZ operate only Implicit Deposit Protection Schemes (IDPS). The major drawback of IDPS is in the fact that it makes no provision for the protection of depositors in the event of bank failure. Under IDPS, protection is focused, albeit discretionally, on the individual institution as against the depositors. That practice is known to have encouraged moral hazard in some member States. For example, three banks were liquidated in Ghana in 2000 and the Government paid all the depositors fully. In Guinea, the two banks that were distressed early in 2002 were bailed out by the Government and in a similar manner, a distressed bank in The Gambia was recapitalised and revived by the Government.

(e) A Well-Developed Public Infrastructure

This is another profound aspect of the preconditions for effective banking supervision. The requirement here includes the existence of a proper credit culture that would foster the honouring and enforcement of financial contracts. Added to this is the need to enthrone the best practice and ethical standards in financial dealings. Even though all the states within the WAMZ appeared to have laws dealing with those issues, poor or inadequate enforcement powers and the lack of the will power to sanction erring banks by the Supervisory Authorities need to be addressed for effective banking supervision in the Zone. Also, the judiciary system has not fared well to facilitate foreclosure of collaterals for loans. The process at present is tortuous, costly and frustrating. Yet "justice delayed is justice denied."

This has led to the request for a special court in Nigeria that can ensure speedy adjudication of justice relating to the recovery of bad loans.

Table 7.1
Number of Banks and their Total Assets in the WAMZ
As At 30th June, 2002

S/No	Country	No. of Banks	Total Assets ($m)
1.	The Gambia	7	61.2[a]
2.	Ghana	16	3,016.1
3.	Guinea	7	32.5
4.	Nigeria	89	17,460.3
5.	Sierra Leone	6[b]	120.5
	Total	125	19,690.6

(a) Estimate as the most recent data is not available
(b) Includes Guaranty Trust Bank Plc

Source: Central Bank of each country

7.2 Existing Banking Supervisory Structure in WAMZ

The Central Bank in each member State is not only the apex financial institution, it is the sole supervisory body with the exception of Nigeria where NDIC understandably complements the efforts of the CBN in supervising banks. A review of the Table below will give an idea of the level of banking supervision in each country of WAMZ.

It is apparent from the Table that Nigeria accounts for 71.2% and 88.7% of the total number of banks and their total assets as at 30th June, 2002 respectively. Such a disproportionate distribution can pose a problem in the composition of a sole banking supervisory body if it is desired. Such a sole banking supervisor should automatically have its headquarters in Nigeria given the need, to cut cost by being closer to supervised banks.

Also, Nigeria should account for at least 70% of the management staff and the budget. This may not be feasible as the argument of sovereignty will surface in deciding on the level of management staff that should come from each country. Of course, that will not be an issue if Nigeria wants to contribute at least 70% of the budget. The level of resources at the disposal of each country is also not relatively equal to the extent that that has impaired the effectiveness of banking supervision in some less endowed countries.

The coverage of supervision also varies from one member State to the other. For example, the Central Bank of The Gambia also supervises insurance companies whereas, insurance companies are under the purview of National Insurance Commission (NAICOM) in Nigeria. Such variations abound from one member State to the other. If there is proposal to have a unified supervisory body for all financial services, that will meet with opposition in some countries. In Nigeria, for example, with the introduction of universal banking NAICOM and SEC have voiced their opposition to CBN to become the sole supervisor of all financial services even when the CBN has not taken the step to do so.

7.3 Recommended Banking Supervisory Structure

I want to strongly canvass that the banking supervisory structure in each member State of WAMZ before its introduction should stay with a slight modification. The national Central Bank which will be the affiliate of the Central Bank of WAMZ should continue to be the Supervisory Authority in each country. In making this recommendation, I hold the view that the national Central Bank will be the monetary authority in each country of the WAMZ contrary to the situation in WAMU where the Ministry of Finance of each member State is the monetary authority. It is instructive for a Central Bank, particularly in an emerging market to be involved in banking supervision because even when the Central Bank is focused on macro-economic issues of monetary and price stability, their achievement rest on the basis of maintaining micro-level stability in the payments system, banking system and the smooth working of the financial system. In addition, it has been pointed out earlier in this paper that the Central Bank is likely to be more independent, credible and possess the capacity for effective banking supervision.

The modification which I propose is the establishment of WAMZ Committee of Banking Supervisory Authorities (CBSA). The institutionalised CBSA to which all Banking Supervisory Authorities in the Zone should belong, should be empowered to stipulate minimum prudential standards ranging from entry requirements, thresholds for illiquidity and insolvency, to failure resolution options. Such harmonised prudential standards should be binding on each member State. Also, banking laws, rules and regulations should be harmonised by the CBSA for adoption in each member State. The CBSA which should have Secretariat in should meet at least quarterly if not more frequently.

The existence of CBSA will make it feasible for cross-border growth of banks within the Zone. Requirements for cross-border mergers and acquisitions are to be stipulated by CBSA. Any bank in a member State should be able to establish branches or subsidiaries or associates provided they only offer banking services within the Zone. Part of the responsibility of CBSA is to be able to decide on the desirability of having an EDIS in each member State.

The EMU has already recommended that each member State without an EDIS should do so. The WAMU Banking Commission is also considering the establishment of an EDIS as earlier indicated in this paper.

The preferred model of banking supervision as espoused here raises the issue of how to carry out consolidated supervision under WAMZ. The Banking Supervisory Authority in the member State where the parent bank is located should have primary responsibility for consolidated supervision within the WAMZ. Of course, there should be cooperation and coordination, the basis of which CBSA should set out to facilitate cross-border and consolidated banking supervision within the WAMZ.

8.0 CONCLUSION

The Chairman and distinguished participants, it has been reiterated that there is no theoretically optimal system of banking regulation and supervision. Inter-play of factors dictate what will engender effective regulatory and supervisory approaches in each jurisdiction. Even though an attempt is made to evade the debate as to whether Central Bank should be sole supervisor or there should be a unified supervisor separate from the Central Bank or preference should be for multiple supervisors in a country or monetary zone, it is pointed out in this paper that in an emerging market, the Central Bank is likely to be more independent, credible and to possess resources and therefore should be involved in banking supervision.

A review of the organisation of banking supervision is undertaken in WAMU where a single banking supervisor is in place and in Euro Zone where each member State is responsible for banking supervision. A highlight of conditions necessary for effective banking supervision in WAMZ is given. The disproportionate distribution of banking market in WAMZ is apparent as Nigeria accounts for 88.7% of the total number of banks and 87.5% of the total assets of the banking system as at 30th June, 2002. The disparity in the supervisory purview of each Central Bank is highlighted before it is recommended that the current banking supervisory structure within WAMZ should obtain with a slight modification. The CBSA is recommended to coordinate and harmonise prudential standards covering entry requirements, threshold for illiquidity and insolvency, failure resolution options, among others. The CBSA should also be able to review and unify the banking laws, rules and regulations for adoption in each member State of the WAMZ. The guidelines for cross-border mergers and acquisition, establishment of branches, subsidiaries and associates, and consolidated supervision within the Zone to be issued by CBSA. It should also decide on the desirability of an EDIS in each member State.

As there is growing need for cross-sectoral financial supervision as well as cross-border financial supervision, I want to end with the caution given by H. Onno Ruding (2000). He says and I quote, "every effort should be made to avoid lacunae in supervision (nobody cares) as well as overlapping and duplication in supervision (everybody cares)."

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