

REVIEW OF DEVELOPMENTS IN BANKING AND FINANCE IN THE FIRST AND SECOND QUARTER OF 2013

BY

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1.0 INTRODUCTION

The Monetary Policy Committee (MPC) met three times during the first half of the year to review the economic conditions and challenges that confronted the domestic and international economy in the first half of 2013. The main aim of the meetings was to plan the course of monetary policy and they held on March 18-19, 2013 and May 20 - 21, 2013.

At the first quarter meeting held in March 2013, the Committee noted that global output had continued to fall as a result of a combination of severe measures taken by several euro-zone countries and the slipping of Japan into recession during the second half of 2012. Weak and fragmented growth was also recorded across the major economies and regions including the USA. On the other hand, emerging market economies showed a reasonable degree of resilience.

2.0 THE MPC'S REVIEW of DEVELOPMENTS DURING THE PERIOD

The Committee on May 20 - 21, 2013 noted a number of developments that took place in the first five months of the year. Amongst these is the continued recovery of the capital market as equities market indicators were positive during the review period. The all-share-index (ASI) increased by 31.4 percent from 28,078.81 on December 31, 2012 to 36,907.81 in May 2013. Market capitalization (MC) also increased by 31.5 percent, from N8.97 trillion to N11.80 trillion during the same period. Improved earnings, increased capital inflow and portfolio investments contributed to up-swing in stock prices.

The issue of the settlement of outstanding Asset Management Company of Nigeria (AMCON) obligations were also discussed. In light of the prevailing macroeconomic stability, the agreement reached between the CBN and AMCON on the settlement of outstanding AMCON obligations to all private sectors by December 2014 and repayment of the N3.6 trillion debts held by CBN under a new refinancing and restructuring arrangement, which would have no adverse monetary policy implications, within a period not exceeding ten years at single digit interest rate was commended.

3.0 MPR RETAINED AT 12%

The Committee also discussed the issue of sustaining macroeconomic gains. It noted that to sustain the macroeconomic gains of tight monetary policy and to continue to rein-in inflationary expectation, the CBN decided to:

- To retain the Monetary Policy Rate (MPR) at 12 percent with a corridor of +/- 200 basis points around the midpoint;
- Retain the cash reserve requirement (CRR) at 12.0 percent; and
- Retain the liquidity ratio at 30 percent and Net Open Position at 1.0 per cent.

As fallout of the MPC decision, the CBN had issued a circular referenced BSD/DIR/GEN/LAB/06/034 to all banks on the new Cash Reserve Ratio (CRR) for non-public sector deposits of 12% and 50% CRR on public sector deposits of all tiers of Government, Ministries, Departments, Agencies and Companies. The CBN had also discontinued the remuneration on "excess" above the CRR of 8%.

The introduction of 50% CRR on public sector deposits is to discourage DMBs appetite for government securities, encourage lending to the private sector and reduce the build-up in excess liquidity in the banking system.

4.0 The Naira Exchange Rate

Between the periods from January 22 to March 15, 2013, the exchange rate at the Wholesale Dutch Auction system-spot (WDAS-SPT) opened at ₦157.29/US\$ and

closed at ₦157.32/US\$. Also at the interbank segment, the selling rate opened at ₦157.10/US\$ and closed at ₦158.65/US\$. And at the BDC segment of the market, the selling rate opened at ₦159.00/US\$ and closed at ₦160.00/US\$. The average WDAS, interbank and BDC exchange rate during the period were ₦157.30/US\$, ₦157.65/US\$, and ₦158.94/US\$, respectively. There was slight depreciation in the exchange rate at the WDAS and interbank segments of the foreign exchange market. The BDC segment, however, appreciated during the period due to the observed improved supply of foreign exchange by oil companies, increased inflow from portfolio investors, and the effect of the prohibition of the simultaneous access to the CBN window (Repo and Standing Lending Facility) and WDAS transactions by DMBs.

Contrary to the preceding period, the naira exchange rate appreciated in all three segments of the economy opening at ₦157.32/US\$, ₦158.70/US\$, and ₦160.00/US\$ on the 20th March 2013 at the WDAS, interbank and the BDC segments of the foreign exchange market, and closed at ₦157.30/US\$, ₦158.33/US\$, and ₦159.50/US\$, respectively. This development reflected the effects of improved supply of foreign exchange to the market.

Due to the general sell-off by portfolio investors in emerging and frontier markets following the quantitative easing programs of the US Federal Reserve, the Naira exchange rate depreciated on all segments of the exchange rate market from ₦157.30/US\$, ₦158.30/US\$, and ₦159.50/US\$, on 21st May, 2013 to ₦157.32/US\$, ₦162.25/US\$, and ₦163.00/US\$ on 19th July, 2013, respectively, at the (WDAS), interbank and the BDC segments of the foreign exchange market.

Other major developments in the first half of the year under review are presented below.

5.0 Review of Computation of Capital Adequacy for Banks

The CBN had issued a circular referenced BSD/DIR/GEN/LAB/06/003 dated January 31, 2013, titled: "Review of Risk Weights on Certain Exposures in the Computation

of Capital Adequacy,” to banks. The Bank in the circular reviewed the risk weights assigned to some identified exposures in the industry as part of the efforts to establish risk management in banks. The risk weight assigned to direct lending to local governments, states, ministries, departments and agencies (MDAs) had been increased from 100 per cent to 200 per cent. The CBN insisted that breaches of the industry’s single obligor limits without its approval would be regarded as impairment to capital.

It also stated that investments in Federal Government of Nigeria Bonds would continue to attract zero per cent risk weight, adding that State Government Bonds that meet the eligibility criteria set out in the Guidelines for Granting Liquidity Status for State Government Bonds would continue to be risk weighted at 20 per cent.

6.0 Extension of Compliance Deadline for Anti-money Laundering Rules

The CBN on 26th February, 2013, gave a three-month grace period for designated customers to comply with the rules on Know Your Customer (KYC), which made registration with the Special Control Unit against Money Laundering (SCUML) a mandatory requirement for opening of bank accounts for designated non-financial businesses and professions (DNFBPs). The CBN in an earlier circular to banks and other financial institutions had directed them to ensure compliance with the rules on or before February 1, 2013, but the deadline had been extended to April 30, 2013.

7.0 Banks Enforce Prohibition on Legacy Cheques

Deposit Money banks in line with the directive by the CBN had made it obligatory to stop accepting and presenting legacy banks’ cheques for clearing and settlement purposes.

The CBN in a circular referenced BPS/DIR/CIR/08/2012 in November 2012 had directed all banks and other financial institutions not to honour or present, for clearing, cheques from legacy or liquidated banks from January 2, 2013. However, it later extended the deadline to March 31, 2013.

The successor banks include Mainstreet Bank (for Afribank), Sterling Bank (for ETB), Ecobank (for Oceanic Bank), Access Bank (for Intercontinental Bank), Keytsone Bank (for Bank PHB), Enterprise Bank (for Spring Bank) and First City Monument Bank (for Finbank).

8.0 Restrictions on Lending Relationships between Banks and Holding Company

The CBN in a circular referenced BPS/PSP/GEN/CWD/03/038 had placed restriction on lending relationships between Deposit Money Banks and their holding companies. The control was to avoid the situation where the banks would be lending depositors' money to their holding companies or subsidiaries within the group. That was to avoid abuse and erosion of the bank's capital.

According to the circular, credit by a bank to its Holding Company would be regarded as a return of capital and deducted from the capital of the bank in computing its capital adequacy ratio. Similarly, bank lending to subsidiaries within its group where the credit was fully secured would be assigned a risk weight of 100 per cent, otherwise it would be deducted from the capital when computing capital adequacy.

9.0 Recovery of Excess Bank Charges by CBN

The Central Bank of Nigeria disclosed that it had recovered N8.6 billion as excess charges fraudulently collected from customers by Deposit Money Banks. The amount was recovered between May 29, 2012 and March 31, 2013 following the establishment of the Consumer Protection Department to protect the interest of consumers. The Consumer Protection Department of CBN, said within the period, the apex bank had received about 2,800 complaints bordering on excess charges, conversion and frauds, adding that some of the banks had been charged the mandatory N2 million fines.

10.0 Extension of Recapitalization Deadline for MFBs

The CBN had issued an extension to the deadline for microfinance banks (MFBs) recapitalization to December 31, 2013 from December 31, 2012. The deadline was extended following the MFBs' appeal for more time to source for funds to recapitalise. Under the proposed recapitalisation, MFBs are required to have N20 million for a unit license, N100 million for state license and N200 million for national license.

11.0 Release of Exposure Draft on E-payment Arbitration

The CBN in a circular referenced BPS/DIR/GEN/CIR/01/018 had released the exposure draft on e-payment arbitration. Issues relating to number of agents, type and nature of agents including considerations for super agents, were critical areas being considered in the draft exposure.

12.0 Acceptance of Verve Card in US, China, Japan and Others

Following an agreement signed by Nigeria's largest integrated payment processing service providers, Interswitch and Discover Financial Services (DFS) which allowed the use of the cards across the two networks, verve cards are to be accepted in Europe, America and Asia.

The long-term agreement, which would be implemented in phases, would focus first on enabling about 20 million Verve cards on the Pulse global ATM network, followed by acceptance opportunities for Discover and Diners Club cards in Nigeria.

13.0 Electronic Fund Transactions Rise to N80bn Daily

The CBN disclosed on May 13, 2013, that the total value of electronic funds transfer in the country had risen to N80 billion per day. Adding that, the Nigeria Interbank Settlement System recorded over N20 billion daily transactions by value, while the Nigeria Electronic Funds Transfer conducted about N60 billion transactions daily.

Furthermore, the value and volumes of cash transactions executed through the Nigeria interbank settlement system (NIBSS) and the National electronic funds

transfer (NEFT) had doubled when compared with the use of cheques and that the planned extension of the cash-less policy to the six states, including the Federal Capital Territory, from July 1, 2013 would still hold.

14.0 Circular on Sustainable Banking Practice

The circular referenced NSBP/2013 on Sustainable Banking, involving the integration of social and environmental considerations into banks' operations, services, procedures and strategies was released during the first quarter of the year under review. According to the policy, the environmental and social policies as well as decision-making processes would also be integrated into the operations of discount houses and development finance institutions so as to minimize or mitigate the negative impacts of financial institutions' operations on the environment and on local communities in which they operate.

15.0 Heritage Bank International Ltd Pays its Customers

Former Societe Generale Bank Ltd (now Heritage Bank International Ltd) commenced payment to customers of the defunct bank, whose accounts had been successfully verified and who might not be willing to continue to maintain a bank account with the 'new' bank. The exercise was in two parts: verification of accounts and instant issuance of payment cheques for those who preferred to collect the balances in their accounts. The bank said owners of successfully validated accounts had the option of retaining their money with the new bank, which would begin operations before the end of the first quarter 2013. The management of Heritage Bank stressed that it had the financial strength and had made adequate arrangements to pay-off everybody if they should arise.

16.0 Appointment of New Board Members for CBN

Following the expiration of the statutory terms of appointment of some non-executive members of the board of CBN and the vacancy occasioned when the member representing the south-south geopolitical zone vacated the position in 2009, four new non-executive directors had been nominated for appointment to the CBN Board by the President.

The nominees were: Muhammad Musa Kafarati (North East), Collins Chike Chikelube (South East), Adaba Anthony Adeiza (North Central) and Ayuli Jemide (South-South). The nominees await the confirmation by the Senate.