

BANKING AND FINANCE

THE STRUCTURE OF THE NIGERIAN FINANCIAL SYSTEM

INTRODUCTION

The Nigerian financial system comprises of bank and non-bank financial institutions which are regulated by the Federal Ministry of Finance (FMF), Central Bank of Nigeria (CBN), Nigeria Deposit Insurance Corporation (NDIC), Securities and Exchange Commission (SEC), National Insurance Commission (NAICOM), Federal Mortgage Bank of Nigeria (FMBN), and the National Board for Community Banks.

Regulatory Authorities

The Federal Ministry of Finance (FMF)

The Federal Ministry of Finance advises the Federal Government on its fiscal operation and co-operates with CBN on monetary matters.

The Central Bank of Nigeria (CBN)

The CBN is the apex regulatory authority of the financial system. It was established by the Central Bank of Nigeria Act of 1958 and commenced operations on 1st July 1959. Among its primary functions, the Bank promotes monetary stability and a sound financial system, and acts as banker and financial adviser to the Federal Government, as well as banker of last resort to the banks. The Bank also encourages the growth and development of financial institutions. Enabling laws made in 1991 gave the Bank more flexibility in regulating and overseeing the banking sector and licensing finance companies, which hitherto operated outside any regulatory framework.

The Nigerian Deposit Insurance Corporation (NDIC)

The NDIC complements the regulatory and supervisory role of the CBN. It is however autonomous of the CBN and reports

to Federal Ministry of Finance. NDIC effectively took off in 1989 and was set up to provide deposit insurance and related services for banks in order to promote confidence in the banking industry. The NDIC is empowered to examine the books and affairs of insured banks and other deposit taking financial institutions. Licensed banks are mandated to pay 15/16 of 1 per cent of their total deposit liabilities as insurance premium to the NDIC. A depositor's claim is limited to a maximum of N50, 000.00 in the event of a bank failure.

The Nigerian Deposit Insurance Corporation (NDIC) has concluded plans to hike the insured deposit of banks to N200, 000.

The Securities and Exchange Commissions (SEC)

This is formerly called the Capital Issues Commission, the SEC was established by the SEC Act of 27th September 1979, which was further strengthened by the SEC Decree of 1988. It is the apex regulatory organ of the capital market. The Commission approves and regulates mergers and acquisitions and authorises the establishment of unit trusts. In the course of deregulation of the capital market, the function of price determination has been transferred to the issuing houses. The SEC maintains surveillance over the market to enhance efficiency. It issues guidelines on the establishment of Stock Exchanges in furtherance of the deregulation of the capital market. Following the enactment of the Nigerian Investment Promotion Commission Decree and the Foreign Exchange (Monitoring and Miscellaneous Provisions) Decree in 1995, SEC released guidelines on foreign investment in the Nigerian capital market.

Debt Management Office (DMO)

The Federal Government of Nigeria took a major step in addressing the debt problems recently by establishing an autonomous Debt Management Office (DMO). The creation of the DMO consolidates debt management functions in a single agency, thereby ensuring proper coordination. The

DMO centralizes and coordinates the country's debt recording and management activities, including debt service forecasts; debt service payments; and advising on debt negotiations as well as new borrowings.

National Insurance Commission (NAICOM)

The National Insurance Commission (NAICOM) replaced the Nigerian Insurance Supervisory Board (NISB). The NAICOM is charged with effective administration, supervision, regulation and control of the business of insurance in Nigeria. Its specific functions include the establishment of standards for the conduct of insurance business, protection of insurance policy holders and establishment of a bureau to which complaints may be submitted against insurance companies and their intermediaries by members of the public. NAICOM ensures adequate capitalization and reserve, good management, high technical expertise and judicious fund placement in the insurance industry.

The Federal Mortgage Bank of Nigeria (FMBN)

The FMBN took over the assets and liabilities of the Nigerian Building Society. The FMBN provides banking and advisory services, and undertakes research activities pertaining to housing. Following the adoption of the National Housing Policy in 1990, FMBN is empowered to licence and regulate primary mortgage institutions in Nigeria and act as the apex regulatory body for the Mortgage Finance Industry. The financing function of the Federal Mortgage Bank of Nigeria was carved out and transferred to the Federal Mortgage Finance, while the FMBN retains its regulatory role. FMBN is under the control of the Central Bank of Nigeria.

Financial Services Co-ordinating Committee (FSCC)

The Committee was established in 1998 and charged with the primary responsibility to promote safe, sound and efficient financial sector in the country. It's membership is drawn from the key regulatory and supervisory institutions in

the nation's financial system, namely, Central Bank of Nigeria (CBN), Security and Exchange Commission (SEC), National Insurance Commission (NAICOM), Corporate Affairs Commission (CAC) and the Federal Ministry of Finance. This committee chaired by the Ministry of Finance co-ordinates the activities of all regulatory institutions in the financial system.

THE MONEY MARKET AND ITS INSTITUTIONS

This is a market for short-term debt instruments. The major function of the money market is to facilitate the raising of short-term funds from the surplus sectors to the deficit sectors of the economy. The deficit units, which could be public or private, obtain funds from the market to bridge budgetary gaps by either engaging in inter-bank taking or trading in short-term securities such as Treasury Bills, Treasury Certificates, Call Money, Certificates of Deposit (CD), and Commercial Papers (CP). With the commencement of Open Market Operations (OMO) by the CBN, the scope of the money market has been expanded. The number of participants in the market also increased with the establishment of five discount houses. Money market institutions constitute the hub of the financial system. These institutions include discount houses, commercial and merchant banks, and special purpose banks, like the Nigerian Agricultural Co-operative and Rural Development and Community banks.

Discount Houses

A discount house is a special, non-bank financial institution intervenes in mobilizing funds for investments in securities in response to the liquidity of the system. It does this by providing discount/rediscouting facilities in government short-term securities. In the process of shifting the financial system from direct market-based monetary control, discount houses were established to serve as financial intermediaries between the CBN, licensed banks and other financial

institutions. Some of the discount houses currently in operation in Nigeria include First Securities Discount House Limited, Express Discount House Limited, Associated Discount House Limited, Kakawa Discount House Limited and Consolidated Discount House Limited.

Universal Banking

CBN has approved the introduction of Universal Banking in Nigeria. Since the release of the guidelines, more than ten banks have converted to universal banking status. Thus, such banks operate Commercial and Merchant functions.

Commercial and Merchant Banks

Commercial and Merchant Banks operate under the legal framework of the Banks and other Financial Institutions (BOFI) Act 25 of 1991 (as amended).

Commercial banks perform three major functions, namely, acceptance of deposits, granting of loans and the operation of the payment and settlement mechanism. Since the Government commenced active deregulation of the economy in September 1986, the commercial banking sector has continued to witness rapid growth, especially in terms of the number of institutions and product innovations in the market.

Merchant banks take deposit and cater for the needs of corporate and institutional customers by way of providing medium and long-term loan financing and engaging in activities such as equipment leasing, loan syndication, debt factoring and project advisers to clients sourcing funds in the market. The first merchant bank in Nigeria, Nigerian Acceptance Limited (NAL), started operations in 1960.

Currently, there is a general banking operation. With this banks performs multiple operations whether commercial or merchant operation

Community Banks

A community bank in Nigeria is a self-sustaining financial institution owned and managed within a community to provide financial services to that community. The National Board for Community Banks (NBCB) processes applications for the establishment of community banks. The first community bank commenced operation in December 1990. Since then, NBCB has issued provisional licences to 1,366 community banks and are expected to be issued final licences by the CBN after operating for two years.

PROCEDURES FOR ESTABLISHING A BANK IN NIGERIA

1. Any person desiring to undertake banking business in Nigeria shall apply in writing to the Governor for the grant of a licence and shall accompany the application with the following:
 - A feasibility report of the proposed bank;
 - A draft copy of the memorandum and articles of association of the proposed bank;
 - A list of the shareholders, directors and principal officers of the proposed bank and their particulars;
 - The prescribed application fee and
 - Other information, documents and reports as the bank may, from time to time, specify
2. After the applicant has provided all such information, documents and reports as the bank may require the shareholders of the proposed bank to deposit with the bank a sum equal to the minimum paid-up capital that may be applicable.

3. Upon the payment of the 25billion Naira paid-up capital, the Governor may issue a license with or without conditions or refuse to issue a licence and the Governor need not give any reason for the refusal.
4. Where an application for a licence is granted, the bank shall give written notice of that fact to the applicant and the licence fee shall be paid.

Please for more information, visit Central Bank of Nigeria Website: www.cenbank.org

THE CAPITAL MARKET

The Nigerian Capital Market is a channel for mobilising long-term funds. The main institutions in the market include the Securities and Exchange Commission (SEC), which is at the apex and serves as the regulatory authority of the market, the Nigerian Stock Exchange (NSE), the issuing houses and the stock-broking firms. To encourage small as well as large-scale enterprises gain access to public listing, the NSF operates the main exchange for relatively large enterprises and the Second-Securities Market (SSM), where listing requirements are less stringent, for small and medium scale enterprises.

Given its operations both in the primary and secondary markets, the **Nigerian Capital Market** has recorded phenomenal growth in the first twenty years of its formal existence. The equity market capitalisation of N1.70 billion and listed equities of 92 in 1980, have risen to N472.9 billion and 196 listed equities at the end of 2000. 21 new issues valued at N16.71 billion were raised from the market to fund various expansion and developmental projects in the country in the year 2000.

Unit Trusts Scheme also operates on the market for the purpose of mobilising the financial resources of small and big savers and managing such funds to achieve maximum returns with minimum risk. Currently, there are 14 Unit Trust operations in the market.

Major Participant in the Nigerian Capital Market

- The Securities and Exchange Commission (SEC), which is responsible for the overall regulation of the entire market.
- The Nigerian Stock Exchange (NSE), a self-regulatory organization in NCM that supervises the operations of the formal quoted market.
- Market Operators, this consists of the Issuing Houses (Merchant Banks and Stock broking firms), Stockbrokers, Trustees, Registrars, etc.
- Investors, Insurance Companies, Pension Fund, Unit Trusts (Institutional Investors) and Individuals.
- The Central Bank of Nigeria (CBN).
- The Federal Ministry of Finance

How to Access the Nigerian Capital Market

When a company or government wants to use the Capital Market to raise long-term funds, it must consult an issuing house or stockbroker. These specialists provide the company/government with financial advisory services. It is their duty to study the company's performance over the years in order to determine its financial needs. More so, they do not only advise on the best option, they undertake total financial restructuring of the company before introducing the facility to the company.

The issuing house and the stockbroker liaise with the other parties – Registrars, Trustees, Auditors, Reporting Accountant, and Solicitors etc. to produce a marketing document known as the **PROSPECTUS**. The Prospectus is the document the public relies on for making investment

decision. Necessary approvals from SEC and other bodies are obtained. If the financial option involves listing on the Stock Exchange, the brokers to the issues ensures that all necessary approval with the Exchange are also obtained since only stockbrokers can introduce issues to the Exchange.

On the completion of the offer, the proceeds of the issue are handed over to the company for executing the proposed business programme on long-term investment and the securities is listed on the Daily Official list of the Exchange.

For individuals wishing to invest in the Capital Market in form of buying shares, what they need do is to consult a Stock broking firm and register with the broking firm. For more information on investing in the Nigerian Capital Market contact: www.nigerianstockexchange.com

DEVELOPMENT FINANCE INSTITUTIONS (DFIs)

Specialised banks or development finance institutions (DFIs) were established to contribute to the development of specific sectors of the economy. In order to enhance their operations and make their efforts felt in the economy, most of the former DFIs in the country have been merged and restructured. The DFIs from the merger and restructuring are the Bank of Industry (BOI) and the Nigerian Agricultural Co-operative and Rural Development Bank (NACRDB). The two banks provide soft loans to industrialists and those engaged in agro-allied ventures. Other existing DFI's are Federal Mortgage Bank (FMB), Urban Development Bank (UDB) and Education Bank (EB) to cater for the sectors reflected in their names.

OTHER FINANCIAL INSTITUTIONS AND FUNDS

There are other institutions and funds within the financial system that play important intermediating roles. The institutions include:

Insurance Companies

There are many insurance companies, consisting of life and non-life as well as those, which engage in both activities, and reinsurance firms. They mobilize relatively long-term funds and act as financial intermediaries. Their investments are mainly in government securities and mortgage industry. The Nigerian insurance industry has grown tremendously over the years. The funds were sourced mainly through reduction in outgoing and other assets which together account for 80.8 per cent of total funds. The National Insurance Commission was established to provide insurance cover for insurance companies. In addition, the Commission is expected to assist the government in achieving its economic and social objectives in the field of insurance and re-insurance. All registered insurance companies in Nigeria are required to reinsure 20% of premium collected with the National Insurance Commission.

The potential investors in insurance business should contact Nigerian Insurance Commission (NAICOM) for the licensing procedures.

Finance Companies

Finance companies are institutions that specialise in short-term, non-bank financial intermediation. They mobilise funds from the investing public in form of borrowing and provide, among others, facilities for Local Purchase Order (LPO) and project financing, equipment leasing and debt factoring. The

BOFI Act brought finance companies under the direct control and supervision of the CBN.

Bureaux de Change

In order to broaden the foreign exchange market and improve access to foreign exchange, especially for small users, bureaux de change have been authorised since 1989. A total of 240-bureau de changes have been licensed and they are supervised by CBN.

Exchange Control Regulations

Unconditional repatriation of Capital, profit and dividends is allowed, while technical fees and royalties on imported technical services and technologies are payable. Repatriation of proceeds from disposal of assets is allowed. Foreign Exchange transactions are carried out at the Autonomous Foreign Exchange Market.

Primary Mortgage Institutions (PMIs)

Primary mortgage institutions operate within the framework of Act No. 53 of 1989. PMIs mobilize savings for the development of the housing sector. Their total assets/liabilities rose to N7248.2 million in 1999. In reaction to distress in the sector, the Federal Mortgage Bank of Nigeria tightened its surveillance of the institutions by issuing “clean bill of health” to 116 mortgage institutions. The share capital requirement for new primary mortgage institutions has been raised to N20 million.

Nigerian Social Insurance Trust Fund (NSITF)

The main objective of the Fund is to adopt a more comprehensive social security scheme for Nigerian private sector employees. The scheme was established to replace the defunct National Provident Fund (NPF) as a compulsory pension scheme for non-pensionable public servants and employees in the organised private sector. Nigerian private sector employees are required to contribute 2.5 percent, while their employers are to contribute 5 per cent of the gross monthly emolument to NSTIF. Workers in enterprises employing more than 25 persons are to be automatically registered by their employers.

The Nigerian financial System has undergone some remarkable changes in recent times. Some of these developments include the promulgation of the Failed Banks (Recovery of Debt) and Financial Malpractice in Banks Decree No. 18 of 1994. This is to facilitate the prosecution of those who contributed to the failure of banks and to recover the debt owed to the failed banks. Another major development was the inauguration of a Financial Services Regulatory Coordinating Committee (FSRCC) by the CBN in 1994. The aim is to coordinate and standardize the regulatory policies of all financial institutions in the system with a view to evolving coherence and comprehensiveness. The CBN also granted forbearance to finance companies operating in Nigeria whereby they were given a maximum of four years to amortize their classified assets portfolio against their current profits.