2023





21st annual meeting of the Committee of Banking Supervisors of West and Central Africa (CBSWCA)

Abuja (Nigeria), November 22 - 24, 2023

THE PROCEEDINGS

HIGH-LEVEL SEMINAR ON CROSS-BORDER SUPERVISION AND ANNUAL MEETING OF THE COMMITTEE OF BANKING SUPERVISORS OF WEST AND CENTRAL AFRICA (CBSWCA)

Host: Central Bank of Nigeria (CBN)
Venue: headquarters of the Central Bank of Nigeria, Abuja, Nigeria
Date: from 20 to 24 november 2023

AGENDA

TIME	SEMINAIRY OF CSBAOC	SPEAKER
MONDAY 20 NOVEMBRE 2023		
8:00–8:30	ENREGISTREMENT	ALL THE SPEAKERS
8:30–8:50 8:50–9:10	**WELCOME ADDRESS** : M. HARUNA B. MUSTAFA, DIRECTOR OF BANKING SUPERVISION, CENTRAL BANK OF NIGERIA (CBN) ABUJA **OPENING REMARKS:** MR VITUS UKWUOMA, REGIONAL ADVISER ON FINANCIAL SECTOR REGULATION AND SUPERVISION, REGIONAL TECHNICAL ASSISTANCE CENTRE FOR WEST AFRICA (AFRITAC-OUEST)	
9:10–9:20	**GROUP PICTURE**	
9:20–10:20	**SESSION 1:** ORGANISATION OF REGULATORY AND SUPERVISORY FUNCTIONS AT THE CENTRAL BANK OF NIGERIA	KUNLE ADENIJI, DEPUTY DIRECTOR, CBN
10:20-10:35	**PAUSE-CAFÉ**	
10:35-11:45 11:45-12:00	**SESSION 2:** RISK-BASED SUPERVISION (RBS) PROCESS AT THE CENTRAL BANK OF NIGERIA **TALKS**	NWABUEZE ORJIAKOR, DEPUTY DIRECTOR, CBN
12:30-13:30	**LUNCH**	

13:30-14:30 14:30-14:50	**SESSION 3:** CBN'S APPROACH TO SUPERVISION OF BANKING GROUPS ON A CONSOLIDATED BASIS **TALKS**	AMONIA OPUSUNJU, DEPUTY DIRECTOR, CBN
14:50-15:10	**COFFEE BREAK**	
15:10-16:25 16:25-16:50	**SESSION 4:** CROSS-BORDER BANKING GROUP SUPERVISION: AN INTERNATIONAL OUTLOOK TALKS **TALKS**	LINDA van GOOR (IMF)
16:50-17:00	**CONCLUSION OF THE DAY**	PRESIDENT OF THE CSBAOC
MONDAY, NOVEMBER 20, 2023		
9:00–9:30	**ARRIVAL OF PARTICIPANTS**	
9:30–9:45	**SUMMARY OF DAY ONE**	HARUNA B. MUSTAFA, BANKING SUPERVISION DIRECTOR, CBN
9:50–11:00 10:50–11:00	**SESSION 5:** CROSS-BORDER SUPERVISION - CBN EXPERIENCE **TALKS**	CHIKELU OBALLUM. DEPUTY DIRECTOR, BSD, CBN
11:00–11:15	**COFFEE BREAK**	
11:15–13:00 12:45–13:00	**SESSION 6:** ROLE OF SUPERVISORY COLLEGES IN THE SUPERVISION OF CROSS-BORDER BANKING GROUPS **TALKS**	CHIKELU OBALLUM AND ZAINAB BABANGIDA
13:00–14:00	**LUNCH**	
14:00–15:00 15:00–15:15	**SESSION 7:** MEMORANDUMS OF UNDERSTANDING: STAKES AND CHALLENGES **TALKS**	LINDA van GOOR (IMF)
15:15–15:30	**COFFEE BREAK**	

15:30-16:30	**SESSION 8:** CRISIS MANAGEMENT AND BANK RESOLUTION: CROSS-BORDER PERSPECTIVE	LINDA van GOOR
16:30-17:00	**DAY DISCUSSIONS AND SUMMARY OF THE SECOND DAY**	CBN AND IMF
17:00-17:15	**END OF SEMINARY**	
TIME	**CSBAOC ANNUAL GENERAL MEETING**	
WEDNESDAY, NOVEMBER 22, 2023		
9:00-9:30	**REGISTRATION**	
9:30-10:30	**OPENING CEREMONY** **- OPENING REMARKS BY THE PRESIDENT OF THE CSBAOC** **- WELCOME ADDRESS BY THE GOVERNOR OF THE CBN** **- GROUP PICTURE**	
10:30-11:00	**COFFEE BREAK**	
11:00-11:45	**WORK SESSION** **- ADOPTION OF THE PROGRAMME** **- OUTGOING CHAIRMAN'S REPORT** **- ELECTION OF THE NEW CHAIRMAN**	
11:45-12:30 12:30-13:00	**PRESENTATIONS BY MEMBERS: RECENT DEVELOPMENTS IN BANKING SUPERVISION** **TALKS**	
13:00-14:30	**LUNCH**	
14:30-15:30	**PRESENTATIONS BY MEMBERS:** **RECENT DEVELOPMENTS IN** **BANKING SUPERVISION**	
15:30-16:00	**COFFEE BREAK**	
16:00-17:30 17:30-18:00	**PRESENTATIONS BY MEMBERS:** **RECENT DEVELOPMENTS IN** **BANKING SUPERVISION** **TALKS**	

18:00	**END OF DAY ONE**	
20:00	**WELCOME DINNER (CENTRAL BANK OF NIGERIA)**	
THURDAY, NOVEMBER 23, 2023		
9:00-10:15 10:15-10:30	REVIEW OF THE TERMS OF REFERENCE RELATING TO HARMONIZATION OF RULES AND PRACTICES ON THE ORGANISATION OF SUPERVISORY COLLEGES : SHARING EXPERIENCE AND DRAFTING A FRAMEWORK PAPER **DISCUSSION**	
10:30-11:00	**COFFEE BREAK**	
11:00-12:15	TECHNICAL PRESENTATION (EXPERT SELECTED BY THE CBN)	
12:15-13:00	FINANCIAL REPORT BY THE PERMANENT SECRETARY	
13:00-14:30	**LUNCH BREAK**	
14:30-15:30	• ADOPTION OF THE BUDGET • ADOPTION OF THE NEW CHAIRMAN'S • WORK PROGRAMME • ADOPTION OF THE FINAL COMMUNIQUE	
15:30-17:00	• READING OF THE FINAL COMMUNIQUÉ • CONCLUSION OF THE SEMINAR BY THE DIRECTOR OF BANKING SUPERVISION, CBN • PRESS CONFERENCE	
20:00	**CLOSING DINNER (CENTRAL BANK OF NIGERIA)**	
CSBAOC ANNUAL GENERAL MEETING		
FRIDAY, NOVEMBER 24, 2023		
10:00-13:00	**EXCURSION**	

VISITS TO THE CBN COIN MUSEUM AND THE NATIONAL GALLERY OF ARTS AND CULTURE, ABUJA.

CONTENT

9 → Organisation of the Regulatory and Supervisory Functions of the Central Bank of Nigeria.

32 → Overview of the CBN risk-based supervisory process.

80 → Consolidated Supervision.

100 → Conglomerate Supervision cross border cooperation & MMoU.

110 → The Experience of the Central Bank of Nigeria on Cross -Border Supervision.

123 → Role of supervisory colleges in the supervision of cross border banking groups " the CBN experience".

144 → Conglomerate Supervision & cross border cooperation: Risk Matrix Prepare for crises.

155 → Conglomerate supervision & cross border cooperation: risk matrix prepare for crises.

182 → Deposit insurance system (dis) in nigeria: ndic experience.

197 → Situation of the banking and microfinance sectors in the West African Monetary Union (WAMU).

CONTENT

220 → CBSWCA presentations.

230 → Recent developments in banking supervision.

256 → BASEL II & III Implementation: The Nigerian Experience.

263 → Activity report by the permanent secretary of the CBSWCA.

267 → Activity program 2024.

269 → Main features of the operating budget of the permanent secretariat of the csbaoc for 2024.

ORGANISATION OF THE REGULATORY AND SUPERVISORY FUNCTIONS OF THE CENTRAL BANK OF NIGERIA

KUNLE ADENIJI, DEPUTY DIRECTOR, CBN

OUTLINE

1. INTRODUCTION – BRIEF OVERVIEW OF THE CENTRAL BANK OF NIGERIA
2. EVOLUTION OF BANKING REGULATION
3. LEGAL FRAMEWORK
4. REGULATION VS SUPERVISION
5. REGULATION AND SUPERVISORY FUNCTIONS OF THE CBN
6. ORGANISATIONAL STRUCTURE OF CBN REGULATORY AND SUPERVISORY FUNCTIONS
7. CO-OPERATIONS WITH OTHER REGULATORY INSTITUTIONS
8. CHALLENGES AND FUTURE DIRECTION
9. CONCLUSION

INTRODUCTION



The Central Bank of Nigeria (CBN) is the central monetary authority and the apex regulatory body for the regulation of the banking and financial sector in Nigeria.

The CBN plays a crucial role in the economic development and stability in Nigeria, through its implementation of monetary policies which are intended to ensure price stability, as well as its promotion of a stable financial system in Nigeria.

To achieve a stable and sound financial system, it is vital for a country to have a robust regulatory and supervisory architecture.

Maintain Confidence
- Create Trust in FIs

Maintain Market Integrity
- Prevent Manipulations
- Insider Abuse

Promote Consumer Protection
- Ensure Fair Practices
- Transparency

Ensure Sound Governance Practices
- Transparency
- Ethical Standards

Risk Mitigation
- Rules and Guidelines

INTRODUCTION - 3

The organisational structure of regulatory and supervisory functions can vary from one country to another and may depend on the specific financial system and regulatory. According to a report by the G30, in 2008, there were four basic models:

INTEGRATED	**All functions are consolidated under one supervisory institution. Supervisors can develop risk profiles for individual entities, financial groups and the system as a whole. Regulatory arbitrage is also reduced.**
INSTITUTIONAL	Independent regulatory agencies which are dedicated to overseeing specific aspects of the financial system depending on their legal status e.g banks, capital market, pensions etc.
FUNCTIONAL	**In this model, supervisory responsibility is assigned based on transactions being transacted. Where an entity engages in banking, securities, and insurance activities, each activity is overseen by a different supervisor.**
TWIN PEAKS	This model separates supervisory responsibilities in accordance with supervisory objectives. One supervisor can be responsible for prudential supervision across all sectors while another is responsible for market conduct.

EVOLUTION OF BANKING REGULATION

1892 – 1952 (Free Banking Era)

Bank boom

Widespread Distress.

1952 (Banking Ordinance)

Provisions on loans and advances

Dividend payment

Disqualification of directors

Submission of returns etc.

CBN Act 1958

Granted autonomy to the CBN with respect to banking regulation and supervision.

Banking Act 1969

Licensing Provided standards on

I. Liquidity

ii. Capital

Lending Restriction

Banking Act amendments in 1970, 1972, 1975, 1976 and 1979.

CBN ACT 2007

CADRE JURIDIQUE

The CBN was established under the CBN Act of 1958 but commenced operations on July 1, 1959. Although initially founded as a statutory organisation, it has over the years through various enactments of its enabling legislation been granted operational autonomy. The legal framework for its operations is currently derived from the Central Bank of Nigeria Act of 2007.

MANDATE

- Promote monetary stability.
- Promote a sound financial system.

CORE FUNCTIONS

- **Ensure monetary and price stability**
- **Issue legal tender currency in Nigeria**
- **Maintain external reserve to safeguard the internal value of the legal tender currency**
- **Promote a sound financial system in Nigeria**
- **Act as banker and provide economic and financial advice to the Federal Government.**

Other Laws that form the basis of regulation and supervision in Nigeria include: Bank and Other Financial Institutions Act 2020, Nigeria Deposit Insurance Act 2006; Foreign Exchange (Monitoring and Miscellaneous Provisions) Act 17 of 1995; CBN (Anti-Money Laundering and Combating the Financing of Terrorism Banks and Other Financial Institutions in Nigeria) Regulation 2013; and Asset Management Corporation of Nigeria Act etc.

REGULATION VS SUPERVISION

The rationale for banking regulation is often defined to include the need to facilitate efficiency, diversity of choice, competition, stability of the financial system, macroeconomic stability and social objective (Ogunleye, 2010).

REGULATION	vs	SUPERVISION
• **Rules and regulations to promote safety and soundness of the financial system.** • **Sustain financial system stability** • **Promote consumer protection.**		• Monitoring and examination of financial institutions to assess: Compliance with extant regulations Financial conditions • Dynamic process Risk assessment Forward looking

Often, the distinction between both is blurred as the terms have been used interchangeably.

REGULATORY FUNCTIONS OF THE CBN

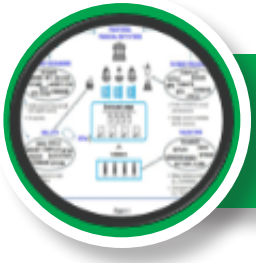
Establish rules and regulations to govern the operations and ensure their solvency, liquidity, and adherence to ethical standards as well as the efficiency, security and integrity of financial market infrastructure.



Deposit Money Banks: Commercial Banks, Merchant Banks, Non-Interest Banks, Payment Service Banks).



Other Financial Institutions: Microfinance Banks, Finance Companies, Bureau de Change, Development Institutions etc.



Payment Systems: Payment Solution Service Providers, Payment Terminal Service Providers, Mobile Money Operators, Super Agents and Switches.

SUPERVISORY FUNCTIONS OF THE CBN

Supervision at the CBN is undertaken using a proactive oversight mechanism to ensure the identification of risks within the financial system and the adherence to regulations by supervised institutions.

The CBN adopts both on-site and off-site methodology in its supervisory process.

SUPERVISORY FUNCTIONS OF THE CBN - 2

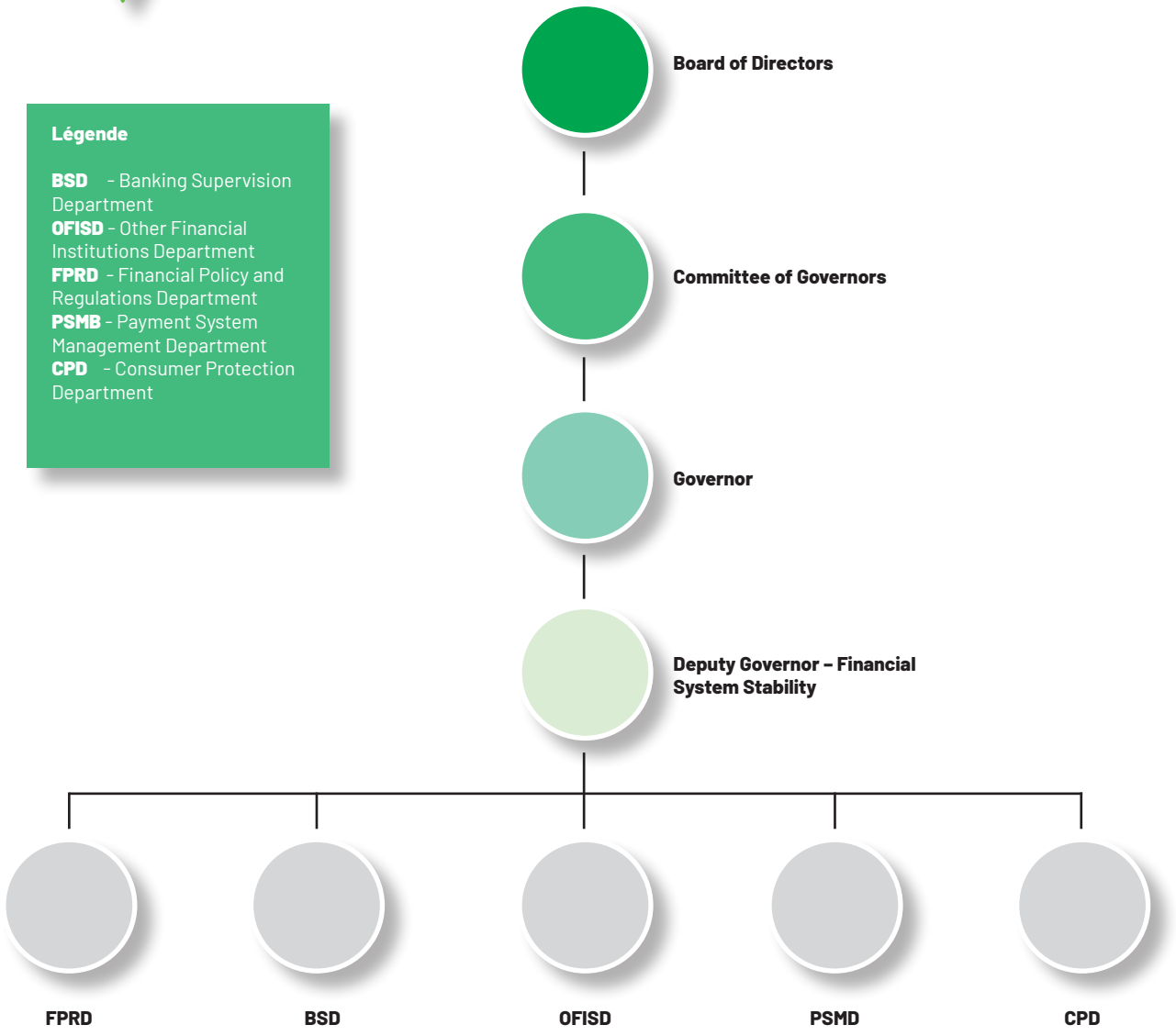
Risk Assessment: To identify potential threats to the stability of the financial system.

Compliance Monitoring: Monitor and ensure that supervised institutions comply with laid down rules and regulations.

Crisis Management: In periods of stress, proactively manage supervised institutions to address/mitigate impact of stress situations on the financial systems.

Data Analytics: Engage in continuous analysis of data collected from banks against various financial and regulatory indicators to identify emerging threats and facilitate informed decision making.

ORGANISATIONAL STRUCTURE FOR CBN'S REGULATORY AND SUPERVISORY FUNCTIONS



FINANCIAL POLICY AND REGULATIONS DEPARTMENT

The Department is responsible for the development and Implementation of policies aimed at ensuring financial system stability.

- Licensing & approvals for banks and other financial institutions
- Licensing Requirements for Financial Institutions (FIs)under the purview of the CBN.
- Anti-Money Laundering and Combating the Financing of Terrorism.
- Policies on Corporate Governance.
- Macro-Prudential and Trend Analysis of
- FIsOperating Structure of FIs
- Secretariat of the Financial Services Regulation Coordinating Committee (FSRCC)
- Secretariat of the Non-Interest Banking/Financial Regulation Advisory Council of Experts (FRACE).

SUPERVISORY DEPARTMENTS

The Supervisory Departments are Charged with responbility of regulating and Supervising the Nigerian banking System and Allied Institutions.

The Departments seek to promote a banking system in which Financial Institutions are properly governed, effectively manage their risks, and compete efficiently in the provision of financial services.

Primarily divided into On-site and Off-site Supervision.

SUPERVISORY DEPARTMENTS - 2

- **On-Site Supervision.**
- **Maiden Examination: Usually conducted within 6 months of commencement of operations by a financial institution.**
- **Routine Examination: Regular Examination.**
- **Target Examination: Addresses specific areas of operation. For example, Capital, Credit, Forex etc.**
- **Special Examination: Carried out as need arises.**

SUPERVISORY DEPARTMENTS - 3

Off-Site Supervision.

The off-site surveillance reviews and analyses the financial conditions of banks using prudential reports, statutory returns and other relevant information.

It also monitors trends and developments for the entire banking sector; and generates industry reports on weekly, monthly and quarterly basis.

Responsible for On-Site and Off-Site Surveillance of:

- **All Deposit Money Banks.**
  - **Commercial Banks ;**
  - **Merchant Banks ;**
  - **Specialised Institutions.**
    - **Non-Interest Banks & Windows ;**
    - **Private Credit Bureaus ;**
    - **Asset Management Corporation of Nigeria (AMCON) ;**
- **Payment Service Banks (PSBs).**
  - **The Secretariat for the Bankers Committee ;**
  - **Development of Standards for Examinations and Consolidated Supervision.**

OTHER FINANCIAL INSTITUTIONS SUPERVISION DEPARTMENT

Responsible for On-Site and Off-Site Surveillance of:

- Microfinance Banks (MFBs)
- Bureau-de-Change (BDCs)
- Development Finance Institutions (DFIs)
- Primary Mortgage Institutions (PMIs)
- Finance Companies (FCs)

PSMD is responsible for creating standards and management of National Payment Infrastructure :

- Formulate & Review Policies
- Issue Guidelines, Regulations and Circulars
- Set standards for new entrants to the payment system
- Carry out impact assessment study on policies/regulations
- Review global policy trends and update local standards

- Mobile Money Operators
- Payment Solution Service Providers
- Payment Terminal Service Providers
- Switches
- Super Agents

CONSUMER PROTECTION DEPARTMENT

Mandate to develop and implement an effective consumer protection framework that promotes consumer confidence in the financial system.

- Develop an effective complaints redress mechanism for the banking industry.
- Develop frameworks and guidelines to promote good consumer protection practices in the banking industry.
- Collaborate with relevant agencies on consumer protection best practices.

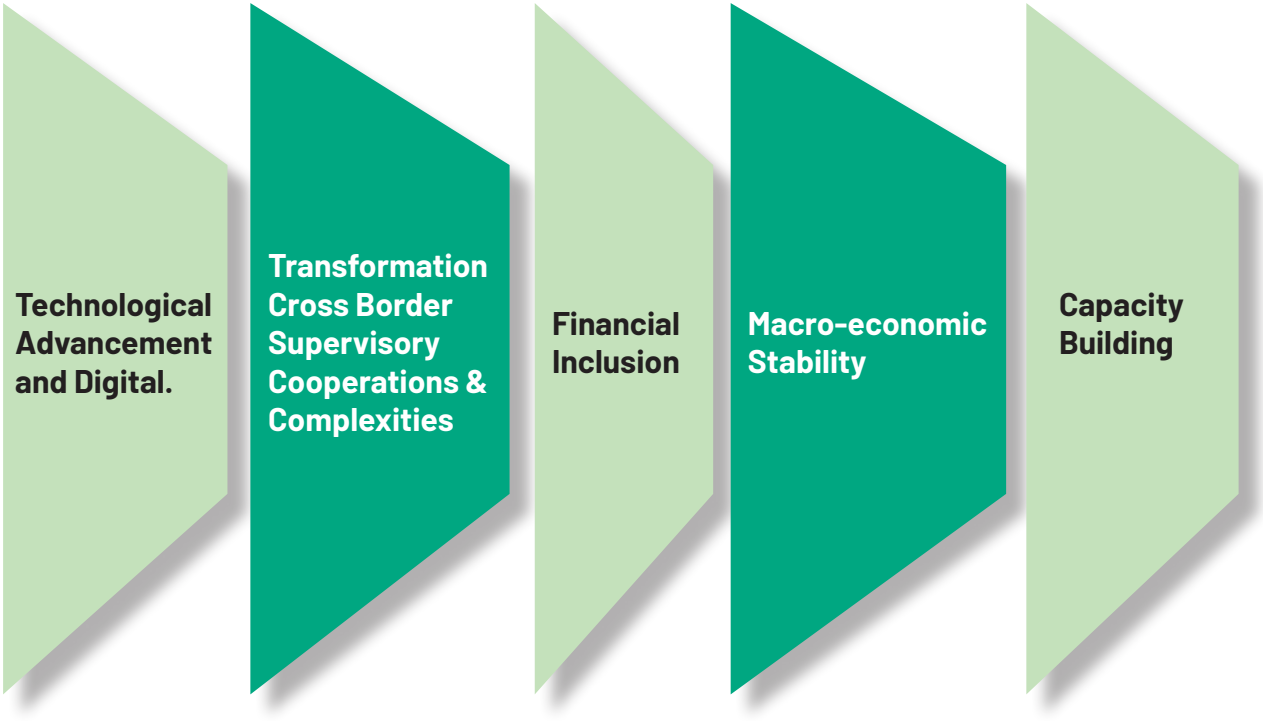
- Conduct periodic consumer compliance examinations to ascertain the level of compliance with consumer protection policies and regulations by Banks and Non-bank financial institutions.
- Enforcement of the Guide to the Bank Charges.
- Promote consumer education and financial literacy in the industry.

CO-OPERATION WITH OTHER SUPERVISORY INSTITUTIONS

Recognizing the interconnectedness of the financial sector, the CBN Collaborates with several other regulatory Institutions such as the **Nigeria Deposit Insurance Corporation, Securities and Exchange Commission, Pension Commission, Corporate Affairs Commission, and National Insurance Commission.**

This is coordinated under the Financial Services Regulation Coordinating Committee set up in April 1994 where issues of common concerns are discussed and addressed.

CHALLENGES


Technological Advancement and Digital.
Transformation Cross Border Supervisory Cooperations & Complexities
Financial Inclusion
Macro-economic Stability
Capacity Building

WHAT ARE WE DOING



CONCLUSION

The Central Bank of Nigeria's organization of regulatory and supervisory functions is the cornerstone of fulfilling its mandate of ensuring financial stability.

CBN is equipped to regulate financial institutions, supervise their operations, and safeguard the integrity of Nigeria's financial system.

The Bank remains committed to refining its regulatory framework to ensure a resilient and secure financial environment.

OVERVIEW OF THE CBN RISK-BASED SUPERVISORY PROCESS

NWABUEZE ORJIAKOR, DEPUTY DIRECTOR, CBN

OUTLINE

1. Introduction
2. Why Risk-Based supervision (RBS)?
3. Risk Assessment
4. Significant Activity and Inherent Risk
5. Quality of Risk Management
6. Net Risk and Overall Net Risk
7. Capital, Earnings and Liquidity
8. Composite Risk Rating
9. Risk Matrix
10. Management Report
11. Conclusion

- **SUPERVISION** – tailored towards ensuring that financial institutions (FIs) conduct their business in a safe and sound manner and comply with extant rules and laws.

- **OFF-SITE - ASSESSMENT** of the operations of supervised FIs based on returns rendered to the CBN on a regular basis.
  - Attend to requests from the Fis.
  - Engage FIs on different issues including matters arising from offsite surveillance.

- **ON-SITE SUPERVISION** – visits to the FIs to ascertain the accuracy of the returns rendered to the supervisor, assess the operations, review the risk management and corporate governance practices, among others.

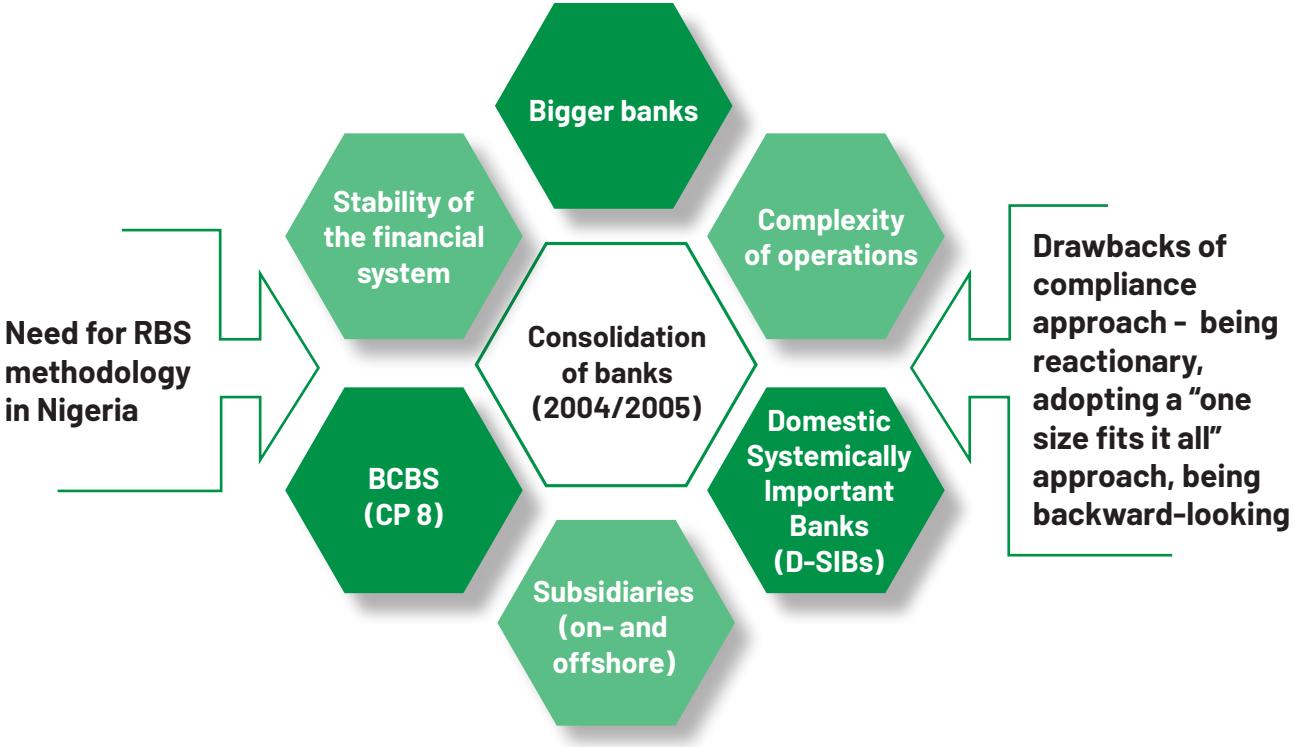
NEED FOR SUPERVISION

- **Supervised institutions assume different types of risks.**
- **The risks may affect the supervisor's statutory objectives(s)**
  - **protection of depositors (central banks/bank regulators),**
  - **insured (insurance supervisors),**
  - **pension assets (pension supervisor)**
  - **investors (securities and exchange commission).**
- **The CBN wants to ensure that its supervisory objective(s) is not negatively affected by the activities of the operators.**
- **It also wants to minimize the risks with limited resources, considering that all the risks cannot be eliminated.**
- **Hence, the need to find an optimal way or methodology to supervision that will help the supervisor achieve the objectives efficiently.**

RISK-BASED SUPERVISORY PROCESS IN NIGERIA

WHY RISK-BASED SUPERVISION?

We have two basic methodologies to solo supervision - compliance approach and risk-based
Prior to the release of the CBN Supervisory Framework (RBS) in 2008, the CBN used the Compliance approach.



- **CBN implemented the Canadian model of the Risk-based Supervisory methodology in 2009 with a pilot run on two banks;**

- **CBN conducts its methodology through six continuous, non-linear, flexible and dynamic supervisory activities;**

  - **Analysis –** knowledge of business.
  - **Supervisory strategy & planning –** institutional supervisory plan.
  - **Monitoring & onsite review –** section notes.
  - **Risk assessment –** risk assessment summary and risk matric.
  - **Reporting and intervention –** management or supervisory letter/intervention report.
  - **Follow-up –** follow-up document.

- The objective of CBN in adopting risk-based supervision is to
  - provide an effective process to assess the safety and soundness of regulated institutions
  - focus on what matters
  - encourage strong risk management/corporate governance in the industry
- We achieve our objective by evaluating banks'
  - risk profile
  - financial condition
  - risk management processes
  - compliance with applicable laws and regulations
- Each institution is assigned a Relationship Manager (Deputy Director)

RISK-BASED SUPERVISION

CBN supervisory framework is:

a robust, proactive & sophisticated (qualitative & quantitative) process based on risk profiling of the institution.

Enables better evaluation of risks through separate assessment of inherent risks/risk management processes.

A dynamic, forward looking process, placing greater emphasis on early identification of emerging risks/system-wide issues.

Is applied to all regulated entities on a consolidated basis, using information from other regulators as appropriate.

Allows supervisor to independently review significant activities/ operations and major risk management control functions.

Our supervisory process is conducted in three major stages:

1. **Pre-examination stage** – initial analysis and planning.
2. **Onsite stage –** in the supervised institutions.
3. **Post-examination stage –** report writing, quality assurance, reporting, follow-up (monitoring).

PRE-EXAMINATION PLANNING

RISK ASSESSMENT

- Risk assessment starts with identifying significant activities of the institution.
- there is need to understand the business of the entity.
- Knowledge of business of the supervised entity.
  - enables supervisor identify the key activities of the entity contribution towards the achievement of the corporate objectives.
  - inherent risks in the activities and how their crystallisation will.
  - impact the institution and supervisory objective.
- This assessment starts offsite with pre-examination planning.

PURPOSE

- Identify important information for planning process.
- Basis for identifying Significant Activities.
- Identify and assess external and internal factors that could influence the achievement of business objectives of the supervised FI.
- Develop multi-year, risk-based strategy and resourcing plan.
- Focus attention and supervisory resources on activities that pose the greatest risk to the institution.

To develop KOB, we need to know our institution's environment, industry, business and risk profile

ENVIRONMENT & INDUSTRY

- Need to identify environmental and industry factors that can/may impact the inherent risks of the institution's significant activities and impact the scope of work necessary to assess the risk profile.
- Impact on scope could be through monitoring or on-site work, or both.

THE STEPS

- Define the factor.
- Identify which significant activities are impacted.
- Identify how the inherent risk(s) of the significant activities are impacted.
- Identify how the scope of the work for those significant activities is impacted (linkage to supervisory strategy).

Such factors could be economic, social, demographic, regulatory, competition, customers, technology, skilled labour, etc.

Institution's Business Profile

- business objectives/strategies and organizational structure
- risk tolerance underlying objectives/strategies

We consider

- nature, size and complexity of operations
- financial condition
- risk appetite/culture/profile
- historical experience (sanctions?)
- any recent significant changes

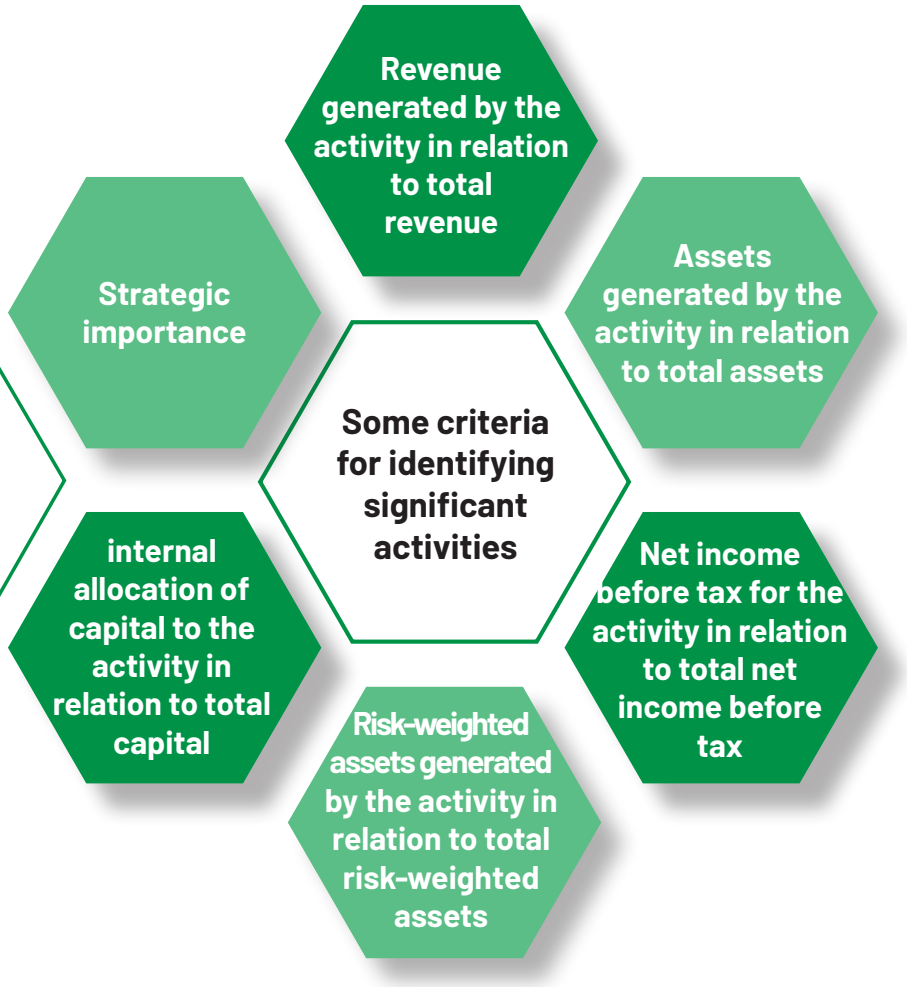
With a good understanding of the FI and its operations, we identify the significant activities

RISK ASSESSMENT

- begins with identifying significant activities – those activities that are key to the achievement of the bank's business objectives/strategies.
- fundamental precept is "**Know your institution**" - environment, industry, institution.
- significant activities could include any significant line of business, unit or process.
- sound JUDGEMENT is applied in determining the significance or materiality of activities.

SOME CRITERIA FOR IDENTIFYING SIGNIFICANT ACTIVITIES

In CBN, any activity that contributes up to 5% of the denominator in the criteria is considered significant.



INHERENT RISK

- Intrinsic to business activity – evaluated by probability & impact on capital/earnings.
- Considered on consolidated basis in following categories.
  - credit
  - market
  - operational
  - liquidity
  - legal/regulatory
  - strategic
  - Insurance
  - money laundering/terrorism financing risk
- Thorough understanding of environment and business activity is essential.

INHERENT RISK

- Assessment made without considering existence/ impact of risk mitigation.
- Ratings.
  - low
  - moderate
  - above average
  - high

QUALITY OF RISK MANAGEMENT – OPERATIONAL MANAGEMENT AND RISK MANAGEMENT CONTROL FUNCTIONS

Operational Management – not formally rated

RMCF – formally rated

Board	senior management	compliance	risk management	internal audit	financial analysis

QUALITY OF RISK MANAGEMENT

- Presence and nature depend on the size, scope and complexity of operations.
- The board is ultimately accountable, to the shareholders, for the management and oversight of an institution.
- Normally board delegates management and oversight responsibilities to Senior Management.
- Senior management may in turn delegate some of the responsibilities to the other RMCFs but does not delegate accountability.

QUALITY OF RISK MANAGEMENT

- Effectiveness will form basis for moderating level of aggregate inherent risk associated with a particular significant activity.
- Ratings.
  - strong
  - acceptable
  - needs improvement
  - weak

CHARACTERISTICS PLUS PERFORMANCE EQUALS TO EFFECTIVENESS

- Assessment of effectiveness considers structure, mandate, independence, qualifications, resources, policies, and procedures of the function.
- Characteristics are features that equip a function to carry out its role.
  - minimum requirement.
  - not a predictive of performance.
- Characteristics include composition, roles, responsibilities, self-assessment and appropriateness of practices.

- performance is superior to characteristics and is scored higher in the assessment of the effectiveness of the function.
- For board performance measures include.
  - performs a regular, in-depth review and evaluation of the institution's business objectives and strategies.
  - is actively involved in the selection and performance evaluation of the MD, and other Senior Management as appropriate.
  - objectively assesses, on a regular basis, the appropriateness of the overall risk tolerance, major business activities and risks of the institution.
  - defines and periodically assesses for continued relevance, the type, comprehensiveness and frequency of information and reporting it needs to monitor and act on a timely basis, and ensures needed changes are made as required.

QUALITY OF RISK MANAGEMENT

Assessment Criteria	
Strong	Fully exceeds requirements Consistently exceeds industry best practice Multiple examples of high level of effectiveness
Acceptable	Meets expectations taking into account nature and complexity of institution In line with industry sound practice Generally effective Identified deficiencies not critical and remediable
Needs improvement	Acceptable in many respects but significant areas where improvement is needed Areas of weakness not critical but need to be addressed Does not meet accepted industry practice in all respects
Weak	Widespread/fundamental areas of weakness Multiple instances of where characteristics and/or performance need to be improved Shortcomings could prove critical if not addressed

RISK EQUATION INHERENT RISK
MITIGATED BY
QUALITY OF RISK MANAGEMENT
EQUALS TO
NET RISK

NET AND OVERALL NET RISKS

Net Risk

- Quality/effectiveness of risk management control functions will influence (offset) level of inherent risk in each significant activity, the outcome will be net risk for each significant activity.
- Ratings
  - low
  - moderate
  - above average
  - high
- direction
  - decreasing
  - stable
  - increasing

Overall Net Risk

- Relative significance/ materiality of each activity is considered so as not to skew overall net risk.
- Ratings
  - low
  - moderate
  - above average
  - high

Capital

cushion for unexpected losses/decline in asset values.

banks are required to maintain capital levels above regulatory minimum where deemed necessary as a function of their risk profile.

Assessment factors

adequacy quality
internal generation,
retention & outlook
peer comparison
capital management
policy/practices.

Ratings

strong
acceptable
needs improvement
weak

Earnings

- Absorb normal/expected losses
- Assessment factors
  - retention
  - historical trend/stability
  - sources (core/non-core)
  - contribution from volatile businesses
  - sustainability (long term viability)
  - product pricing
  - adequacy of provisions
  - impact of non-recurring income/expenses
  - dividend policies
  - peer group comparison

Ratings

- Ratings
  - strong
  - acceptable
  - needs improvement
  - weak

Liquidity

- Adequate level of liquidity is critical for the overall safety and soundness.
- Considers the current level and prospective sources of liquidity compared to funding needs.
- Adequacy of liquidity management practices in the context of the size, complexity, and risk profile of the institution.
- Assessment considers
  - Availability of assets readily convertible to cash without undue loss;
  - Access to various sources of funding;
  - Level of diversification of funding sourcesretention.

Ratings

- Notation ;
  - strong
  - acceptable
  - needs improvement
  - weak

Liquidity

- Assessment considers
  - Degree of reliance on short-term and volatile sources of funds.
  - The trend and stability of deposits
  - Capabilities of management to
    - identify,
    - measure,
    - monitor and
    - control the institutions liquidity position,
  - Including the effectiveness of
    - fund management strategies,
    - liquidity policies,
    - management information systems and
    - contingency funding plans

Ratings

- Ratings
  - Strong
  - Acceptable
  - Needs improvement
  - Weak

COMPOSITE RISK RATING (CRR)

CRR

- Final rating – reflects assessment of safety/soundness of bank.
- Outcome of overall net risk moderated by capital & earnings.
- Capital & earnings are **NOT** considered a substitute for sound risk management.

CRR

- Ratings
  - Strong
  - Acceptable
  - Needs improvement
  - Weak

COMPOSITE RISK RATING



Significant factor in determining the supervisory response/plan for the bank.

Degree of supervisory intervention will be commensurate with risk profile largely driven by composite risk rating.

The CBN Supervisory Intervention Framework : Banks with CRR of high or above average can be subjected to prompt corrective action (PCA) using 7 identified criteria – capital adequacy, liquidity, asset quality, earnings, internal controls, risk management and persistent system failures.

FINANCIAL INSTITUTION RISK MATRIX AS AT						
Significant Activities	**Materiality**	**Inherent Risks**	**Quality of Risk Management**		**Net Risk**	**Direction Of Risk**
• Activity 1 • Activity 2 • Activity 3 • Etc...		• Credit • Market • Liquidity • Insurance • Operational • Legal & Regulatory • Strategic • Maney laundering/ terrorist financing	Operational Management	• Board Oversight • Senior Management • Risk Management • Internal Audit • Compliance • Financial Analysis		
Overall Rating						

Capital	Earnings	Liquidity
Composite Rating	Direction of Risk	Time Frame

DOCUMENTATION AND REPORT WRITING

RBS requires proper documentation of steps taken to arrive at decisions.

Standardized section note templates were developed to record the result of our work.

Significant activity, risk management control function, capital and earnings have section notes.

Knowledge of business (KOB) is used for proper understanding of the institution.

Supervisor prepares two major reports – Risk Assessment Summary for the CBN Management while Supervisory Letter/Management Report is issued to the supervised institution.

Various assessment criteria were developed to aid supervisors in arriving at informed decision to reduces subjectivity.

ONSITE STAGE

ONSITE STAGE

- Supervisors visit the FI to validate the analysis conducted offsite.
- opportunity to review all the documents and policies not available offsite.
- Interviews are conducted – key process owners, strategic business unit heads, MD/CEO, EDs, Board members...

POST-EXAMINATION STAGE

- **Supervisors finalise**
  - documentation – section notes (significant activities, risk management control functions, capital, earnings, liquidity, etc)
  - reports – risk assessment summary, supervisory letter, intervention letter...
- **Relationship Managers conduct first-level quality assurance**

Supervisory Methodology Group (SMG)

- conducts quality assurance
- reports sent to Team Leads for cleaning
- SMG seeks Management approval of final report (Supervisory Letter and RAS)
- Supervisory Letters are issued to supervised institutions

Other duties of SMG

- review of RBS documents
- training of supervisors
- updating of reporting templates, etc

Monitoring and Enforcement Group (MEG)

- receives issued reports and prepares monitoring plan
- sends letters to supervised institutions imposing penalties arising from examinations
- monitors FIs' compliance with examination recommendations
- collects financial penalties
- seeks management approval for direct debit is penalties are not paid on time.

Issued to communicate the results of our supervisory work to supervised institution (Supervisory Letter)

- follow a fairly standard format
- only communicate what is relevant and important
- communicate results of supervisory work in context of impact of the institution's risk profile
- Responsibility of Relationship Manager
- risk-based reporting
- timeliness of communication
- balanced feedback
- consistency
- confidentiality

INTEGRATION WITH OTHER SUPERVISORY TOOLS

- RBS alone cannot guarantee a safe and sound financial institution. CBN operates a number of complementary tools and processes to aid the achievement of its mandate
- Non-integration of these robust tools and processes could lead to:
  - reduction in the efficacy of the tools/processes in achieving their desired objectives
  - Improper assessment of the risk profile of the FI
- Basel II & III
- International Financial Reporting Standards (IFRS)
- Recovery and resolution plan (RRP) for D-SIBS
- Consolidated supervision
- Early warning system (EWS)
- ICAAP and ILAAP
- Sustainable Banking principles, among others

BENEFITS AND CHALLENGES

Benefits	Challenges
▶ Efficient allocation of resources	▶ Resistant to culture
▶ Forward-looking and early identification of risks	▶ Lack of high quality data
▶ Assists in bank specific risk assessment	▶ Lack of qualified staff
▶ Robust and flexible	▶ Inadequate training and development
▶ Encourages strong risk management practices	▶ Changing nature of banking and its environment
▶ Provision of feedback	▶ Very technical and judgemental

CONCLUSION

- **CBN's risk-based supervisory model is sound, however, we need to focus on the implementation by :**
  - **tweaking the process as the need arises**
  - **Integrating other supervisory tools in the assessment of risks and risk management control functions.**

To achieve our mandate of ensuring the safety and soundness of our financial system.



CONSOLIDATED SUPERVISION OVERVIEW OF CBN APPROACH TO CONSOLIDATED SUPERVISION OF BANKING GROUPS

AMONIA OPUSUNJU, DEPUTY DIRECTOR, CBN

OUTLINE

1. What is Consolidated Supervision (CS)
2. Why Consolidated Supervision
3. Type of Corporate Groups
4. Prerequisites for Consolidated Supervision
5. The Framework for Consolidated supervision
6. Principal Concerns
7. Institutional Arrangements
8. Recent Developments – Challenges
9. The Way Forward
10. Conclusion

Basel Core Principle 12 – Consolidated supervision

An essential element of banking supervision is that the supervisor supervises the banking group on a consolidated basis, adequately monitoring and, as appropriate, applying prudential standards to all aspects of the business conducted by the banking group worldwide.

What is Consolidated Supervision?

A quantitative and qualitative assessment of the strength of a business group which contains bank(s)(and other regulated financial institutions) in order to identify and evaluate all the risks to which these banks are exposed :

- Many banks carry on activities through subsidiaries/affiliates
- Many banks are themselves subsidiaries and exposed to risks arising from the influence exercised over them by their parents
- An essential element of risk-based supervision

What is Consolidated Supervision?

Consolidated supervision of licensed banks refers to a group-wide approach to supervision whereby all the risks in a banking/financial group are considered.

It is a process whereby a supervisor evaluates the activities of a bank or non-bank financial group including subsidiaries, associates and affiliates of financial and non-financial firms

Consolidated supervision is therefore, defined as a qualitative and

quantitative assessment of the overall strength of a group to which a licensed institution belongs and involves the evaluation of the potential impact of other group companies on the licensee.

Why is Consolidated Supervision Necessary?

The primary objective of consolidated supervision is to evaluate the strength of an entire group taking into account all the risks that may affect the supervised entity in the group regardless of whether those risks are carried in the books of the supervised entity or its related entities.

Essentially, the purposes of consolidated supervision are to:

Ensure that no banking activity goes on without supervision, irrespective of location, thus eliminating regulatory arbitrage.

Eliminate double leverage/gearing in the computation of capital adequacy of a conglomerate.

Why is Consolidated Supervision Necessary?

Ensure that all the risks in a banking group, no matter where they are booked, are evaluated and controlled on a global basis.

Ensure international legal co-integration particularly with regard to cross-border financial crimes and money laundering activities

Provide the most comprehensive picture of the financial position of a banking group.

Enable the Apex regulator to identify more quickly, emerging problems

and work with banking organizations and other supervisors, as appropriate, to take prompt corrective measures on the issues.

Why is Consolidated Supervision Necessary?

Consolidated Supervision is Not an alternative to normal supervision of individual licensed banks rather, it complements "solo" supervision.

TYPES OF CORPORATE GROUPS CONTAINING BANKS

Banking, Mixed Groups, Financial Conglomerate, Financial Holding Company

Banking group - where a licensed bank establishes or acquires subsidiaries (or takes participations) in order to carry on particular activities – banking, custodian, or permissible activities
Most of the group entities are likely to be banks or companies carrying on specialised banking or financial activities such as Commercial/merchant banking

Mixed Activity Groups

a group of undertakings (a parent undertaking and its subsidiary undertakings) conducting both financial and non-financial activities.

Risks of groups combining different activities – BigTech

Financial Conglomerate – defined by the Basel Committee as "***any group of companies under common control whose main activities consist of providing services in at least two different financial sectors - banking, securities or insurance***"

In Nigeria, prior to Regulation 3, some banks were financial conglomerates – UBA, First Bank, GTBank, etc.

Today, only institutions with Financial Holding Company's licenses operate as financial conglomerates in Nigeria.

Financial Holding Companies

Regulation No. 3 introduced Financial Holding Companies in Nigeria.

"***A company whose principal object includes the business of a holding company set up for the purpose of making and managing (for its own account) equity investment in two or more companies, being its subsidiaries, engaged in the provision of financial services, one of which must be a bank***"

- Control 2 subsidiaries, non-operating, source of financial strength to the subs, licensing requirements, etc.
- Maximum of two hierarchies
- Excludes Mixed Activity Groups

PREREQUISITES FOR EFFECTIVE CONSOLIDATED SUPERVISION

- Adequate control of authorisation – entry stage and or changes of ownership i.e. licensing and shareholding procedures;
- Adequate prudential standards for capital, credit concentration, asset quality, liquidity, market risk, management control, etc;
- Off-site capability i.e. systems for statistical reporting of risks on a consolidated basis and the ability to verify or to have the reports verified;
- Capability to inspect or examine entities in foreign locations;
- Arrangements for a frequent dialogue with the management of the supervised entity;
- A track record of taking effective remedial action when problems arise.

THE FRAMEWORK FOR CONSOLIDATED SUPERVISION IN NIGERIA

The approach agreed for adoption in Nigeria is the "solo-plus". This involves the supervision of financial institutions on a solo basis by the relevant regulators, complemented with quantitative and qualitative assessment of the financial holding companies by the Lead Regulator (using extracts of the relevant solo reports and other additional information).

THE FRAMEWORK FOR CONSOLIDATED SUPERVISION

The solo-plus CS is typically conducted in two stages:

1. Solo supervision of a financial institution and its subsidiaries.

2. Quantitative and qualitative assessments of the financial conglomerate by the regulators in order to assess the potential impact of other members of the group, including offshore subsidiaries or affiliates, on the operations of the supervised entity.

Consolidated supervision of the Group covers both quantitative and qualitative assessments

The scope of quantitative consolidation covers the consolidation of financial information especially for those related entities that carry on activities of a banking or financial nature.

The risks inherent in the group companies are assessed qualitatively. Consolidated supervision involves the group's foreign branches, and affiliates.

The operations and other activities of the banking group should also be subject to regulations by the respective supervisory authorities.

Quantitative Assessment

Quantitative assessment reports reflect accounting consolidation of the group and includes the assessment of the following:

- **Consolidated financial report analysis**
- **Capital adequacy assessment**
- **Intra-group financial transactions review**
- **Large exposures and connected lending review**
- **Assets and Liabilities Management (ALM) Review**

THE SCOPE OF CONSOLIDATED SUPERVISION

Qualitative Assessment

The major components of qualitative consolidated assessment include the following:

- **Structure of the group and inherent risks**
- **Group Governance**
- **Risk Management Control functions**
- **Access to prudential information and**
- **Moral hazard**

PRINCIPAL CONCERNS - CONSOLIDATED SUPERVISION

- **Capital adequacy**
- **Contagion**
- **Regulatory Arbitrage**
- **Autonomy**
- **Group exposures**
- **Transparency**
- **Quality of management**

- **Access to prudential information**
- **Moral hazard.**

Capital Adequacy

To assess capital adequacy on a group wide basis and to identify situations of overstatement of capital

Double/multiple gearing

- assessments of group capital based on measures of solo capital likely overstate the external capital of group ;
- assessments of group capital should exclude intra-group holdings of regulatory capital.

Excessive leverage

- where parent issues debt and down-streams proceeds to dependant as equity/regulatory capital ;
- effective leverage of dependent may be greater than leverage computed on solo basis ;
- risk to regulated entity if parent has difficulty in servicing the debt – up-stream risk.

Contagion

Where a bank is affected by financial problems, such as insolvency or illiquidity, arising in another regulated or unregulated member of the banking group.

- Intra-group transactions/exposures.
- Negative events involving a group member may trigger a loss of confidence in the bank.
- Transfer of capital from the bank to rescue another member in financial difficulties.
- Bank's credit exposure to a group member whose ability to repay is questionable.

Regulatory Arbitrage

- Moving activities within the group to avoid prudential supervision by one supervisor compared to another
- Shifting activities from regulated entities to unregulated entities or weaker regulation

Autonomy – conflict of interest

- Heightened when owners with material holdings of the group have business relationships in or outside the group.
- Regulators need assurance that directors/managers can be held accountable for.
  - the sound operation of the bank ;

- responding to supervisory mandates;
- compliance with legal/regulatory requirements;

Intergroup transactions

- Risk that transaction will not be at "arms-length" and be made outside the normal approval process.

Group Exposures

Concentration of credit risk exposure by a banking group to a group of associated persons. If these loans cannot be recovered, the financial condition of the lender(s) could be seriously affected.

Connection – where two or more entities/counterparties are a common risk. Exposures must be aggregated for the purpose of applying large exposure limits.

Large exposures must be subject to limits notwithstanding the quality of security that underlies individual transactions.

Transparency

Corporate organization of groups is often the consequence of legal provisions, capital adequacy requirements, tax laws and business decisions.

Complex structures make effective supervision more difficult.

Legal/Managerial structures of a group may differ – matrix

management where reporting lines are to a range of senior managers, in other group companies/countries.

- Regulators should prohibit/discourage.

structures where shareholder and management control/financial responsibility is not clear

Complex structures chosen to obscure operations or ownership to avoid effective supervision

Quality of Management

- Managing the inherent risk and challenges in forming and managing a banking group requires enormous expertise.
- Directors and managers are expected to perform their roles adequately to avoid business failures.
- Directors and managers should have requisite experience to enable them perform their roles effectively.
- CBN has developed and imposed stringent "fit and proper" tests for boards and senior management to ensure that only qualified candidates oversee supervised institutions.

Access to Prudential Information

- Effective supervision of banking or financial groups relies on regulators' ability to obtain information as needed from not only the

bank(s), but also from related entities in group.

- The Banking Supervisor needs to see the "whole picture".
- Members of the banking group may be unwilling/unable to supply requested information.

The FSRCC Framework and Section 64 of BOFIA 2020 address this

Moral Hazard

- A supervisory concern of consolidated supervision is giving the impression that the activities of a whole group are being supervised, even if only informally.
- Where Management of non-bank group members believe that the Government will give them support in the event of financial difficulties to prevent their difficulties weakening depositor confidence in a related bank.
- Weakened market discipline where business counterparties of non-bank group members may take greater risks in their dealings with such companies if they perceive the likelihood of official support for an entire banking group.

- The FSRCC Framework for Consolidated Supervision;
- The FSRCC sub-committee on Consolidated Supervision .
  - Collaboration;
  - Coordination;
  - Cooperation;
- **Approval of a Joint Calendar of Events for members.**
- **The development of RBS Frameworks by the relevant industry regulators.**
- **The simultaneous Solo Examination of the Subsidiaries and the Group by relevant regulators.**
- **Knowledge of Business and (KOB) and Initial Risk Assessment Summary (RAS).**
- **Peer review mechanisms during the consolidated report writing exercise**
- **Joint Training exercises.**

The Framework emphasized the following:

- Risk Based CS starts with off-site review
  - Off-site review and analysis of all information received from the Group prior to the examination

Major areas to consider:

- Capital Adequacy
- Intra group transactions
- Large exposures and connected lending
- Asset and Liability Management Review
- Cross Border Supervision
-

Other areas are:

- Group structure and inherent risk
- Group Corporate Governance
- Risk Management & Access to prudential information

At report writing level, primary lead examiners include the following major components in the report to be submitted to the parent Lead examiner(s)

- Financial statement analysis
- Capital Adequacy assessment
- Intra-Group financial transactions review

- Large exposures and connected lending review
- Risk Management
- Corporate Governance
- Assets and liabilities management (ALM) review
- Risk matrix

RECENT DEVELOPMENTS - CHALLENGES

- **Increased requests for Holdco Licences ;**
- **Inadequate Resources to Examine all consolidated entities at the same time ;**
- **The emergence of significant Mixed Activity Groups ;**
- **Holdco Licences issued by other regulators.**

THE WAY FORWARD

- **The development of a consolidated returns template to enable off-site review.**
- **Streamline more stringent conditions for transformation to a Holdco Structure.**
- **Review Capital requirements – for Holding Companies and subsidiaries.**
- **Review the Holdco Guidelines to assign a Coordinator for supervision of Mixed Activity groups.**

- Increased Capacity Building initiatives for Examiners.
- Increased collaboration with other regulators on Licencing procedures.

CONCLUSION

Consolidated Supervision is a complex issue BUT a critical one to ensure the safety and soundness of the financial system.

REFERENCES

Framework for the Consolidated Supervision of Financial Holding Companies in Nigeria, November 2013

Basel Committee Core Principles for Effective Banking Supervision, December 2011.

Banks and Other Financial Institutions Act, (BOFIA), 2020.

Guidelines for Licencing and Regulation of Financial Holding Companies in Nigeria, August 2014.

Guidelines for Shared Services Arrangements for Banks and Other Financial Institutions May 2021

Regulation No. 3, on the Scope of Banking Activities and Ancillary Matters, October 2010.

Framework for Cross Border Supervision in Nigerian Banks, 2010

CONGLOMERATE SUPERVISION CROSS BORDER COOPERATION & MMOU

LINDA van GOOR (IMF)

What to expect?

Monday afternoon, Session 4:

Supervision of Cross Border Banking Groups: Why do we care about group supervision?

- Group risks

Tuesday afternoon, session 7: Coordinating group supervision – How?

- Supervisory cooperation, consolidated versus coordinated supervision
- Memoranda of Understanding

Tuesday afternoon, session 8: Supervising group risks & prepare for crises – What?

- The risk matrix
- Supervisory Plans

SUPERVISORY COOPERATION

NFORMATION EXCHANGE AND TRUST AMONGST SUPERVISORS – PRISONER'S DILEMMA EXERCISE

Supervisory Conflicts

What makes you conflicted?

What hampers your cooperation?



Prisoners' dilemma: choosing your own interest while not trusting the other

	A is silent	A confesses = A doesn't trust B to be silent too
B is silent	Both trust the other Full cooperation => Both only get a fine	A is free; B gets 10 years prison
B confesses = B doesn't trust A to be silent too	B is free; A gets 10 years prison	Both confess = both don't trust the other => both get 5-year prison

Exercise: Pros and Cons of different cooperative and non-cooperative models when supervising a cross-border group

	A (consolidating supervisor) is willing to cooperate with B (a host)	A (consolidating supervisor) doesn't cooperate
B (a host) is willing to cooperate with A (consolidating supervisor)	Pro (+): e.g. crisis management Con (-):	Pro: Con:
B (a host) doesn't cooperate	Pro: Con:	Pro: Con: e.g. double work

Exercise: Pros and Cons of different cooperative and non-cooperative models when supervising a cross-border group

Instruction:

- Organize yourselves in groups of five
- Per group, Consider one cross-border conglomerate you are supervising
- Agree which colleague in the group will take notes
- Consider the pros and cons of the above 4 different choices of cooperative and non cooperative models between the consolidating supervisor and the other members or observers in the college of supervisors
- Discuss with your colleagues in the group the pros and cons of cooperative and non cooperative behaviour
- Include the most important pros and cons in the sheet
- Come back after 10 minutes

NFORMATION EXCHANGE AND TRUST AMONGST SUPERVISORS – PRISONER'S DILEMMA EXERCISE

Exercise: Pros and Cons of different cooperative and non-cooperative models when supervising a cross-border group

	A (consolidating supervisor) is willing to cooperate with B (a host)	A (consolidating supervisor) doesn't cooperate
B (a host) is willing to cooperate with A (consolidating supervisor)	Full cooperation => Both get small burden, high reward	Cooperative B gets the burden Non-cooperative A gets the reward
B (a host) doesn't cooperate	Cooperative A gets the burden Non-cooperative B gets the reward	No mutual cooperation Both get high burden

Trust

You only act in the interest of the collective

If you trust

That the other is also acting in the interest of the collective

Fico-framework – detailed supervisory plan for effective examinations

I. Legal supervisory mandates & appropriate MMoU

II. Risk profile fico:

- Organizational structure
- Ownership & strength of capital (supported by dashboard)
- RPTs (material RPTs & group policy)
- Risk concentrations
- etc

III. Examination schedule & Examination coordination cross-sector

IV. Communication & contact persons of fico & agencies

I. Legal Supervisory mandate(s)

- Know your powers and obligation – across sectors & jurisdictions
- Map your powers onto the fico-principles and find gaps
- Supervisory Plan should have a summary and description of respective mandates

Mapping of your legal mandates to BCBS Principles for Fico-Supervision

Principle	Insurance Commission	SEC	BSP
Principle 21 Supervisors should require that an independent, comprehensive and effective risk management framework, accompanied by a robust system of internal controls, effective internal audit and compliance functions, is in place for the financial conglomerate.	a) Risk Management Framework - Responsibilities of the Board b) Risk Management Function - (Item 3, Responsibilities of the Board, CL2005-31) h) Internal control: Item 7, Responsibilities of the Board, CL2005-31	*Risk Management Framework* Recommendation 2.11 of the CG Code Recommendation 12.1 of the CG Code *Effective Internal Audit* Recommendation 12.1 of the CG Code	a) Sections 132, 141 and 142 of the MORB; and b) Circular 969
Principle 22 Supervisors should require that the financial conglomerate have in place processes and procedures to engender an appropriate group-wide risk management culture.	a) Item 3, Responsibilities of the Board, CL2005-31 c) Whistleblowing: IC CL 2017-29	Group-Wide Risk Management Culture Recommendations 2.5, 5.4, 7.1, 12.1	*Group-Wide Risk Management Culture* a) Section 133 and 141 of the MORB; and b) Circular 969/ Section 132 of the MORB
Principle 23 Supervisors should require that the financial conglomerate establishes appropriate board approved, group-wide risk tolerance levels and a risk appetite policy.		Board Approval Recommendations 2.11, 3.4, Explanation D and E Group-Wide Risk Tolerance Levels Recommendations 2.11, 3.4, Explanation D and E Group-Wide Risk Appetite Policy Recommendations 2.11, 3.4, Explanation D and E	Group-Wide Risk Appetite Policy Section 132 and 142 (a) of the MORB
Principle 24 & 25 Supervisors should require that the financial conglomerate carries out a robust risk assessment when entering into new business areas, or when out-sourcing		Robust Risk Management: a. New Business Areas None b. When Out-Sourcing Recommendations 3.2, 12.3 (limited only to Internal Audit)	Robust Risk Management Section 142 (c) of the MORB Management Contracts and Outsourcing Section 112 of the MORB
Principle 26 Supervisors should require, where appropriate, that the financial conglomerate periodically carries out group-wide stress tests and scenario analyses for its major sources of risk.	Group-wide stress tests: CL 2017-29, item 2.1.5		Stress Testing a) Section 125, 143 and 130 of the MORB-ICAAP; b) Circular 989; and c) Appendix 42
Principle 27 Supervisors should require that the financial conglomerate aggregate the risks to which it is exposed in a prudent manner	CL 2017-29, item 2.2.4	Aggregate Risk in a Prudent Principle 12	Aggregate Risk in a Prudent Section 142 of the MORB
Principle 28 Supervisors should require that the financial conglomerate has in place effective systems and processes to manage and report group-wide risk concentrations and intra-group transactions and exposures.	IC CL 2017-29 (Guidelines on RPT Transactions)	Report Intra-Group Transactions and Exposures MC 10, s. of 2019	Report Intra-Group Transactions and Exposures Sections 132, 136, 142 and 361 of the MORB.

Cooperation MMoUs main elements

1. Objectives, nature and scope of this agreement - why
2. General framework for cooperation - how
3. Commitments to cooperate - what
4. Coordinating Authority's commitments – home's commitment
5. Other Authorities' commitments - hosts' commitment
6. Cooperation mechanisms and information-sharing framework - confidentiality
7. Additional provisions

We can provide draft texts
But we cannot provide trust among yourselves
Trust comes from working together
and confirming the others do
as you expected they would do

Fico-framework – detailed supervisory plan for effective examinations

I. Legal supervisory mandates & appropriate MMoU

II. Risk profile fico:

- Organizational structure
- Ownership & strength of capital (supported by dashboard)
- RPTs (material RPTs & group policy)
- Risk concentrations
- etc

III. Examination schedule & Examination coordination cross-sector

IV. Communication & contact persons of fico & agencies

II. Risk Profile – big group picture

Form a holistic, risk-focused view of the conglomerate.

- Risk assessment – what does the risk matrix tell you
  - Significant activities, legal entities, business lines, critical operations, off balance sheet/SPVs
  - Major risks – direction?
  - Quality of risk management/mitigation
  - Audit – internal/external – are they effective?
- What are the risks and directions: find the **hot spots (see next session on the risk matrix)**

III. Exam Objectives and Coordinated Scheduling

- Examination scheduling;
  - **Know why**
  - **Know target**
  - **Know what the others are doing**
- Exam coordination between sectors and countries:
  - Opportunity for IGT
  - Cross business lines or entities
  - Better information
  - Bigger Picture

WORK TOGETHER AS ONE

IV. Communications Plan

- Identify key points of contact:
  - Supervisors
  - Conglomerate management and subs
- Regular discussions with conglomerate. Regular discussion with sister agency.
  - Quarterly? Annual?
- Targeted Reviews / Annual roll-up
- External stakeholders:
  - Rating Agencies
  - Servicing entities
  - Others?

Supervisory College

Establish coordination, cooperation and communication between supervisors in yearly meetings where you:

- Share views
- Report on supervisory activity
- Discuss the organisational chart of the conglomerate – map your respective responsibilities
- Identify major shareholders or managers
- Discuss strategic plan of the conglomerate – is it consistent across banking, insurance and securities
- Report on new policies and/or regulations
- Plan for next supervisory cycle

THE EXPERIENCE OF THE CENTRAL BANK OF NIGERIA ON CROSS -BORDER SUPERVISION

CHIKELU OBALLUM. DEPUTY DIRECTOR, BSD, CBN

OUTLINE

1. Introduction
2. Why do we conduct Cross -Border Supervision?
3. CBN Regulatory Framework for Cross -Border Supervision.
4. Organisation of Cross -Border Supervisory Activity in the CBN.
5. Challenges Faced by the CBN in Cross -Border supervision.
6. Key regulatory Concerns observed in cross some border entities.
7. Efforts of the CBN at Mitigating the Cross Border Supervisory Challenges.
8. Achievements of the CBN in Cross -Border supervision.
9. Future Outlook and Recommendations.
10. Conclusion

INTRODUCTION

One of the outcomes of the Nigerian banking industry consolidation programme of 2004-2005 was the significant increase in the capital and liquidity positions of many of the banks.

Consequently, some banks sought to expand their business outreach beyond the Nigerian borders and established subsidiaries in other jurisdictions, particularly in West African sub-region and Europe. The cross -border expansion has continued up until date, with inroads into East, Central and Southern African sub-regions.

As of June 2023, the number of offshore entities was 65 comprising 56 subsidiaries, three branches, four representative offices, one agent bank and one affiliate, spread across 30 countries.

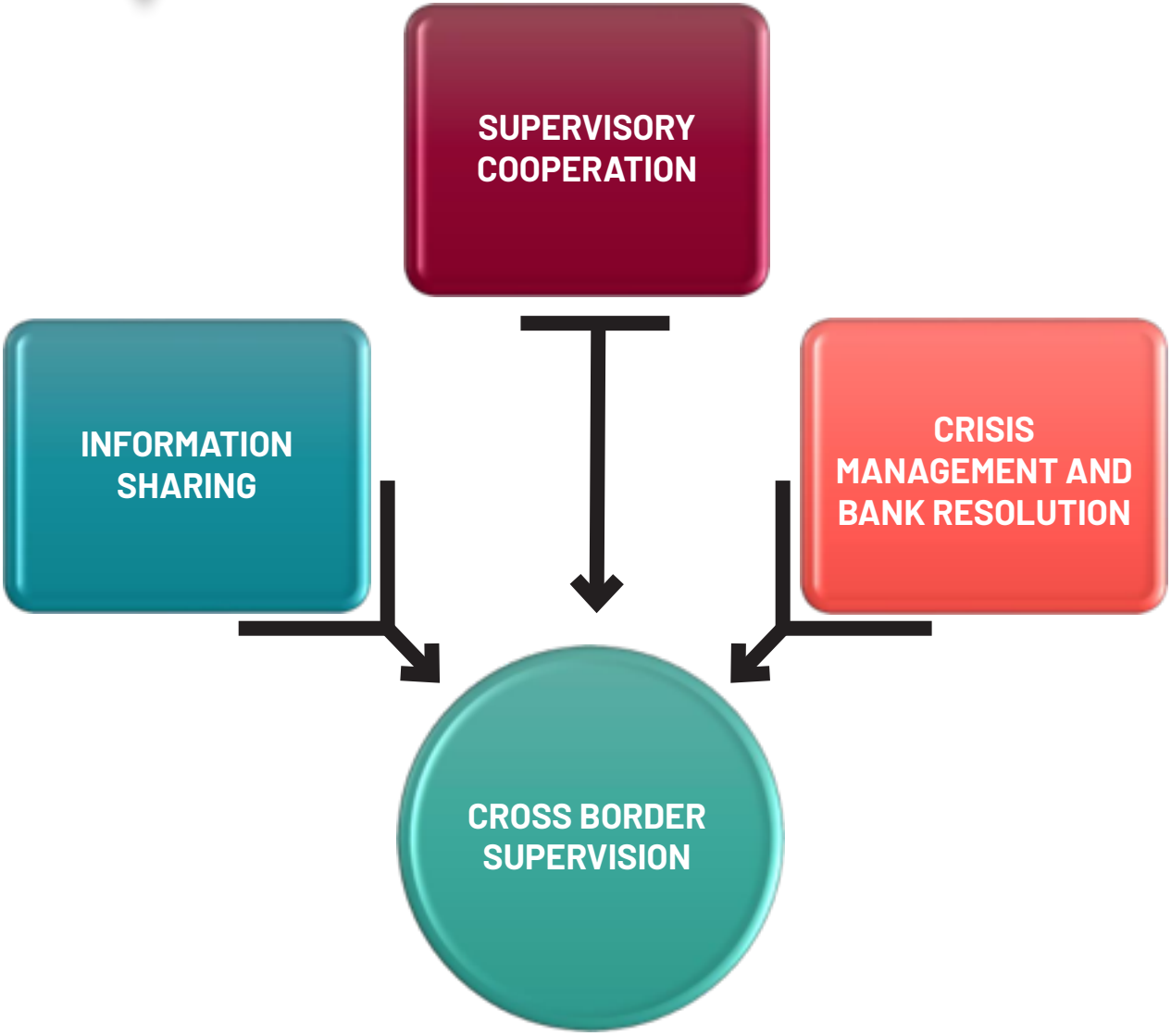
WHY DO WE CONDUCT CROSS-BORDER SUPERVISION?

The global financial crisis uncovered several weaknesses in the supervision and regulation of cross border banks.

One of such weakness was the lack of effective cooperation among banking supervisors of international banking and financial services groups.

Since the crisis, international bodies, such as the Financial Stability Board and the Basel Committee on Banking Supervision have actively championed the implementation of cross border supervision for banking and financial groups.

WHY DO WE CONDUCT CROSS-BORDER SUPERVISION OF BANKING AND FINANCIAL GROUPS AND CONGLOMERATES?



CBN REGULATORY FRAMEWORK FOR CROSS-BORDER SUPERVISION

The CBN derives its power to supervise cross border subsidiaries of Nigerian banks from the Banks and Other Financial Institutions Act 2020.

CBN REGULATORY FRAMEWORK FOR CROSS-BORDER SUPERVISION

- CBN Framework for Cross Border Supervision of Nigerian Banks;
- Bank and Other Financial Institutions Act, 2020;
- Money Laundering (Prevention and Prohibition) Act 2022;
- CBN AML/CFT/CPF Regulation and Supervisory Framework 2021;
- CBN Framework for Risk Based Supervision of Banks and Other Financial Institutions;
- CBN Prudential Guideline for Deposit money Banks in Nigeria, 2010;
- Central Bank of Nigeria Act 2007.

ORGANIZATION OF CROSS BORDER SUPERVISORY ACTIVITY IN THE CBN

Cross Border Group (CBS) became a separate unit within the Banking Supervision Department in August 2011 with responsibility for the planning and coordination of cross border supervision of Nigerian banks' subsidiaries. The Group is headed by a deputy director who reports to the Director.

ORGANISATIONAL STRUCTURE OF CROSS BORDER SUPERVISION GROUP (1/3)

MISSION STATEMENT OF THE GROUP

To be proactive in monitoring the financial health condition of foreign subsidiaries of Nigerian banks and evaluating the risks they pose to the parent banks' operations with the aim to mitigate the risk of contagion or the impact of a systemic crisis.

SUPERVISORY OBJECTIVES OF THE GROUP

Veiller à ce qu'aucune activité bancaire ne soit exercée sans contrôle, quel que soit le lieu.

- Élimination du double effet de levier dans le calcul de l'adéquation des fonds propres des conglomérats financiers.
- Garantir que tous les risques encourus par un groupe bancaire, où qu'ils soient comptabilisés, seront évalués et
- contrôlé à l'échelle mondiale.
- Permettre l'identification plus rapide des problèmes émergents et collaborer avec les groupes bancaires et d'autres autorités de surveillance, le cas échéant, afin de prendre rapidement des mesures correctives.

KEY FUNCTIONS OF THE GROUP

- **Organisation of Supervisory Colleges for Nigerian Banking Groups**
-
- **II. Participate in Colleges organised by Home Supervisors**
-
- **III. Collaboration with international bodies and regulatory authorities**

- The Group established five supervisory colleges that hold annual meetings and exchange information on an ongoing basis.
- The Group participates in the college meetings organised by foreign supervisors with oversight responsibility on their banking subsidiaries in Nigeria.
- The Group also participates in regional and international associations or institutions whose remit fall within banking regulation and supervision or financial system stability.

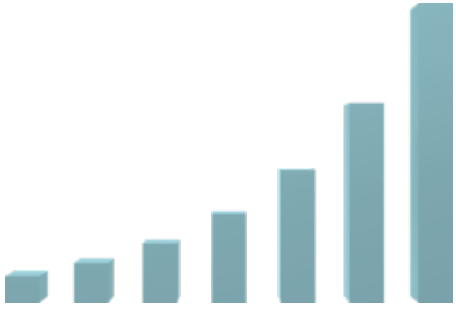
ORGANISATIONAL STRUCTURE OF CROSS BORDER SUPERVISION GROUP (3/3)

Offsite Analyses

- Quarterly analyse of returns received monthly from the cross-border affiliates.
- The analyses seek to determine the financial condition and performance of the entities and their continuing compliance with prudential regulations of the host authorities.

Onsite Examinations

- Full scope riskexamination.
- AML/CFT/CPF examination.



Onsite Examinations Arrangements

- Solo Examinations: These examinations are undertaken solely and at the discretion of the CBN.
- Joint examinations: Under this arrangement, the CBN and the relevant host supervisor carry out joint review of the cross-border subsidiary or branch.

CHALLENGES FACED BY THE CBN IN CROSS-BORDER SUPERVISION

Differences in regulatory frameworks and standards across jurisdictions.

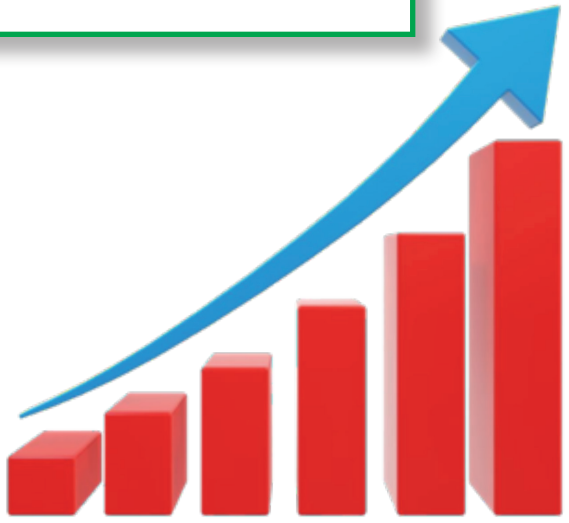
Information sharing and coordination among multiple regulatory authorities.

Jurisdictional issues and inadequate cooperation arrangements with foreign authorities.

Language barriers in non-English speaking host jurisdictions.

Data privacy restrictions, Data integrity and analytics challenges.

Cross -border legal and operational complexities.



KEY REGULATORY CONCERNS OBSERVED IN SOME CROSS-BORDER ENTITIES

- Contagion risks
- Corporate governance risk
- Frequent capital calls from host regulatory authorities
- Instances of non-compliance with AML/CFT/CPF regulations
- Inadequate due diligence

EFFORTS OF THE CBN AT MITIGATING THE CROSS BORDER SUPERVISORY CONCERNS AND CHALLENGES

1	2	3	4	5
Strengthening regulatory frameworks and harmonizing standards with international practices.	Establishing bilateral and multilateral agreements with other regulatory authorities.	Enhancing information-sharing mechanisms and cooperation with relevant stakeholders.	Conducting regular risk assessments and on-site examinations of cross-border financial institutions.	Continuing capacity building programmes for staff of the CBN and the host supervisors.

ACHIEVEMENTS OF THE CBN IN CROSS-BORDER SUPERVISION

- Enhanced regulatory compliance of Nigerian banks operating in foreign jurisdictions.
- Improved risk profile of the subsidiaries and the parents.
- Provided alternative correspondent banking services for Nigerian and other banks from the African region.
- Improved cooperation and coordination with international regulatory counterparts.
- Improvements in earnings and profitability.
- Increasing visibility and recognition of Nigerian banking groups.
- Contributed to financial sector development and reduced systemic risks.

FUTURE OUTLOOK AND RECOMMENDATIONS

The future outlook for cross-border supervision includes the strengthening of existing regional and international organisations for regulatory coordination and alignment at the global level. Key success factors for the achieving effective cross-border supervision among regulatory authorities are increased cooperation, collaboration and co-ordination amongst regulators and information sharing.

CONCLUSION

The CBN is committed in strengthening cross-border supervision and cooperation by participating in regional and international supervisory fora established for the purpose of promoting effective regulatory oversight of cross-border banks such as supervisory colleges, execution of agreements between home -host regulators for the exchange of information exchange with the primary aim of ensuring financial system stability within and across jurisdictions.

ROLE OF SUPERVISORY COLLEGES IN THE SUPERVISION OF CROSS BORDER BANKING GROUPS " THE CBN EXPERIENCE"

CHIKELU OBALLUM AND ZAINAB BABANGIDA

OUTLINE

1. **Introduction**
2. **What Is A Supervisory College ?**
3. **Role Of Supervisory Colleges In The Supervision Of Cross-Border Banking Groups**
4. **Enhancing The Effectiveness Of Supervisory Colleges**
5. **The Central Bank Of Nigeria's (CBN) Experience**
   - As Home Supervisor
   - As Host Supervisor
   - Regional Supervisory Colleges
6. **Challenges And Considerations**
7. **Conclusion**

One major shortcoming of the supervisory approach for cross-border banking and financial groups, which came to the fore during the GFC of 2007-2008, was the lack of effective cooperation among their home and host supervisors.

Following the crisis, international standard-setting bodies particularly the Financial Stability Board (FSB) and the Basel Committee on Banking Supervision (the Basel Committee) renewed the call to institutionalise and refine the use of supervisory colleges as a tool for enhancing cross-border supervisory cooperation and collaboration.

With the active support and oversight of the FSB, supervisory colleges for each of the largest global financial institutions were established not long after the crisis. BCBS also issued the high-level principles for good practices in supervisory colleges in 2010.

Supervisory colleges, surprisingly, have been in place for a long time, with the first supervisory college established back in the 1980s. Supervisory colleges became more widespread following the commencement of Basel II implementation in several jurisdictions from 2004.

Several reviews of the causes and consequences of the financial crisis concluded that the supervisory colleges did not result in more effective supervision of international banking groups prior to that time.

The reasons for this outcome included lack of trust among the supervisory authorities and inadequate support from their leadership. Consequently, there were widespread tendencies for individual supervisory authorities to resort to unilateral actions with respect to regulated institutions under their jurisdiction.

WHAT IS A SUPERVISORY COLLEGE ?

SUPERVISORY COLLEGES

A Supervisory College is flexible, but structured arrangement which enables the home and host supervisors of a banking/financial group to converge at regular intervals and to share information regarding the group on an ongoing basis.

It includes ongoing relationships and communication among these supervisors through meetings, email communications, letters, teleconferences, videoconferences and telephones.

It is a veritable tool for cooperation and coordination among relevant supervisory authorities responsible for overseeing the activities of large, internationally active banks.

The primary role of a Supervisory College is to enhance the effectiveness of cross-border supervision by facilitating information sharing, discussion, and joint decision-making on key supervisory matters.

The BCBS played a pivotal role in promoting the concept of supervisory colleges when it issued in 2010, the "Principles for Effective Risk Data Aggregation and Risk Reporting".

Supervisory colleges aim to enhance the supervision of financial institutions operating across multiple jurisdictions.

ROLE OF SUPERVISORY COLLEGES IN THE SUPERVISION OF CROSS BORDER BANKING GROUPS

ROLE OF SUPERVISORY COLLEGES

- Facilitating information exchange
- Coordinated supervision
- Risk Assessment
- Crisis Management and Resolution Planning
- Promoting Good Practices
- Consistency in Regulatory Expectations
- Contingency Planning

ENHANCING THE EFFECTIVENESS OF SUPERVISORY COLLEGES

ENHANCING THE EFFECTIVENESS OF SUPERVISORY COLLEGES

- Establish clear objectives and mandate.
- Regular communication.
- Create a Framework for Information Exchange.
- Joint Risk Assessment.
- Training and Capacity Building.
- Harmonised Supervisory Practices.
- Crisis Management Protocols.
- Stakeholder Engagement.
- Periodic Review.
- Transparency and Reporting.

THE CBN EXPERIENCE

AS HOME SUPERVISORS

UBA United Bank for Africa	As part of efforts at ensuring effective and efficient cross border supervision of banking groups the CBN inaugurated the College of Supervisors for UBA Plc in 2014. UBA Plc currently has the largest number of offshore subsidiaries (20 Subsidiaries, 1 Branch and 2 Representative Offices).
FirstBank Since 1894	College of Supervisors for FBN was inaugurated in 2019 with a total number of seven (7) offshore subsidiaries. The FBN Group currently operates across 9 countries (7 Subsidiaries and 2 Representative Offices).
ZENITH	The inaugural meeting of Zenith Bank College of Supervisors held virtually in 2021. The banking group has four (4) Offshore Subsidiaries and 2 representatives offices.

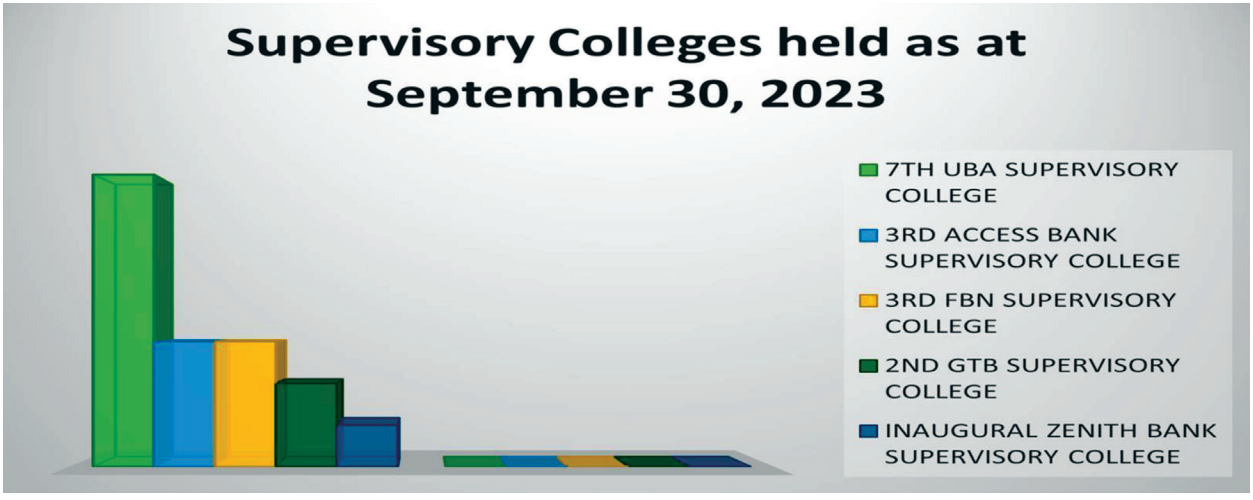
Sequel to the COVID-19 global pandemic, which occasioned travel restrictions amongst other factors, the CBN held the inaugural virtual Supervisory College of Access Bank October 2020.

Access Bank Group has 14 cross border subsidiaries (and 3 Representative offices).

The inaugural supervisory college of GTBank held virtually in October 2020.

GTBank Group operates accross 10 countries (8 direct offshore subsidiaries and 2 in direct offshore subsidiaries).

As at September 30, 2023, the CBN has successfully hosted the following College of Supervisors meetings (physically, virtually and hybrid):



SUPERVISORY COLLEGES: DISCUSSION TOPICS

- Factors that impacted the risk profile of the banking groups.
- Capital allocation and its capital adequacy assessment in the groups.
- Liquidity adequacy assessment.
- Recovery planning and crisis preparedness for the banking groups.
- Cooperation and exchange of information between regulators and supervisors of the systemically important subsidiaries and its implication on the banking groups.
- Adequacy of the banking groups' risk management frameworks, considering the size and complexity of the banking groups' activities and operations.
- Corporate governance, ML/TF and other supervisory concerns.

SUPERVISORY COLLEGES: COMMON RISKS AND CONCERNS

- High non-performing loans ratios.
- High loan and deposit concentration.
- Low financial intermediation with the private sector.
- High exposure to government securities.
- Existence of vacancies for some key top management/ board positions and controlled functions.
- High staff attrition rate and high dependency on outsourced staff.
- Rising trend of cyber risk and data integrity concerns.

HOST SUPERVISORS - SOME SALIENT OBSERVATIONS

- Unmet host countries and supervisors' expectations (low market penetration and credit intermediation).
- Complaint of stringent host regulations and governance requirements (eg. country of origin of MD/CEO and low quota on middle and senior management).
- Trust deficit between some subsidiaries and supervisors.
- Culture misalignment between the parent and subsidiary staff.

REGIONAL SUPERVISORY COLLEGES

The CBN regularly attends the quarterly meetings of the College of Supervisors of the West African Monetary Zone (CSWAMZ). The CSWAMZ was established with the purpose of providing a common platform for regulators from the WAMZ countries to convene and discuss on ways to supervise individual and cross border financial institutions in the Zone.

Main Objectives of the CSWAMZ

- To facilitate the exchange of information, views and assessments among supervisors to allow for a more effective and efficient consolidated solo supervision and timely action.
- Enable supervisors to develop a common understanding of the group's risk profile as the starting point for risk-based supervision at both group and solo levels.
- Contribute to a consistent implementation of WAMZ directives and to the convergence of Member States supervisory practices across the WAMZ.
- Facilitate the implementation/ operationalization of the Memorandum of Understanding between and among various supervisory authorities within the WAMZ.
- Carry out joint onsite reviews/ examination of cross border entities in the zone.

ACHIEVEMENTS OF THE CSWAMZ

i. Carried out more than 30 joint onsite reviews/examinations of cross border entities in the zone since 2011.

ii. Published on an annual basis, financial stability report for the zone

iii. Developed and issued a model banking act for countries in the zone

iv. Issued a harmonized prudential and financial soundness indicators assessment for the zone using the IMF Financial Soundness Indicators as benchmark.

v. Provided technical support to members on standards implementation and automation of regulatory reporting (eg. RBS in Sierra Leone and IFRS in the Gambia and RegCoss in Guinea).

CHALLENGES AND CONSIDERATIONS

While supervisory colleges have improved international cooperation and risk oversight, they face several challenges.

CHALLENGES AND CONSIDERATIONS

LACK OF FORMAL MOUS BETWEEN THE HOST AND SOME HOST SUPERVISORS

Absence of formal MoU's with some host regulators hindered their participation in the college meetings and their capacity to share supervisory information.

INFORMATION ASYMMETRY

Ensuring that relevant information is shared accurately and comprehensively can be challenging, partly due to confidentiality concerns and language barriers in some jurisdictions.

DATA PRIVACY AND PROTECTION RESTRICTIONS

Access to essential supervisory information has been a challenge in some jurisdictions due to restrictions imposed by data privacy and data protection regulations which does not allow the disclosure of customers information to the home supervisor.

DIFFERENT REGULATORY AND SUPERVISORY FRAMEWORKS

The different participating jurisdictions often have different regulatory and supervisory frameworks.

INADEQUATE COMMUNICATION AND TRUST ISSUES

Coordinating between multiple regulatory bodies, especially in times of crisis can be challenging as authorities often resort to independent actions to safeguard their banking system.

CONCLUSION

Supervisory colleges are a testament to the growing acknowledgement of the interconnectedness of the global financial system. They represent a collaborative effort by regulators worldwide to ensure the stability and resilience of cross-border banking groups. By acting cohesively and leveraging the strengths and insights of its members, supervisory colleges can effectively supervise cross-border banking groups.

While they come with their set of challenges, the colleges offer a proactive approach to understand, manage and mitigate the risks associated with globally operating banks.

They can enhance cooperation among regulators and ensure a holistic understanding of these institutions operations, risk and governance, ultimately contributing to the stability of the global financial system.

As the financial industry continues to evolve, supervisory colleges remain relevant in addressing the regulatory challenges associated with globally active financial institutions. They are integral to promoting financial stability and safeguarding the interests of both domestic and international environment.

CONGLOMERATE SUPERVISION & CROSS BORDER COOPERATION: RISK MATRIX PREPARE FOR CRISES

LINDA van GOOR (IMF)

RISK TYPES

Which risk types typical for the West & Central African economy or financial system, which are not monitored in the monthly or quarterly supervisory financial reports, and where a belief or an assumption about its development or level could materialize throughout the group to concerning levels?

See list of potential risk concentrations (beliefs) in Monday's discussion: liquidity, inflation & resilience, terrorism, corruption, micro-finance & financial inclusion/exclusion, money laundering, telecom & fintech.

The biggest risks may be either the same for all, like climate related risk, or different for all, like RPTs following an ownership & business structure

CONGLOMERATE RISK MATRIX – WHAT CAN IT DO?

Identification of

(1) significant activities,

(2) type & level of inherent risks in these activities,

(3) adequacy of management over these activities

Results in composite risk assessments for each activity and for the overall conglomerate.
Applicable at solo & consolidated level, by business line, subgroup of legal entities or function

CONGLOMERATE RISK MATRIX – WHAT CAN IT DO?

Flexible tool documents and enables:

- Systematic assessment of the conglomerate within a framework;
- Identification of areas within a conglomerate where problems exist or are likely to emerge;
- Prioritization of areas to examine, review, and/or monitor
- Initiation of warranted and timely action by authorities

So no need for legislative changes.

RISK MATRIX – CAPTURING EVERYTHING

Activities in legal entity or business line or group

Exposures in these activities, in money & people

Your own list of typical potential risk concentrations

Assessment of effective risk management

Functional Tier Risk Matrix
ABC Group, Inc.

Activity	Exposure			inherent Risks													Risk mitigation				Composite	DIRECTION
	Solvency (insurance, funds)	% of Total Assets	% of Portfolio	Credit	Market	Liquidity	Operational / Transaction	Legal/Regulatory	Reputation	Country/Sovereign	Systemic/Shock/Contagion	Concentration	intra-group Transactions	Stratégic and execution	Insurance - Technical	Insurance - underwriting	Autre	Governance	Policies/Procedures/Limits	Risk Monitoring (MS)	Internal Controls		
Regulated financial																							
Consumer																						LOW	↑
Commercial																						MODERATE	↑
Insurance																						MODERATE	↓
Securities brokerage																						LOW	↔
Asset Management																						LOW	↔
Unregulated financial																							
Consumer																						MODERATE	↑
Commercial																						HIGH	↔
Treasury / Capital markets																						HIGH	↑
Information technology																						MODERATE	↓
Other																						HIGH	↔

RISK TYPES BANKS, INSURANCE & SECURITIES

Types of Risks	Definition
Credit	Credit risk arises from the potential that a borrower or counterparty will fail to perform on an obligation.
Market	Market risk is the risk to a financial institution's condition resulting from adverse movements in market rates or prices, such as interest rates, foreign exchange rates, or equity prices.
Liquidity	Liquidity risk is the potential that an institution will be unable to meet its obligations as they come due because of an inability to liquidate assets or obtain adequate funding.
Operational	Operational risk arises from the potential that inadequate information systems, operational problems, breaches in internal controls, fraud, or unforeseen catastrophes will result in unexpected losses.
Legal / Compliance	Legal risk arises from the potential that unenforceable contracts, lawsuits, or adverse j… affect the financial entities. Compliance risk is the conglomerates ability to comply with laws and regulati…
Reputation	Reputation risk is the potential that negative publicity regarding an institution's busines… decline in the customer base, costly litigation, or revenue reductions.
Country	Country risk arises from the general level of political, financial, and economic uncertain… country's bonds and equities.
Contagion / Systemic	Contagion entails the risk that financial difficulties encountered by a conglomerate's in… t on the financial stability of the group as a whole and possibly even on the markets in which the constit… financial system instability, potentially catastrophic, caused or exacerbated by idiosyncratic events or c…
Concentration	The exposure to losses due to concentration (assets, liabilities, off-balance-sheet) eith… el.
Intra-Group Transactions	Exposures to risk that result from transactions between affiliates.
Strategic And Execution	Strategic and Execution risk is the risk to earnings or capital arising from adverse busin… those decisions. This risk is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals, and the quality of implementation. The resources needed to carry out business strategies are both tangible and intangible. They include communication channels, operating systems, delivery networks, and managerial capacities and capabilities. Strategic risk focuses on more than an analysis of the written strategic plan. It focuses on how plans, systems, and implementation affect the enterprise's franchise value. It also incorporates how management analyzes external factors that impact the strategic direction of the company.
Other	
	Insurance
Insurance – underwriting	
Insurance – technical	
	All sectors
Political risk	Political risk is faced by banks, insurers, businesses or governments when political decisions, events, or conditions may significantly affect the profitability of a business actor or the expected value of a given economic action, for example currency transfer restrictions, expropriation, or political violence, or the withdrawal of relevant political support
Climate-related risks	CRRs regard (1) risks related to the transition to a lower-carbon economy and (2) risks related to the physical impacts of climate change. The latter includes the harmful impact of the financed or insured activity on the environment, which will affect the value of the financed or insured activity in the longer term, such as its carbon footprint.
Cyber risks	Cyber risk regards three kinds: a confdentiality breach, i.e. confidential information being stolen; an availability breach, where the services provided by a financial institution are inaccessible or unusable upon demand by authorised entities (e.g. because the channels of communication between a financial institution and its participants and other organisations are unavailable) but where the systems per se are still intact; an integrity breach, which is the corruption of a financial institution's data or systems affecting the accuracy or completeness of the information and processing methods (and which could also impact the availability of services).

Make your own list of typical (causes of) compounding risks

RISK MANAGEMENT ELEMENTS

ELEMENTS OF RISK MANAGEMENT SYSTEMS	
Governance / Board and Senior Management Oversight	A review of this area evaluates the adequacy and effectiveness of board and senior management's understanding and management of risk inherent in the holding company enterprise's activities, as well as the general capabilities of management. It also considers management's ability to identify, understand, and control the risks within the holding company enterprise, to hire competent staff, and to respond to changes in risk profile or innovations in the banking sector.
Policies, Procedures and Limits	A review of this area evaluates the adequacy of policies, procedures, and limits given the risks inherent in the activities of the consolidated enterprise and its stated goals and objectives. Your analysis should consider the adequacy of the enterprise's accounting and risk disclosure policies and procedures.
Risk Monitoring and Management Information Systems	A review of this area assesses the adequacy of risk measurement and monitoring, and the adequacy of its management reports and information systems. Your analysis should include a review of the assumptions, data, and procedures used to measure risk and the consistency of these tools with the level of complexity of the enterprise's activities.
Internal Controls	A review of this area evaluates the adequacy of internal controls and internal audit procedures, including the accuracy of financial reporting and disclosure and the strength and influence, within the enterprise, of the internal audit team. Your analysis should include a review of the independence of control areas from management and the consistency of the scope coverage of the internal audit team with the complexity of the enterprise.

ADEQUACY OF RISK MANAGEMENT DEFINITIONS		
S	**Strong risk management**	• The conglomerates' risk management processes are fully effective in identifying, monitoring, and mitigating risks across conglomerate sectors. • Management demonstrates priority for contingency planning, policies and limits exist and are part of the board's strategic planning. • The examiner has nominal recommendations in-line with best practices.
A	**Acceptable risk management**	• The conglomerates' risk management is largely effective, but lacking in some modest degree. • Management ensures that appropriate contingency planning, policies and limits exist and are understood, reviewed, and approved by the board. • The examiner may have recommendations for improvement, but the weaknesses noted should not have a significant effect on the safety and soundness of the enterprise.
W	**Weak risk management**	• The conglomerates' risk management practices are lacking in some important ways and, therefore, are a cause for more than normal supervisory attention. • Risk management structure may need to be improved in areas of significant business activity, or staff expertise may not be commensurate with the scope and complexity of business or cross-sectoral activities. • The examiner notes risk management weaknesses could have adverse effects if not addressed by management.

LEVEL OF RISK

LEVEL OF INHERENT RISK	
LOW	Volume, size, or nature of activity pose immaterial or minimal impact, in the event of loss, on the conglomerate's condition.
MODERATE	Volume, size, or nature of activity is average comprising traditional or typical risks. Loss exposures could be absorbed in the normal course of business.
HIGH	Volume, size, or nature of activity could result in significant and harmful loss.

MATRIX – LESS IS MORE

Top-Tier Risk Matrix ABC Group, Inc.

ACTIVITY	RISK PROFILE	DIRECTION
Regulated Financial		
Consumer	LOW	↑
Commercial	MODERATE	↑
Insurance	MODERATE	↓
Securities Brokerage	LOW	↔
Asset Management	LOW	↔
Unregulated Financial		
Consumer	MODERATE	↑
Commercial	HIGH	↔
Treasury / Capital Markets	HIGH	↑
Information Technology	MODERATE	↓
Other (Industrial, Entertainment, Infrastructure)	HIGH	↔

MAPPING YOUR SUPERVISORY PRIORITIES

RISK TARGETS			
	DIRECTION		
RISK PROFILE (weighted)	Decreasing ↓	Stable ↔	Increasing ↑
LOW	Low/ ↓	Low/ ↔	Low/ ↑
	Monitor 1	Monitor 1	Target 1
MODERATE	Moderate/ ↓	Moderate/ ↔	Moderate/ ↑
	Monitor 2	Target 1	Target 2
HIGH	High/ ↓	High/ ↔	High/ ↑
	Target 1	Target 2	Immediate

CROSS BORDER SUPERVISION COVERS OTHER RISKS, GROUP RISKS

Risk assessment includes risk matrix & dashboard

These are made up from reviewing

- Organisational structure
- Intra group ownership structures & strength of capital
- Related parties transactions
- Risk concentrations

The sector-specific and national risk assessments are discussed in the supervisory college.
Discuss differing perspectives of issues and Choose Focus for joint efforts.

SUPERVISORY AND CRISIS COLLEGE – IF POSSIBLE

Crisis Planning

- Key firm contacts
- Does the conglomerate have crisis planning?
- Resolution plans? Living wills? Recovery plans?
- Key supervisory contacts
- Public interest – insured deposits, policy holders, market conduct
- Communication plan – one voice

A crisis will never emerge from a risk you've seen! A crisis always emerges from an uncertainty that materializes. But you will be prepared as you know who can deal with what.

BEFORE A CRISIS HITS

- Develop risk profile – use risk matrix & find hot spots;
- Coordinate supervisory activities with sister agencies;
- Work together on intra-group relationships and transactions;
- Clean capital – or know where it's tied together;
- Share information and exercises before a crisis hits, for building trust.

TRY & DRAFT A SUPERVISORY PLAN, INCLUDING COORDINATED EXAMINATION ACTIONS & PLANNING

I. Legal supervisory mandates & MMoU

II. Risk profile fico:

- Organizational structure
- Ownership & strength of capital (supported by dashboard)
- RPTs (material RPTs & group policy)

III. Examination schedule & Examination coordination cross-sector

IV. Communication & contact persons of fico & agencies

DEVELOPMENTS IN THE NIGERIAN BANKING SYSTEM

HARUNA B. MUSTAFA
DIRECTOR OF THE BANKING SUPERVISION
CENTRAL BANK OF NIGERIA

OUTLINE

1

MACROECONOMIC OVERVIEW
Economy & Banking Sector

2

REGULATORY & SUPERVISORY FRAMEWORKS
Changes & Review of Frameworks Guidelines

3

AML/CFT COMPLIANCE
Sector-Wide Assessment
FATF Listing Experiences and Learnings
Prevention and Common Concerns

4

SUPERVISORY JOURNEY
Climate-Related Risks Sustainable Finance Initiatives

5

RECOVERY PLANNING REQUIREMENTS
In-Country Framework
Resolution and Crisis Management

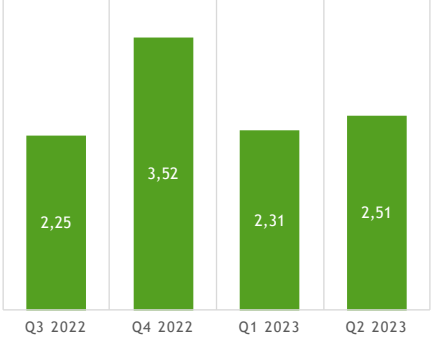
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FUTURE OUTLOOK
Supervisory Expectations

1.
MACROECONOMIC OVERVIEW

Economy & Banking Sector

REAL GROSS DOMESTIC PRODUCT (GDP)



REAL GROSS DOMESTIC PRODUCT (GDP)

The Nigerian economy grew by 2.51% in real term in Q2 2023 compared with the growth rate of 2.31% in Q1 of 2023.
The growth was, however, lower than 3.52% achieved in Q4 of 2022, and below market forecast of a growth of 3.0%.

INFLATIONARY PRESSURE

Continued uptick in inflationary pressure, as headline inflation (year-on-year) rose by 0.92 basis points to 26.72 per cent in September 2023 from 25.80 per cent in the previous month. This uptick was driven by the increases to both food and core components.

This steady and positive performance was driven largely by sustained growth in the services and industry sectors, supported by broad-based measures by both the monetary and fiscal authorities.

S/NO	ECONOMIC INDICATORS	AUGUST 2023	SEPT. 2023
1	Price Signals (Headline Inflation) (YoY)	25.80%	26.72%
2	Monetary Aggregates (Broad Money Supply)	0.36%	2.26%
3	Interest Rate Developments/ Open Buy Back (OBB)	1.30%	2.20%
4	External Sector (External Reserves)	US$33.95 billion	US$33.23 billion

The All-Share Index (ASI) increased to 66,382.14 from 65,558.91 while Market Capitalization (MC) increased to N36.33 trillion from N35.88 trillion between August and September 2023, respectively.

The market has remained resilient during the period under review.

Key developments that would likely sustain upward pressure on domestic prices, in the short to medium term, are the recent deregulation of petrol price and the transition to a unified and market-determined exchange rate.

As at end July 2023, the

- MPR was raised by 25 basis points, from 18.50 to 18.75 per cent;
- asymmetric corridor was adjusted to +100/-300 basis points around the MPR;
- CRR stood at 32.5 per cent; and
- Liquidity Ratio was retained at 30 per cent.

The September meeting of the MPC was postponed owing to changes in the Management of the CBN.

Types & Number of Institutions under the Regulatory Purview of the CBN as at September 30, 2023.

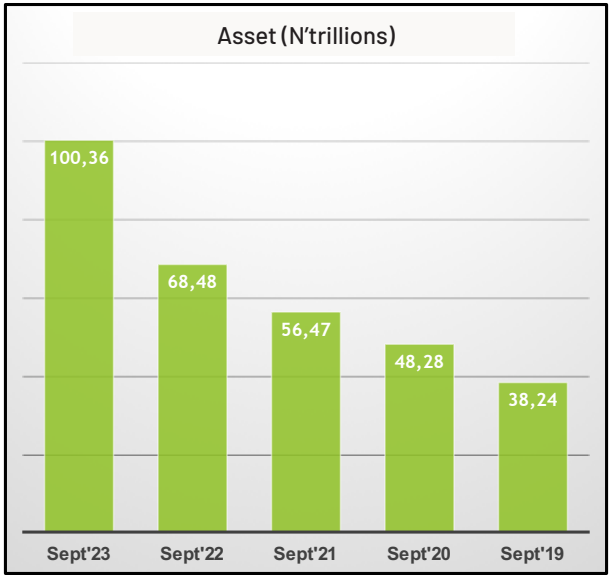
BANKING SECTOR (BSD)	OTHER FINANCIAL INSTITUTIONS SECTOR (OFISD)
Commercial Banks (26)	Micro-finance Banks (MFBs) (712)
Merchant Banks (6)	Primary Mortgage Banks (PMBs) (32)
Non-Interest Banks (3)	Development Finance Institution (DFI's) (7)
Financial Holding Companies (6)	Finance Companies (FCs) (110)
Asset Management Companies (1)	Bureaux-de-Change (BDCs) (5,689)
Payment Service Banks (5)	Fintechs
Credit Bureaux (3)	

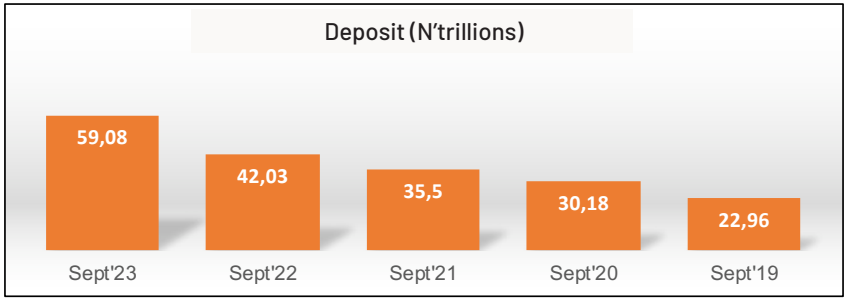
AS AT SEPTEMBER 2023				
TYPE DE BANQUE	N° DE BANQUES	ACTIFS	DÉPÔTS	CREDIT
		N' Billions		
International	7	69,136.69	41,077.35	27,202.23
National	22	29,145.10	16,671.40	11,540.18
Regional	6	2,151.76	1,329.42	753.43
TOTAL	35	100,359.29	59,078.17	39,495.84

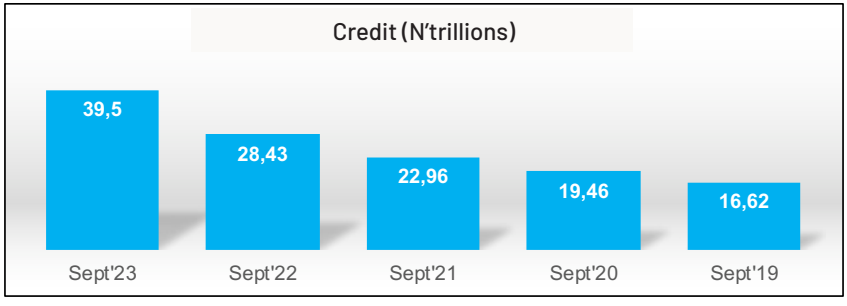
SELECTED FINANCIAL SOUNDNESS INDICATORS

ÉVOLUTION DES INDICATEURS DE SOLIDITÉ FINANCIÈRE				
INDICATEUR	**EXIGENCE PRUDENTIELLE**	**SEPT-22**	**SEPT-23**	**CHANGEMENT**
CAR (%)	10% - 15%	13.8	12.90	↓
Ratio NPLs (%)	Max: 5%	4.90	4.36	↓
Ratio de liquidité (%)	Min: 30%	41.0	43.68	↑
ROE (%)	N/A	18.4	36.63	↑
ROA (%)	N/A	1.5	2.50	↑
Int. Marge int. sur Revenu op. Tot. (%)	N/A	59.1	51.28	↓
Ops. par rapport au revenu op. total (%)	N/A	74.6	59.99	↓

YEARLY TRENDS OF INDUSTRY AGGREGATES







2.
REGULATORY & SUPERVISORY FRAMEWORKS

Changes and Review of Frameworks/Guidelines

ISSUANCE OF GUIDELINES & REGULATIONS

Issuance of Guidance Notes on Politically Exposed Persons (PEPs)	Issuance of the Customer Due Diligence Regulations, 2023	Issuance of Guidelines for Non-Interest Financial Institutions
		
The CBN issued the Guidance Notes on Politically Exposed Persons (PEPs) to assist financial institutions in the identification and management of risks associated with PEPs. The Guidance Notes were issued on June 22, 2023.	The CBN issued the Customer Due Diligence Regulations, 2023, to assist Financial Institutions with compliance and implementation with relevant provisions of extant Laws and Regulations.	Financial Regulation Advisory Council of Experts held its statutory meeting and approved the draft Non-Interest Guidelines for Financial Institutions for exposure to external stakeholders.

FRACE is a body established to advise CBN on matters relating to Islamic commercial jurisprudence for the effective regulation and supervision of NIFIs in Nigeria.

REVIEW OF GUIDELINES

1

The Guidelines on Representative Office of a Foreign Bank in Nigeria was approved and issued vide a Circular dated May 3, 2023.

2

Draft Guidelines for Management of Dormant Accounts, Unclaimed Balances, and Other Financial Assets in Banks and Other Financial Institutions was exposed to the industry for comments on April 6, 2023.

UPDATE ON BASEL III IMPLEMENTATION

The parallel run of Basel II and III standards has been successfully completed on September 30, 2022.

The BSD team responsible for that process has submitted its report on the outcomes of the parallel run, including recommendations to the Management of the Bank.

The cutover date to Basel III standards in Nigeria is awaiting Management's approval.

3.
AML/CFT COMPLIANCE

Sector-wide Assessments

UPDATE ON SECTOR WIDE ASSESSMENT: AML/CFT/CPF

1

Following the adoption of the Mutual Evaluation Report (MER) on Nigeria by GIABA in August 2021 and subsequent grey-listing in February 2023, the country had sustained efforts in implementing most of the MER's recommended actions to improve its AML/CFT system.

2

Nigeria has a commitment at the highest level to work with the FATF and GIABA to strengthen the effectiveness of its AML/CFT/CPF regime

UPDATE ON SECTOR WIDE ASSESSMENT: AML/CFT/CPF (2)

3

MER's recommendations implemented include development of AML/CFT supervisory guidelines, Capacity building outreach for financial institutions and increased frequency in the conduct of target examination on specific procedures.

4

During the second quarter of 2023, the CBN issued Guidance note on Politically Exposed Persons (PEPs) for Banks and Other Financial Institutions to assist the financial institutions in the assessment and mitigation of ML/TF/PF risks associated with business relationship with PEPs.

Le Nigeria travaille assidûment pour sortir de la liste grise avant les deux (2) ans qui lui ont été accordés pour remédier aux problèmes en suspens.

4.
SUPERVISORY JOURNEY

Climate-Related Risks - Sustainable Finance Initiatives

The CBN in collaboration with the banks, developed and issued in July 2012, a set of nine (9) Sustainable Banking Principles and three sector guidelines for Agriculture, Power, and Oil & Gas. A template for reporting by banks was further issued in 2014 and covers the underlisted activities:

Our Business Activities: Environmental and Social Risk (E&S);
Business Operations: Environmental and Social Footprints;
Human Rights;
Women's Economic Empowerment;
Financial Inclusion;
Environmental and Social Governance;
Capacity Building;
Collaborative Partnership; and
Reporting.

CLIMATE RELATED RISKS AND SUSTAINABLE INITIATIVES (2)

- The Central Bank of Nigeria in 2023 reviewed the December 2022 returns of 33 banks to assess the status of implementation of the Nigeria Sustainable Banking Principles (NSBPs). The banking industry recorded considerable progress in the implementation of the NSBPs. The review indicates that most banks have adopted Environmental and Social risks in their business decision-making and introduced measures to reduce their environmental footprints for their operations, amongst others.

- Banks that did not meet the prescribed standards of implementation of the NSBPs were directed to address the observed weaknesses and lapses including the enhancement of environmental and social risk management practices, deployment of measures to reduce their footprints from operations, E&S assessment of third-party vendors, and building the capacity of their employees.

- Development of Guidelines for climate-related financial risks is underway.

5.
RECOVERY PLANNING REQUIREMENTS

In-Country Framework
Resolution and Crisis Management

RECOVERY AND RESOLUTION PLANNING

The CBN requires Domestic Systemically Important Banks (DSIBs) to submit their recovery and resolution plan (RRP) every year for review. The Recovery Plan involves the development of a menu of options that a DSIB will deploy to address a situation of severe financial stress caused by idiosyncratic or systemic factors or a combination of both.

Below is a list of elements that a D-SIBs recovery plan should contain:

1. **Corporate & Financial Information**
2. **Legal Structure**
3. **Business Model**
4. **Critical Functions / Services**
5. **Scenario Design and Analysis**
6. **Early Warning Indicators and Triggers**
7. **Recovery Options and Impact Assessment**
8. **Clearing and Settlement Systems**
9. **Financial Information**
10. **Funding**
11. **Derivatives**
12. **Governance Structure**
13. **Management Information System**
14. **Integration of the RRP with existing Frameworks**
15. **Communication Plan and Information Management**

For more information on the above, kindly visit this link
Domestic Systemically Important Banks (cbn.gov.ng)

To facilitate bank resolution, which may involve a bail-in, financial assistance, assisted merger and acquisition, purchase and assumption, or bridge bank, D-SIBs are required to provide the CBN and NDIC on annual basis, with the following information, among others:

1. All payment due from shareholders on equity interest, common or preference shares;
2. All potential contingent liabilities such as litigation and guarantees and other debt instruments that are convertible into equity or written down;
3. All senior, subordinated and intra-group debt instruments and the total amount outstanding;
4. Schedules of all creditors (secured and unsecured) segregated into: preferred creditors, general creditors, judgement debt and pending litigations. In respect of secured creditors, collateral details (value, locations, status of perfection, etc.), Any cross-default provisions has to be specified;
5. Annual Budget of the D-SIB and its subsidiaries;
6. Single Customer View generation process.

6.
FUTURE OUTLOOK

Risks, Vulnerabilities and Mitigation

Major risks and vulnerabilities of the banking sector during the review period include:

RISKS

- Increased credit default risk due to poor harvest and climate-related risk events;
- Cybersecurity risk;
- Concentration of credit by sector and obligor;
- Exchange rate risk (FX unification regime);
- Climate change-related financial risks.

VULNERABILITIES

- High sovereign debts and defaults in some host countries of Nigerian banks;
- inflationary pressures as a result of subsidy removal, driven by food inflation;
- AML/CFT/CPF effects on correspondent banking; and;
- rising public debt and high debt service burden.

MITIGANTS TO THE IDENTIFIED RISKS AND VULNERABILITIES

- Implementation of Basel III will further strengthen the supervisory framework.
- High capital and liquidity buffers as the current industry CAR and LR were 12.90% and 43.68% at end September 30, 2023, compared with the regulatory minimum of 10% and 30%, respectively.
- Strong corporate governance framework.
- Ongoing enhancement to the AML/CFT/CPF regulations.
- Well-diversified financial services market with a broad range of products and services.
- A robust and efficient payments system.
- Strong macroprudential regulatory and supervisory framework.
- An explicit deposit insurance scheme and systemic resolution fund.

The Key FSIs (CAR, LR and NPL) have remained within the prescribed prudential limits.

Total banking sector assets, credit and deposits have continued their upward growth trajectory since Q1 2021.

Overall, the Nigerian banking system remains safe, sound and stable with a positive outlook.

NDIC

Nigeria Deposit Insurance Corporation

Protecting your bank deposits

DEPOSIT INSURANCE SYSTEM (DIS) IN NIGERIA: NDIC EXPERIENCE

OUTLINE

1. Meaning of Deposit Insurance System (DIS)
2. Types of DIS
3. Establishment of DIS in Nigeria
4. Design Features of DIS in Nigeria
5. Functions of NDIC
6. Mandate of NDIC
7. Conclusion

MEANING OF DEPOSIT INSURANCE SYSTEM (DIS)

- Deposit Insurance System (DIS) is a financial guarantee to protect depositors in the event of bank failure and also to offer a measure of safety for the banking system.
- DIS has become a key component of most financial systems world wide because of the important roles it plays in protecting depositors as well as contributing to financial system stability.
- It is one of the major components of the Financial Safety-Nets:
  - Lender of Last Resort
  - Prudential Regulation and Supervision
  - Deposit Insurance System DIS)

There are two (2) Major Types of DIS: **Implicit and Explicit**

Implicit DIS

- It is a discretionary method used by authorities to prop up some failing deposit-taking financial institutions;
- There are no statutory rules regarding the eligibility of bank liabilities, the level of protection provided or the form which reimbursement will take;
- Funding is discretionary and often depends on government's ability to access public funds;
- All decisions and actions are flexible, ad-hoc and uncertain;
- By its nature, implicit protection creates uncertainty about how depositors, creditors and others will be treated when bank failures occurs;
- Such uncertainty can undermine stability of the financial system when bank fails.

Merits	Demerits
Promote market discipline and may lower moral hazard	Slow response to crisis due to debate on budgetary requirement
Prevents failure of large banks	Makes government to solely bear the burden of failure
	May conflict with some macro-economic objectives such as price stability as more fund than initially anticipated could be injected into the system
	Lower confidence in the system as there is no explicit guarantee

Explicit DIS

- Established by legislation or private contract which spell out its mandate, powers and governance structures.
- The enabling legislation states the objectives of the scheme and other operational guidelines relating to such issues as ownership, funding arrangement, extent of coverage and compensation limit, membership, rules and regulations guiding participation, supervisory and resolution powers among others.

Variant of Explicit DIS

Pay-Box:

A Deposit Insurer with powers limited to paying out the claims of depositors

- It may collect premium if the system is contributory.
- May also manage DIF.

Pay-Box Plus:

- In addition to the power of Pay-box, they can set regulations.
- They also have authority to undertake liquidation.

Loss Minimizer:

- A Deposit Insurer with all the duties of Pay-Box Plus and much more resolution options.
- It determines resolution and receivership strategies as well as manages claims and optimizes recoveries.
- Do not have supervisory powers.

Risk Minimizer:

- A Deposit Insurer with powers to reduce the risk it faces
- It has the broadest roles, mandates and powers
- Have powers to resolve failures, monitor member institutions, carry out on-site examination, provide financial/ technical assistance including open bank assistance with enforcement power

ESTABLISHMENT OF DIS IN NIGERIA

- **The DIS in Nigeria is the explicit type backed by an enabling law.**
- **The NDIC Act No. 22 of 1988 (later repealed and replaced with NDIC Act No. 16 of 2006 and now NDIC Act No. 33 of 2023) is the enabling Act of the NDIC.**
- **NDIC commenced operation in 1989 as a Risk Minimizer.**
- **NDIC's Public Policy Objectives (PPOs):**
  - a) protecting depositors by providing an orderly means of compensation in the event of failure of their insured institutions,
  - b) contributing to financial system stability through effective surveillance mechanisms in its role as a key participant in the financial system safety-net arrangement ; and
  - c) enhancing public confidence and financial system stability by providing a framework for the resolution of failing insured institutions as well as an orderly exit mechanisms for failed insured institutions.

DESIGN FEATURES OF DIS IN NIGERIA

Ownership	CBN - 60% , Federal Ministry of Finance - 40%
Governance	• Independent Board that provides oversights • Director, Banking Supervision (DBS) of CBN is an automatic member of the Board • Executive Management (MD & 2 EDs) responsible for day-to-day management
Participating Institutions	• Participation is compulsory for all CBN licensed deposit-taking financial institutions. • Presently, NDIC insures deposit liabilities of all licensed Commercial Banks, Merchant Banks and Non-Interest Banks (NIBs), Mobile Money Operators (MMOs), Payment Service Banks (PSBs), Primary Mortgage Banks (PMBs), and Microfinance Banks (MFBs).
Coverage	• All deposit liabilities except: insider deposits i.e. deposits of staff & Directors, Deposits held as collateral for loans (counterclaims), and inter-bank takings. • Discourages moral hazard which is the incentive for excessive risk takings.
Maximum Coverage	• Maximum insured sum of ₦500,000 (622 USD) in the case of a depositor of an insured institution such as Commercial Banks, Merchant Banks, NIBs, MMOs, PSBs, PMBs. • Maximum insured sum of ₦200,000 (249 USD) in the case of depositor of MFBs. • XYZ Bank has a total deposit liabilities of ₦ 6,883,969,357,415 as at September 30, 2023 and a customer base of 19,928,022. ₦ 462,095,503,627 or 6.71% of the total deposit liabilities were balances below ₦ 500,000 owned by 19,051,073 or 95.60% of the customers.

CARACTÉRISTIQUES DU SAD AU NIGERIA

Funding	• **Premium collected from insured institutions on ex-ante basis and warehoused in:** Deposit Insurance Fund (DIF) for Commercial Banks, Merchant Banks & MMOs, Special Insured Institutions Fund (SIIF) for MFBs and PMBs, Non-Interest Deposit Insurance Fund (NIDIF) for NIBs, Non-Interest Special Insured Institutions Fund (NISIIF) for Non-Interest MFBs, Payment Service Bank Insurance Fund (PSBIF) for PSBs.
Funding	• **Premium assessment initially was on flat rate basis.** • **Flat Rate: 15/16 of 1% (0.9375% or 0.9375 basis points) of total assessable deposits as at 31st December of the preceding year for all banks.** • **Flat Rate: 8/16 of 1% (0.5% or 0.5 basis points) of total assessable deposits as at 31st December of the preceding year for all MFBs and PMBs.** • **The premium assessment basis was changed in 2008 from flat rate basis to a risk-adjusted Differential Premium Assessment System (DPAS).** • **DPAS uses a combination of a premium Base Rate (Ro) and Add-Ons based on the risk profile of individual bank using both quantitative and qualitative criteria.** • **To cushion the effect on banks on the establishment of Financial Stability Fund, the base rate (Ro) for banks was reviewed downward from 0.50% or 50 basis points in 2008 to 0.40% or 40 basis points in 2011.**
Financement	• **The base rate was further reviewed downward to 0.35% or 35 basis points in 2015. In all the reviews, the add-ons for banks were retained at 0.30% or 30 basis points.** • **Maximum DPAS rate:** Banks: Ro + Add-Ons = 0.35% + 0.30% = 0.65% of Assessable Deposits PMBs: Ro + Add-Ons = 0.10% + 0.10% = 0.20% of Assessable Deposits MFBs: Ro + Add-Ons = 0.20% + 0.25% = 0.45% of Assessable Deposits

Functions of NDIC according to Section 3 of the NDIC Act	Derived Mandate
Guaranteeing deposit liabilities of financial institutions licensed or authorised to accept deposits from the public in accordance with BOFIA	Deposit Guarantee
Supervising insured institutions to mitigate the risk of failure, with the concurrence of CBN	Banking Supervision
Resolution of failing insured institutions with the concurrence of CBN	Distress Resolution
Prompt, efficient and orderly liquidation of failed insured institutions	Bank Liquidation

Deposit Guarantee

- Most significant and distinct role of NDIC.
- The insured amount must at least cater for a minimum of 85% of depositors in order to protect small depositors.
- Surveys conducted to ascertain the maximum insured amount.
- The Board has power, to vary upwards the maximum amount.
- NDIC paid insured sum of ₦1.393 billion to 36,163 depositors of the recently closed 182 MFBs and PMBs.

Banking Supervision

- The DIS model in Nigeria is risk minimizer, hence the inclusion of bank supervision as one of the key functions of NDIC.
- The CBN has the primary responsibility for the supervision of banks in Nigeria while the NDIC complements that role.
- Thus, banking supervision is an essential element of the DIS in Nigeria as it seeks to reduce the potential risk of failure and ensures that unsafe and unsound banking practices do not go undetected, thereby promoting public confidence in the banking system.
- CBN and NDIC actively collaborate at the governance and operational level through:
  - CBN/NDIC Executive Committee on Supervision.
  - CBN/NDIC Joint On-site Examination and Off-site Supervision of Banks.
  - Joint CBN/NDIC Technical Committees.
  - Financial Services Regulation Coordinating Committee (FSRCC).
  - Bankers' Committee.

Banking Supervision

On-Site Examination Activities:

- RBS Examination (Joint CBN/NDIC).
- Cybersecurity Evaluation and Review Process (Joint CBN/NDIC).
- Risk Assets Examination (Joint CBN/NDIC).
- Consolidated Supervision of Groups (Joint by FSRCC Members).
- Market Conduct and Investigations (Solo to each Organisation).
- Monitoring (Solo to each organization).
- RBS Examination of MFBs and PMBs (Joint CBN/NDIC).
- AML/CFT Examination (CBN Only).
- FOREX Examination (CBN Only).
- Examination of Payment Service Banks (CBN Only).
- Cross-Border Examination (CBN Only).

Offsite Supervision and Surveillance Activities

- Use of same set of prudential returns for bank analysis.
- Early Warning System (EWS) (Joint CBN/NDIC).
- Stress Testing (Joint CBN/NDIC).
- Fit and Proper Persons (Joint CBN/NDIC).

Distress Resolution

- **In conjunction with the CBN, one of the primary roles of NDIC is to ensure that failing institutions are resolved in a timely and efficient manner.**
- **Prevent further deterioration in the condition of the affected institutions and the risk of contagion.**
- **Prevent deposit runs that would have created instability in the financial system.**
- **Depending on the severity and peculiarity of the situation, NDIC in collaboration with the CBN had, over the years, successfully adopted the following measures, among others, to address bank distress:-**
  - Open Bank Assistance (Financial and Technical):
    - Accommodation facilities.
    - Take-over of management and control of distressed banks to save the banks from reckless mismanagement and dissipation of depositors' funds.
    - Acquisition, restructuring and sale of banks to new investors.
  - Pay-Out
    - This involves the reimbursement of insured sum to the depositors of closed banks.
    - It could be direct or transfer to agent bank.
  - Purchase & Assumption (P&A)
  - Bridge Bank

Bank Liquidation

- The bank liquidation option is adopted for banks that fail to respond to failure resolution measures.
- The CBN revokes the licence of the bank where it is most effective.
- Whenever the licence of a bank is revoked by the CBN, the Corporation shall act as liquidator of such institution.
- It involves orderly and efficient closure of the failed institutions with minimum disruption to the banking system, cost-effective realisation of assets and settlement of claims to depositors, creditors and where possible, shareholders.
- Some episodes of bank closure in Nigeria:
  - 1994 – 4 Banks
  - 1995 – 1 Bank
  - 1998 – 26 Banks
  - 2000 – 3 Banks
  - 2002 – 1 Bank
  - 2003 – 1 Bank
  - 2006 – 14 Banks
  - 2010 – 103 MFBs
  - 2012 – 24 PMIs
  - 2020 – 42 MFBs
  - 2023 – 179 MFBs & 3 PMBs

Because banks can fail and do fail, many countries including Nigeria have put in place an Explicit DIS as part of their safety-net arrangements. Although the purpose may differ from one jurisdiction to another, they all typically involve promoting financial system stability and protection of small depositors in the case of imminent or actual collapse of insured institutions.

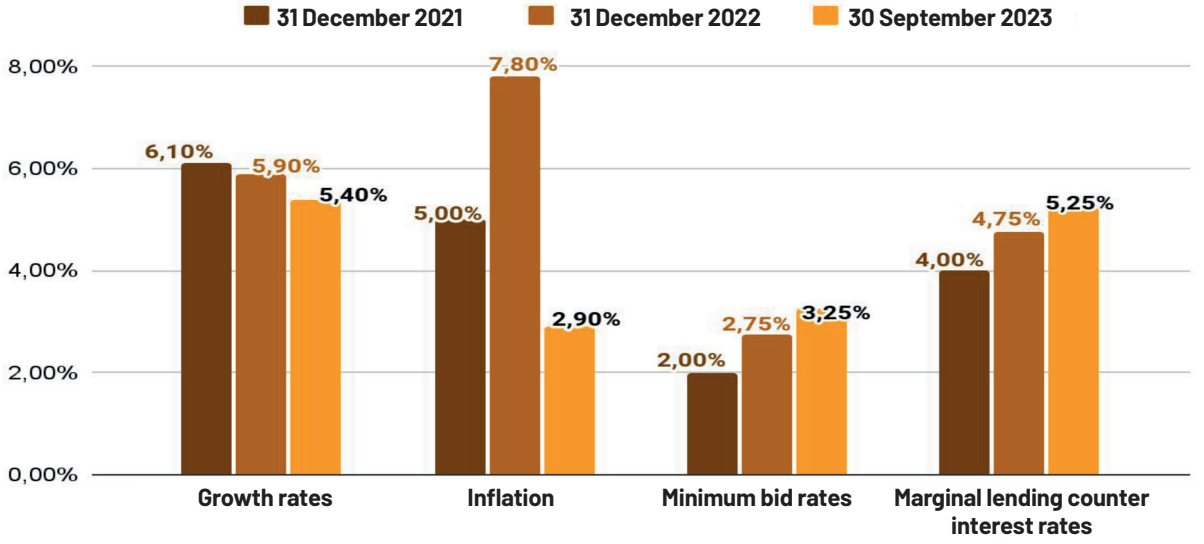
SITUATION OF THE BANKING AND MICROFINANCE SECTORS IN THE WEST AFRICAN MONETARY UNION (WAMU)

OUTLINE

1. Macroeconomic status
2. Banking sector status
3. Situation of the large-scale decentralised financial systems (SFD) sector
4. Major regulatory developments
5. International cooperation

1.
MACROECONOMIC ENVIRONMENT AT SEPTEMBER 30, 2023

1. MACROECONOMIC ENVIRONMENT AT SEPTEMBER 30, 2023



- The economic activity remains robust, driven by strong domestic demand (public investment and improved household purchasing power in particular);
- Decline in the inflation rate, due in particular to the contraction in the rate of increase in food prices;
- BCEAO key rates raised to 3.25% from September 16, 2023, following the Monetary Policy Committee meeting that was held on September 6, 2023.

2.
BANKING SECTOR STATUS AT SEPTEMBER 30, 2023

2.1 BANKING ENVIRONMENT (1/2)

161 credit institutions

- *136 banks (including 23 branches and 26 EBIS)*
- *25 banks (including 5 branches)*

236 large-scale microfinance institutions *(*)*

- *104 unitary networks and institutions*
- *132 affiliated basic health insurance funds*

(*) : Under the provisions of Section 44 of the Law regulating decentralised financial systems

15 e-money institutions

19 financial institutions

(including 7 regional EBIS)

33 banking institutions
(82,8% assets)

Origin of Major groups	Market share (balance sheet
WAMU	38,8%
Maghreb	24,9%
EU 9,0%	
Nigeria	4,7%
RDM	2,9%
CEMAC	2,2%
SADC	0,4%
Other and non-affiliated institutions	*17,2%*
TOTAL	**100%**

2.2. ACTIVITIES AND PROFITABILITY (1/3)

Banking activity continued to grow in the third quarter of 2023

BALANCE SHEET TOTAL

FCFA 64,498 billion

*($ 104.2 billion)**

(+9.4% year-on-year)

OUTCOMES

FCFA 685 billion

*($ 1.1 billion)**

(+7.4% year-on-year)

EMPLOYMENT

FCFA 58,311 billion

*($ 94.3 billion)**

(+11.8% year-on-year)

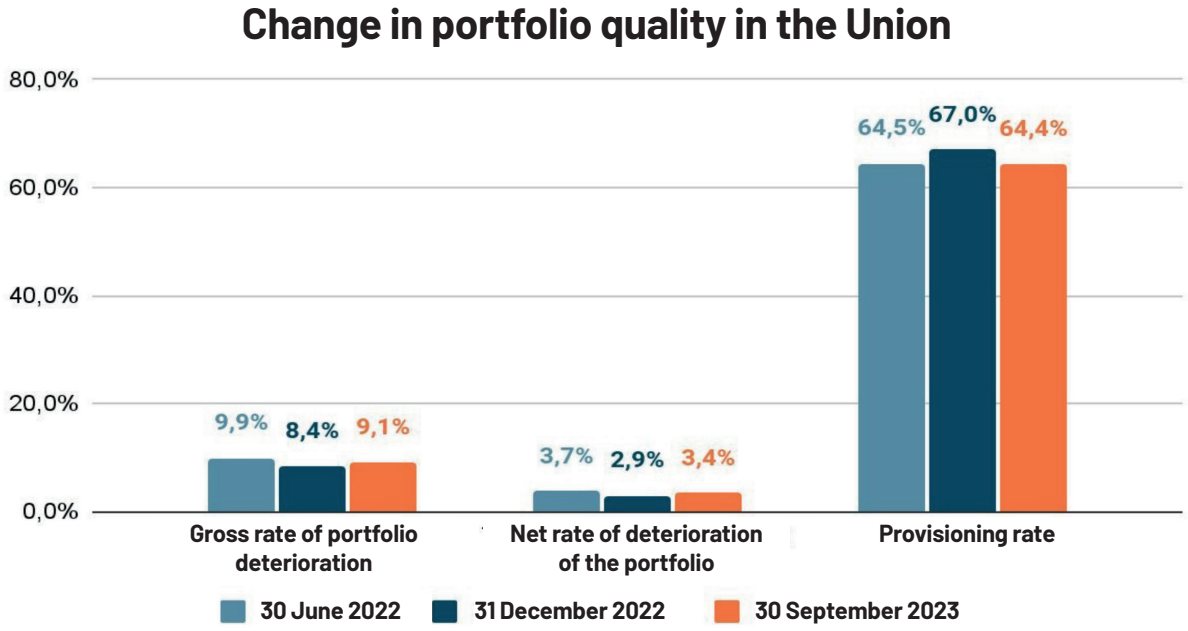
RESOURCES

FCFA 52,102 billion

*($ 84.3 billion)**

(+9.2% year-on-year)

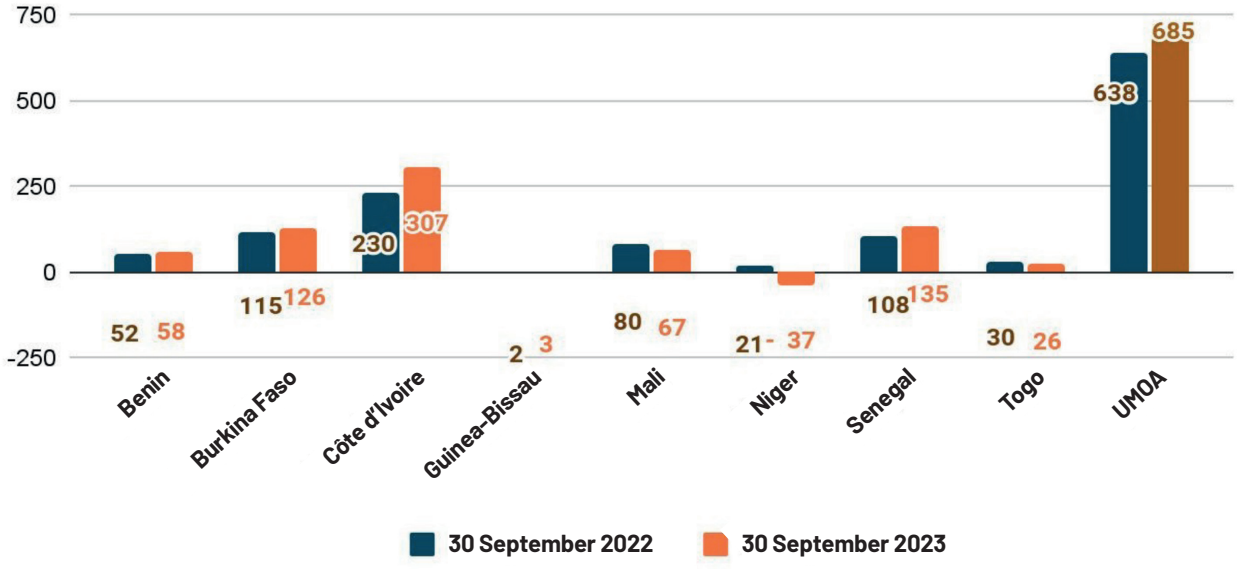
** Fixing XOF/USD at September 30, 2023 (Source BCEAO) : USD 1 = FCFA 619,180*



- The deterioration in the quality of the portfolio worsened slightly in Q3 2023, mainly as a result of major provisions requested following bank audits;
- However, the quality of the portfolio has improved year-on-year.

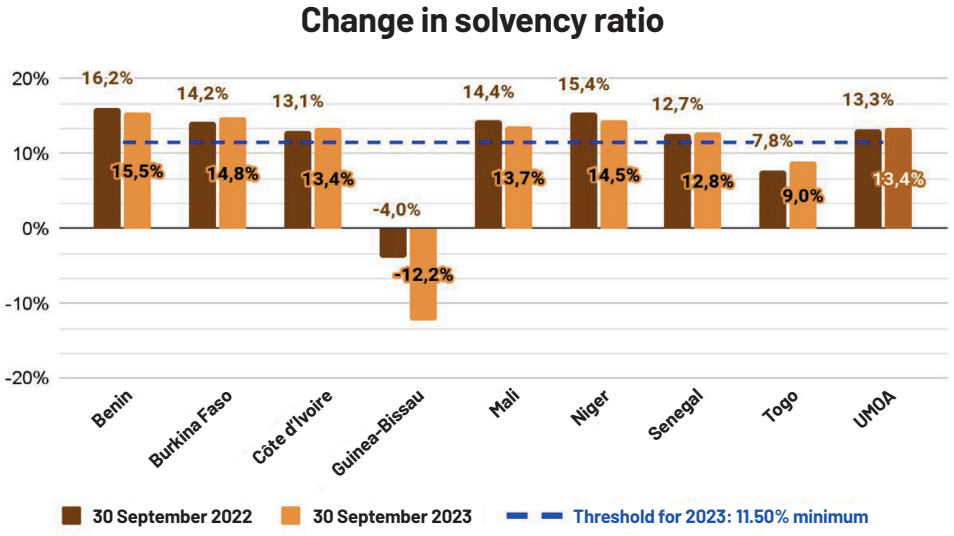
2.2. ACTIVITIES AND PROFITABILITY (3/3)

Annual growth in net profit by country (amounts in billions)



Banking activity in the WAMU remained profitable overall at September 30, 2023, thanks to the profits recorded in all banking centres.

2.3. SOLVENCY OF THE BANKING SECTOR



Increase in the solvency ratio at the end of September 2023.

A decline in the banking ratio in Guinea-Bissau, mainly due to additional provisions requested by the Commission Bancaire following its on-site inspections.

2.4. MAIN RISKS IN THE BANKING SECTOR (1/3)

CREDIT RISK

- The principal business model of credit institutions in WAMU
- Customer loans and investment securities accounted for 58.1% and 26.5% respectively of total assets at end-September 2023.

30,6% of credit institutions present a high credit risk;

CONCENTRATION RISK

- poor diversification of credit institutions' portfolios ;
- a limited number of large companies using bank financing

More than half of taxable entities (around 51%) have a level of concentration deemed high.

2.4. MAIN RISKS IN THE BANKING SECTOR (2/3)

OPERATING RISK

- **information systems:** numerous vulnerabilities identified during on-site inspections;
- **An upsurge in cybercrime:** recurrence of cyberattacks against credit institutions in the WAMU ;
- **implementation of procedures:** lack of organisation and compliance with procedures (internal and regulatory);

RISK OF MONEY LAUNDERING AND TERRORIST FINANCING

- Overall AML/CFT systems not performing well
- Ineffective transaction filtering tools
- Weak mechanisms for identifying beneficial owners
- Recurrent transactions with countries under international sanctions
- Large number of EPNFD channels (gambling and gaming providers, non-profit organisations, real estate agents and developers, etc.) in credit institutions' portfolios.

Three (3) countries on the FATF grey list and five (5) countries placed under reinforced surveillance by the GIABA.

3.
SITUATION DES SYSTÈMES FINANCIERS DÉCENTRALISÉS (SFD) DE GRANDE TAILLE AU 30 JUIN 2023

3.1 LANDSCAPE OF LARGE-SCALE SFDS

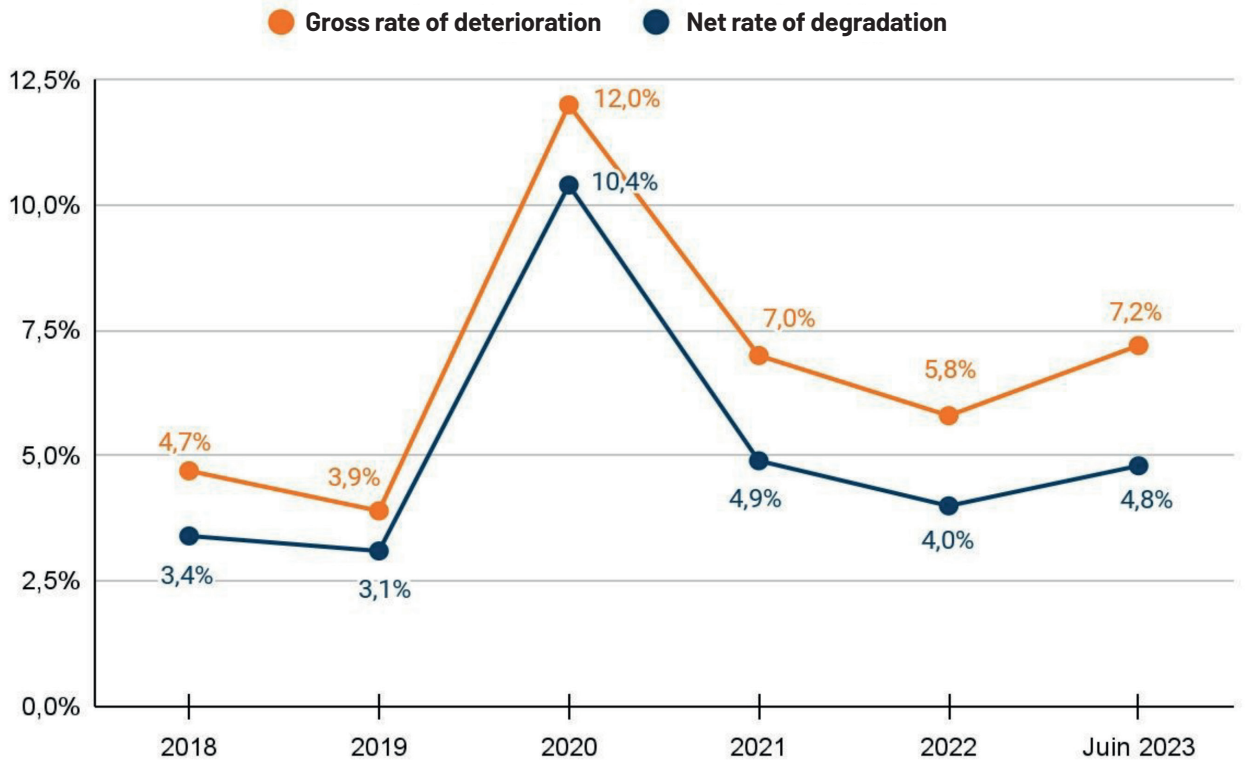
Countries	Unitary networks and institutions()				132 basic health insurance affiliated to a network	BALANCE SHEET TOTAL (a+b)
	Companies	Associations	Networks	IMCEC		
Benin	3	5	3	2	14	**27**
Burkina Faso	10	1	3	6	25	**45**
Commission	10	-	3	4	22	**39**
Bissau- Guinea	-	-	-	-	-	**-**
Mali	4	3	5	-	8	**20**
Niger	4	-	-	-	-	**4**
Senegal	6	-	4	4	52	**66**
Togo	2	1	5	16	11	**35**
	39	**10**	**23**	**32**	**132**	**236**
WAMU (June)	30	10	24	26	118	208
Variation	*+9*	*-*	*-1*	*+6*	*+14*	***+28***

Growth in balance sheet total, assets and liabilities

Indicators *(In CFA billion)*	2019	2020	2021	2022	June 2023
Balance sheet total	**2,348**	**2,564**	**2,880**	**3,220**	**3,568**
Employment	1,679	1,700	1,986	2,214	2,473
Resources	1,779	1,859	2,190	2,371	2,702

Proportion in relation to the banking sector	2019	2020	2021	2022	June 2023
Balance sheet total	5,7%	5,4%	5,2%	5,0%	5,5%
Employment	4,7%	4,1%	4,2%	3,9%	4,3%
Resources	5,3%	4,9%	4,8%	4,6%	5,2%

Evolution of the portfolio quality



- Increase in gross and net rate of portfolio deterioration over the first six months of 2023.
- Atypical increase of 2020 linked to the sharp rise in past-due receivables.

Enhancement of the outcomes of financial performance

Indicators *(amounts in CFA billion)*	**2018**	**2019**	**2020**	**2021**	**2022**
Net financial income	201.2	255.8	247.5	287.0	318.7
Net outcome	**8.9**	**30.3**	**8.0**	**38.3**	**35.9**
Profit margin *(≥20%)*	0,2%	7,7%	7,7%	8,2%	6,3%
Return on equity *(≥15%)*	0,1%	4,8%	2,2%	5,9%	5%
Return on equity *(≥15%)*	15,4%	15,5%	14,2%	14,5%	14,3%

Capitalisation ratio

- **232 reporting institutions, i.e. 93.3% of the target population**
- Own funds: **529 billion**
- **Capitalisation ratio: 15.1% for a minimum standard of 15%**

Countries	Benin	Burkina Faso	Côte d'Ivoire	Bissau-Guinea	Mali	Niger	Senegal	Togo	UMOA
Déc.2022	23,5%	18,4%	2,0%	-	23,7%	4,7%	18,2%	18,5%	**15,8%**
June 2023	28,9%	16,1%	-2,1%	-	23,6%	-2,3%	20,8%	17,5%	**15,1%**

4.
KEY REGULATORY DEVELOPMENTS

4. MAJOR REGULATORY DEVELOPMENTS (1/2)

4.1. ADOPTED REGULATIONS

- Uniform Directive and Act to combat money laundering, terrorist financing and the proliferation of weapons of mass destruction (March 2023).
- Uniform Banking Regulatory Act (June 2023).
- Convention governing the WAMU Banking Commission and its Annex (June 2023).

4. MAJOR REGULATORY DEVELOPMENTS (2/2)

4.2. OUTLOOK

Texts in preparation

- Law regulating microfinance and implementing regulations ;
- Regulation on External Financial Relations (RFE) and implementing regulations ;
- Implementing legislation for the law on banking regulations;
- Market discipline: financial disclosure requirements ;
- New liquidity standards (LCR & NSFR) ;
- Prudential supervision and risk assessment process ;
- Crisis simulation

5.
COOPERATION IN BANKING SUPERVISION

- **Organisation of the College of Supervisors of the ORABANK Group**
  - by the SGCB on October 12, 2023 ;
  - of the College of Supervisors of the ECOBANK Group, on October 25 and 26, 2023 ;
- **Participation in meetings of the supervisory boards of subsidiaries of foreign banking groups with subsidiaries in the WAMU;**
- **Annual meeting of the Groupe of French-speaking Banking Supervisors (GSBF), November 17, 2023 ;**
- **Meeting of the Committee of Banking Supervisors of West and Central Africa (CSBAOC), November 22 and 23, 2023 ;**
- **Joint audits with several supervisors.**

CBSWCA PRESENTATIONS

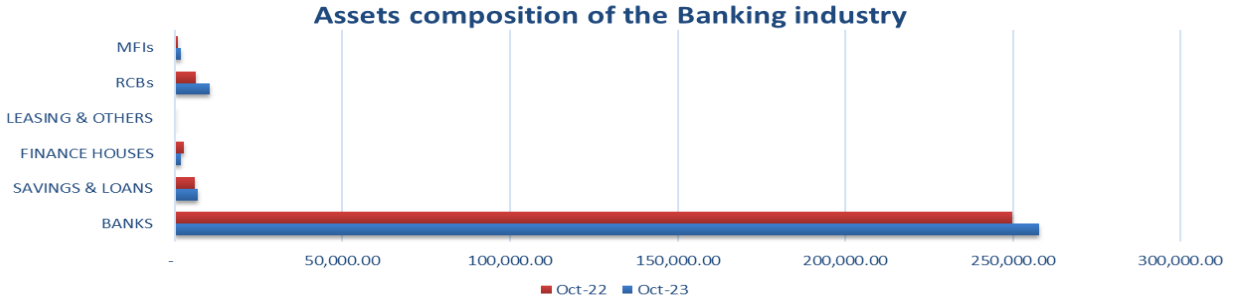
RECENT DEVELOPMENTS IN BANKING SUPERVISION - BANK OF GHANA

OUTLINE

1. Structure of the Banking industry
2. Key Financial Indicators of Banks – October 2022 & 2023
3. Developments in the banking supervision at end October 2023
4. Conclusion
5. Outlook

Banks continue to dominate banking sector assets

	Oct-23			Oct-22		
Institution Type	No.	Total Assets (GH¢'M)	Share (%)	No.	Total Assets (GH¢'M)	Share (%)
Banks	23	257,888.54	92.34	23	249,846.94	93.40
SDIs	365	21,401.64	7.66	366	17,662.44	6.60
S&L/FHs/Others	*41*	*9,169.13*	*3.28*	*42*	*8,659.27*	*3.24*
RCBs	*147*	*10,365.26*	*3.71*	*147*	*7,689.71*	*2.87*
MFIs	*177*	*1867.25*	*0.67*	*177*	*1,313.46*	*0.49*
TOTAL	**388**	**279,290.18**	**100.00**	*389*	**267,509.38**	**100.00**



KEY FINANCIAL INDICATORS OF BANKS – OCTOBER 2023

Banking Sector Indicators	October 2022	October 2023
Assets (GHC Bill)	249.85 Bill	257.88 mill
Assets (Growth)% (Y-O-Y)	43.73%	3.22%
Solvency: CAR without reliefs	14.18%	7.33%
Solvency: CAR With reliefs	-	13.43%
Solvency: CET 1 (5.5% min)	12.32%	10.54%
Deposits Stock (GHC) % of Total Liabilities Growth (%) – (Y-o-Y)	172.09 Bill 68.88% 46.55%	199.94Bill 77.53% 16.18%
Investment (GHC) % of Total Asset Growth (%) - (Y-o-Y)	85.22 Bill 57.43% 1.92%	104.41Bill 40.49% 22.76%

- Assets growth slowed y-o-y at end Oct-23
- Deposit growth is also lower.
- Solvency ratios: CAR and CET1 ratios declining.
- Investments growth picking up from sharp increases in bills.

KEY FINANCIAL INDICATORS OF BANKS – OCTOBER 2023 – CONT'D

Banking Sector Indicators	October 2022	October 2023
Gross Loans & Advances (GHC)	81.22 Bill	73.52 Bill
Gross Loan Growth (%) – (Y-o-Y)	57.43%	-9.48%
Net Loans & Advances (GHC)	72.11 Bill	62.87 Bill
Net loans % of Total Asset	28.86%	24.39%
New Advances (GHC) - Monthly	6.54 Bill	3.93 Bill
New Advances Y-T-D (GHC)	45.24 Bill	40.87 Bill
NPL Ratio (%)	13.96%	18.31%
NPL Ratio (Less loss) %	3.88%	6.44%
Liquid Assets to Total deposit (%)	85.56%	82.58%
Liquid Assets to Volatile funds (%)	128.65%	134.23%
Profit after Tax (GHC)	4.45 Bill	7.10 Bill
ROE (%)	20.32%	36.35%
ROA (%)	4.04%	5.52%
Capital Gap (GHC)	-	10.82 Bill

- Credit declined in growth y-o-y.
- NPL ratio increasing y-o-y.
- Industry liquidity remains strong.
- Industry remains profitable
- Increase in capital deficiency of banks.

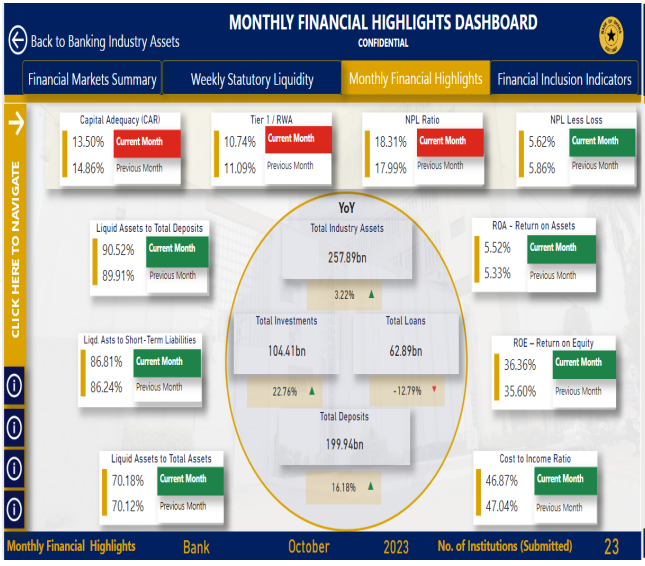
SUMMARY OF REVIEW OF RECAPITALISATION PLANS SUBMITTED BY BANKS

- After the Domestic Debt Exchange Programme (DDEP) implementation some banks recorded capital deficits and were asked by BoG to submit capital restoration plans.
- Below is a summary of reviews of recapitalization plans submitted by banks.

	TOTAL BANKS REQUIRED TO RECAPITALISE	BANKS TO MEET CAR WITHOUT REGULATORY RELIEF	BANKS EXPECTED TO BE RECAPITALIZED BY GOVERNMENT	BANKS WHO WILL NOT MEET BY END 2023 BUT WILL MEET BY END 2024	CAPITAL PLANS YET TO BE APPROVED
N°	13	6	4	2	1

- Banking sector had challenges due to some fiscal developments in recent past including increasing inflation. However, the overall situation with inflation declining from around 50.0% last year to 35.2% as of October 2023.
- DDEP is completed but BSD is monitoring banks recapitalisation programme
- Long term IMF advisor – to assist improve on the supervisory methodology and capacity of BSD staff
- IMF recently conducted Corporate Governance review for the financial sector including the Bank of Ghana
- Thematic review of significant activities of banks – 2023 focused on Asset Quality Review (AQR). In 2024, the focus will be corporate governance review for all banks. However, any joint examination with home countries would be catered for.
- Implementation of the ***Online Regulatory Analytic Surveillance System*** (ORASS) with management dashboards to enable Top Management monitor key risk indicators of the industry. ORASS covers entire supervisory cycle for the BSD.
- There are plans to develop Early Warning Systems and also introduce Business Model Analysis (BMA) as part of the Supervisory Review Process
- BSD is reorganising its structure to use specialists to support the work of examiners.

SAMPLE MANAGEMENT DASHBOARD





CONCLUSION

a) Banking Industry growth in assets slowed down and driven by deposits which also recorded growth.
b) Banks continue to hold significant government debt instruments, though growing at the short-dated bills (BoG bills and T-Bills).
c) The industry continue to remain solvent on the back of regulatory reliefs granted by BoG.
d) The quality of credit deteriorated over the period, however it started improving over the last two months, though still high compared to the previous year.
e) Liquidity indicators have declined year-on-year. The ratios, however, are all within satisfactory levels.
f) The banking industry generally remains profitable.
g) Key risks such as credit, market risks (forex) are being closely monitored.

OUTLOOK

a) The DDE programme has adversely impacted on banks' solvency. Mitigating measures have been implemented and banks are being closely monitored.

b) Credit risk remains high as banks continue to record increasing NPL stocks, with the trend likely to continue in the short to medium-term.

c) Solvency position of the industry may deteriorate further with the implementation of the phase 2 of the DDEP.

d) Banks are being closely monitored with the work done on the asset quality review (AQR) and corporate governance reviews next year.

RECENT DEVELOPMENTS IN BANKING SUPERVISION

OMBOLO MVOGO Vladimir
Secretariat General of the
Central African Banking Commission

CONTENU

1. **The Central African Banking Commission (COBAC)**
   - Duties and powers
2. **CEMAC banking system: key figures**
   - Lending institutions
   - Microfinance institutions
3. **Latest developpements**
   - Regulatory framework
   - Supervisory tools and methodologies

THE CENTRAL AFRICAN BANKING COMMISSION (COBAC)

Duties and powers

Created on October 16th, 1990, COBAC is responsible for regulating and supervising the banking sector in the six CEMAC countries. As such, it must :

- to ensure that taxable entities comply with legislative and regulatory provisions ;
- control operating conditions ;
- ensure the quality of their financial health ;
- ensure compliance with the professional code of ethics.

The Banking Commission possesses the following powers :

- **administrative:** grants access or excludes from the industry;
- **standard-setting:** drafting banking regulations ;
- **jurisdictional:** punishes breaches of the law ;
- **control:** carries out checks on taxable entities.

THE CEMAC BANKING SYSTEM: KEY FIGURES

CREDIT INSTITUTIONS

Credit institutions are classified into two categories. Banks that collect deposits and financial institutions that do not. The capitalisation of the banking system at June 30th, 2023 totalled XAF 1,031 billion. (1,6 billion €);

	Bank	Ets fin.	Capital(XAF billions)
Cameroon	17	5	329
Central Africa	4	0	45
Congo	10	0	211
Gabon	7	2	198
Equatorial Guinea	5	0	106
Chad	10	0	143
CEMAC Zone	53	7	1,031

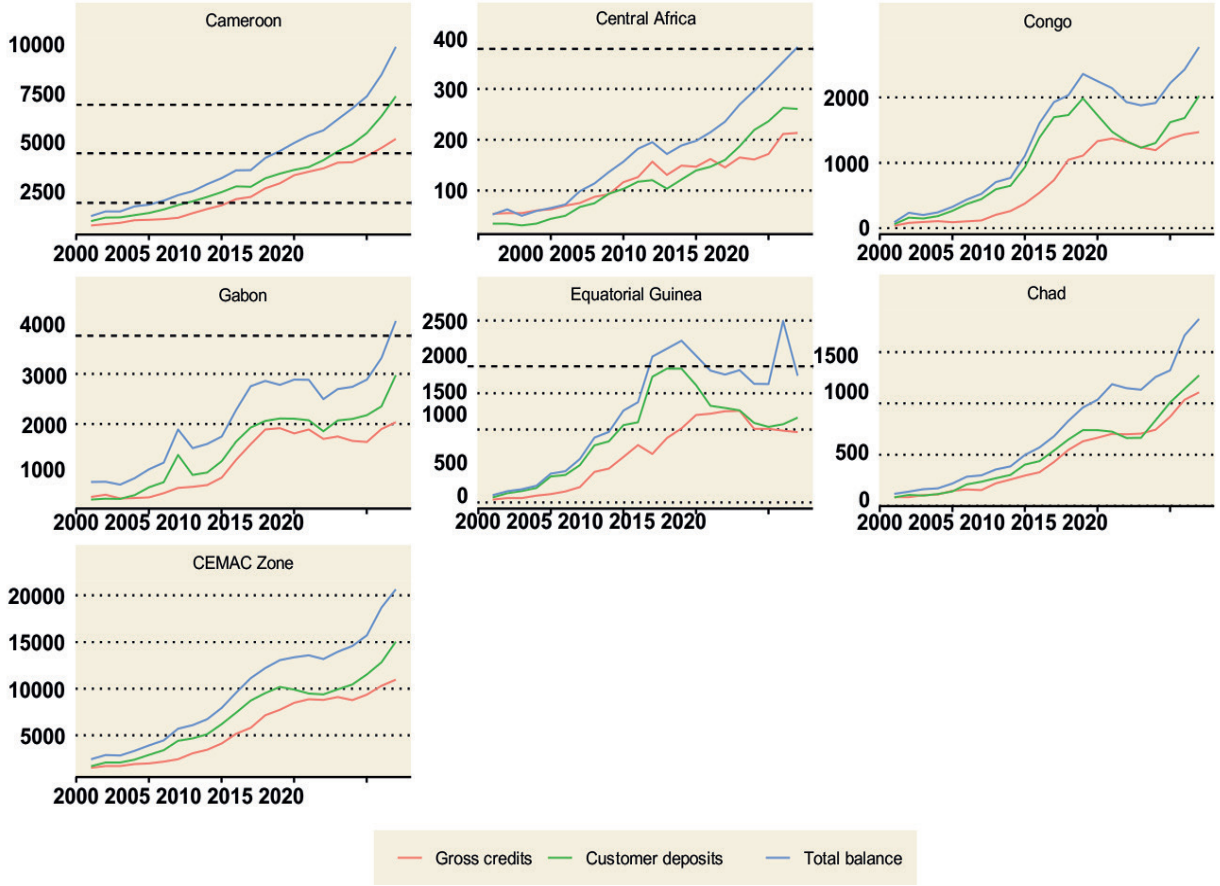
	Counters	Number of staff	GNP(%GDP)
Cameroon	423	6,670	2.47
Central Africa	19	533	4.47
Congo	112	2,056	4.66
Gabon	88	1,746	4.38
Equatorial Guinea	58	1,508	1.57
Chad	82	1,128	2.20
CEMAC Zone	782	13,641	2.82

- **At 30 September, 2023, the aggregate balance sheet total of CEMAC banks stood at FCFA 22,181 billion. (34 billion €).** It rose by an annual average of 10.2% over the last two decades.

- **Deposits collected amounted to FCFA 16,339 billion (25 billion €) and represented 74% of the balance sheet total at September 30, 2023.** They rose by an annual average of 10.4%. Gross customer loans stood at FCFA 11,458 billion (€ 17 billion) at September 30, 2023, with an average annual growth rate of 9.47%.

- **This overall trend masks disparities depending on the country.** For oil-producing countries, a slowdown was observed in the wake of the fall in oil prices in 2014. In the CAR, the business depends on the socio-political context.

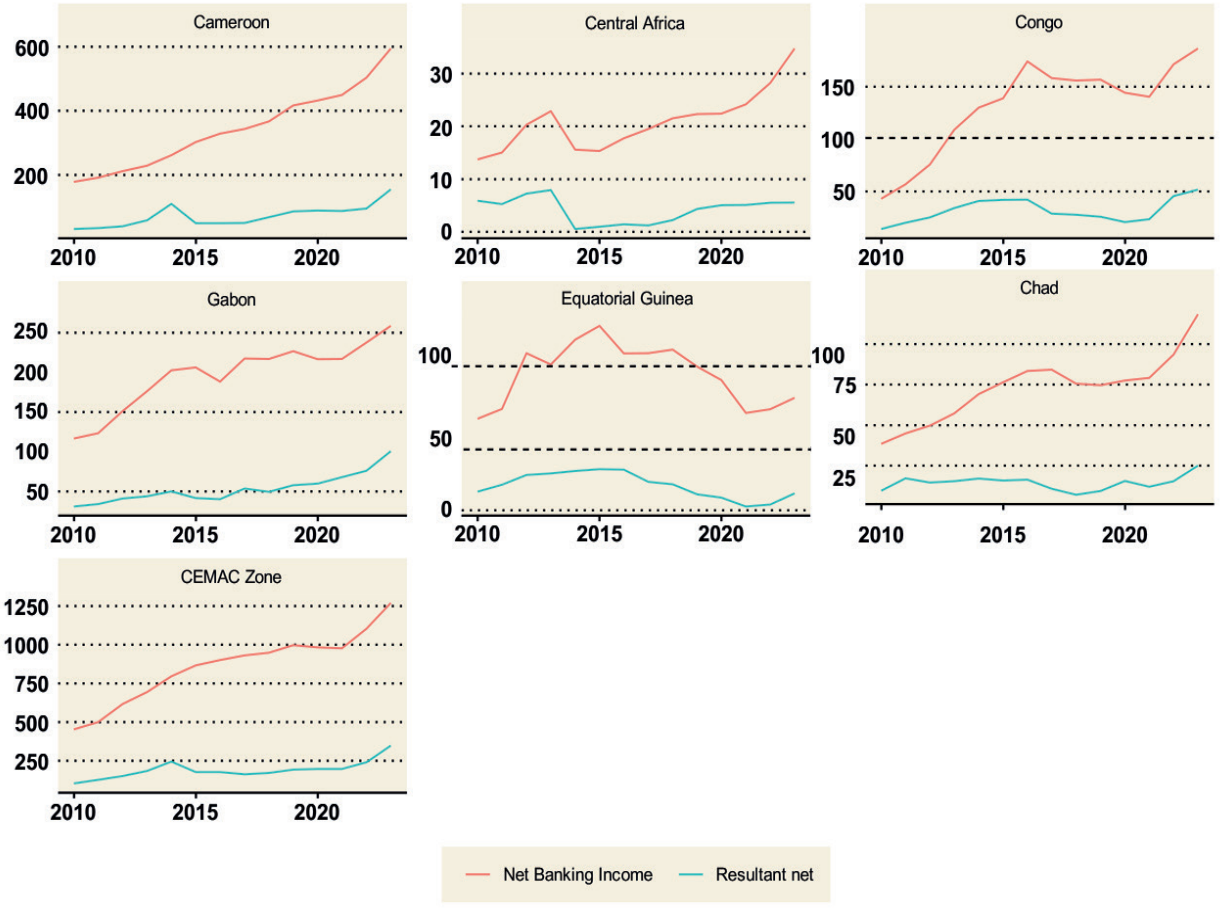
BUSINESS TRENDS (2)



- **At December 31, 2022, the aggregate net banking income of CEMAC banks stood at FCFA 1,270 billion (€1.9 billion).** It rose by an annual average of 7.65% over the last fifteen years.

- **Net banking income reached FCFA 349 billions (0,53 billion €).** It rose by an annual average of 9.05% over the last fifteen years.

PROFITABILITY TRENDS (2)

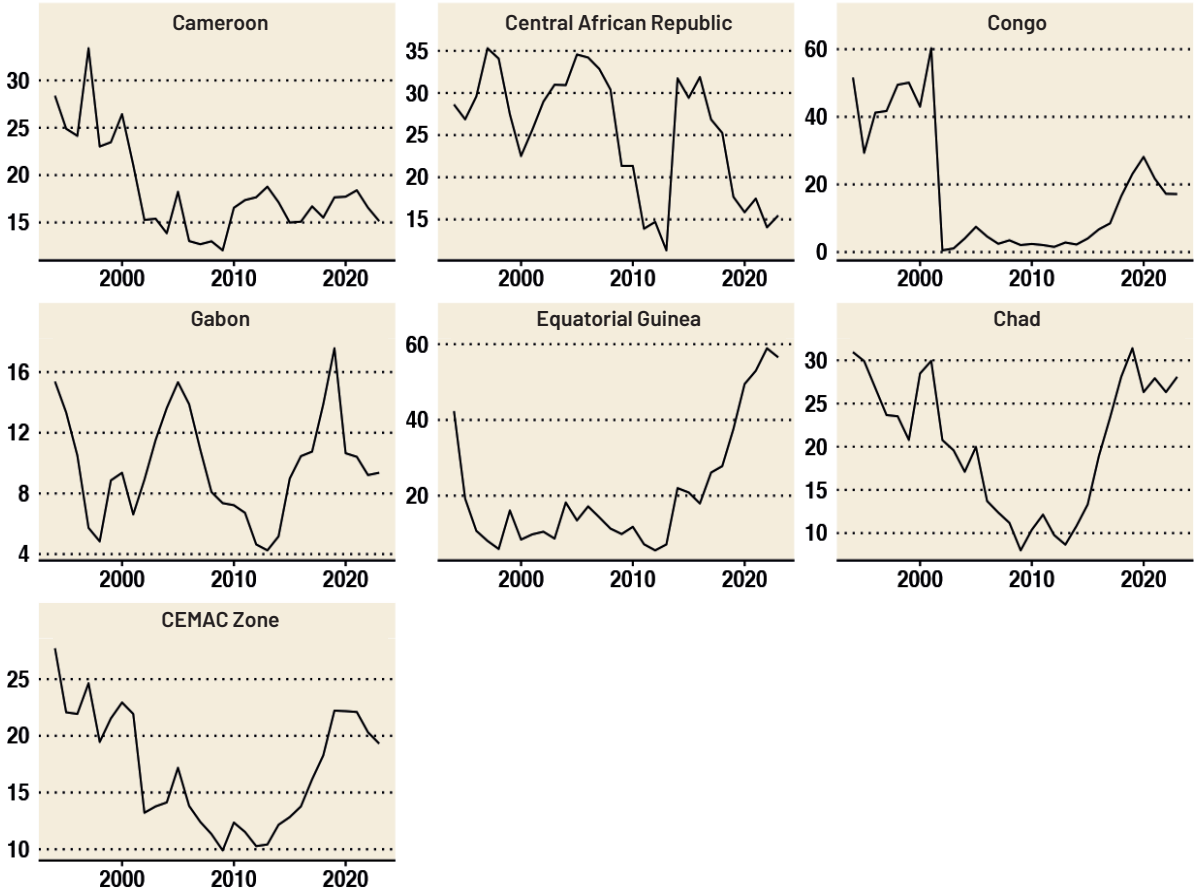


MAJOR RISKS: NON-PERFORMING LOANS (1)

- **Outstanding loans totalled FCFA 2,257 billion (€ 3.4 billion) at September 30, 2023, representing 20% of gross loans.** It rose by an annual average of 5.4% over the last decade.

- **Following the restructuring of the banking system after the crisis of the 1980s, the level of outstanding debt fell considerably until 2014.** Since 2015, the level of non-performing loans has been rising, indicating that the impact of the shock has not yet worn off.

MAJOR RISKS: NON-PERFORMING LOANS (2)

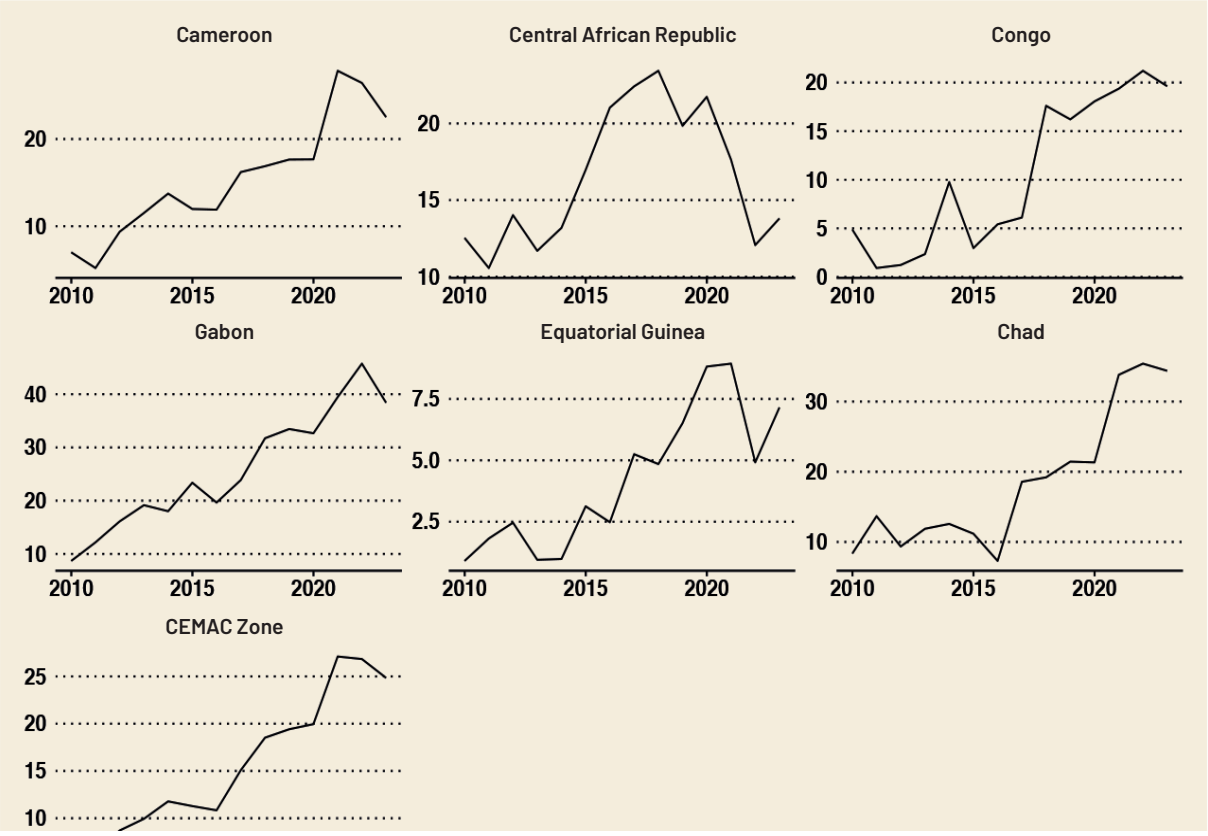


MAJOR RISKS: HEAVY CONCENTRATION ON SOVEREIGN DEBT (1)

- **At September 30, 2023, the outstanding amount of government securities held by CEMAC banks stood at more than FCFA 6,200 billion (€ 9.5 billion).** It rose by an annual average of 19.3% over the last decade.

- **They represent around 25% of the balance sheet total and their importance has risen by an average of 9.05% over the last ten years.**

MAJOR RISKS: HEAVY CONCENTRATION ON SOVEREIGN DEBT (2)



THE CEMAC BANKING SYSTEM: KEY FIGURES

Microfinance Institutions

COBAC has been supervising microfinance institutions since 2002. These entities are authorised to carry out transactions only within the country, with the exception of money transfers. COBAC divides them into two main groups. Those carrying out transactions exclusively with members (1e category) and those for transactions with the national economy (2e and 3e category).

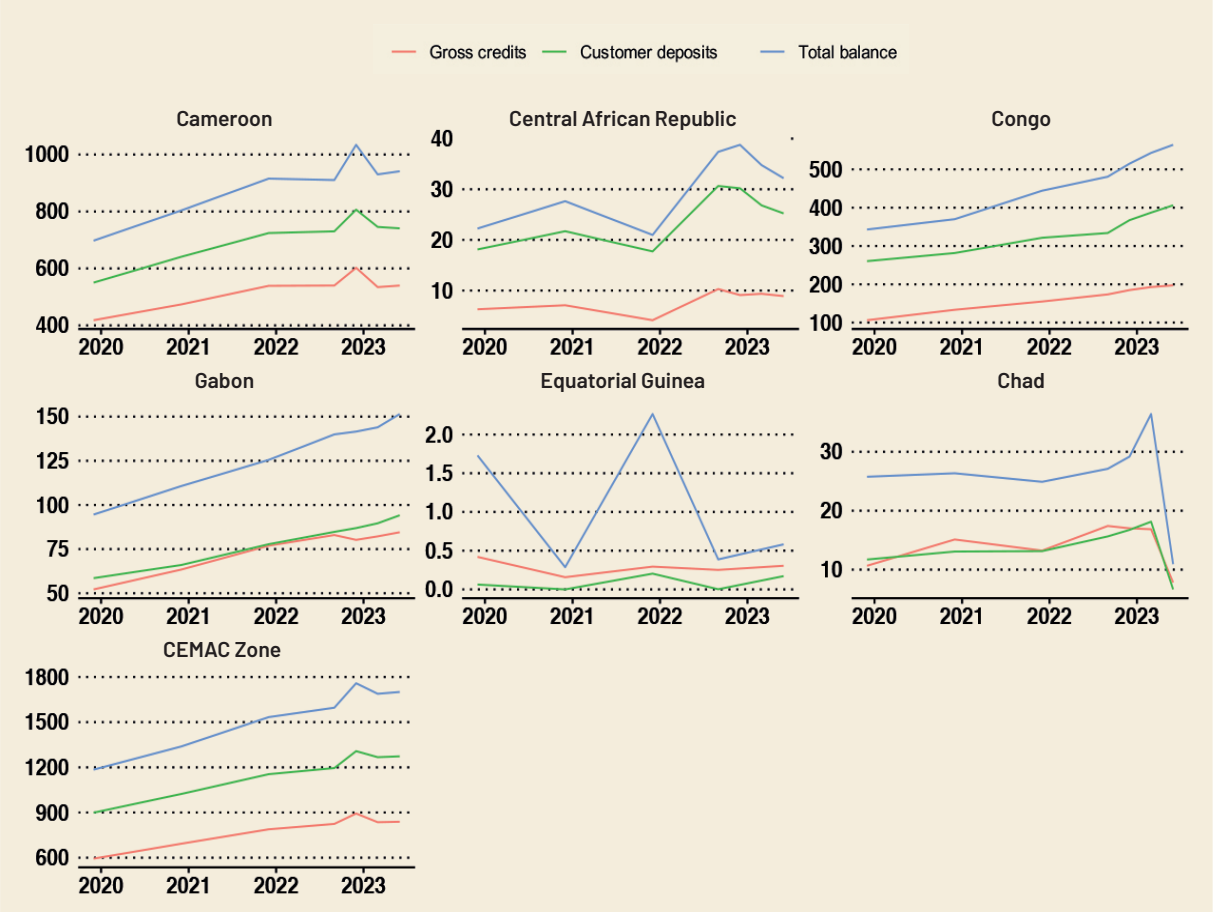
	Number	Counters	Capital (billion of XAF)	Staff	GNP(%GDP)
Cameroon	305	1,083	89.2	18,897	0.12618
Central African Republic	11	20	2.5	86	0.12850
Congo	47	95	14.7	863	0.39961
Gabon	18	85	11.2	768	0.14397
Equatorial Guinea	2	0	0.3	0	0.00059
Chad	62	38	0.5	172	0.03181
CEMAC Zone	445	1,321	118.4	20,786	0.12771

BUSINESS TRENDS (1)

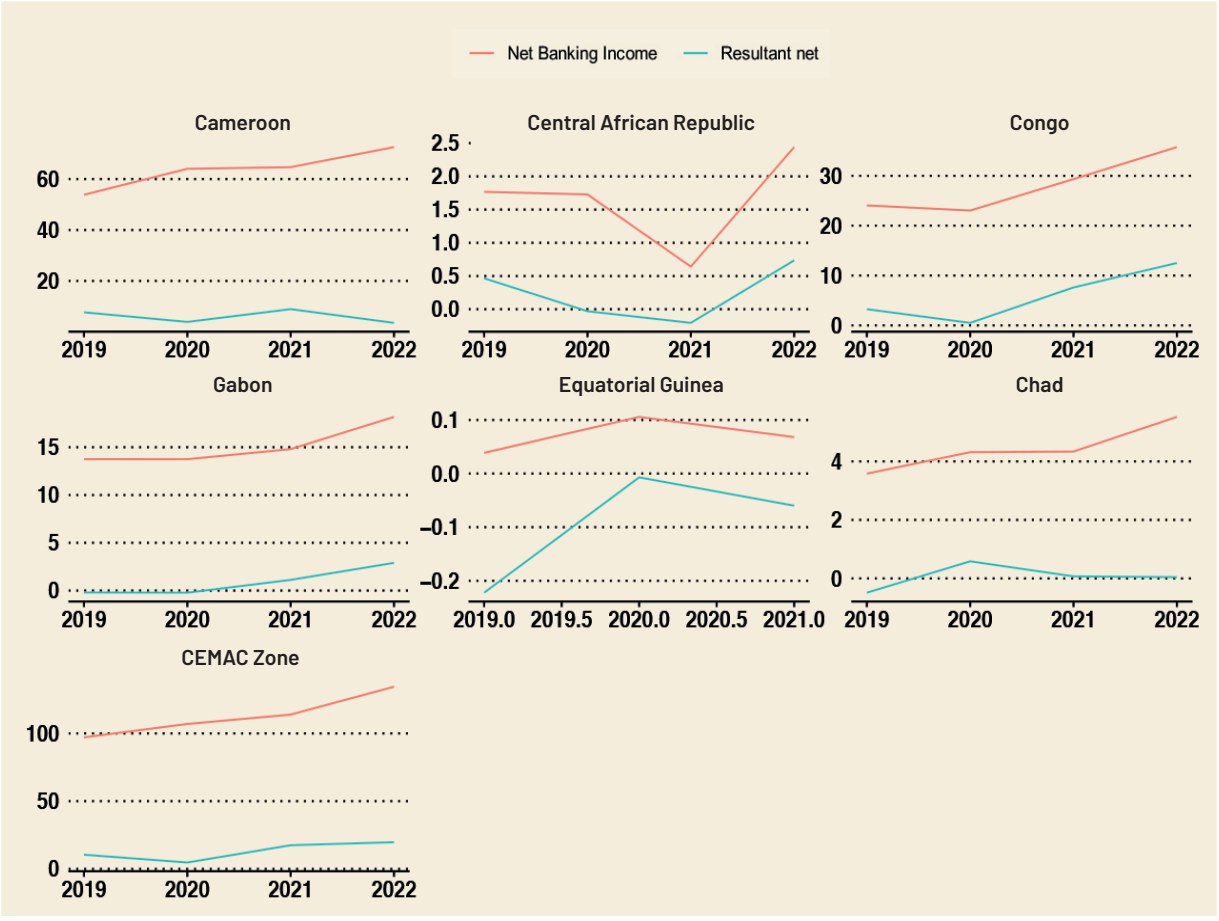
- **At the end of June 2023, the aggregate balance sheet total of CEMAC MFIs stood at FCFA 1,822 billion (€ 2,8 billion) against FCFA 1,594 billion (€ 2,4 bilion) a year earlier.**

- **Deposits of CEMAC MFIs totalled FCFA 1,363 Billion (€ 2,1 billion), a rise of 13% on the level reached a year earlier, and represent 75% of total aggregated balance sheets.**

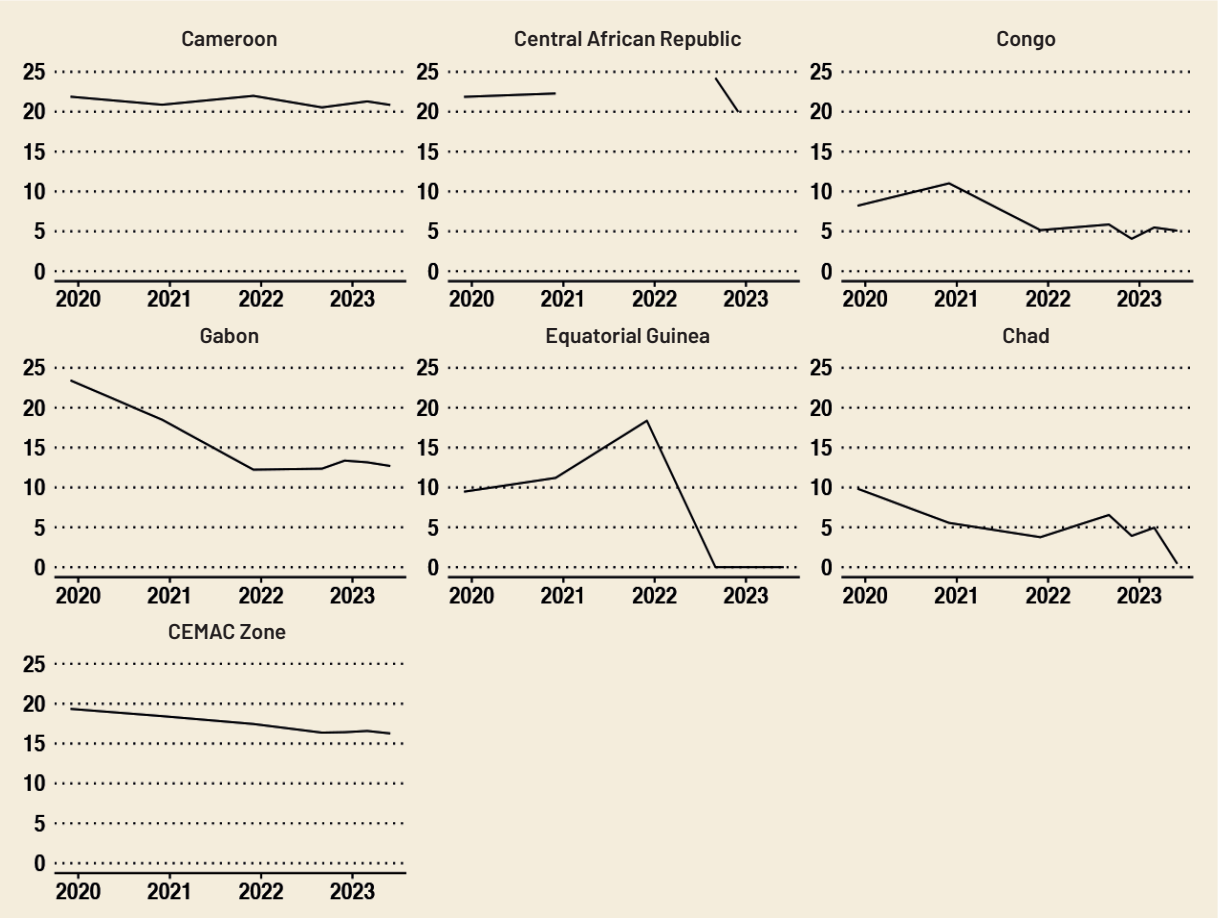
- **Gross loans to customers accounted for 50% of the aggregate balance sheet total and stood at FCFA 906 billion (€ 1.4 billion) at the end of June 2023, compared with FCFA 815 billion (€ 1.2 billion) a year earlier, an increase of 11%.**


Gross credits
Customer deposits
Total balance
Cameroon
1000
800
600
400
2020
2021
2022
2023
Central African Republic
40
30
20
10
2020
2021
2022
2023
Congo
500
400
300
200
100
2020
2021
2022
2023
Gabon
150
125
100
75
50
2020
2021
2022
2023
Equatorial Guinea
2.0
1.5
1.0
0.5
0.0
2020
2021
2022
2023
Chad
30
20
10
2020
2021
2022
2023
CEMAC Zone
1800
1500
1200
900
600
2020
2021
2022
2023

EVOLUTION OF PROFITABILITY



MAJOR RISKS: NON-PERFORMING LOANS



LATEST DEVELOPPEMENTS

Regulatory framework

Since the last annual meeting, COBAC's regulatory corpus has evolved with the adoption of the regulation No 04/22/CEMAC/UMAC/COBAC on conditions for the exercise and supervision of Islamic finance activities in the CEMAC.

Adopted on November 09, 2022, it deals with access to Islamic finance in the CEMAC and is supplemented by several regulations that address:

- the conditions for authorising Islamic financial institutions, their directors and auditors (COBAC R-2022/04) ;
- the opening of an Islamic window (COBAC R-2022/02);
- the characteristics of Islamic finance products and services (COBAC R-2022/01) ;
- Sharia compliance authorities (COBAC D-2022/344);
- additional internal control provisions (COBAC R-2022/03).

In addition, to take account of the new recommendations of the Financial Action Task Force (FATF), COBAC regulation R-2005/01 of April 1, 2005 on AML/CFT due diligence by reporting institutions is in the final stage.

Three other draft texts are also currently being finalised. These are :

- the COBAC draft instruction setting out the terms and conditions for opening branches under the single licence for credit institutions in the CEMAC.
- the COBAC draft regulation on operating conditions and supervision of banking intermediaries in the CEMAC.
- the draft regulation on IT risks.

With regard to the transposition of Basel II/III, the adopted approach focuses on five aspects:

1. Training courses on the Basel system ;
2. Impact assessments ;
3. Updating the regulatory framework ;
4. Promoting the system in the sub-region ;
5. Updating regulatory reporting ;

- At this stage, the training phase for the members of the committees responsible for transposition has been completed. It was carried out with a reference partner thanks to the financial support of the World Bank.
- The next stage will consist of drawing up the proposed prudential standards and assessing their impact on the prudential situation and organisational framework of the institutions subject to them.

LATEST DEVELOPPEMENTS
Supervisory tools and methodologies

- **The methodological handbook for banks to carry out stress tests and the reporting templates for stress tests were finalised and a dissemination seminar with the banks was held.**
- **The procedural manuals of the COBAC Secretariat General are being finalised.**
- **The update of regulatory statements for microfinance institutions has been finalised.**
- **In terms of developments, the SPECTRA tool, which brings together all the applications used for supervision at the COBAC Secretariat General, is in the acceptance test phase and the various modules are scheduled to go into production in March 2024.**

BASEL II & III IMPLEMENTATION: THE NIGERIAN EXPERIENCE

OUTLINE

1. Introduction
2. Basel II & III Implementation in Nigeria
3. Conclusion

INTRODUCTION

- **BCBS was established in 1974- by Central Bank Governor of G10.**
- **Membership has expanded to 45 institutions from 28 jurisdictions.**
- **Established due to crisis in international currency and banking markets (notably the failure of Herstatt Bank in West Germany- 26 June 1974).**
- **The aim was to enhance financial stability- improving the quality of banking supervision globally and enhance cooperation among members.**
- **BCBS introduced three standards: Basel I, Basel II and most recently, Basel III.**

BÂSEL I

- Introduced in 1988
- Capital Adequacy Ratio of 8%.
- It initially addressed only credit risk.
- In 1997- Market Risk was added.
- For the first time, internal models (value-at-risk models) was allowed.

BÂSEL II

Introduced in June 2004 three pillars:

- **Pillar I:** Minimum capital requirements
- **Pillar II:** Supervisory review Process
- **Pillar III:** Market discipline

BÂSEL III

- Introduced in 2010, to strengthen the three pillars of Basel II.
- stricter requirements for the quality and quantity of regulatory capital.
- an additional layer of common equity
  - the capital conservation buffer
  - countercyclical capital buffer,
- Leverage ratio
- Liquidity requirements –the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

In 2017- **Basel III finalisation/post crisis reforms (3.1, 3.5, IV, endgame etc.)** – to reduce excessive variability in RWA- Enhance risk sensitivity of standardized approach for credit risk & operational risk , constraining internally modelled approaches by complementing the risk-based framework with a revised leverage ratio and output floor

- **In October 2014, the Central Bank of Nigeria (CBN) introduced Basel II standards as part of broad banking sector reforms in Nigeria.**
- **The CBN has fully implemented Basel II.**
  - Pillar I- Minimum Capital Requirement.
  - Pillar II- Supervisory Review Process.
  - Pillar III- Market Discipline.

Guidance Notes issued for Basel II implementation

Pillar 1- Minimum Capital Requirement	Pillar II- Supervisory Review Process	Pillar III
Guidance Notes on Regulatory Capital	Guidance Notes on the Supervisory Review Process	Guidance Notes on Pillar II; Market Discipline
Guidance Notes on the Calculation of Capital Requirements for Credit Risk		
Guidance Notes on the Calculation of Capital Requirements for Operational Risk		
Guidance Notes on the Calculation of Capital Requirements for Market Risk		

BASEL III IMPLEMENTATION IN NIGERIA

- **In December 2018, the CBN began the journey towards implementing Basel III**
- **The process involved :**
  - QIS,
  - Desktop reviews,
  - Development of draft guidelines,
  - Exposures to industry,
  - Receipt of industry feedbacks, and
  - Engaged IMF for Technical Assistance amongst others.

In April 2020, the final Basel III Guidelines were approved:

Guidelines on Liquidity Coverage Ratio (LCR).	**Guidelines on Liquidity Monitoring Tools (LMT).**	**Guidelines on Leverage Ratio (LeR).**
Guidelines on Large Exposures (LEX).	**Guidelines on Regulatory Capital.**	**Guidelines on Liquidity Risk Management and Internal Liquidity Adequacy Assessment Process (ILAAP).**

The revised Guidelines on Supervisory Review Process of Internal Capital Adequacy Assessment Process (SRP-ICAAP) under Pillar II of Basel II approved alongside the Basel III guidelines.

- **To operationalize these guidelines, the CBN developed reporting templates for the rendition of returns by banks.**
- **In September 2021, the CBN released Basel III Guidelines for Parallel Run implementation.**
- **In November 2021, Parallel run implementation commenced and is ongoing.**
- **Guidelines on Regulatory Capital**

Regulatory Capital Ratio	As a percentage of TRWA	
	National and Regional Banks	*International Banks and D-SIBs
CET1 Capital Ratio	7.0%	10.5%
Tier 1 Capital Ratio	7.5%	11.25%
Capital Adequacy Ratio	10.0%	15.0%

- **The capital buffers shall be in the form of CET1 and should be above the minimum CET1, Tier 1 and Total Capital Adequacy levels.**
- **The capital buffers shall comprise the sum of the following:**
- **A Capital Conservation Buffer (CCB1) of 1.0% of TRWA; and**

- **a Countercyclical Capital Buffer (CCB2) of between 0% to 2.5% of TRWA, as may be determined by the CBN based on the prevailing economic and industry circumstances.**

- **The minimum CAR of D-SIBs: to be further enhanced with Higher Loss Absorbency (HLA) of 1.0% and to be met wholly by CET1 capital.**

- **Criteria for payment of bonus to directors and employees.**

Banks are to meet the CET1, LeR, and HQLA criteria to qualify to make bonus payments to their directors and employees.

Criteria	Banks with National Authorization	Bank with International Authorization	D-SIBs
CET1	Greater than 8.0% of TRWA	Greater than 11.5% of TRWA	Greater than 12.5% of TRWA
Composite Risk Rating (CRR)	Low or Moderate		

ACTIVITY REPORT BY THE PERMANENT SECRETARY OF THE COMMITTEE OF BANKING SUPERVISORS OF WEST AND CENTRAL AFRICA

Abuja, 22-24 November 2023

For the Secretary General of COBAC
Vladimir OMBOLO MVOGO
Director of On-site Supervision

Distinguished Delegates from the member countries of the Committee,

Distinguished guests

Ladies and Gentlemen,

After our annual meeting held in N'djamena, in the Republic of Chad, on November 20-25, 2022 at the fiftieth anniversary celebrations of the Bank of Central African States (BEAC), I am pleased that we are meeting again for our annual meeting.
This is an opportunity for us to take stock of our activities and recent developments in banking regulation and supervision. I would particularly like to thank the Central Bank of Nigeria for hosting this annual meeting in place of Sierra Leone.
The report I am about to present to you takes stock of our activities after the interruption imposed by the covid-19 pandemic. It covers activities completed or in progress, as well as financial aspects.

1. Organization of the regional seminar for Committee members

The Committee organized a training seminar for its members in Abuja, Nigeria, on cross-border supervision, on November 20-21, 2023. The seminar provided an opportunity to learn about consolidated supervision practices, crisis management and resolution from a cross-border perspective. I would like to thank the IMF for its support through the experts made available.

2. Preparation of the Proceedings of the Committee's 20th Annual Meeting

The proceedings of the 20th annual meeting held in N'Djamena are currently being drafted. Once finalized, the first draft will be sent to you for amendment. As usual, I hope to be able to rely on your prompt reaction to complete this work as soon as possible.

I would ask the members who have not yet sent us their presentations on recent developments in their supervisory systems to forward them as soon as possible.

3. Preparation of the CSBAOC directory

As part of the process of preparing the CSBAOC directory, the Permanent Secretariat has developped and sent to each member a questionnaire designed to update the CSBAOC directory.
To date, the Permanent Secretariat has received contributions from only six institutions, including four permanent members and two observer members.

I would like to avail this opportunity to invite all members who have not filled in the information sheets contained in the dossier for this 21st Annual Meeting to do that. This will make discussions between members more fluid.

4. Establishment of an operating budget for the Committee's Permanent Secretariat

In accordance with the resolution adopted at the 16th Annual Meeting, a budget was set up and approved to enable the Permanent Secretariat of our Committee to operate efficiently. A lump-sum contribution of 1,000,000 CFA francs, i.e. 2,000 US dollars or 1,500 euros for the 11 members and 500,000 CFA francs, i.e. 1,000 US dollars or 750 euros for the observer members was approved.
As in previous years, calls for contributions were sent to the members. To date, only four out of the 11 members have sent their contributions. Once again, I urge the members to respond as soon as possible. A reminder letter will be sent to the members who have not yet paid their contribution.
With regard to the budget, the following expenses were incurred:

1. translation of the presentations made by the various members at the 20th Annual Meeting in order to prepare the Proceedings: 1,950,000 F CFA;

2. translation of the policies implemented during the Covid-19 period by the various Committee members: 1,000,000 CFA francs. The translations were submitted and compilled in a single document. Reproduction work remains to be done;
3. payment of allowances to the Committee managing staff: 1,800,000 CFA francs (at 300,000 CFA francs per month for the first 6 months), in accordance with the budget and the Rules of Procedure governing allowances. The allowances for the persons in charge were decided in 2012 at the 16th Annual General Meeting in Guinea. These payments are made to the **Deputy Permanent Secretary**. Payments have been suspended since 2019 and only resumed this year with the resumption of activities.

To date, the account balance is **12,502,784 CFA francs (19,060 euros).**

Ladies and Gentlemen, Delegates from the member countries of the Committee,

I wish success to the new Chairperson elected yesterday. I know that he will be able to preserve our achievements and enable the Committee to move forward even further. I also rely on your selflessness and dedication to help the new Chairperson implement the program of activities that will be adopted at this meeting.
Once again, I would like to express my gratitude to the Governor of the Central Bank of Nigeria and all his colleagues for holding this 21st Annual Meeting here in Abuja.

Thank you for your kind attention.

P/Permanent Secretary of CSBAOC,
P/Secretary General of COBAC

Vladimir OMBOLO MVOGO

ACTIVITY PROGRAM 2024

The following activities are scheduled to be implemented during the term of office of the Chairperson of the Committee of Banking Supervisors of West and Central Africa until the 22nd Annual Meeting in 2024:

Activities	Period
Preparation for and participation in the high-level meeting organised by the Basel Committee on recent developments in banking supervision in Cape Town.	**January 2024**
Contribution to the operating budget of the CSBAOC	**January 2024**
Elaboration de l'annuaire du CSBAOC, édition 2024	**February 2024**
Preparation of the proceedings of the 21st Annual Meeting	**March 2024**
Finalisation of the registration of members in FSI/ Connect	**April 2023**
Revival of members who have left the CSBAOC (**Rwanda, Cape Verde, Madagascar**)/ and some new countries (**Sao Tomé and Principe**)	**August 2024**
CSBAOC Banking Atlas Project: Implementation of a platform for the dissemination of regulatory frameworks and data on the banking systems of CSBAOC member countries	**September 2024**
Seminar for members on crisis test simulations (**with possible support from AFRITAC-CENTRE**)	**November-décember 2024**
Reactivation and updating of the CSBAOC website	**March 2024**
Preparation of the Committee's 22nd Annual General Meeting	**November-décember 2024**

MAIN FEATURES OF THE OPERATING BUDGET OF THE PERMANENT SECRETARIAT OF THE CSBAOC FOR 2024

For efficient and autonomous operation of the Committee of Banking Supervisors of West and Central Africa, the Annual Meeting resolved to establish a budget in accordance with the provisions of paragraph 5.4.2 of the Committee's Charter.

The income is made up of Committee members' subscriptions, increased by years of arrears (non-contribution), while expenditure is made up, on the one hand, of the operating costs for the Permanent Secretariat and, on the other hand, of the operating costs for the Committee.

I. TABLE OF ESTIMATED INCOME

Estimated resources	Amount (USD)
Balance of CSBAOC account	**20 839**
Contributions expected from the members	**67 500**
BURUNDI	**2 000**
COBAC	**2 000**
DRC	**4 000**
GAMBIA	**4 000**
GHANA	**6 000**
GUINEA	**6 000**
LIBERIA	**10 000**
NIGERIA	**2 000**
SIERRA LEONE	**10 000**
SUDAN	**10 000**
UEMOA	**2 000**
IMAO	**5 500**
NDIC	**3 000**
FOGADAC	**1 000**
TOTAL	**88 339**
TOTAL (XAF)	**51 953 400**

II. TABLE OF ESTIMATED EXPENDITURE

Operating expense for the Permanent Secretariat

Expense description	Unit price	Quantity	Total FCFA
Fixed allowance for the Permanent Secretariat	**300 000**	**15**	**4 500 000**
Overheads			
Account operating expenses			**500 000**
Charges for banking services (subscriptions, agios, cards, transfers, etc.)	500 000	1	500 000
Current operating expenses			**18 046 500**
Translation of CSBAOC documents	3 000 000	1	**3 000 000**
CSBAOC directory	25 000	15	**375 000**
CSBAOC proceedings	100 000	15	**1 500 000**
CSBAOC banking Atlas	100 000	15	**1 500 000**
Gestion et animation du site internet Website management and coordination			**2 800 000**
Website hosting costs and webmaster's allowance	300 000	1	**300 000**
Website updates	2 500 000	1	**2 500 000**
Connection to FSI/Connect			**7 871 500**
Connection fees per member	157 430	50	**7 871 500**
Contingencies			**1 000 000**
Frais d'envoi Postage and packing	1 000 000	1	**1 000 000**
TOTAL			**22 546 500**
TOTAL (USD)			**37 578**





21 st annual meeting of the Committee of Banking Supervisors of West and Central Africa (CBSWCA)

Abuja (Nigeria), November 22 - 24, 2023

THE PROCEEDINGS