

# **EFInA Quarterly Review**

(January to March 2010)

# 1 Nigerian Economy

## 1.1 Inflation

Nigeria's headline inflation fell to 11.8% in March from 12.3% the previous month. According to data released by the National Bureau of Statistics (NBS), growth in food prices, which form the bulk of the inflation index basket declined to 13.5% year-on-year from 13.9% in February.

According to data by the CBN, core inflation stabilised at 10.1% in January and February 2010 up from 9.7% recorded in the last quarter of 2009. The Central Bank of Nigeria attributed the stability during the period to a number of factors, including the continuing money contraction, the delay in the passage of the 2010 Federal budget and the improvement in the supply of petroleum products.

# 2 Financial Sector

## 2.1 Banking Sector

### 2.1.1 Key Challenges for Banks in 2010

According to the Business Day the five major trends that will dominate the banking industry in 2010 are:

- i. The outcome of banks exposure to distressed assets
- ii. The extent to which new regulations may impact business models
- iii. The continued efforts to improve governance and risk oversight, especially at board level
- iv. Meeting the challenge of core IT systems and data aggregation
- v. Seeking growth in a weak market

A top concern for senior banking executives in 2010 will be how they continue to deal with the distressed assets and debt on their balance sheets. In particular, the levels of commercial real estate loan defaults, where market conditions have continued to deteriorate. New regulations are expected to tighten capital, liquidity, and risk management rules. Legislation will likely be proposed to impose new systemic risk procedures, create a new consumer protection agency and to streamline regulatory agencies and procedures.

Many banks face a strategic dilemma. They want to restore their balance sheet and rebuild capital, and one of the quickest ways to do this is to grow their businesses. In the past mergers and acquisitions were a major source of growth and this remains an avenue for those willing to purchase failing or failed institutions. However, many banks don't have enough capital for this to be an option. They need to find ways to grow organically and this is an especially tough challenge because the economy is in fragile recovery, regulation is likely to expand and consumers are trying to pay off debts and increase their savings.

### 2.1.2 CBN Ongoing Banking Reforms

In February, the Central Bank of Nigeria set out four recapitalisation options for the nine troubled banks:

- new injection of capital
- investments by strategic investors
- liquidation
- nationalization

In March, it was announced that over the next 18 months that CBN will phase out the universal banking model which allows deposit money banks combine commercial banking and investment banking. A new banking system structure which is in line with the ongoing reforms in the banking sector is being considered. The new arrangement is expected to protect commercial bank activities from pressures from non-commercial banking operations and to allow them concentrate on the provision of their traditional banking activities. Operators would be issued different categories of licenses, depending on whether the bank is interested in carrying out business at international, national or regional levels. The reversal to specialized banking is in line with the apex bank's four pillars of reforms, which include enhancing the quality of banks; establishing financial stability; enabling healthy financial sector evolution and ensuring that the financial sector contributes to real economy.

With the adoption of the new model, each deposit money bank would be required to recapitalize according to its new business model and will be issued a separate and specific license to guide its operations. The apex bank will issue a license for commercial, microfinance, regional, national, international, mortgage and investment banking businesses. CBN also recognizes that there would be some specialized banking, like non-interest banking and agriculture banking and a separate license will be given for this purpose. CBN intends to work with all stakeholders including the Corporate Affairs Commission, the Securities and Exchange Commission, the Nigerian Deposit Insurance Corporation and the National Insurance Commission in order to work out the best way to recapitalize the banks following the adoption of the new model.

### 2.1.3 Asset Management Corporation (AMC)

In March, the House of Representatives unanimously passed the bill for the establishment of Asset Management Corporation (AMC) for the purpose of efficiently resolving the non-performing loan assets of banks. The new Corporation will have an initial share capital of N10 billion and will be jointly funded by the Federal Ministry of Finance and CBN. The Board of the AMC will be composed of nine members nominated by the CBN and Ministry of Finance and approved by the President. On becoming operational, the AMC will be responsible for the issuance of bonds or other debt instruments as consideration for the acquisition of eligible bank assets. It would also maintain a portfolio of diverse assets including equities, fixed income bonds and real estate and provide equity capital on such terms and conditions as the Corporation may deem fit.

#### 2.1.4 Stored value/Prepaid Cards

In February, the Central Bank of Nigeria issued a new guideline on stored value and prepaid cards. Only deposit-taking banks or financial institutions licensed by the CBN with clearing capacity will be able to issue stored value/prepaid cards. Other deposit taking institutions without clearing capacity can issue in conjunction with those with clearing capacity. Only one stored value/prepaid card can be issued per person per currency by an issuer at any anytime and the maximum amount that can be loaded on the stored value/prepaid card shall not exceed N20,000 per day. The maximum balance on the stored value/prepaid card cannot exceed N250,000 at any time. No third party transfer to or from stored value/prepaid card will be allowed unless the transfer is from one stored value/prepaid card to another.

#### 2.1.5 Banking/Card Fraud

In February, in order to sustain public confidence in the Nigerian Payment system, CBN issued circulars to banks instructing that customers' compliant regarding ATM transactions be responded to within 72 hours and resolved in 14 days. Banks have also been directed to set up effective help desks for resolution of ATM complaints, and the apex bank has equally set up help desks for monitoring compliance. Among other efforts, the CBN has also created a Policy and Oversight Office to provide statistics of complaints addressed and disclaimers published.

### **2.2 Microfinance**

#### 2.2.1 CBN Review/Examination

Operators are eagerly awaiting the results of the Central Bank of Nigeria's target examination of microfinance banks. The increasing wave of insider abuse and falsification of documents by some MFB directors and illegal operators pushed the regulatory body to embark on a target examination of the sub-sector in 2009. Aside from the results from the CBN review, operators are also anticipating the release of the CBN's new policy guidelines. The regulatory body recently announced it was making a renewed effort at rolling out a fresh set of guidelines for the operation of MFBs, including the certification programme.

#### 2.2.2 National Association of Microfinance Banks (NAMB)

It is expected that microfinance banks will resume their activities in earnest after the election of the National Association of Microfinance Banks (NAMB) and its proposed national annual general meeting in April. The role of the NAMB includes organizing capacity building and exchange programmes for members; formulating its own standard code of conduct for members in line with the code of corporate governance for financial institutions; formulating disciplinary policies and enforcing compliance on defaulting members. The emergence of one national association of MFBs is a welcome development, as it will give a unified voice to the industry.

#### 2.2.3 Microfinance Trust Fund

Lagos State Microfinance Association is establishing an Intervention Fund known as the 'Microfinance Trust Fund' to bail out member microfinance banks that are facing liquidity crisis. The Association plans to register the Intervention Fund with the Corporate Affairs Commission. However,

the Association has realised that contribution of MFBs towards to the Fund may not be enough to make meaningful impact, so it is planning to mobilize funds from outside the country as well as from private individuals. The Fund is going to have its own secretariat that will be headed by a Managing Director. This initiative is in line with the constitution of the National Association of Microfinance Banks.

### **2.3 Housing Finance**

To boost the performance of the sector, the Federal Mortgage Bank of Nigeria has made the following changes to the operations of the National Housing Fund (NHF):

- Increased the maximum loan per contributor from N5 million to N15 million
- Recognised other financial institutions such as universal banks, pension fund administrators, insurance companies and microfinance banks as mortgage loan originators

About 26 states are currently contributing to the NHF Scheme. As at December 2009, the cumulative amount collected was N52 billion.

The housing deficit in Nigeria is estimated at 17 million units and requires about N35 trillion to fund this deficit. According to World Bank estimates, Nigeria needs to build about 720,000 housing units annually for the next 20 years to be able to close the housing demand-supply gap. From the 2006 census, only 19.2% of households in Nigeria live in their own homes.

### **2.4 Islamic Banking**

The Central Bank of Nigeria said the new phase of reforms in the banking sector will positively impact on the provision and requirement of Islamic banking and hasten the progress of implementation. According to Mohammed Abdullahi, spokesperson for the CBN the recent announcement on the categorisation of Nigerian banks will boost Islamic banking operations. "I believe that Islamic banking or Zero interest banking would fare very well under that arrangement and it is possible that they may not be required to raise N25 billion before they can start operations". Mr. Abdullahi said few banks have also indicated interest and indeed have actually started processing their setup for Islamic banking in Nigeria. He added that the CBN will rely on the success and experience of the Negara of Malaysia. A non-interest bank, according to the Central Bank means a bank which transacts banking business, engages in trading, investments and commercial activities, as well as the provision of financial products and services, in accordance with the principle and rules of Islamic commercial jurisprudence.

## **3 Telecoms Sector**

In December 2009, the Nigerian Communications Commission (NCC) stated that as from 1 March 2010, all new subscribers to any of the networks operating in the country will have to be registered. The exercise will commence with the registration of all prepaid subscribers in the country and subscribers who fail to register their SIM cards will not be activated. To obtain a new SIM card, all subscribers will have to provide valid identification documents such as passports, work identity cards that have pension identification/tax numbers, student ID cards from recognised institutions, drivers' license issued by the Federal Road Safety Commission or e-Tax cards before new SIM cards can be

activated. Apart from the presentation of valid documents, the process will include the provision of a photograph and biometric data (such as finger prints) of the subscriber.

In February 2010, the NCC announced that it has postponed the deadline for the commencement of registration of all new SIM card users from 1 March to 1 May. For existing SIM card holders, necessary processes and procedures are currently being put in place to guarantee a smooth registration exercise. One major challenge is the logistics for registration. There are currently over 70 million active subscribers in Nigeria. Of this number, less than 5 % are registered as post paid users which require subscribers to be duly registered from inception unlike pre paid users. Another challenge is that of identification because millions of Nigerians currently do not have a means of identification, especially the rural population.

To check fraud and other related crimes, the National Assembly is to enact a law that would make it mandatory for every phone user in the country to register their existing SIM cards. Already, a bill to this effect has passed a second reading at the Senate and is aimed at giving legal backing to the proposed SIM card registration regime by the NCC.

## **4 Mobile Payments**

### **4.1.1 CBN Update**

The Central Bank of Nigeria has stated that there will be strict enforcement of the Mobile Payment Services Regulatory Framework to facilitate the exchange of goods and services among economic agents in the country at a lower cost and also to integrate markets within and across regions. Through the enforcement of the framework the apex bank will achieve an efficient payment system in Nigeria that will promote financial inclusion as well as provide effective transmission mechanics for monetary policy. At the end of March, CBN published a request for applications from interested companies to register and obtain a registered license as mobile payment services providers in Nigeria in various national newspapers. A minimum paid up capital of N500m is one of the requirements.