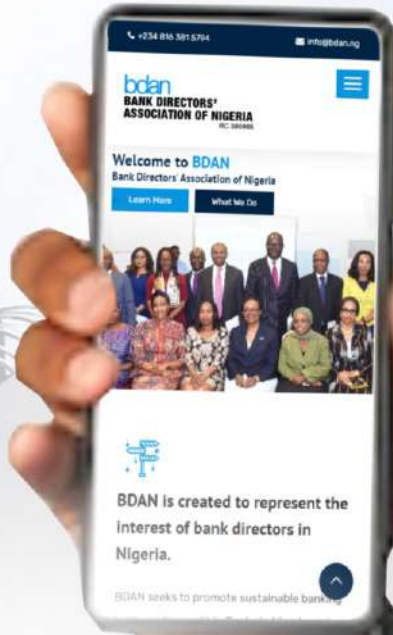


Between **NDIC** and **AMCON**: Recalibrating Regulatory Roadmaps.





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Executive Summary.

Corporate strategists find it challenging to build a virtuous bridge between the Asset Management Company of Nigeria (AMCON) and the Nigerian Deposit Insurance Corporation (NDIC). The two organizations appear united in vision but untethered in operations. While AMCON has grabbed the steering wheel of resolving banks' toxic debt assets, the NDIC has laid hold on the transmission system of depositor protection. In theory, this does not raise a problem but creates a world of difficulties for bank cost management in practice.

The NDIC charges an insurance premium on bank deposits. In contrast, AMCON charges banks' a proportion of total assets remitted to a sinking fund to pay off AMCON intervention payments for acquiring toxic bank loans. The twin charges place an additional operating burden on banks that need resolution in favour of reducing banks' account maintenance costs.

Walking the tightrope between bank depositor protection and toxic loan resolution has created a difficult regulatory oversight blindspot. While the NDIC is propped to cover depositors' money in the event of a bank going bust, AMCON is charged with protecting the failure of a bank from becoming contagious. Both institutions are strategically important, but the fixed annual charges associated with their oversight have added a financial burden on bank operations that needs urgent redress.

Banks that pay into a sinking fund for toxic assets purchased by AMCON should not be required to pay insurance premiums into a financial stability fund (FSF) because no depository claim is associated with these assets. The standard lending equation links loans to deposits. Where the loans are discounted and sold to AMCON, it is no longer part of the bank's inventory of bad assets and associated deposits; it should no longer come under consideration by the NDIC (*see illustration*).

Illustration





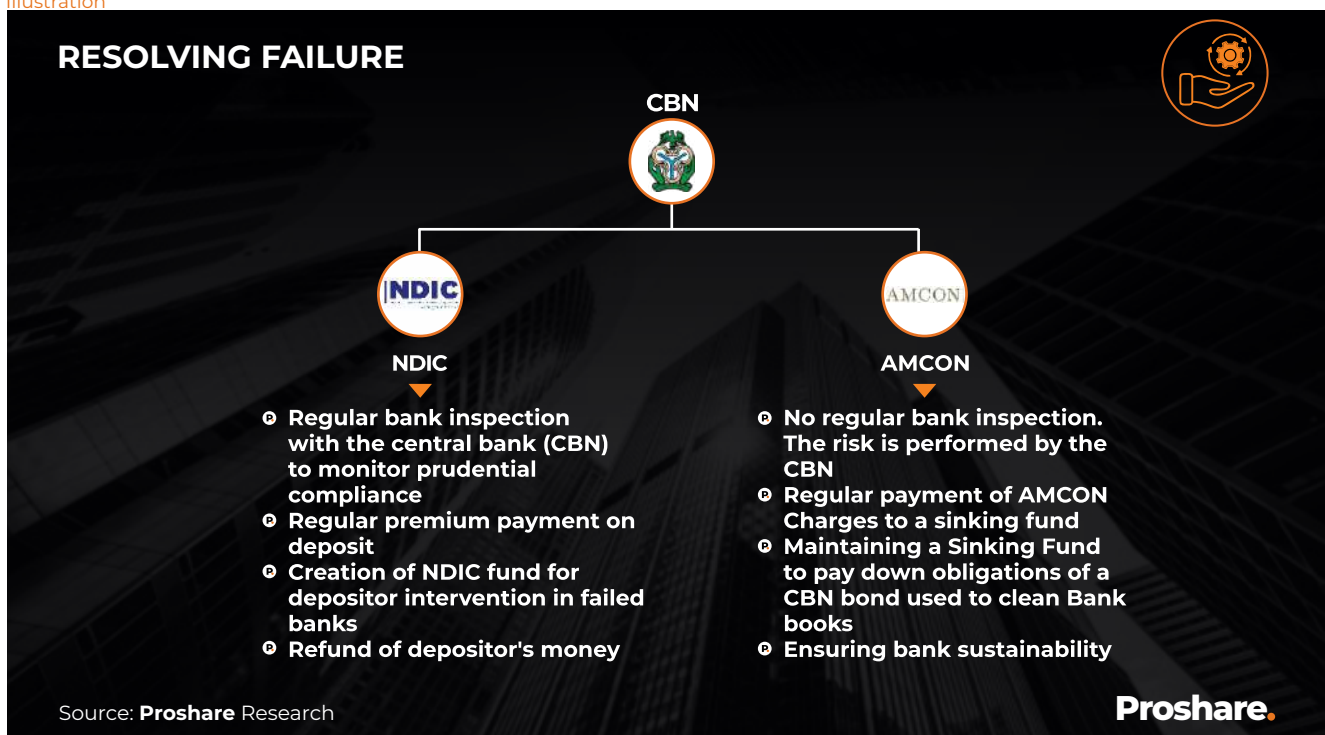
The current regulatory practice of getting banks to pay between 0.5% and 0.35% of total bank insurable deposits placed in a stability fund exaggerates the premiums due by banks. Analysts argue that kicking a dead horse twice does not bring it to life. The AMCON charge on bank assets should be enough to amortize the CBN bond and extinguish bad loans.

Moving Forward with the 'Good' Bank, 'Bad' Bank Loan Resolution Model

The 'good' bank, 'bad' bank model of loan resolution, has served Nigeria well but has come with challenges; for example, 'moral hazard' has remained a puzzle in an enigma for domestic deposit money lenders. The existence of the AMCON as a bailout institution has, to a certain extent, lured bank managers into being less diligent in loan origination and credit administration. Seeing AMCON as a safety net for poor lending decisions has created a fast and loose attitude to credit.

Obviously, to create a disciplined lending environment, AMCON must be allowed to sail into the sunset with its job done. However, where AMCON cannot clean out bad debts, it would be prudent to enable the institution to wind up anyway. Whatever debt remains unrecovered would be treated within a different framework. The sinking fund could stay, and the NDIC could have an asset recovery arm that continues with AMCON's work (see illustration).

Illustration



Overburdening a Donkey

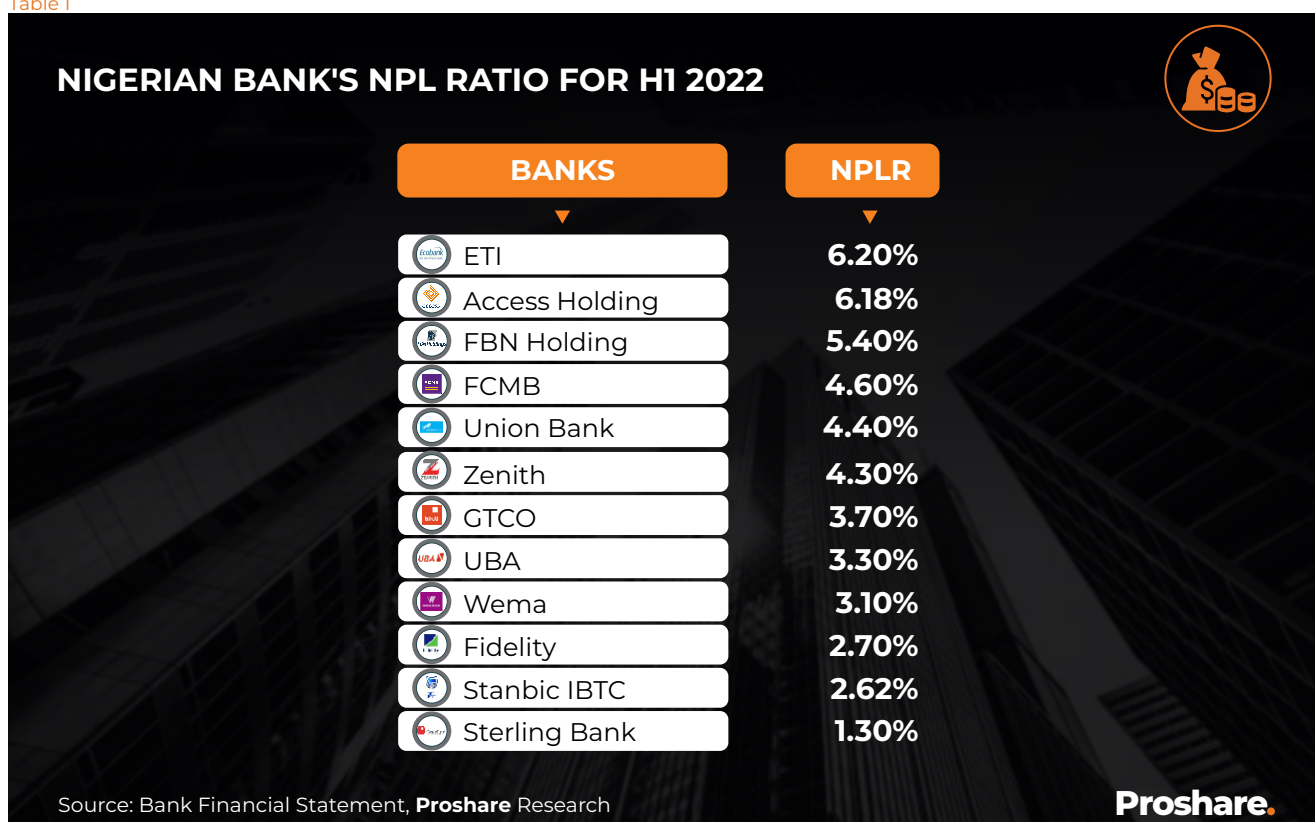
Deposit Money Banks (DMBs) in Nigeria have been harried by a swarm of regulations constraining their ability to increase lending and expand their market service delivery. The current cash reserve ratio (CRR) hike to 32.5% in October 2022 from 27.5% in September has constrained lending activities. The official CRR does not consider discretionary CRR imposed on institutions from time to time by the

money market regulator, the CBN, suggesting that policy tightness could be a hard brake stop on credit growth and economic expansion.

The higher CRR and the payment of insurance premiums on cash reserves with the CBN create broad lending tightness that pulls up lending rates and throttles down on corporate operations. Analysts have noted that the narrowing of lending capacity increases lending rates and reduces private-sector business activity by as much as 20% for some sectors. The combination of these outcomes adversely affects banks and their profitability. To accommodate the rise in CRR, banks' gross up' their loan costs, thereby putting upward pressure on the finance costs of borrowers. The increase in finance costs has created a higher domestic default risk factor which may reduce bank loan quality.

So far, banking sector non-performing loans have been within the CBN's 5% policy threshold, but with monetary policy tightness, this may not last much longer (*see table*).

Table 1



The CBN may need to revise its CRR rules and improve bank liquidity. Most importantly, banks' cash balances with the CBN should NOT be subject to NDIC premium payments. Charging premiums on monies with the CBN presupposes risk associated with idle cash balances with the regulator. If this were the case, the CBN would be required to compensate banks for the riskiness of keeping cash with it because of the inflation-weighted cost of money, which means that CRR balances, both statutory and discretionary, should attract an interest rate. Unfortunately, banks have not been so lucky, and the CBN, in its wisdom, has not favoured interest payments on CRR. But that may not be much of a problem if banks did not have to pay insurance premiums on riskless cash balances. The present report is broken into six sections and tries to provide context for why there is an urgent need to recalibrate the charges in the financial service sector, starting from premium payments on riskless deposits with the CBN.

At a recent Bank Directors Association of Nigeria (BDAN) conference, senior officers of the NDIC argued that the premium payment was a cost to support the continued stability of the sector. The NDIC executives insisted that contributions to the Financial Stability Fund were vital to safeguarding the industry against systemic risks. They argued that the sector's implosion would be much more expensive than the over N50bn annual cost to banks of paying premiums on balances with the CBN. The argument, though well-intentioned, is not compelling. Insurance premiums are supposed to align assets with identifiable or potential risks, and where no risks exist, insurance is not required; it is that simple. The report makes the case that banks need to be allowed to operate optimally. Charging insurance premiums on monies with the CBN is not an optimal market-inspired solution.

Section 1: Introduction: Two Separate Jurisdictions but a stretch of Grey Patches. The first section looks at the legal provision and framework that form the foundation upon which AMCON and NDIC were created to clarify the mandates of the two bodies. In this section, the circumstances which necessitated the formation of the two companies are appraised separately.

Section 2: Major Interventions of AMCON in Deposit Money Banks: Keystone, Union Bank, Wema Bank, etc. This section does a drive-through of the significant interventions of AMCON and analyses the outcomes. It considers the degree to which AMCON intervention improved the financial system's stability.

Section 3: Recent Interventions of NDIC: Fortis Microfinance Bank. In this section, we look at the contributions of the NDIC to ensuring the health of the Nigerian Financial System. It pays particular attention to the critical interventions NDIC had made to avert a systemic collapse, especially after 2009 with the creation of AMCON.

Section 4: Banks' Performances Suffer Under the Burden of Multiple deductions
This section takes a deep dive into the Financial Performances of the Banks which have had to contribute to the AMCON fund to settle/ reduce their toxic liabilities while also paying NDIC premiums. This section explains how the existence of AMCON as a Public Asset Management Company makes the NDIC premium payable by all banks unnecessary.

Section 5: Delineating the Roles of Deposits' Re-Insurance and Public Asset Management Companies. This section of the report identifies best global practices in deposit insurance companies and Public Asset Management companies by citing the convention in the US, UK, and other advanced economies with well-developed financial systems.

Section 6: Recommendations and Conclusion. This section appraises alternatives open to the authorities, from a possible merger of the two organizations to a streamlining of the jurisdiction of the two bodies. The section concludes with recommendations for the authorities regarding provisions of the relevant laws that require revision or creation.

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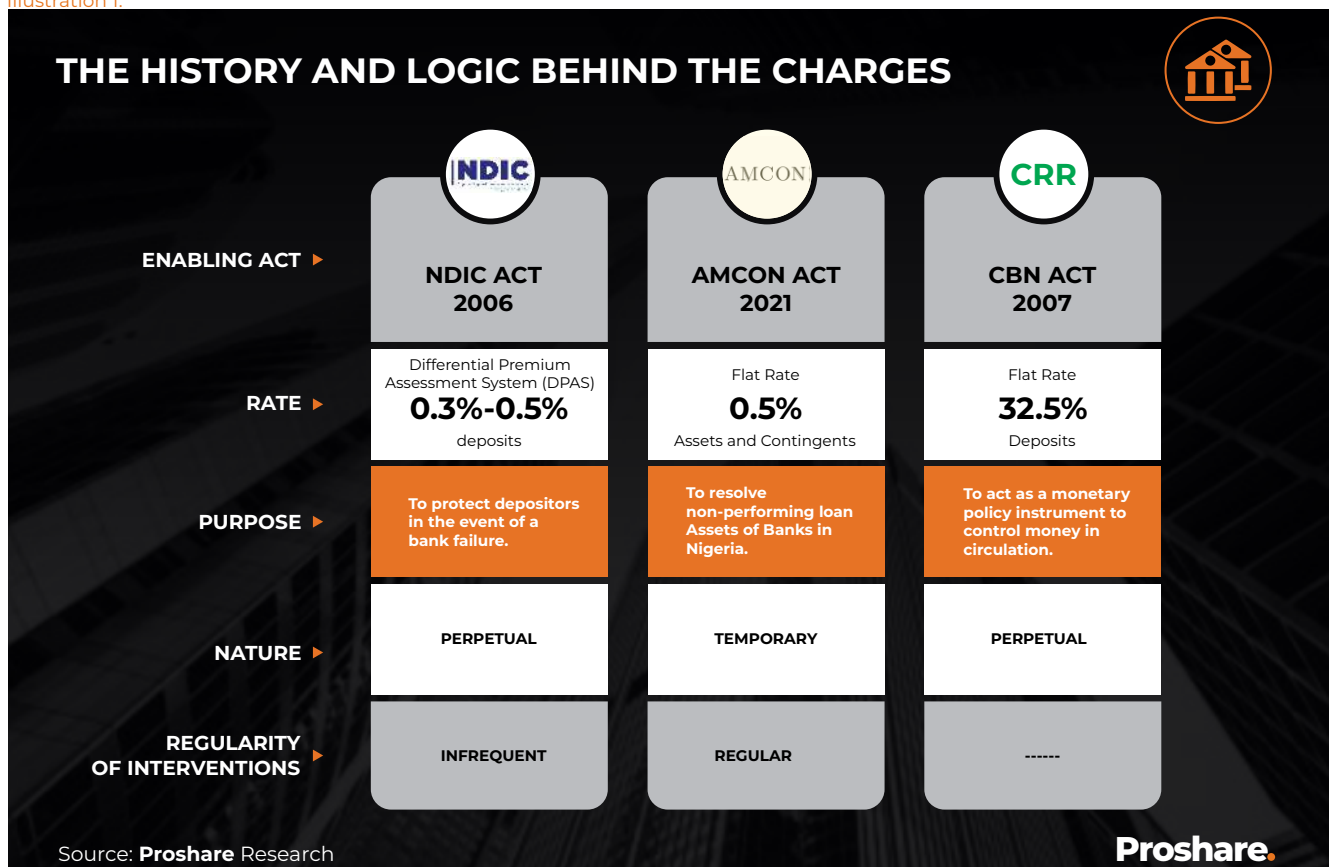
Two Separate Jurisdictions But a Stretch of Grey Patches.

When Regulation Poses a Threat to the Banking Business

“The NDIC and AMCON are taking so much money from the banks. Depositors are getting less returns on their deposits as a result of this. They are being funded by the banks using depositors' funds. Keeping both institutions is a waste of time, money, and human resources” - Okereke-Onyiuke, former NGX boss

Nigerian Banks are confronted with a myriad of challenges, from a harsh macroeconomic environment that impinges credit performance to the almost prohibitive cost of operations that consistently impairs profitability. But of all of the extant challenges facing commercial banks, Analysts are at a consensus about the fact that the question of regulation and regulators is the single most crucial concern. The Central Bank of Nigeria and The Nigerian Deposit Insurance Corporation are two stakeholders within the sector, who by their actions and inactions can undo banks. Apart from CBN's atrociously high discretionary Cash Reserve Requirement (CRR) which is estimated at an effective rate of 60% (of Deposits), Deposit Money Banks also have to part with a princely sum annually in the form of deposit insurance premium as well as a contribution to the banking sector resolution fund. What is the history of these charges and what is the logic behind retaining both charges at once? for what purpose were they set up in the first place? What interventions have been made by NDIC and AMCON? What measure of success has been recorded? Is there a sunset clause on the charges? (see illustration 1).

Illustration 1:



In the 1970s, the Federal Government was the dominant player in the banking industry, such first-generation banks as the United Bank for Africa (UBA), Union Bank, and First Bank of Nigeria (FBN) was governed by a government-nominated board. Regulatory oversight was less cumbersome. However, with the introduction of the liberalization policy tagged Structural Adjustment Programme in 1986 the government had to exit bank ownership, and as such the financial system was fully driven by private sector initiative and interest. The need for greater oversight functions was obvious and this necessitated the setting up of the Nigeria Deposit Insurance Corporation (NDIC). A CBN committee commissioned in 1983 by the Board of Central Bank of Nigeria (CBN), upon examining the operations of the banking system in Nigeria recommended the creation of a Depositors Protection Fund. This was necessary to affect the liberalization policy and consummate the introduction of the Structural Adjustment Programme (SAP).

Initially, all banks paid a single flat rate regardless of their risk levels. However, in 2006, the Corporation adopted a risk-based supervisory framework that placed emphasis on risk management. This way the Corporation transitioned from the flat rate premium assessment system to a differential premium system. To boot, the NDIC Act No. 16 of 2006 gave the Corporation the power and flexibility to vary the rate, the assessment base as well as the method of premium assessment. It is against this backdrop that the Corporation has deemed it appropriate and timely to develop a framework for DPAS.

Borrowing a leaf from the US, the establishment of AMCON was modeled after the US's Resolution Trust Corporation (RTC) which operated between 1989 and 1995. The RTC served to resolve the savings and loans crisis of the 1980s, which caused one-third of the US's deposit money banks to fail over a 10-year period. The RTC carried on its task by selling or merging troubled thrifts of banks in conservatorship and then handing their assets to the Federal Deposit Insurance Corporation (FDIC). The mandate of the RTC was to maximize the value of the accounts taken over and to minimize the impact of its intervention on the financial market and the real sector. Overall, the RTC closed a total of 747 failed financial institutions, with total assets of US\$394bn, while liquidating the assets of the institutions.

From the US example, it was abundantly clear that while allowing banks to fail can be necessary in some cases to serve as a deterrent to other banks, in a situation where several systemically important banks are however on the verge of collapse, and the entire financial system is at stake there must be a concerted effort at saving the banks to avert a financial system-induced economic crisis.

By the time the global financial crisis of 2007-2009 seeped into the domestic economy, the stress tests conducted by the regulator showed severe system weakness and a high likelihood of a system collapse as several banks contended with inadequate capital. In what analysts consider a timely response, AMCON was set up with two principal remits namely:

- ④ The Purchase of Bad debt/ Eligible Bad Assets.
- ④ The Funding of distressed banks.

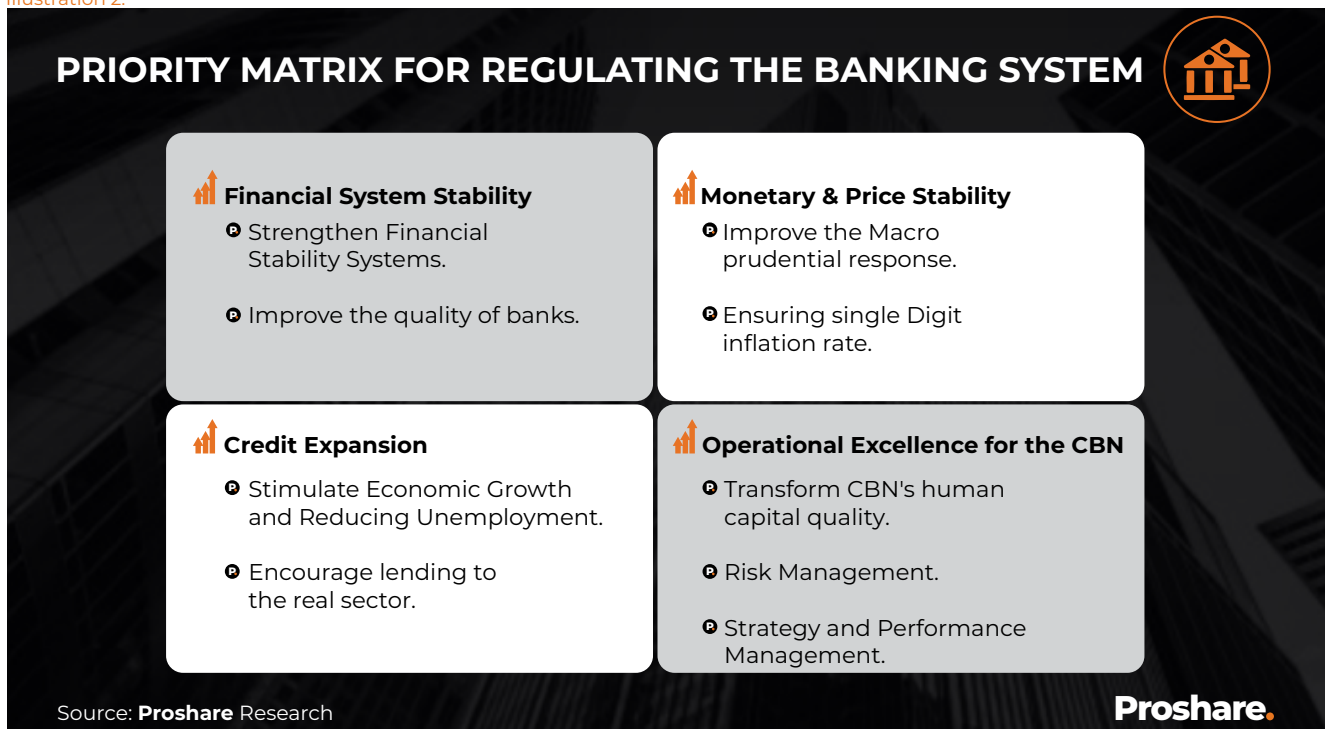
AMCON expended N1.7trn to buy bad loans and N2.3trn to restore the negative shareholders' funds of the banks. AMCON relied on three major sources of funding, first the equity contribution of the CBN and the Ministry of Finance Incorporated a debenture and a zero-coupon bond. According to sources privy to information about the establishment of the AMCON sinking fund, Nigerian Banks volunteered upon request from the Sanusi-led CBN to contribute an equivalent of 0.3% or 30bp of their assets annually towards the retirement of the bond. The contribution would later be raised to 0.5% or 50bp following a slump in the projected growth of industry bank assets from an initial 22.5% to just about 7%. By the readjustment, it was expected that in 10 years, the bonds would have been retired and AMCON can be resigned.



After 12 years, Nigerian Banks continue to make contributions to AMCON without an end in sight. Operators in the Banking sector have repeatedly expressed willingness to work out a plan with the regulator which would see them take up the obligation to bring an end to the AMCON charge which has accounted for about 11.43% of the operating expenses of banks in 2021.

Although it has a Monetary Policy mandate to ensure Price Stability and to protect the value of the domestic currency, the CBN must be careful not to make the banking business unattractive by an overly atrocious removal of liquidity. At the end of the day, banks need to have the much-needed liquidity to lend and to perform their systemically important role of credit expansion. Analysts say that the CBN must set its priorities aright, or risk tipping the financial system into a crisis (see illustration 2).

Illustration 2:



To date, 5000 of the total 12743 accounts acquired by AMCON have been resolved while 6000 are under management with third parties. As of September 2022, AMCON has a total of 7743 accounts that remain unresolved, all of which amount to N1.7trn. But of that number of accounts, only 350 accounts are responsible for N1.42trn. This unearths the concerns around lending to High-Net-worth individuals, politically exposed persons, and the adherence or otherwise of banks to prudential obligor limits.

The Problems with CBN's CRR Deductions and NDIC Premium

The Cash Reserve Requirement (CRR) is the proportion of customer deposits that banks must hold in zero percent interest-yielding assets of the Central Bank. The commercial is expected to fund its positions to the extent of the stipulated CRR limits or risk being debited. While the CRR currently stands at 32.5% (following an unexpected 500bp upward adjustment from 27.5% in September), the effective CRR would rise to about 60% of deposits, if the discretionary CRR is taken into consideration. But what is the discretionary CRR?



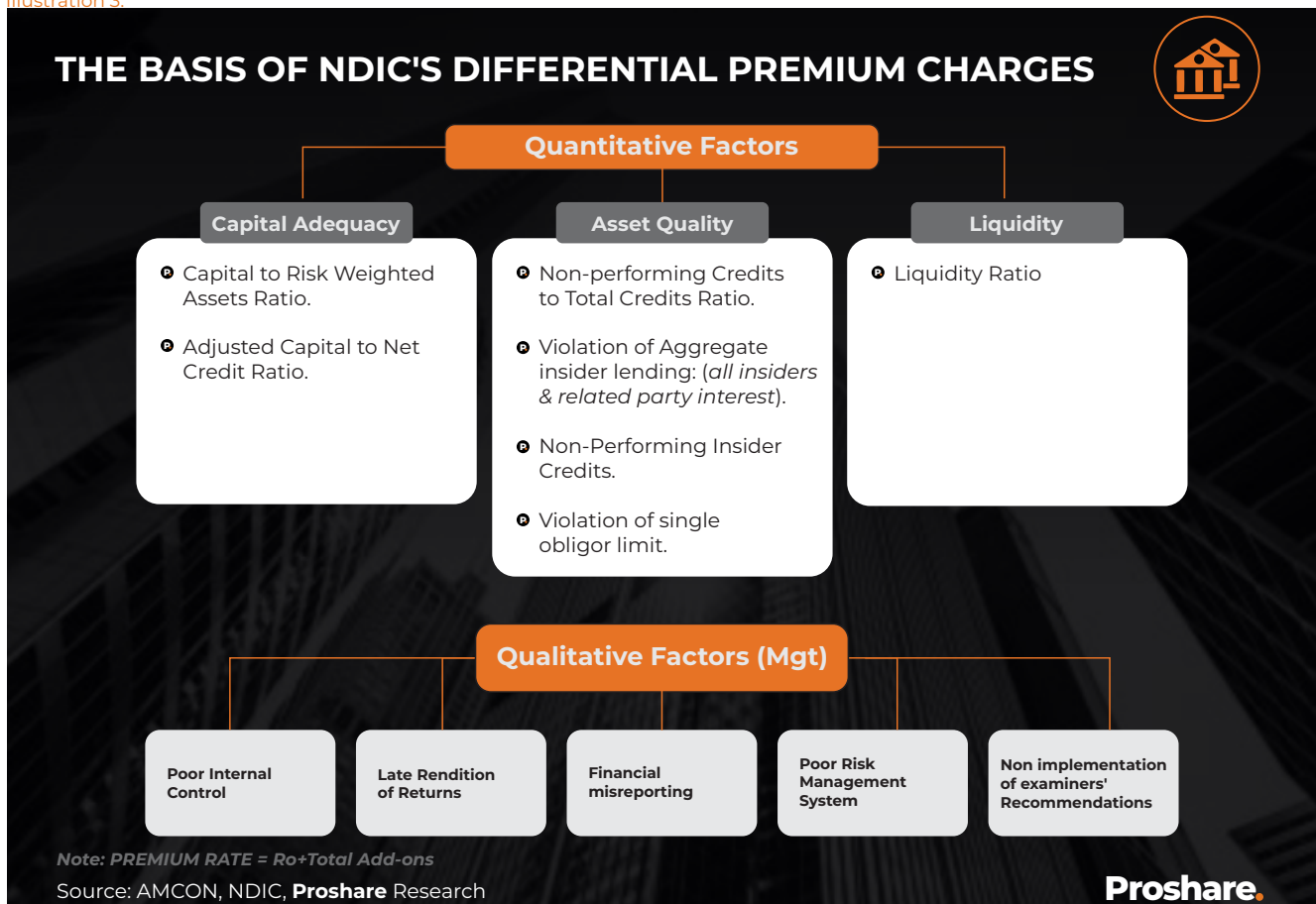
While the CRR debit on the face of it is meant to be a mandatory 32.5% (previously 27.5%) deduction on the deposits of banks, the CBN has since introduced another twist to the discussion namely the Real Sector Support Facility-Discretionary Cash Reserve Ratio (RSSF-DCRR) which is meant to fund the CBN's Development Finance Initiatives.

Experts say that the CBN made recourse to discretionary CRR debits also as a means of curtailing liquidity after the OMO issuance alternative became too expensive for Apex bank. The CBN in 2019 paid up to N1trn in interest payments on OMO bills. The CRR deductions would usually occur days before FX Auctions. By reducing the Naira balances of banks, the CBN intends to reduce the demand for FX by the banks.

The recent round of CRR debits in September 2022 saw the CBN hammer banks in breach of the CRR rule with a total of N118bn debit. The hardest hit were Stanbic IBTC and GT Bank (N15bn each). Before now, the most affected were UBA and Zenith Bank. Using their Net Interest Margin and the total debits made by the CBN, the two banks (UBA and Zenith Bank) lose up to N2.9bn and N3.8bn respectively.

The discretionary CRR debits of the CBN also raise the question of NDIC premiums charged on sterilized funds. The NDIC uses a combination of qualitative and quantitative factors to determine the premium to be paid by respective banks. This however does not take into consideration the fact that the CBN has by way of its CRR charges sterilized a part of the bank's deposit. Stakeholders argue that the portion of the deposits lodged with CBN ought not to be assessable for NDIC deposit premium (see illustration 3)

Illustration 3:





Why Nigerian Banks Trade Below Their Book Value

Nigerian Banks trade typically below the valuation of their net assets and only a few banks are priced at par with the breakdown value of their underlying assets. Banks are priced based on investors' wild whims and wobbly expectations. Stockbrokers asked about local banks' relatively low price-to-net asset value (NAV) listed on the Nigerian Exchange Limited (NGX) come with explanations that confirmed confusion rather than established conviction. One of the brokers questioned concerning bank net asset valuation noted that *"nobody can tell why prices are low relative to net assets. A general notion is that bank loan asset qualities are black boxes and trying to value bank loan assets is like figuring out how water gets into coconuts. The market simply discounts loan assets, and the higher the loan assets as a proportion of total assets, the lower the likely price to book value"*.

An alternative explanation offered by a Lagos-based stockbroker is that *"analysts have generally been more concerned about future discounted earnings per share than corporate asset values. So, stock prices reflect expected cash flows rather than present or future asset values."*

The difficulty in understanding the low prices of listed banks on Nigeria's NGX brings to mind the often-repeated quote by Phillip Fisher *"The stock market is filled with individuals who know the price of everything, but the value of nothing."* Fisher's view might be harsh in describing the Nigerian investor, but it may not be far from the mark.

The Point of Departure

To appreciate the concern of analysts about the values of listed stocks on the NGX, a bird's eye view of the market's banking sector leaves analysts' imaginations breached. In the case of GTB, price to book value (P/BV) over the previous ten years has fallen from 2.4 in 2012 to 1.29 in 2015 (at the beginning of a recession) to 1.94 in 2017 (at the end of a recession). In 2021 the bank's price-to-book value surprisingly tumbled to 0.95. For FBNH, over the last decade, the financial holding company has had a P/BV below one. The highest P/BV ratio was seen in 2012 when it was 0.89. With the lender's share price dipping from N16.30 in 2013 to N3.46 in 2016, Holdco's P/BV tumbled by -82.56%. On December 31, 2021, the deposit money bank's (DMB's) price was a third of its net asset.

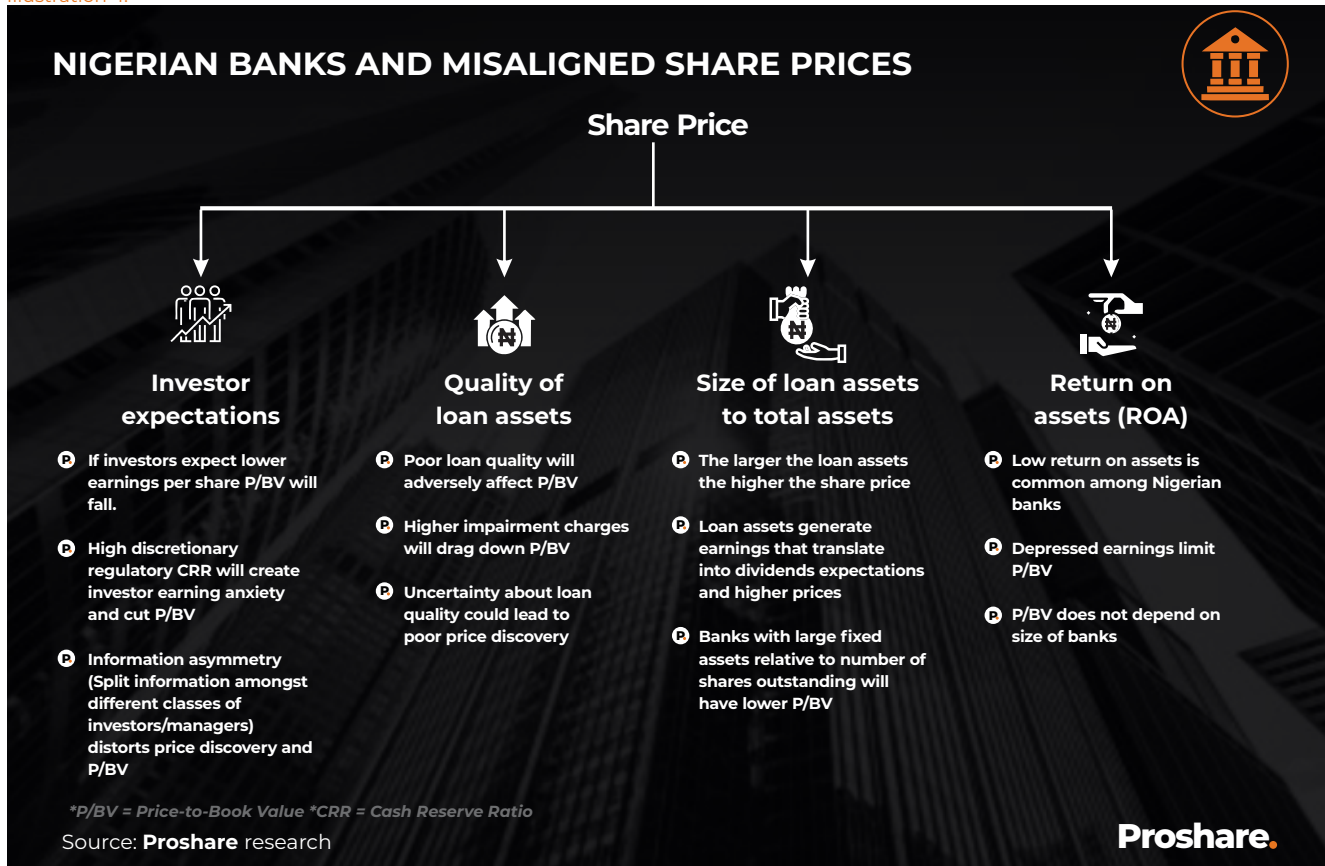
Similar to GTB and FBNH, UBA's P/BV has not exceeded N1 except since 2013. In the five subsequent years, P/BV ranged between 0.67 in 2017 and 0.34 in 2021. The historical P/BV reinforces what appears to be a broad market pricing anomaly.

StanbicIBTC has however continued to defy the trend, as its Price to Net Asset Valuation has consistently exceeded 1. In 2021, the bank recorded a P/BV of 1.24 while this suggests that the market valuation of the bank has continued to be higher than the valuation of its net asset valuation, a look at the figure suggests that the bank has recorded a steady decline in its P/BV. Having previously been as high as 2.05 in 2017 (*see illustration 4*).

Illustration 4 



Illustration 4:

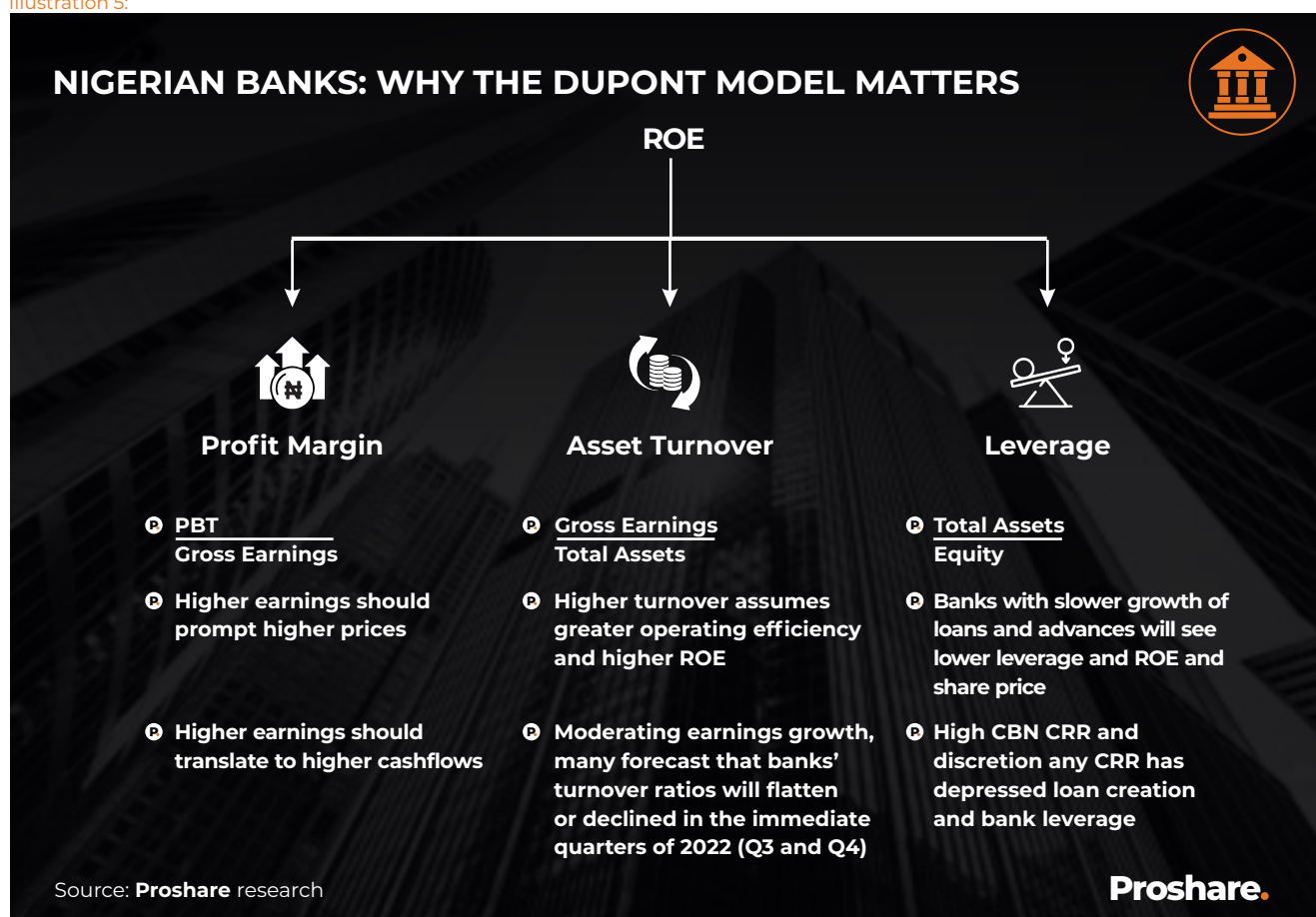


Low Asset Turnover: The Elusive Puzzle Piece

The average Return on Assets among Nigerian Banks is around 1.2%, and this, analysts say is the single most important reason why the share price of Nigerian banks trades below their netbook valuation. But what is the ideal Return on Assets (ROA)? The combination of the Capital Assets Pricing Model and the DuPont model can help resolve the puzzle. If we assume a 15% risk-free rate (approximating the yield on the 10-year FGN Bond, also given that long-run inflation is about that). If we also assume a 10% equity premium, the ideal Return on Equity (RoE) would be 25%. With a prudential Tier 1 Capital Adequacy Ratio (CAR) set at 11.25%, an inversion would produce an ideal leverage ratio of 8.8. By dividing the ideal ROE (25%) by the ideal leverage ratio (8.8) we obtain an ideal ROA of 2.85%. The Return on Assets of the Nigerian Banking Sector as of 2021 was 1.2% which is less than half of the ideal return on assets (see illustration 5).

Illustration 5

Illustration 5:



Resolving A Knotty Problem

Investors bother about earnings and not asset size and this is the primary cause of the value variance observable amongst Nigerian banks. For Analysts, earnings forecasts take precedence over assets, and this makes the banks' **earnings to Loan Asset ratio** an important pointer to the market value of banks. If the CBN tightens up liquidity so much through its discretionary cash reserve requirement (CRR) deposits available for lending reduces, the banks earn less from their primary business of creating credit, they would record a reduced bottom line and consequently a declining share price.

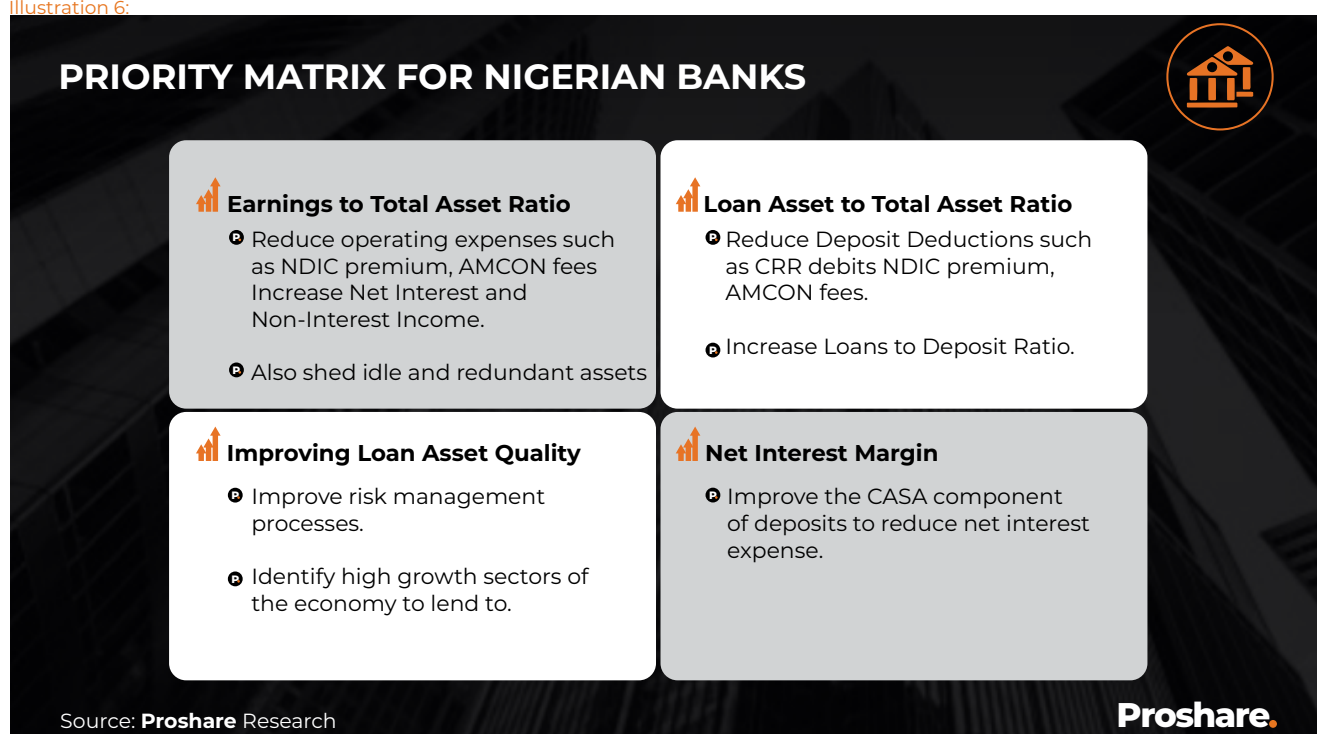
Another reason for the share price discrepancies that characterize Nigerian banks is the ambiguity around **loan asset quality**. Looking at the impairment provisions is the simplest strategy since the more provisions for credit loss, the lower the anticipated quality of loan assets. This would apply whether or not net assets increase, higher impairment charges would hurt net earnings and bring down share prices.

Analysts have also observed that many times, banks have relatively low loan assets (below the CBN's statutory loan-to-deposit (LDR) ratio of 65%), which might also have an impact on their **loan-to-total assets ratio**, which would cause CMOs to likely discount their share prices. The third explanation for lags between share price fluctuations and net assets is the larger ratio of loans and advances to total assets.

The **interest spread** for many Nigerian banks is narrow. This is particularly the case with the Tier two banks whose business is mainly funded at an exorbitant cost at the inter-bank market. Such banks have very to skimp on operating expenses to be profitable given their huge net interest expense. Related to the misalignment or disintermediation that arises between the bank's deposit and loans. For instance, where a bank has a relatively low number of Current Accounts Savings Accounts (CASAs), profit margin is less, because the interest paid on term deposits is higher, and Net interest Margin is closed out.

Market intelligence would therefore suggest that for the average bank the priorities should be to optimize earnings and increase deposits available for lending at the heart of which lies the disruptive charges of NDIC, AMCON, and the CRR discretionary debit (see *illustration 6*).

Illustration 6:



Major Interventions Of Amcon In Deposit Money Banks



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Major Interventions of AMCON in Deposit Money Banks.

Following the establishment of AMCON, as a Federal Government agency, all bank resolutions carried out have involved AMCON while the NDIC has sat on the sidelines. Over the years, bank failures have been due to banks' inability to remain solvent, hence, unable to meet their financial intermediation mandate. Therefore, the agency has come to the rescue of these banks through recapitalization or outright auctions to better-performing banks or private individuals.

The capital injections by AMCON were made possible by the injection of zero-coupon bonds with discounted values high enough to make banks' net asset values (NAV) zero. With the help of capital infusions, the agency was able to safeguard depositors and maintain operations at each of the eight banks. Five injections were made into failing banks to facilitate a third-party investor purchase. The assets and liabilities of the remaining three banks were transferred to Bridge Banks because they were unable to meet the minimum capital adequacy ratio (CAR) standards set by the CBN.

For these interventions, the CBN through the National Deposit Insurance Corporation (NDIC), created Bridge Banks which are temporary banks organized to administer the assets (deposits) and liabilities of a failed bank. These bridge banks were eventually transferred to the ownership of the Asset Management Corporation of Nigeria (AMCON) and after three years were to be sold to investors via an auction.

The recapitalization of these banks meant that AMCON had absorbed the non-performing loans (NPL) as the AMCON Act 2019 (amended) grants the corporation more powers to recover bad debts from obligors. According to a former AMCON official, N678 bn was meant to be injected into the three banks in a bid to raise their capital adequacy ratio to 15% and enable them to pay back the funds initially injected into them by the apex bank in 2009.

At the time, he disclosed that a total of N285bn will be given to Mainstreet Bank (formerly Afribank), Keystone Bank (formerly Bank PHB Plc) will get N283 billion and Enterprise Bank (formerly Spring Bank) will get N110bn. However, we will take a look at some major interventions of the Asset Management Corporation of Nigeria (AMCON), in the banking industry.

Major interventions of AMCON

AfriBank Nigeria Limited

In 2011, Afribank Nigeria Limited, later known as Mainstreet Bank, was declared a failed bank and its banking license was revoked by the banking regulator, the Central Bank of Nigeria (CBN).

Following the revocation of the bank's license, AMCON transferred part of the assets and liabilities of the defunct Afribank to Mainstreet Bank Limited, a bridge institution founded specifically for that purpose. The asset management agency, on the other hand, had put N425 bn into the bank to first set the bank's NAV to zero. As a result of the agency's intervention through bank resolution, the bank continued to operate under the control of the bridge bank, while depositors were still able to access their funds.

Eventually, Skyebank won the bid to acquire 100% of AMCON's shareholding in Mainstreet Bank and

following the sale in 2014, Skye Bank began to show signs of distress in 2016, after failing to meet its minimum threshold in liquidity. As a result, CBN revoked the license of Skye bank and established Polaris Bank as a bridge bank for AMCON to capitalize, and just like AfriBank, AMCON acquired the assets and liabilities of Skye Bank.

Bank PHB

In the same year as Afribank Nigeria Limited, the banking license of Bank PHB, formerly known as Platinum Habib Bank, was revoked by the CBN as they had not shown the capacity and ability to recapitalize before the September 30, 2011, recapitalization deadline. The bank was rescued through capital injections by AMCON, just before its assets and liabilities were transferred to bridge banks. AMCON injected a total of N301bn into the bank.

The assets, including the bank's subsidiaries, and liabilities were absorbed by Keystone Bank, the bridge bank created for that purpose, hence, Keystone Bank was considered a nationalized bank. However, in 2017, Keystone bank was auctioned to be sold to Sigma Golf Nigeria Limited and Riverbank Investment Resources Limited (the Sigma Golf – Riverbank consortium), ending the bank's status as a nationalized bank.

Spring Bank

Spring Bank was one of the three banks that failed to make satisfactory progress toward a recapitalization deal before the deadline set by the Central Bank of Nigeria. Therefore, the banking license of the bank was also revoked, and the bank itself was nationalized into a bridge and renamed Enterprise bank, to later be sold off on a bid by Heritage Bank. According to “The Global Financial Crisis in Nigeria”, a publication by Pascal Ungersboeck, the Asset Management Corporation had injected N135bn into the bank to set its net asset value to zero, hence becoming the full owner of the bank, before its acquisition by Heritage Bank in 2014.

Oceanic Bank

Oceanic Bank, in 2009, was one of the banks that were identified as insolvent and chronic borrowers at the Expanded Discount Window of the CBN, thereby indicating that the bank had little cash at hand. Therefore, the Asset Management agency injected the sum of N304.68 bn to set the bank's NVA to zero. In 2011, the bank was acquired by Ecobank, a very solvent and well-performing bank at the time and Oceanic Bank legacy shareholders received ETI shares in consideration for their equity in Oceanic.

Union Bank

Union Bank was recapitalized in 2012 following an injection of N382 billion by AMCON in a bid to purchase the bank's toxic assets. However, the bank also received an injection of \$500m by Union Global Partners Limited (UGPL), a consortium of local and international investors who acquired 65% of the bank's shareholding. The private consortium comprises:

- Africa Capital Alliance
- ADC African Development Corporation
- Corsair Capital
- FMO (the Netherlands Development Finance Company)
- Chandler Corporation
- Standard Chartered Private Equity

In the last quarter of 2014, AMCON's remaining 20% stake in the bank was acquired by Atlas Mara, a financial services holding company formed to undertake the acquisition of target banks in Africa.

Union Bank had signed the Transaction Implementation Agreement (TIA) with the private equity consortium which was led by Africa Capital Alliance Limited (ACA) and the Overseas Private Investment Corporation (OPIC) to inject Tier I and Tier II capital into the bank for its acquisition.

Intercontinental Bank

In December 2008, during the worst banking crisis that rocked the Nigerian Banking sector, Intercontinental Bank's shareholder's equity was valued at approximately NGN 261 billion.

Shortly after, there was a downward spiral that resulted in Intercontinental Bank being one of the banks declared insolvent by the Central Bank of Nigeria (CBN), meaning that the bank was unable to fulfill its bank obligations and needed an intervention.

In 2013, the defaulting bank was eventually acquired by the current largest bank by total asset value, Access Bank, for N50 bn, thereby incorporating the default bank and all its assets to Access Bank plc following an initial injection of N562 billion by AMCON to recapitalize the bank.

Intercontinental bank had the highest number of loans acquired by AMCON, making up 14.62% of the agency's portfolio.

Finbank

Finbank was absorbed by FCMB in 2011, following a signed merger agreement, which paved way for the recapitalization of the bank before CBN's deadline for all rescued banks to sign a Transaction Implementation Agreement (TIA).

AMCON's capital injections to Finbank were approximately N155 bn, which was channeled towards the recapitalization of the undercapitalized bank. The agency acquired a total of 782 loans from Finbank which made up 4.04% of the Asset management corporation's portfolio.

Equatorial Trust Bank

Equitorial Trust Bank was amongst the banks declared undercapitalized following an audit in 2009 by the Central Bank of Nigeria, after which the bank was added to the list of banks that required new capital injections by AMCON.

Based on this requirement, the federal agency injected over N64 billion into the bank to return it to a zero Net Asset Value.

In a deal that was sealed in August 2011, Equitorial Trust Bank was taken over by Sterling bank. The Transaction Implementation Agreement (TIA) led to the recapitalization of ETB and the merger of both financial institutions (*see table 1*)

Table 1 

Table 1:

AMCON INTERVENED BANK AND RESCUED BANKS



Intervened Banks

N'000	COST	Market Value Dec 31, 2011	Diminution Dec 31,2011	Percentage Loss Dec 31, 2011	% of Total Loss
Intercontinental Banks	561,538,438	3,599,999	(557,938,439)	99.36%	23.5
Union Banks	382,814,220	102,031,812	(280,784,408)	73.35%	11.8
Equatorial Trust Bank	64,515,737	1,586,090	(62,929,647)	97.54%	2.6
Oceanic Bank	304,680,328	23,980,016	(280,700,313)	92.13%	11.8
Fin Bank	154,699,520	-	(154,699,520)	100.00%	6.5
	1,468,293,234		(1,322,902,644)	91.06%	56.2

Rescued Bank

N'000	COST	Net Asset Value Dec 31, 2011	Diminution Dec 31,2011	Percentage Loss Dec 31, 2011	% of Total Loss
Keystone Bank Limited	300,673,147	29,345,055	(271,324,092)	90.24%	11.41
Mainstreet Bank Limited	425,562,011	41,615,478	(383,946,533)	90.22%	16.15
Enterprise Bank Limited	135,032,301	28,152,026	(106,880,275)	79.15%	4.49
	861,267,459	99,116,599	(762,150,900)	88.49%	32.05

Source: AMCON Financial Statement 2011

Proshare.

Based on the AMCON Act 2010, Section 4 pg 6, the Asset management corporation has managed to handle its responsibilities over the years and since its inception. The injection of funds to recapitalize ailing banks has meant that depositors are protected and do not have to face losses, as banks' assets and liabilities are being absorbed largely by bridge banks and where necessary, by other banks or financial institutions. The Asset Management Corporation of Nigeria (AMCON) has carried out its responsibilities in assisting eligible financial institutions to efficiently dispose of eligible bank assets in accordance with the provision of the AMCON Act.

Recent Interventions Of Ndic: **Protecting Bank Customers**



Online Trading in the Age of Distributed Ledger Technology (DLT): **The Doubts, the Pains and the Opportunities.**



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2021



2022



Recent Interventions of NDIC: **Protecting Bank Customers.**

More than ever before, the means and manners of protecting bank customers and the ways ailing banks are managed have become a global issue due to their impact on the credibility of the financial system. This trend has informed a growing interest in developing effective modern deposit insurance to sustain banks' going concerns and promptly deal with the impact of banks' failure, regardless of whether they are systemically important or non-systemically.

The interest in modern deposit insurance has also been supported by the inability of traditional deposit insurance to moderate the effects of the global financial crisis of 2007-2008, which was driven mainly by a combination of structural, cyclical, and managerial failure. Thus, the new conviction is that deposit insurance within an innovative system and a modern context will promote financial market stability. This necessitates assessing how the deposit insurance framework has averted a system collapse in Nigeria.

NDIC and the Nigerian Financial System

In Nigeria, the regulatory function of offering financial guarantees to customers of deposit-taking financial institutions (deposit insurance) rests mainly with the Nigeria Deposit Insurance Corporation (NDIC). The statutory mandate of the NDIC on failing and failed banks give it legal backing on prompt corrective action, prompt closure of troubled banks, and orderly liquidation of failed banks.

Working in collaboration with relevant regulatory agencies, the NDIC has initiated proactive policies and support programmes that promote a stable financial system. These initiatives have produced stable and resilient banks amid macroeconomic disruptions and stress. Banks are better supervised and positioned to face emerging technological, legal, and macroeconomic challenges to banking institutions.

A few recent initiatives of the Corporation include, among others, the collaboration with the CBN to shift banking supervision from a Compliance-Based Examination to Risk-based Supervision; strict adherence to the principle of corporate governance by banks in the country; and a shift from a Flat Premium Assessment System to a Differential Premium Assessment System (DPAS) to align pricing of deposit insurance with the bank's risk profile. As a deposit guarantor, the NDIC has also maintained its primal role in boosting the confidence of bank customers through insured and uninsured deposit payments, thereby strengthening faith in the system.

The NDIC Act empowered the Corporation to provide financial and technical assistance to failing or distressed banks in the interest of depositors. As a last resort, the Act granted the Corporation the responsibility of further liquidating failed banks.

Notwithstanding the NDIC Act, three Regulatory Agencies jointly anchored the protection of financial institutions' consumers. These are:

- Central Bank of Nigeria (CBN), as stated in the CBN Act 2007.
- Nigeria Deposit Insurance Corporation (NDIC), as stated in the NDIC Act 2006.
- Asset Management Corporation of Nigeria (AMCON), as stated in the AMCON Act 2010.

Essentially, the financial stability function of the NDIC, as stipulated in its enabling Act, is majorly conducted in collaboration with the CBN and/or AMCON. The NDIC, the primary agency responsible for insuring all deposit liabilities of licensed banks and other deposit-taking financial institutions, was established in 1988 and commenced operations as the administrator of the Deposit Insurance System (DIS) in Nigeria in 1989. The Corporation has its core mandate split broadly into four:

- ❶ Deposit guarantee
- ❷ Bank supervision
- ❸ Restructuring of failing insured institutions
- ❹ Liquidation of failed insured institutions

Analysts have questioned the specific difference between the mandate of the NDIC on failure resolution and the mandate of AMCON on distress resolution. The former Managing Director of defunct Fortune Bank, Fidelis Tiliye, had once argued, "NDIC is funded by banks the same way the banks also fund AMCON. But NDIC won't do anything when depositors are in trouble. They will be nowhere to be found, while AMCON is solely responsible for recovering debts from debtors. So, the NDIC should be scrapped".

But in terms of functionality, Proshare analysts believe the mandates of the two agencies differ in failure resolution. The NDIC act as a deposit guarantee to depositors, while AMCON is a resolution mechanism for ailing banking credit. Nonetheless, the concerns around whether the two agencies can merge for efficiency has remained a hot-button issue.

Deposit Guarantee and Bank Supervision

The main objective of the Corporation is the protection of depositors' funds, predominantly small to medium savers, by serving as a guarantor of safe deposit and providing an orderly means of reimbursement in the event of failure of an insured bank.

Meanwhile, the Corporation also conducts supervision of the insured banks in collaboration with the CBN to determine their financial conditions to safeguard depositors' funds and contribute to the country's financial system stability.

Restructuring a Failing Insured Bank

The Contingency Planning Framework on Banking Systemic Crises, launched in 2002 by the NDIC and the CBN, has facilitated the early resolution of failing banks in the last two decades. A failing insured institution is an institution whose capital-to-risk weighted assets ratio or regulatory capital is below the minimum prescribed by the regulator for a given period. The framework seeks to reduce the occurrence of banking failure by providing transparent and objective thresholds for regulatory intervention, improving supervisory processes, and promoting self-regulation among banks. Section 2(1)(b) of the NDIC Act requires the Corporation to give technical and financial assistance to insured institutions in the interest of depositors in case of imminent or actual financial difficulties. And particularly where suspension of payments is threatened to avoid damage to public confidence in the banking system. The NDIC provides financial, technical, or bridge bank assistance to failing banks to support financial system stability.

Howbeit, three conditions are essential for NDIC's Intervention in a bank.

- ❶ There are difficulties for the bank in meeting its obligations to depositors and other creditors.
- ❷ The bank persistently suffers liquidity deficiency; and/or
- ❸ The bank has accumulated losses which nearly or completely eroded the shareholders' fund

Alternative Failure Resolution Mechanism

Financial Assistance (Open Bank Assistance)

- ④ The Corporation grants loans on agreed terms or gives guarantees for loans taken by failing banks
- ④ The Corporation may also accept an accommodation bill with interest for a period not exceeding 90 days of maturity.
- ④ Financial assistance to insured banks varies depending on the nature of the problem and the extent of the financial aid required.

Management

- ④ The Corporation takes over the management of the bank until its financial position is substantially improved.
- ④ The Corporation directs specific changes to be made in the management of the bank or acquire, manage, or dispose of the impaired assets directly or indirectly through AMCON.
- ④ The Corporation may also arrange a merger or acquisition by other banks to assume the deposit liabilities of the failing bank.

Purchase and Assumption Transaction

- ④ Here the Corporation permits a healthy bank to purchase some or all the assets of a failing bank and assume some or all the liabilities of the bank.
- ④ In cases where the whole bank is purchased, the acquiring bank may receive an NDIC payment, covering the difference between the market value of the assets and liabilities.
- ④ This resolution mechanism preserves the failing bank's functioning and maintains the depositors' relationship with the bank, thereby keeping confidence in the financial system.

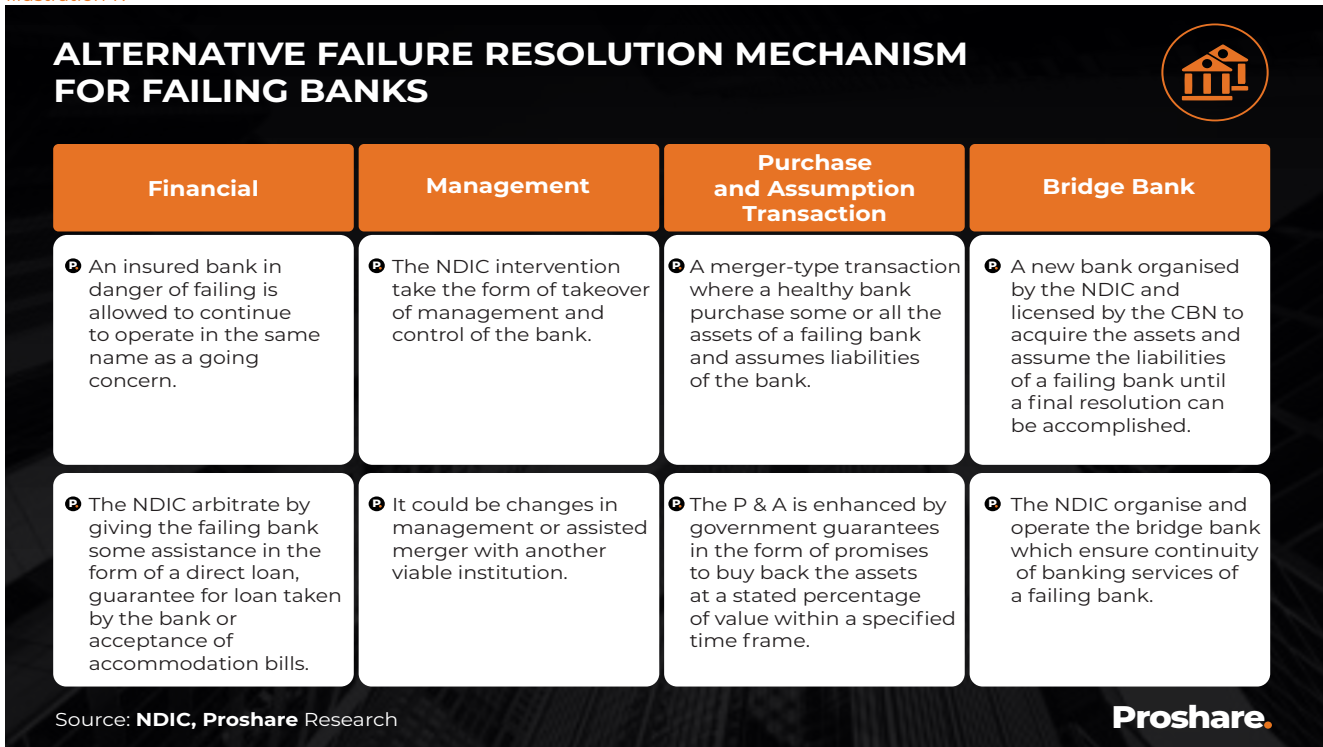
Bridge Bank

- ④ A bridge bank is a temporary bank established and operated by the deposit insurer to acquire the assets and assume the liabilities of a failing bank until a final resolution can be accomplished.
- ④ The Central Bank issues a banking license to the bridge bank while the NDIC appoints, removes, and fixes the directors' remuneration and management of the bridge bank.
- ④ The bridge bank permits the continuity of banking services to all customers and fully protects the failing bank's depositors and creditors.
- ④ The operation of the bridge bank terminates at the end of 2 years from its licensing but may be extended by the NDIC to a maximum of 3 additional one-year periods.
- ④ Bridge Bank was done in collaboration with the CBN in 2011 to prevent the banking crisis in Nigeria. Estimates by the NDIC show that the bridge bank initiative saved over three (3) million depositors and 6,600 jobs (*see illustration 7*).

Illustration 7 



Illustration 7:



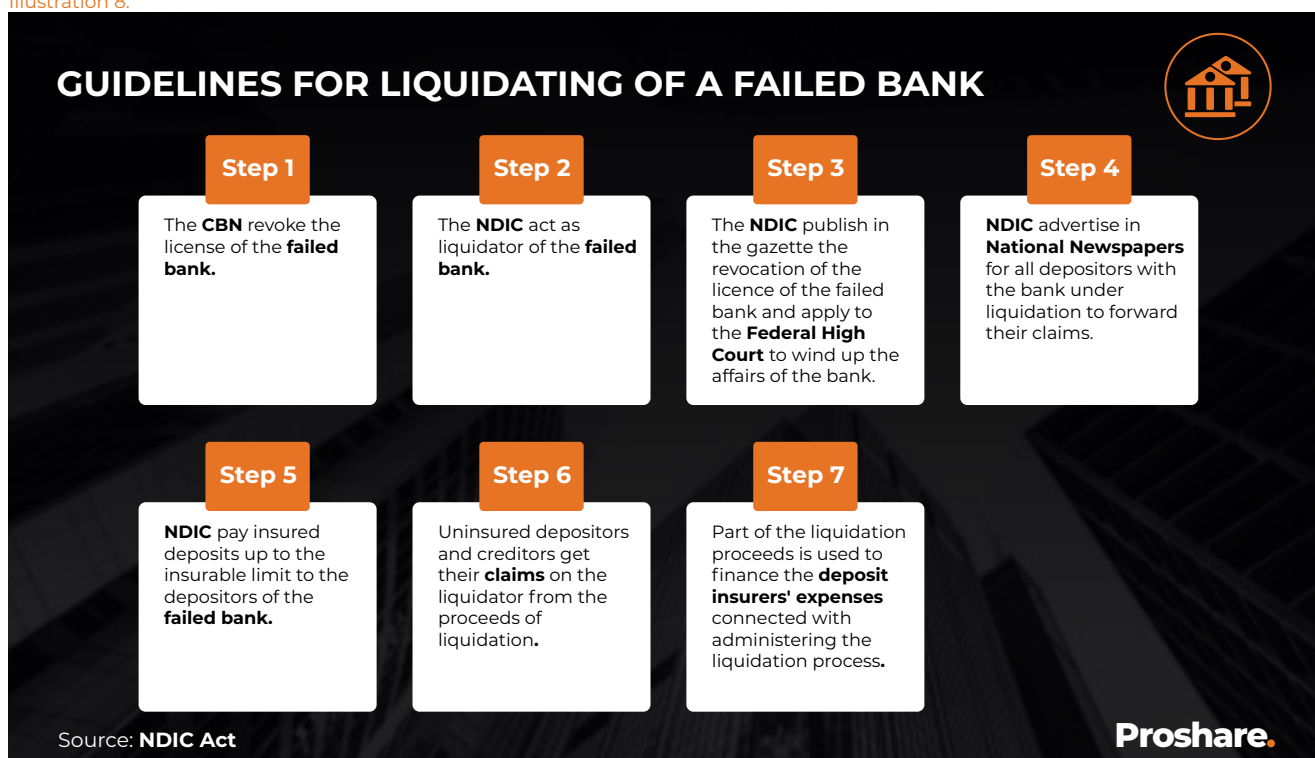
Liquidating a Failed Insured Bank

A bank failure occurs when a licensed bank becomes insolvent, lacking the capacity to meet its financial obligations to its depositors and other creditors. One major responsibility of the NDIC is to liquidate a failed bank. Liquidation, within this context, involves the permanent closure of a failed bank by selling off its assets and using the proceeds to settle the banks' depositors and creditors. The Corporation makes payment of insured deposits to depositors of the failed bank up to the insurable limit. In contrast, NDIC expenses on the administration of the liquidation process and the uninsured depositors' and creditors' claims are paid from the liquidation proceeds.

While liquidation instills market discipline in the banking system, liquidation has downsides. There is the possibility of denying banking services to areas where the failed bank's branches operated, coupled with the loss of public confidence in the banking system. Given the likelihood that the liquidation of failed bank assets could extend for years, uninsured depositors, creditors, and shareholders may remain hopeful of reimbursement for many years. Reimbursement during liquidation may be partial payment, advance payment, or outright reimbursement, depending on the situation associated with the realization of assets (see illustration 8).

Illustration 8 

Illustration 8:



Interventions of NDIC Post-AMCON Set Up

Operators in the banking system are aware that the liquidation of ailing banks is always the last option adopted by the NDIC after other cost-effective resolution options have failed. In all instances, the safety of depositors' funds is the primary concern of the Corporation. - NDIC, 2019

As of 2021, the NDIC has liquidated over 500 deposit-taking banks whose licences have been revoked by the CBN: about 50 deposit money banks, 50 primary mortgage banks, and over 300 microfinance banks. This translates to an insured payment of over N119bn and an uninsured payment of over N101bn to over 5.5m depositors, creditors, and shareholders of closed insured banks as of December 2021. While the Corporation has declared full payment of insured and uninsured sums to depositors of some banks in-liquidation, others are ongoing with minimal outstanding payment.

The prompt intervention of the Corporation, its responses to emerging development on deposit insurance coverage, and the payment of deposit claims have engendered a sound and stable financial system in Nigeria. In principle, the interventions of the Corporation on deposit insurance claim takes three broad processes.

- ❶ The CBN revokes the bank's license, and the NDIC immediately intervene to pay the maximum insured amount
- ❷ The Corporation then proceed to recover loans and advances, realize the assets, and pay other claims
- ❸ Wind up the bank

Notwithstanding the successes made by the NDIC in liquidating failed banks, many concerns have been associated with the operation of the Corporation and its sister agency- AMCON.

For instance, the intervention of the Corporation in Fortis Microfinance bank (hereafter Fortis MFB/Fortis) has raised concerns, some of which the Corporation had attempted to clear. Two financial service operators raised a few notable concerns. One argued that taking the alternative resolution

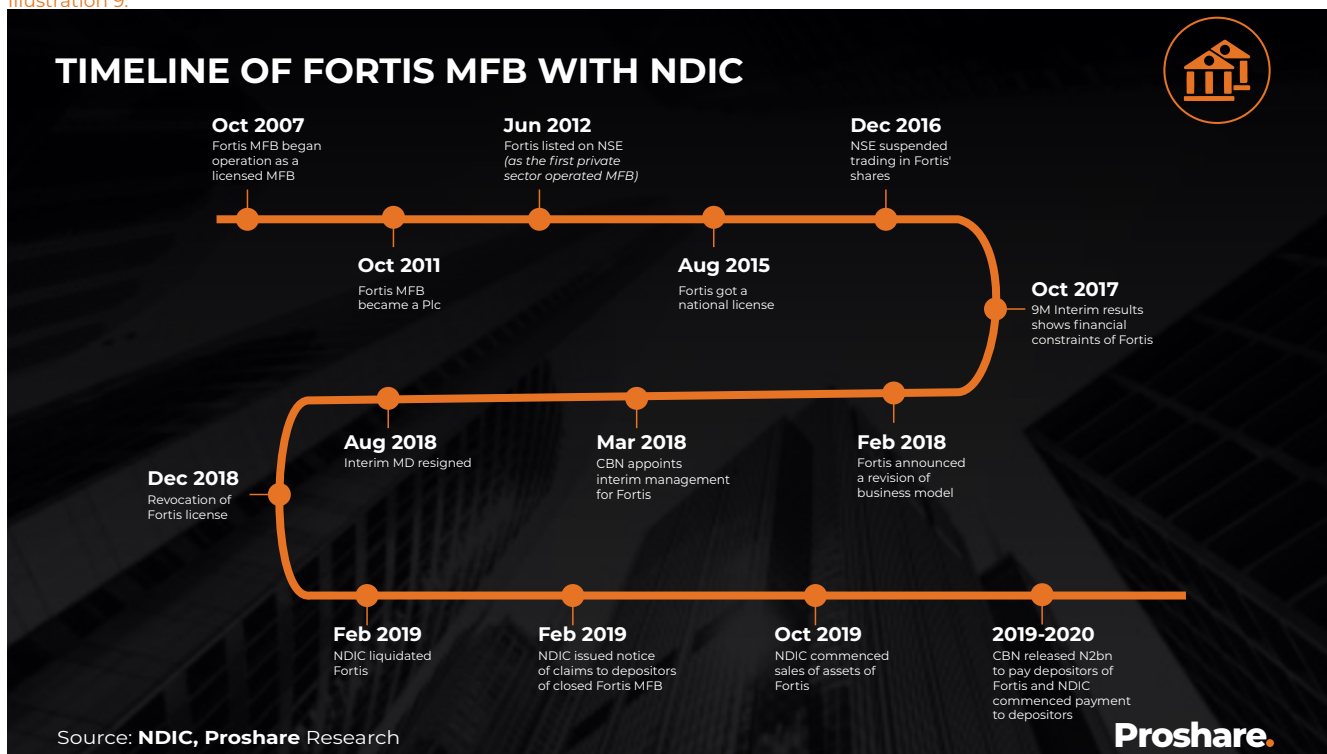


mechanism, such as managing the bank's affairs, resale, or appointment of a new management would have been better for the bank, its partners, and other banks. Similarly, the other individual argued that instead of aggravating the problems in the financial industry through liquidation, the Corporation should have devised other means of solving the issue, given that Nigerian shareholders are often the ultimate victims of liquidation without hope of compensation.

Although the Corporation has argued that liquidation of ailing banks is often the last option after other cost-efficient options have failed, analysts maintained that liquidation has been the single narrative of the commission. However, in the case of Fortis, the intervention of the Corporation was in two phases. The first phase involved corrective and supervisory measures, including the sacking of the Executive Management, the dissolving of the Board of Directors, and appointment of a joint CBN/NDIC Interim Management Committee (IMC) to manage the affairs of the bank temporarily.

The second/last resort was the revocation of the operating license of Fortis MFB by the CBN and its liquidation by the NDIC (see illustration 9).

Illustration 9:



The interventions of the Corporation after the establishment of AMCON and the relationship between the two agencies have been questioned severally. Based on recent financial system interventions, the set-up of AMCON has lessened the interventions of the NDIC. The Commission often leverage AMCON to acquire, manage, or dispose of impaired assets of a failing or failed bank. NDIC, as a liquidator, focuses on failed banks' assets and liabilities after the CBN revocation of their licenses.

An objective analysis of the past interventions and the processes of the NDIC shows that the Corporation as a single entity had strengthened the system's financial stability through its resolution and liquidation of ailing banks.

CEO Remuneration 2022: CEOs in a **Post Covid** Era - **What Matters Most.**



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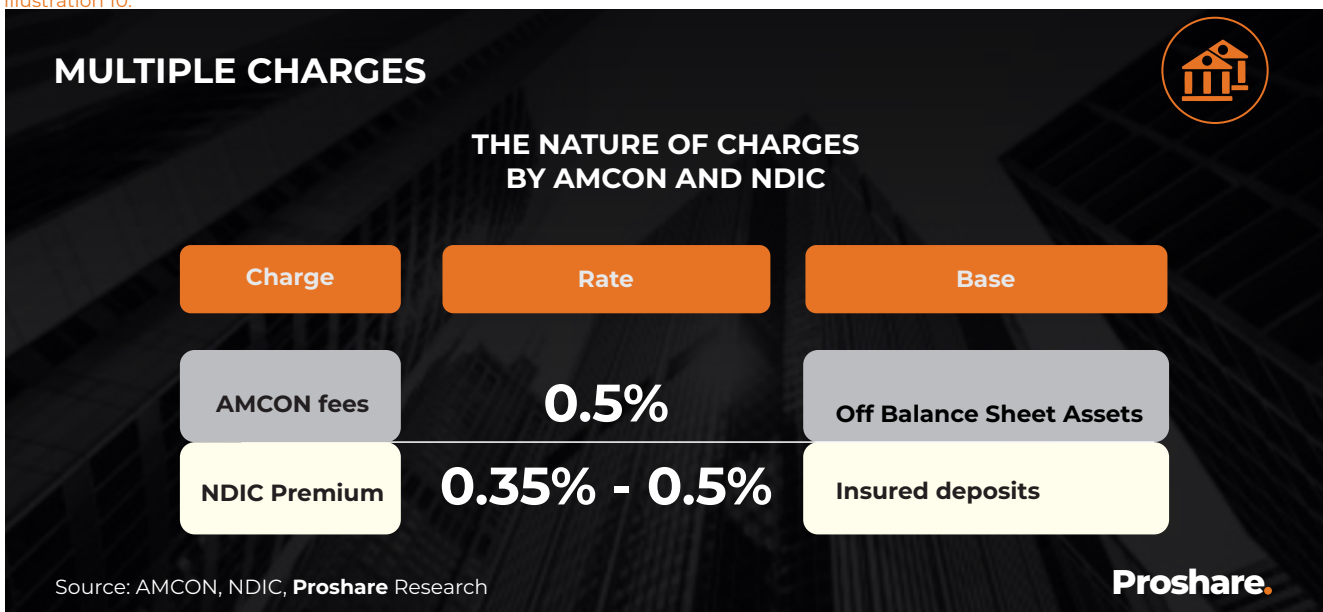
Banks' Performances Suffer Under The Burden of **Multiple Deductions.**

While the introduction of the AMCON fee in 2011 was seen by Analysts as being pivotal to averting a financial system collapse and (in many cases) a means of protecting depositors, shareholders, and employees from the impact of a bank failure, the perpetual nature of the charges paid to the Asset Management Corporation (AMCON) despite a deposit premium paid to the National Deposit Insurance Corporation (NDIC) constitutes a duplicate levy and a pain point for stakeholders.

Together, AMCON fees and NDIC premiums represent some 17.25% of banks' operating expenses, cumulatively the second biggest expenses for most banks, after human capital cost. Research shows that this has continued to undermine profitability and subsequent returns to shareholders. It undercuts return on average assets (ROAA) and returns on average equity (ROAE) by as much as 60 basis points (bps) and 400bps respectively. That's like a 25% erosion to the bottom line of Nigerian banks, making them less profitable compared to their frontier and emerging market peers.

At its inception, the Central Bank of Nigeria (CBN) contributed N50bn to the Asset Management Corporation while banks were required to contribute an equivalent of 0.5% of their total assets annually for ten years, a period which has since elapsed on January 2, 2021. At the same time, Banks still must pay between 0.35% and 0.5% of insured deposits as a premium to the NDIC. Analysts believe that the duplicate nature of these levies weighs on not just the operational expense of banks but their margins. It is the view of analysts that the two levies need not be retained especially as such may motivate moral hazards on the one hand. On the other hand, Banks would in as it inherently discourages well-governed banks from growing their balance sheet, given the probable perception of funding less efficient peers, whose resolution is being funded by those with sound governance and strong asset quality (see *illustration 10*).

Illustration 10:

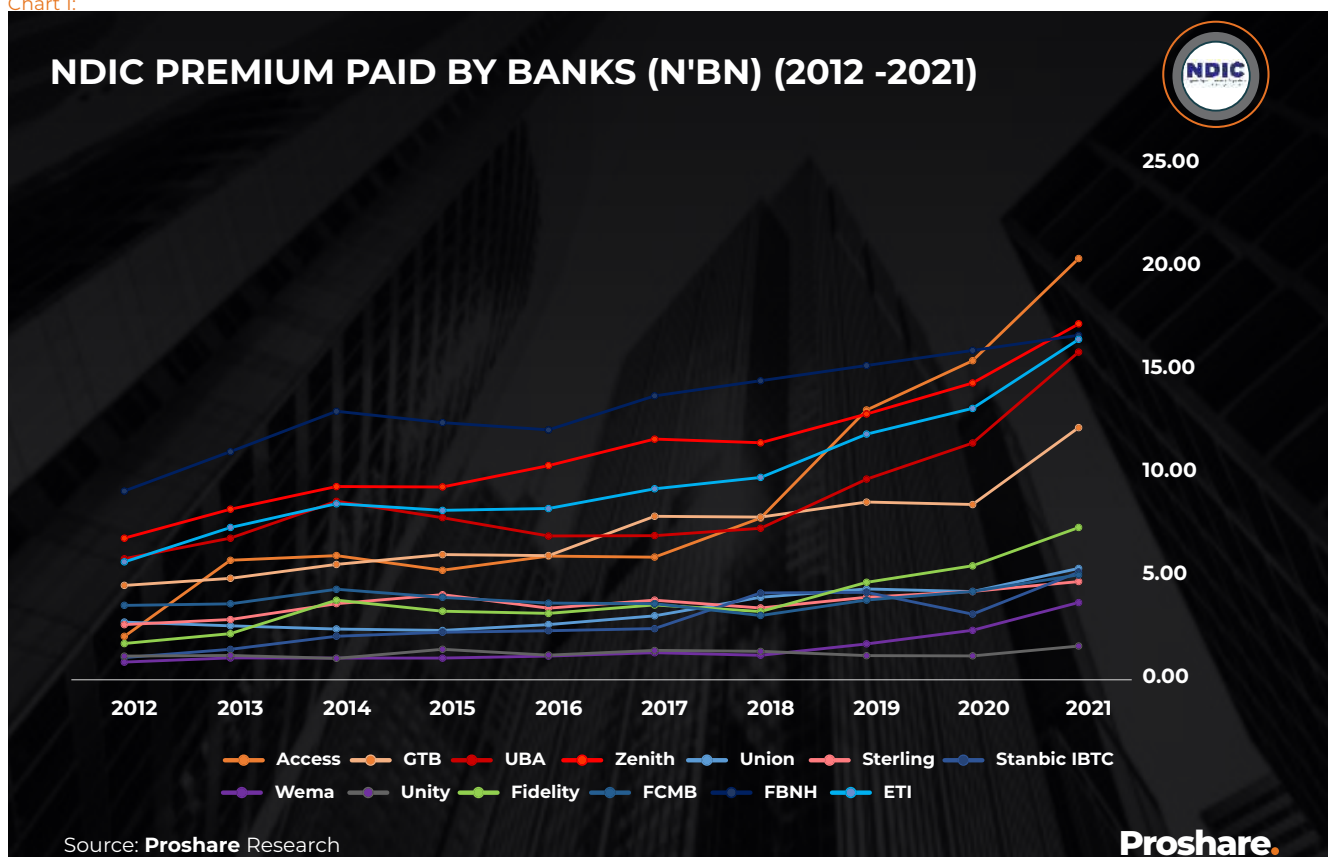




Analyzing the NDIC Premium

A look at the NDIC premium paid by banks as stated in their Annual reports of banks over the Ten years 2012-2021, we establish that there has been a 174% increase in the NDIC premium paid by banks a reflection of the rise in deposits. In 2012, the total NDIC premium by Nigerian banks was N48.25bn, this rose to N59.5trn in the following year. By 2015, Nigerian banks remitted a total of N68bn, the upward trend has persisted with slight a slight blip in 2016. Ten years ago, of the listed banks, FBN paid the highest NDIC premium (N9.16bn) by 2021 Access Bank recorded the highest deposit insurance premium. However, some banks chose not to make a separate disclosure of their deposit insurance premiums, such banks either merged the value of the charges with other operating expenses (see chart 1).

Chart 1:



Basis of the NDIC Premium

Generally, depositors are meant to be insulated from loss through the premium, the cost of insurance; so, it is seen as part of the cost of funds for banks, which pays the premium to the underwriter. The cost also varies across countries, but it is often a relatively very small fraction of the operating expenses of banks. For instance, in China, it is a range of 0.01 % and 0.02 % of insured deposits. Even so, the precise premium paid by each institution is based on a flat rate and a variable risk-based differential rate determined by factors, including the business management and risk conditions of the insured financial institution.

The NDIC also adopted the differentiated premium assessment system, it is, however, the case banks



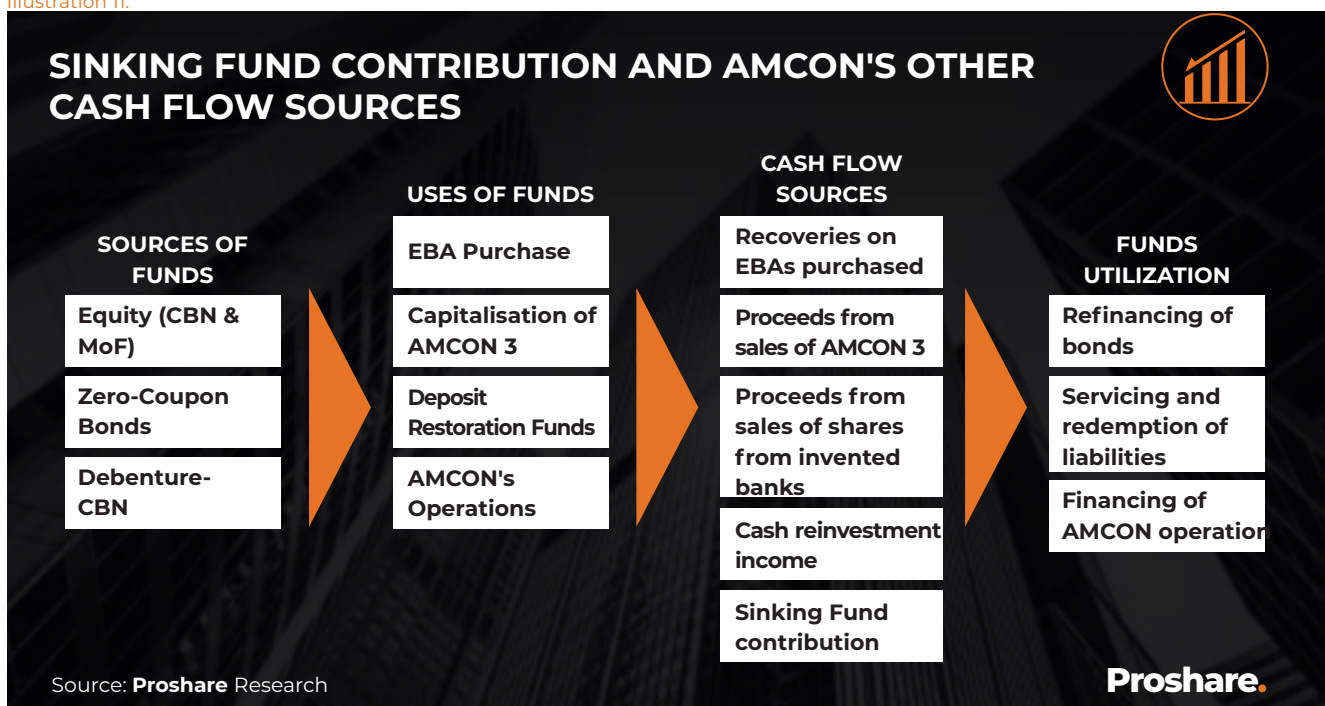
tend to pay between 0.35% and 0.5% of their insured deposits as premiums, hence explaining the large operating cost of Nigerian banks, as NDIC premium accounts for between 5 and 6% of banks' operating expenses. Notably, the NDIC premium paid by banks is equivalent to about 30% of the interest that banks pay as interest on deposits, another avenue through which value is lost.

Analyzing the AMCON fee

The Asset Management Corporation of Nigeria (AMCON) was introduced in 2011 to recover the bad loans in the banking system. However, many banking sector analysts are of the view that the AMCON levy is no longer necessary, especially as AMCON acquired many of the bad loans at a significant discount to the book value.

Since the establishment of AMCON, the central bank of Nigeria (CBN) has contributed N50bn annually to the AMCON resolution trust fund, while also mandating banks to make contributions to the same fund. The sinking fund contribution serves as one of the five sources of cash flow for AMCON hence underscoring the perception of shareholders that a continued levy on banks may inadvertently become a moral hazard for AMCON in the recovery of the loans, especially as the Corporation is yet to resolve some of the bad loans it acquired over a decade ago (*see illustration 11*).

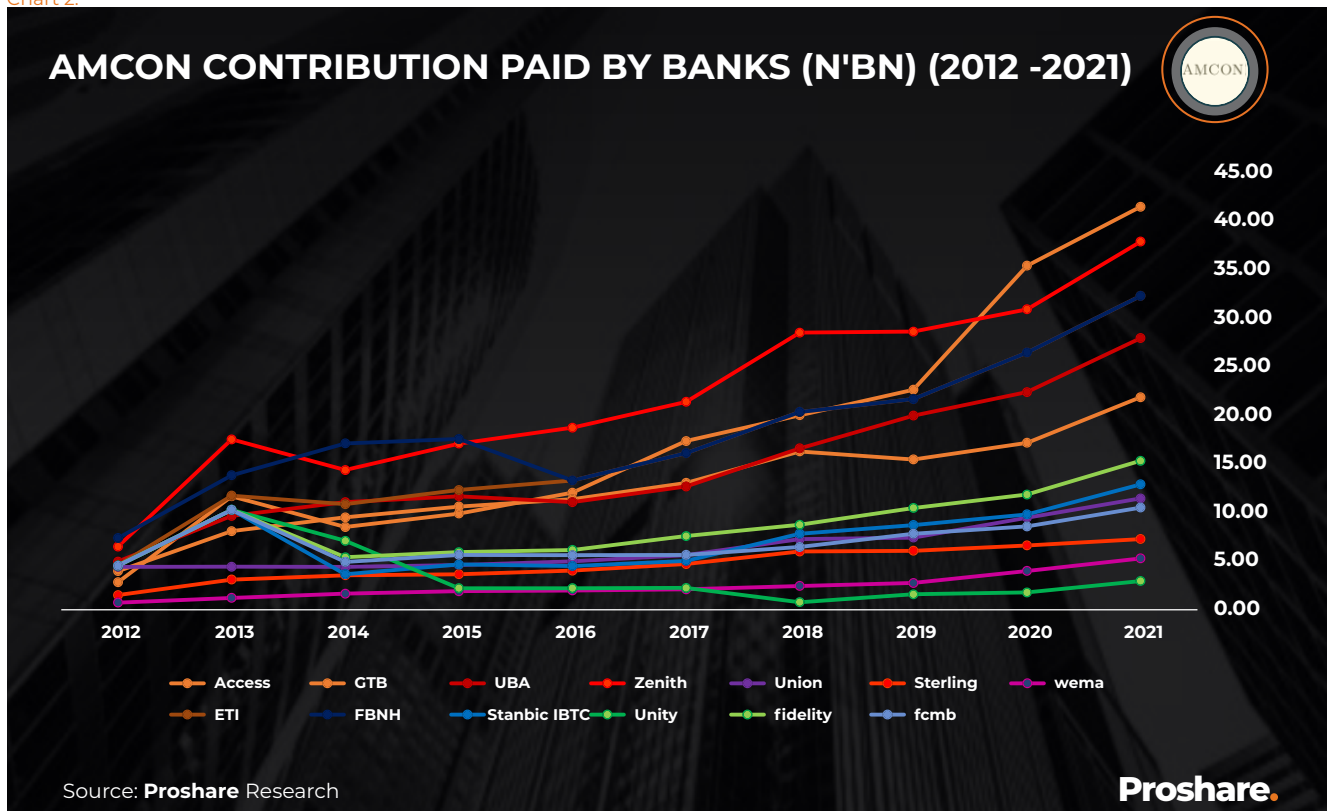
Illustration 11:



With a total banking sector asset of N70.25trn in 2021, AMCON earned some N259.75bn in levies in 2021, this is up 17% from the N300.65bn paid by banks in 2020. a cost that many shareholders believe erodes their value. A look at the Financials of Nigerian Banks over the ten-year period 2012-2021 suggests that AMCON fees have been on the increase since 2012, with an average contribution of N143.5bn. As of 2015, the 13 banks contributed a total of N107.9bn, in line with the growth of Assets and off-balance sheet assets which rose to around N260bn in 2021. Access Bank paid the highest in both 2020 and 2021, but Zenith Bank has for most of the last decade paid the highest in terms of AMCON fees (*see chart 2*).



Chart 2:



AMCON fees represent some 11.43% of banks' operating expenses, one of the largest expenses for most banks. From our findings, this has continued to undermine profitability and subsequent returns to shareholders. It undercuts return on average assets (ROAA) and returns on average equity (ROAE) by as much as six-tenth of a percentage or 30% depletion of the bottom lines of Nigerian banks, making them less profitable compared to their frontier and emerging market peers.

It is more worrisome for shareholders of banks that neither participated in the sale of eligible non-performing loans to AMCON nor buy any of the "bad banks" at discounted prices, especially new banks which are being subjected to the cost of the rut that happened in the sector, years before their establishment. Notably, the AMCON levy is more than 75% of the total dividends paid by banks to shareholders for the 2020 financial year, reinforcing the erosion of shareholder value, on the back of this unending cost.

Basis of the AMCON fee: Flat or Differential Rates, CBN's risk rating to the rescue

Proshare Analysts are of the view that the AMCON levy should be halted or reduced, but it is our strong recommendation that were the apex bank to retain the same, it must review the approach of charging flat rates. As an alternative, the bank can leverage the decent work it has already done in assigning risk ratings to the banks that it regulates. The CBN's risk rating already suggests that banks with higher risk should pay higher AMCON levy, as against the current approach of referencing total assets, which tends to discourage industry asset growth.

The unintended effect of the AMCON levy on banks' willingness to grow under the burden of the 0.5% charge on assets and contingents, which also attracts a bankers' tariff of 1.0% is immense. Perhaps an

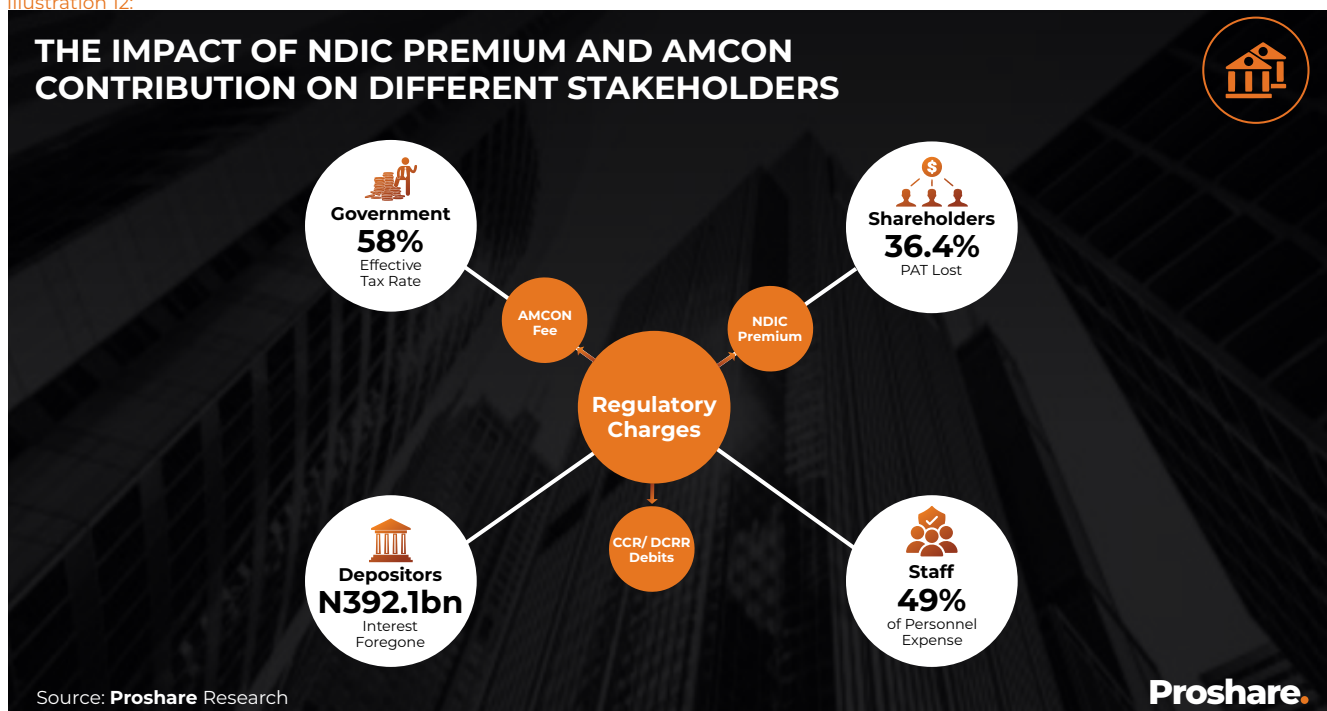


alternative approach is to benchmark the AMCON levy, if it would not be halted immediately, to the NPL ratio or exposure at default or loss given the default of respective banks, which better reflects the risk to which banks are exposed and may be a differentiated approach for determining AMCON levy if it cannot be halted at this time, given other considerations the authorities may have.

Of Absolutes & Proportions:

Apart from the impact of the atrociously high Cash Reserve Requirements (CRR) on banks, the Multiple charges paid to the NDIC and AMCON are regarded as a major strain on the ability of banks to create credit and make meaningful profits. However, the charges undermine not only the profitability of banks and value accruing to shareholders but also undercuts potential returns to depositors, who choose not to make withdrawals from their deposits in expectation of higher interest. Analysts also argue that personnel salary and compensation would be much better if the charges were retired. The 2021 Annual Reports of Nigerian Banks show that the 13 banks contributed a total of N259.75bn to the AMCON sinking fund while also making an N132.36bn payment as a Deposit insurance premium to the NDIC. Analyzing the impact of these apparently multiple charges our analysts established the far-reaching impact of the charges on not just the performance of the banks but also on value that should accrue to other stakeholders (see illustration 12).

Illustration 12:



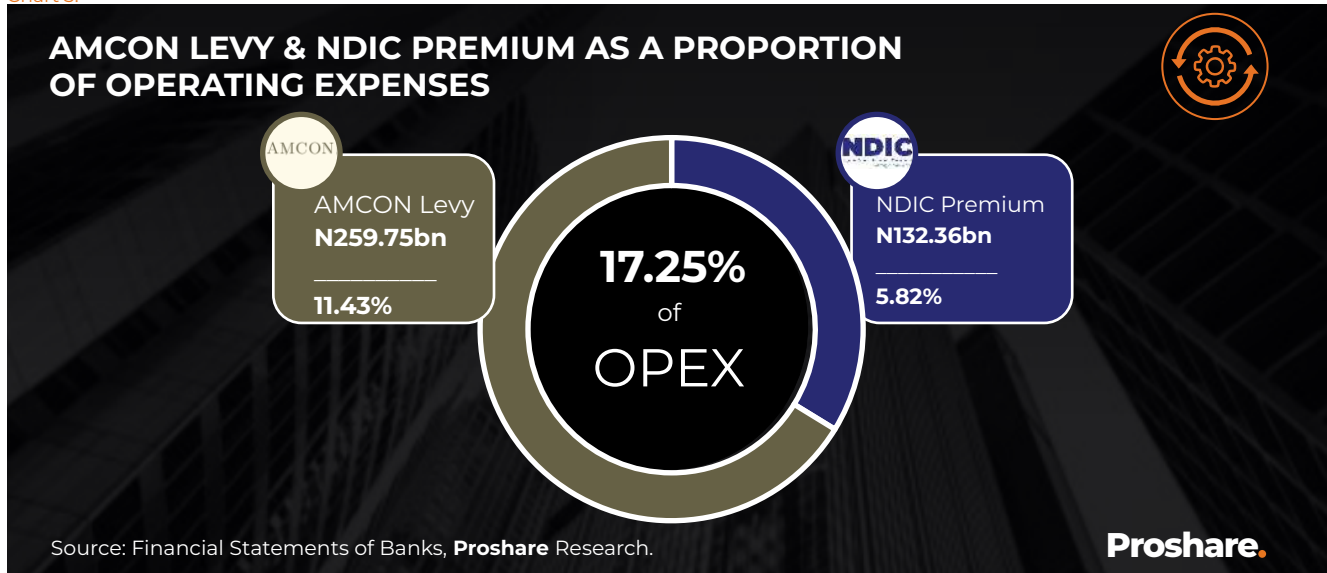
Operating Expenses

Nigerian banks paid a total of N132bn in NDIC premiums in 2021, with the highest payment being N20.44bn paid by Access Bank this brought the bank's Operating expense to N371bn in the period, having also paid N41.5bn in AMCON fees. Around 20.6% of Access Bank's Operating expenses, FY 2021 are traceable to AMCON and NDIC charges. Zenith Bank paid the second largest NDIC premium (N17.3bn) as well as an N37.92bn contribution to the AMCON sinking fund in FY 2021. Zenith Bank's



operating expenses came in at N289.53bn, with both AMCON and NDIC levies accounting for 17.25% of the banks' operating expenses (see chart 3).

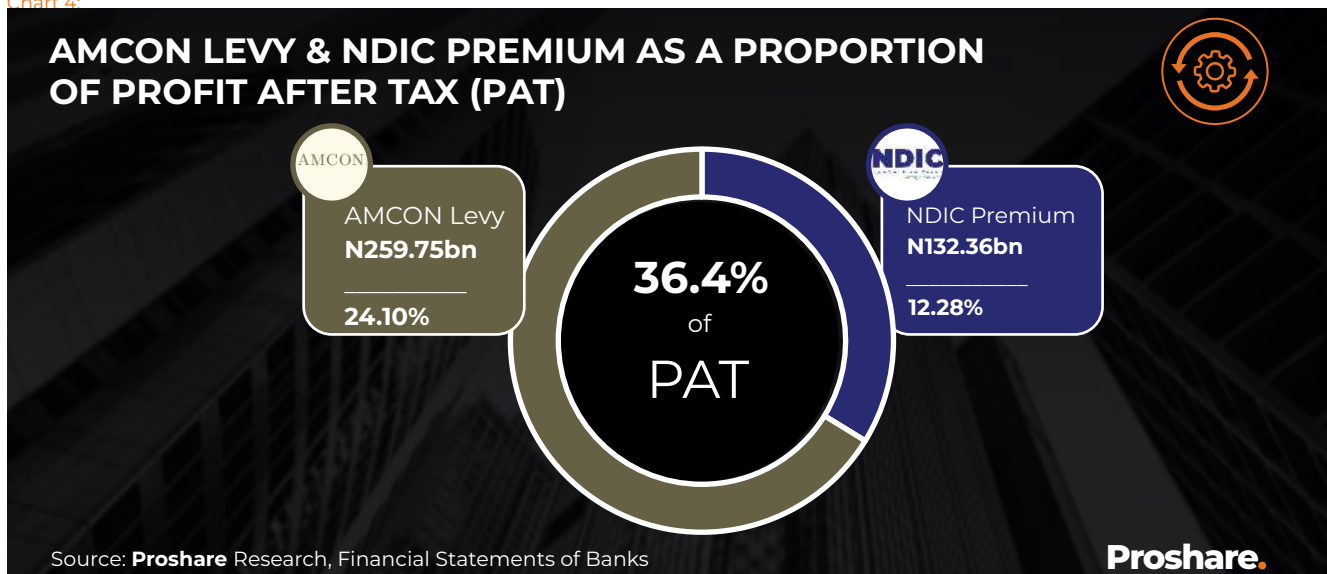
Chart 3:



Profit After Tax

Analysts are of the view that the retention of the AMCON contribution and the NDIC levy constitutes a major drain on the bottom line of banks. Our findings supported this assertion, as it was found that in 2021, the combined value of AMCON contribution, 0.5% of Assets and contingents, and the NDIC premium for deposit insurance was equivalent to 36.38% of the banks' Profit after Tax. This suggests that banks' profitability was severely impaired by the dual charges. Banks which are already weighed down by a high CRR (recently increased to 32.5% and a 30% Statutory Liquidity Ratio) have a large chunk of deposits shut out from being utilized to create risk assets (see chart 4).

Chart 4:



Interest to Depositors

Deposits have increased industry-wide from N16.27trn in 2013 to N46.52trn in 2021, Analysts say that savings account holders who constitute a fairly smaller but significant proportion of the accounts maintain their balances without withdrawals in the hope to earn interest. But since banks would often consider their operating expenses in determining deposit rates, the banks would tend to hold back in terms of interest payments, if charges and fees push operating expenses up. According to Ongena and Baele of Tilburg University, operational inefficiency has a significant impact on the deposit rates of banks. Findings from an occasional paper (no. 72) prepared by the CBN's research department titled: Determinants of Deposit and Lending Rates in Nigeria show that the main determinants of deposit rates are profitability and inflation. The study which employed quarterly bank-level data obtained from 17 Nigerian banks' returns at the CBN, over Q1 2010 to Q4 2017, substantiates the premise that by removing the AMCON, NDIC, and CRR charges, the regulators could help banks to higher efficiency and consequently higher interest payment to depositors in turn (see chart 5).

Chart 5:

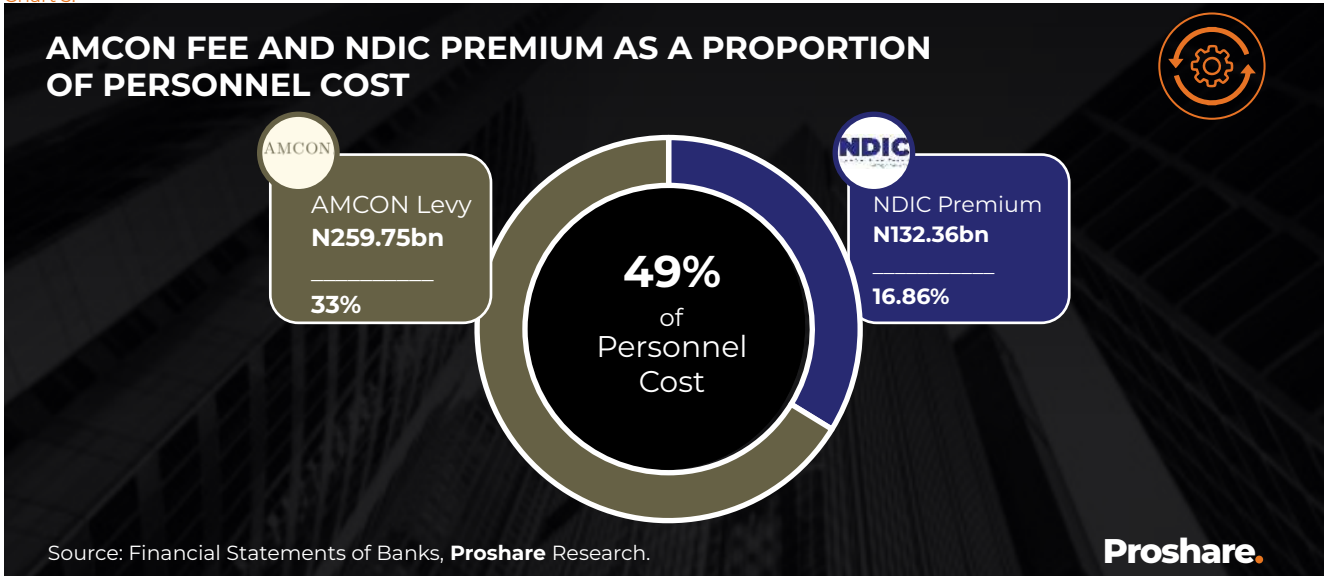


Staff Salary

The cost incurred by Nigerian Banks in 2021 in the form of AMCON Levies (N259.75bn) was an equivalent of 33% of Personnel cost. Personnel cost is typically the single largest operating expense item in the books of Nigerian banks. The NDIC Premium on the other hand amounted to 16.68% of the overall personnel cost. As expected, the proportion of the overall operating expense accounted for by these two charges has been increasing over the years. Our Analysts forecast that AMCON levies and NDIC premiums could rise to N450bn by 2025 (see chart 6).

Chart 6

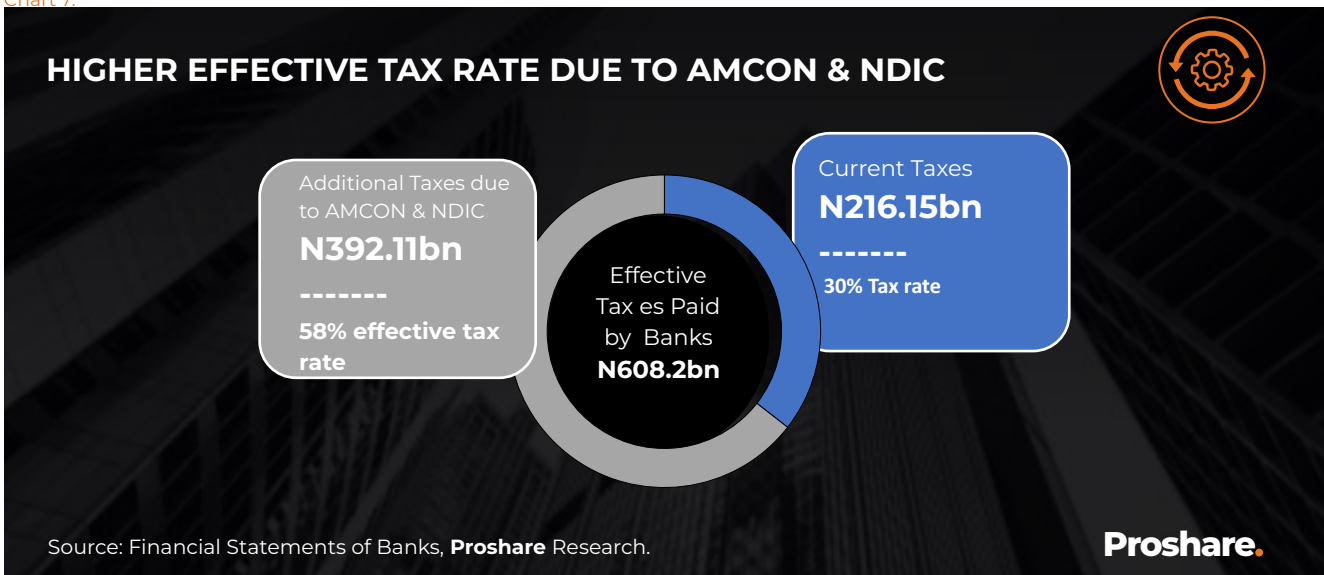
Chart 5:



Tax Burden

Another ramification that must be considered when appraising the impact of the AMCON, and NDIC levies on banks' tax burden. Analysts have argued that the two levies are an additional tax burden just like the CBN's CRR deduction which constitutes a deadweight loss. AMCON and NDIC charges together accounted for over N300bn in additional taxes which raise the effective tax rate from 30% to 58%. Deadweight losses imply a suboptimal financial market, which leaves much more desired in terms of credit creation and expansion (see chart 7).

Chart 7:



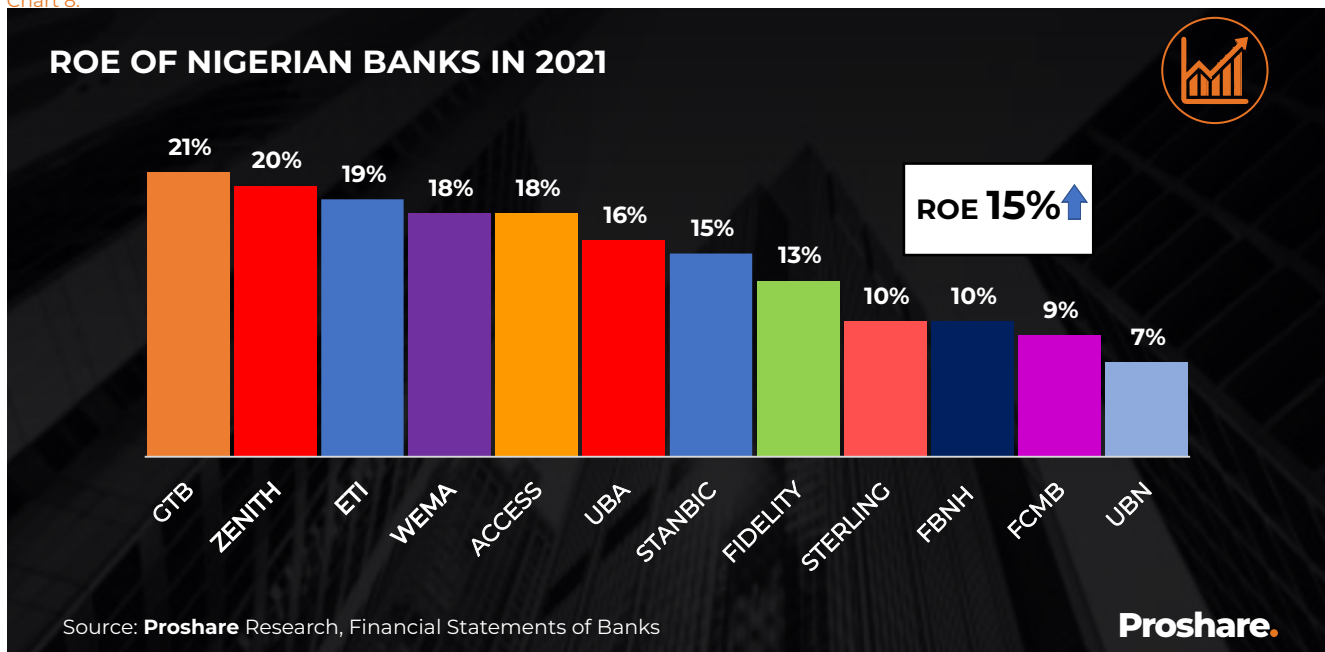


Across the Board

CRR debits and Profitability

The Central Bank of Nigeria (CBN) in 2021 debited 10 banks N7.02trn over failure to meet the 27.5% Cash Reserve Requirement and this affected the Return on Equity (ROE) of many banks, a recurring pattern with first-tier Nigerian banks. According to the 2017 -2021 financial statements of Nigerian banks, the **five-year ROE average** of the industry was 15%, with a historical single-bank high of 35% registered by Stanbic in 2019. In 2021, FBNH, UBA, GTCO, and Zenith recorded slight declines in ROE. FBNH's ROE slipped from 13% in 2020 to 10% in 2021, while UBA saw its ROE drop to 16% in 2021 from 17% in the previous year. GTCO also recorded a 600bp decline in ROE from 27% in 2020 to 21%. The same pattern was observed in the case of Zenith Bank which recorded a decline from 22% in 2020 to 20% in 2021. Nevertheless, ETI (19%) and FIDELITY (13%) Banks recorded increases in ROEs in 2021 (see *chart 8*).

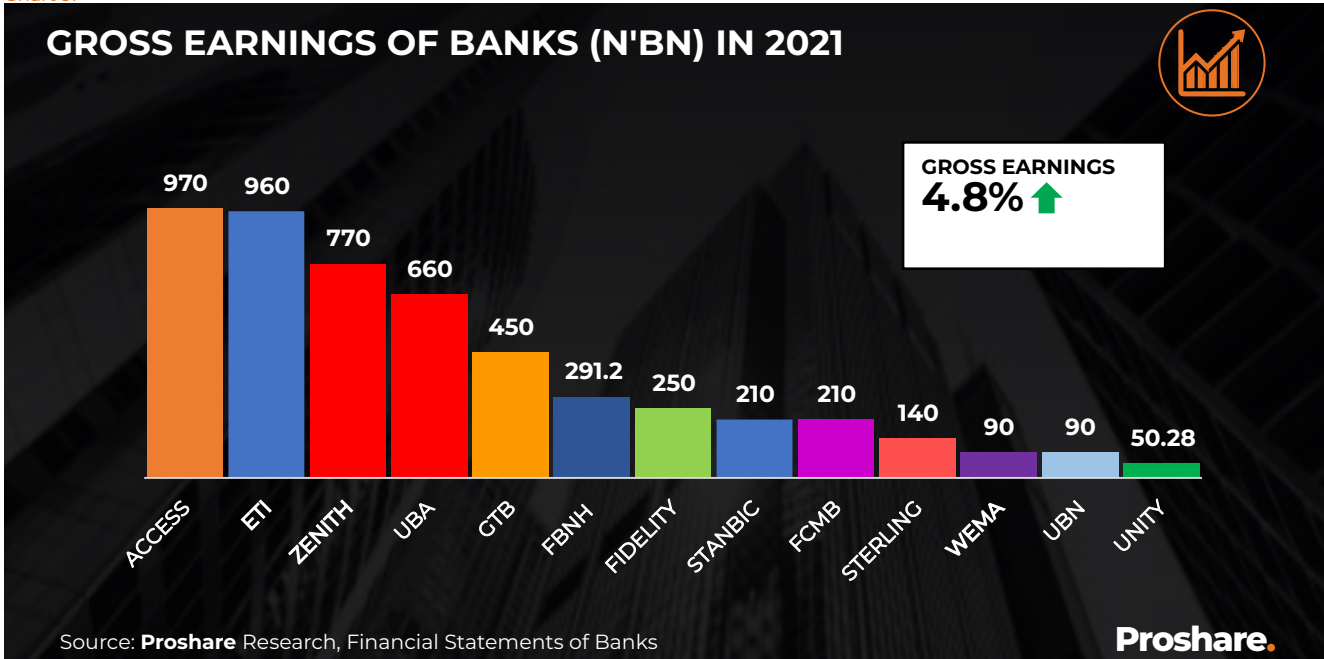
Chart 8:



In terms of Gross earnings, the five-year industry average between 2017 and 2021 was N390bn, with a historical single bank high of N970bn by ACCESS in 2021. Year on Year, Industry gross earnings rose 4% in 2021. In the same year, FBNH recorded a Gross Earning of N290bn, UBA grew its gross earnings by over N40bn to N660bn while GTB saw a slight decline in Gross Earning from 460bn in 2020 to N450bn in 2021 (see *chart 9*).

Chart 9

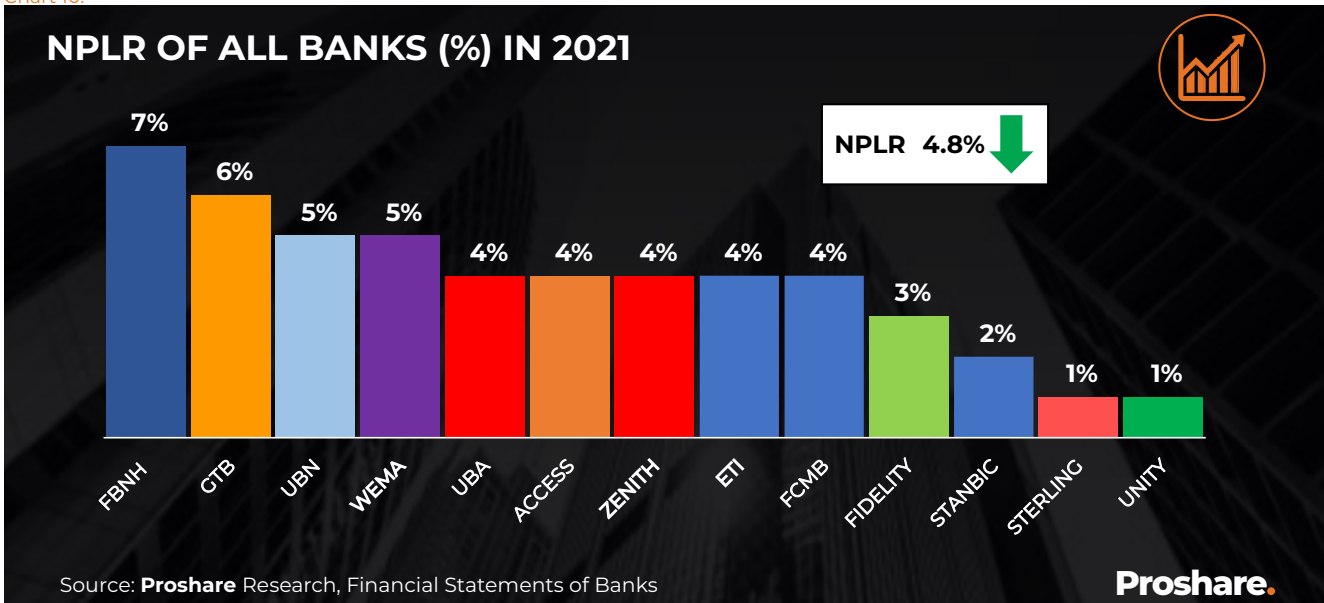
Chart 9:



Non-Performing Loans

The size of credit loss provisioning and non-performing loans give a good idea of how far or close the system is to a systemic failure and how soon an intervention may be required from AMCON and or the NDIC. The **five-year average of the industry's Non-Performing Loans Ratio (NPLR)** between 2017 and 2021 was 6% which is higher than the prudential guideline of 5%. In 2017, the average NPLR of twelve Nigerian banks was 9%, indicating that the 2016 recession had implied severely on credit performance by 2020 this reduced to 5% but this may be attributed to the CBN forbearance. The NPL rate further dropped to 4.85% in 2021, when total non-performing loans were N814.08bn up from N789.14bn in 2020 (see chart 10).

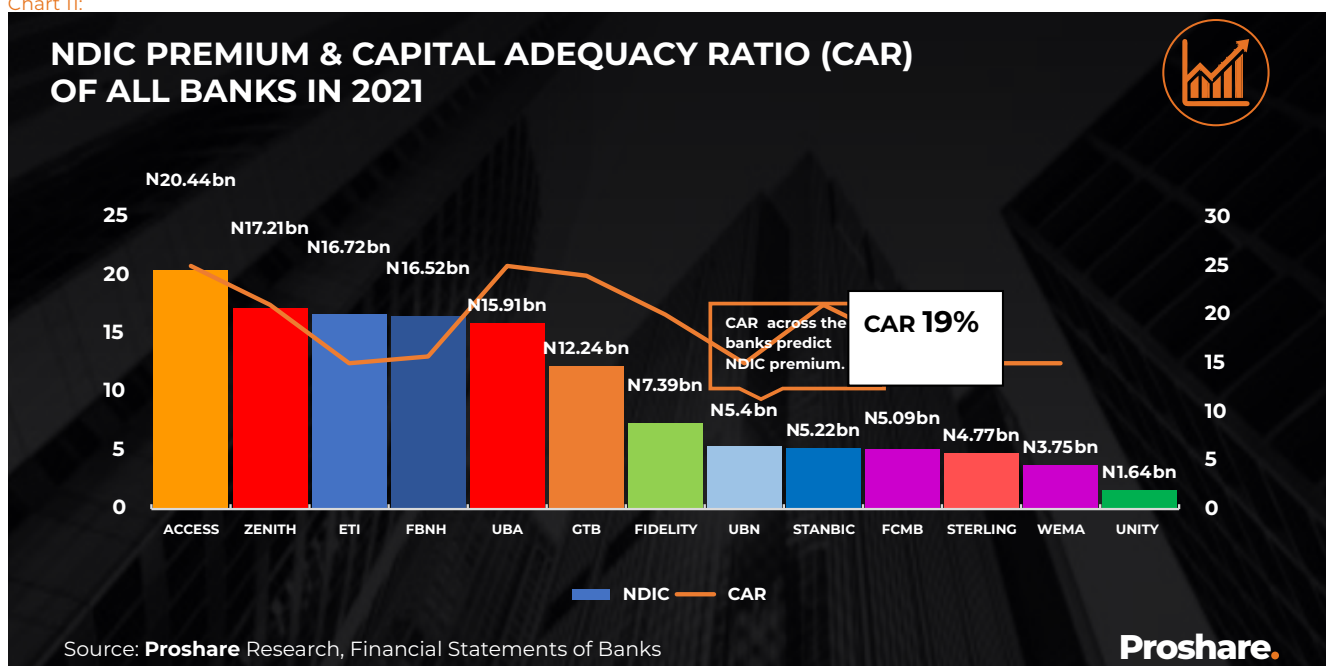
Chart 10:



CAR and NDIC Premium

Capital Adequacy Ratio tells how well the Tier 1 and 2 capital of a bank cover the risk-weighted assets. The CBN as of 2021 set a prudential guideline of 15% for all Domestic Systematically Important Banks (D-SIBs) and a 10% threshold for all other banks. Typically, lower CAR readings would suggest a higher risk of bank failure and vice versa. Industry CAR fell from 15.1% in 2020 to 14.53% (below the prudential guideline) in 2021 indicating a slight increase in the risk of a systemic failure. Analysts believe that the individual banks which are responsible for the lower-than-prescribed CAR ought to be the ones paying the most in terms of NDIC premiums. Our analyst could not establish a correlation between the CAR and NDIC premiums charged. In 2021, Access Bank paid N20.44bn in NDIC premiums having recorded a CAR of 25%, UBA which had the same CAR of 25% paid much less in terms of NDIC premium (N15.91bn) (see chart 11).

Chart 11:

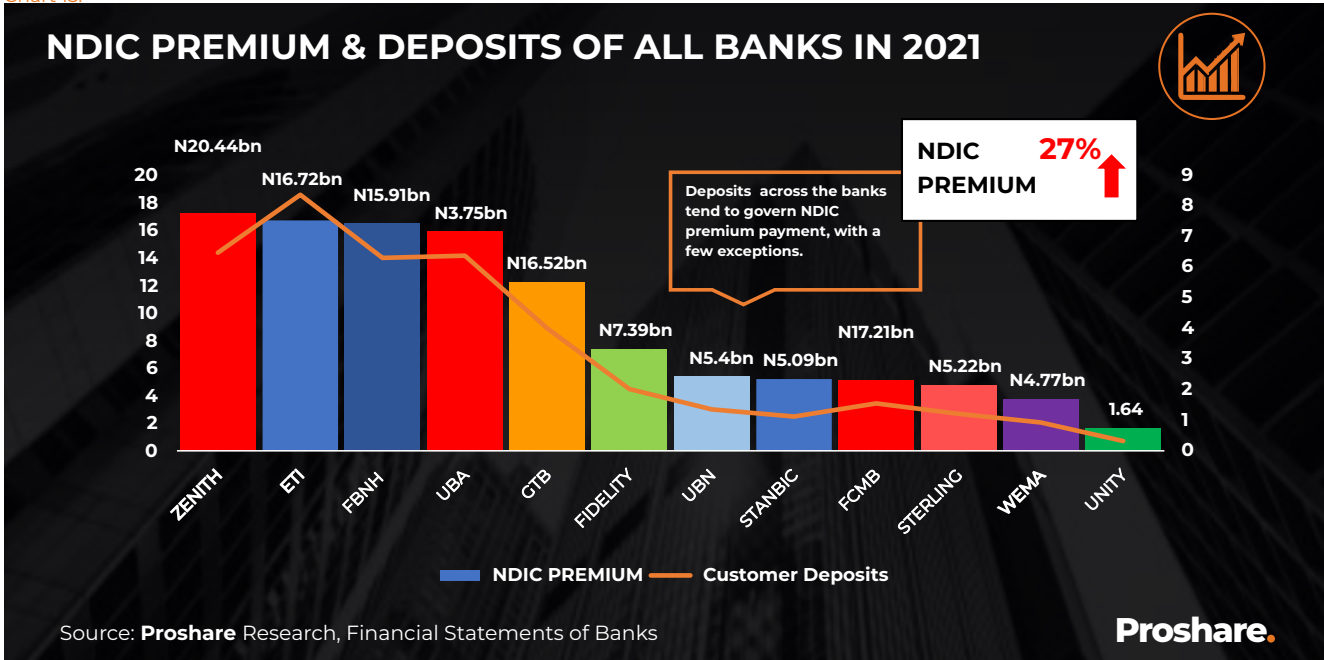


Deposits and NDIC Premium

NDIC premium is paid on the insurable deposits of banks, invariably, growth in deposits implies an increase in the amount payable by banks to the NDIC. However, in 2021, the growth in NDIC premiums paid by all banks (27%) outpaced the growth in insurable deposits of the banks between 2020 and 2021. Interestingly, ETI which has the highest customer deposits of N8.36tr paid a considerably less amount in NDIC premium (N16.72bn) than Zenith Bank which paid N20.44bn on a deposit sized N6.47trn (see chart 13).

Chart 13

Chart 13:



AMCON Fees

AMCON fees represent 0.5% of Bank Assets and contingents. This implies that as Assets increase the obligation of banks to the Asset Resolution Company increases. The situation some analysts argue could lead to a deliberate decision to slow the growth of Assets by banks. In 2021, Industry Assets rose by 16.8% Y-o-Y while the fees paid by Nigerian banks over the period increased by as much. In the same period, ACCESS paid the highest amount in terms of AMCON fees, followed by ETI, Zenith Bank, FBNH, and UBA (see chart 14).

Chart 14:



AMCON's Perpetual Life and the PPP Alternative

AMCON has met the set objectives 12 years after its birth, those at the helm of affairs at AMCON do recognize the need to start winding down but may be considering the impact of such a closure on the jobs of its staff. This should however not be a hindrance as the AMCON Act stipulates the automatic engagement of the corporation's staff by the CBN in the event that it is wound up. But the question is, what happens if another banking sector distress beckons? Analysts say that nowhere in the world has the good bank-bad bank structure model been tried out twice. Analysts believe that speaks to the relatively low achievement of publicly owned loan resolution companies in resolving the bad loan syndrome.

Although outsourcing such a corporation's responsibility to a private enterprise would come at a cost, it is the perspective of Analysts that better results would be achieved if the powers of AMCON were given to private enterprises on a Public Private Sector Partnership (PPP) basis.

The relative success of the Contributor Pensions Scheme (CPS), as opposed to the original public sector model for retirees, is a good example. First, a PPP model for AMCON functions would have done the job at a lower cost to banks and the CBN. It's perhaps a big lesson for Nigeria and other African countries, in the event that such entities were to be set up in the future.

Even so, the AMCON establishment and the levy are backed by an Act of the Senate. Proshare advises that the National Assembly reviews the Act and does the right thing in removing the AMCON levy and re-instating NDIC as the body responsible for dealing with failed banks. AMCON need not exist in perpetuity, it should rather operate as a division within the CBN to enhance the efficiency of the apex bank. This is particularly so in the face of the continued risk-based supervision and strong oversight that the CBN aspires to.

Investigations show that shareholder associations are very dissatisfied with the discounting impact of the AMCON levy on their returns. Shareholders have often called for the discontinuation of the levy because it amounts to an undue drain on banks' operating expenses, especially as it is the second largest operating cost of banks after employee cost, accounting for between 10% and 13% of every Nigerian bank's total operating cost.

The Top tier banks have typically paid several billion to AMCON annually with 2021 not being an exception. This represents a huge percentage of their operating cost. Consolidating the NDIC levy puts these regulatory costs at a much more uncomfortable level relative to their total operating expenses, a fact which reinforces the call to stop the AMCON levy or suspend that of the NDIC premium. Both costs are considered to serve the same purpose.

AMCON has continuously shielded NDIC from its responsibility of indemnifying depositors of "failed banks," even so NDIC does not make any payment to AMCON. Our Analysts believe that the continuous payment of the AMCON levy is unfair to all banks, especially when done simultaneously with the NDIC premium. More worrisome is that healthy or unhealthy, and whether they benefited from AMCON activities or not, all banks are forced to pay the same rate to AMCON for a service that a private entity would have possibly done at a profit if given the statutory backing that AMCON has.

Further, the relatively riskier financial institutions that opened the financial system to the risk of a collapse which in turn occasioned the burdensome cost either no longer exist or contribute less to AMCON, given their size, while the relatively sound banks that ensured proper governance (even at the expense of growth and profitability potentials) now pay higher levies or premiums.

2023 Macro Economic Outlook

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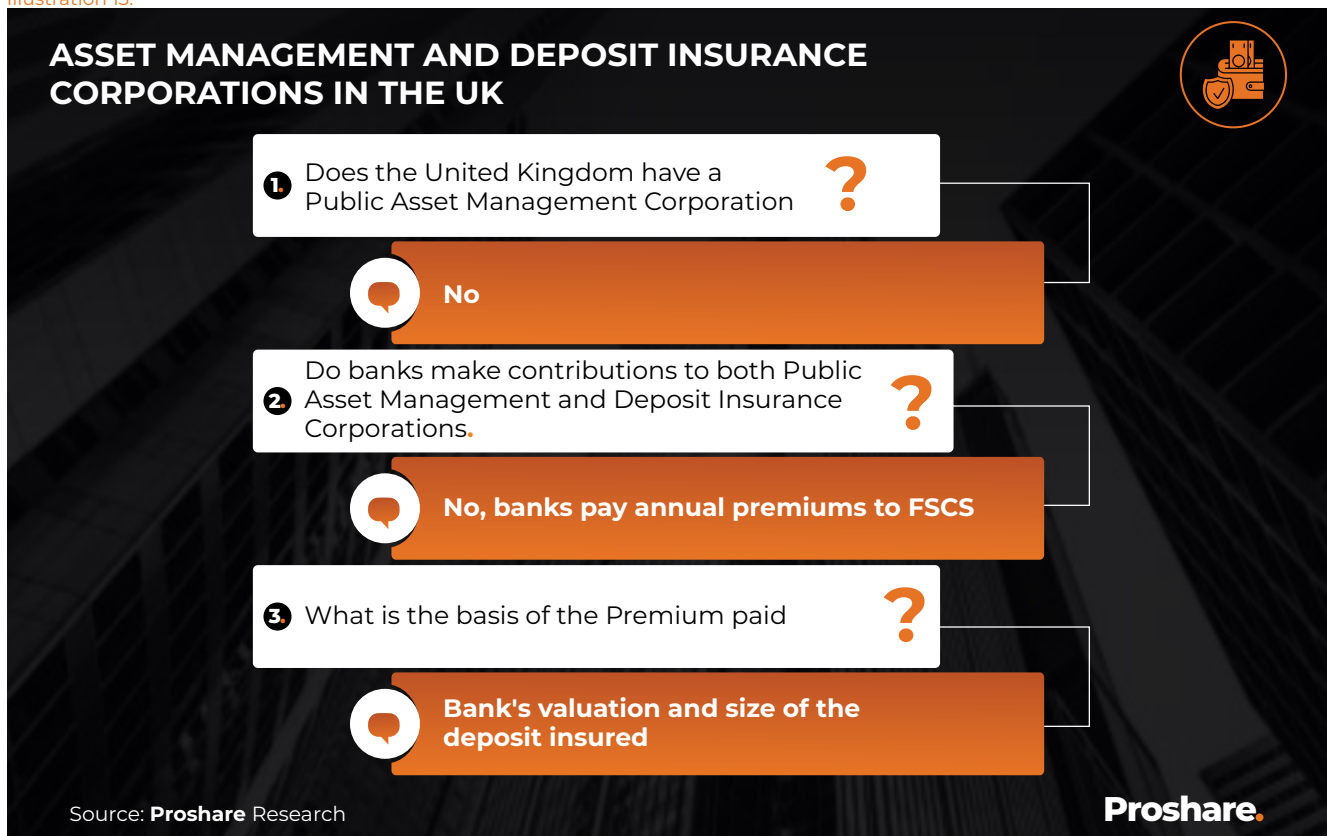


Global Best Practice In Deposits' Insurance and **Asset Resolution.**

United Kingdom (UK)

Unlike what obtains in some other sophisticated financial systems, the United Kingdom has no history of setting up a good bank-bad bank model which would have necessitated the establishment of a public asset management corporation. However, there are numerous private asset management firms regulated by FCA and PRA which cover strictly securities and other assets excluding deposits from banks. Technically, deposits of financial institutions are insured only by FSCS, and the banks only make contributions to FSCS annually (see *illustration 13*).

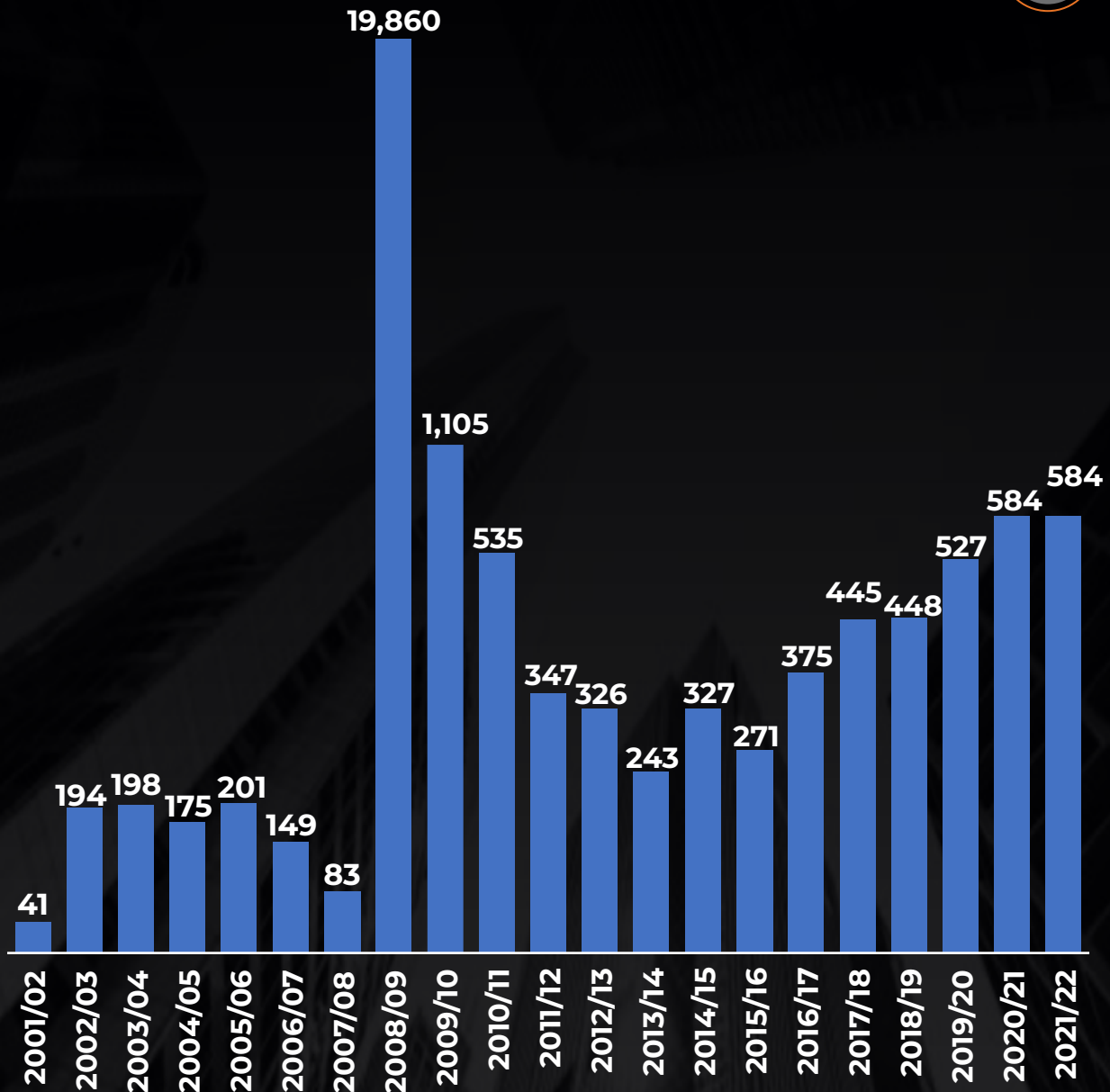
Illustration 13:



Serving as a statutory deposit insurance and compensation scheme in the United Kingdom, the Financial Services Compensation Scheme (FSCS) has successfully salvaged the lapses of firms' failure over the years and has instilled confidence in the financial system, especially during the global financial crisis of 2007. The scheme was adopted in 2001 to replace the former multiple schemes, it covers deposits, insurance policies, insurance brokering, investments, and mortgages with each sector grouped into a contribution class for the effective allocation of funds. According to a report, the scheme has paid out approximately 27 billion pounds as compensation to 6.5m customers in the past 21 years to sustain the UK financial system (see *illustration 14*).



FSCS YEARLY TOTAL COMPENSATION PAYOUT (£'m)



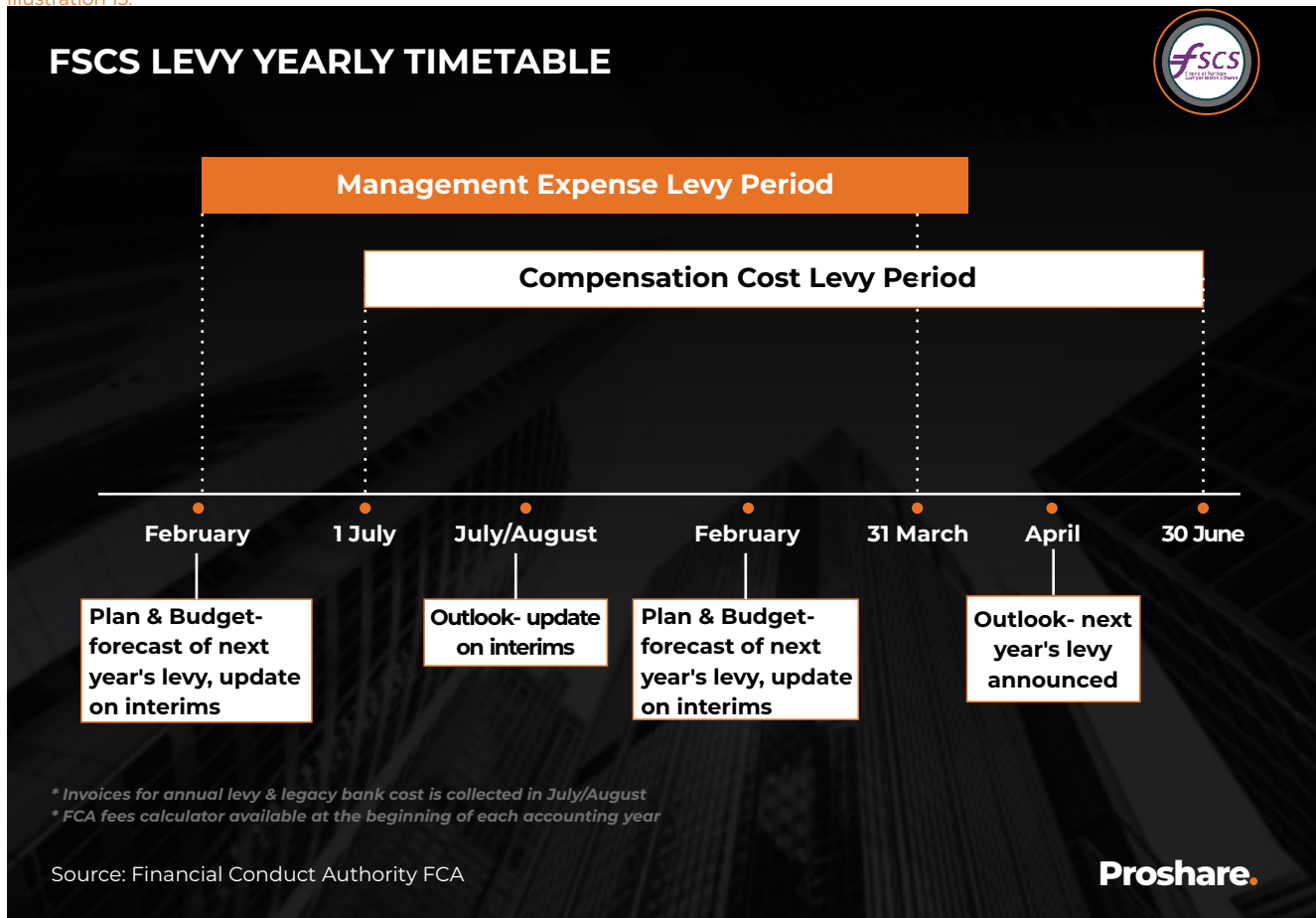
Source: FSCS Annual Report, Proshare Research

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Since its inception in 2001, the scheme has adopted a pay-as-you-go funding structure, sourced from levies charged on all authorized firms termed 'Periodic Fees'. The periodic Fee is an estimated annual levy announced in the Plan and Budget of FSCS at the beginning of the year to fund costs, it is categorized into three types: management expenses levy (consisting of base costs and specific costs), compensation cost levy, and a MERS levy. The MERS levy is an additional levy in a situation of shortage to meet urgent expenses while the compensation cost levies are adjusted by the degree of risk incurred by deposit takers using balance sheet indicators such as capital, leverage, liquidity, and asset quality (see illustration 15).



Illustration 15:




Each contribution class has a specified periodic fee, calculated based on the nature of the business and the size of the firm which is captured by the fee block, tariff data, tariff base, and tariff bands. It is annually determined after the valuation of the specified company. The tariff data varies across the fee blocks which serves as a measuring scale for a firm's activities while the tariff base is used to capture the eligible liabilities returns of the firm while the outcome is grouped according to the bandwidth set by FSCS. The tariff base is multiplied by the fee rate assigned to get the exact firm's fee. The fee allocation approach indicates that firms are charged based on their size; large banks pay higher and small banks are charged lesser amounts. According to the scheme, A1 stands for deposits from banks and credit unions with the tariff fee indicated below (see illustration 16).

Illustration 16

Illustration 16:

PERIODIC FEE RATES FOR 2022-2023

Periodic fee rates applicable to pra fee blocks other than the minimum fee block for the fee year 2022-23



Column 1 Fee Block	Column 2 Tariff base	Column 3 Tariff bands	Column 4 Tariff rates
A1 deposit acceptors fee block	Modified eligible liabilities	Bands width (£million of MELs)	Fee payable per million or part million of MELs (£)
		>10-140	34.951
		>140-630	34.951
		>630-1,580	34.951
		>1,580-13,400	43.689
		>13,400	57.669

Source: Financial Conduct Authority (FCA)

Proshare.

Aside from levies, the scheme generates funds through recoveries. After the payment of claims to the affected organization, the scheme has the legal right to recover lost funds of the firm to cover some or all the costs of compensation paid. Specifically for deposits, FSCS retains recoveries up to the amount of the compensation initially paid and an additional fee for the process of recoveries while the excess recoveries will be given to relevant depositors. The additional funds acquired are used to keep the scheme robust for the accounting period and reduce the levies charged on financial institutions in the following year.

During the global financial crisis in 2008, FSCS had to borrow money from the Bank of England to meet its huge obligations. The loan was repaid by charging an additional levy from deposit-taking institutions. Between 2008 to 2010, the scheme levied a fee of GBP 406 million to cover the loan interest. To avoid such an occurrence, the scheme has relied solely on proposed levies and recoveries to fund compensation costs in the past few years.

Conversely, the cash accounting approach has made the funding process more efficient as a shortage or surplus at the end of the year will be adjusted to the levy in the following year. Some industry sectors have questioned the funding structure of its volatility and discretionary nature across different firms. Nonetheless, the FSCS has argued that the costs charged are not only dependent on a default occurring but also on the severity of the loss. The funding structure has been sustainable over the years with the numerous sectors insured which lessens the overall cost charged to each organization.

The Scheme's deposit compensation limit has been reviewed thrice since inception, it was initially at £31,700 per bank in 2001 and moved to £35,000 afterward. Following the collapse of the Icelandic banks in 2008, the safety net was raised to £50,000 to instill confidence in the banking system as depositors were withdrawing their cash to safe havens. In 2010, the authority raised the compensation

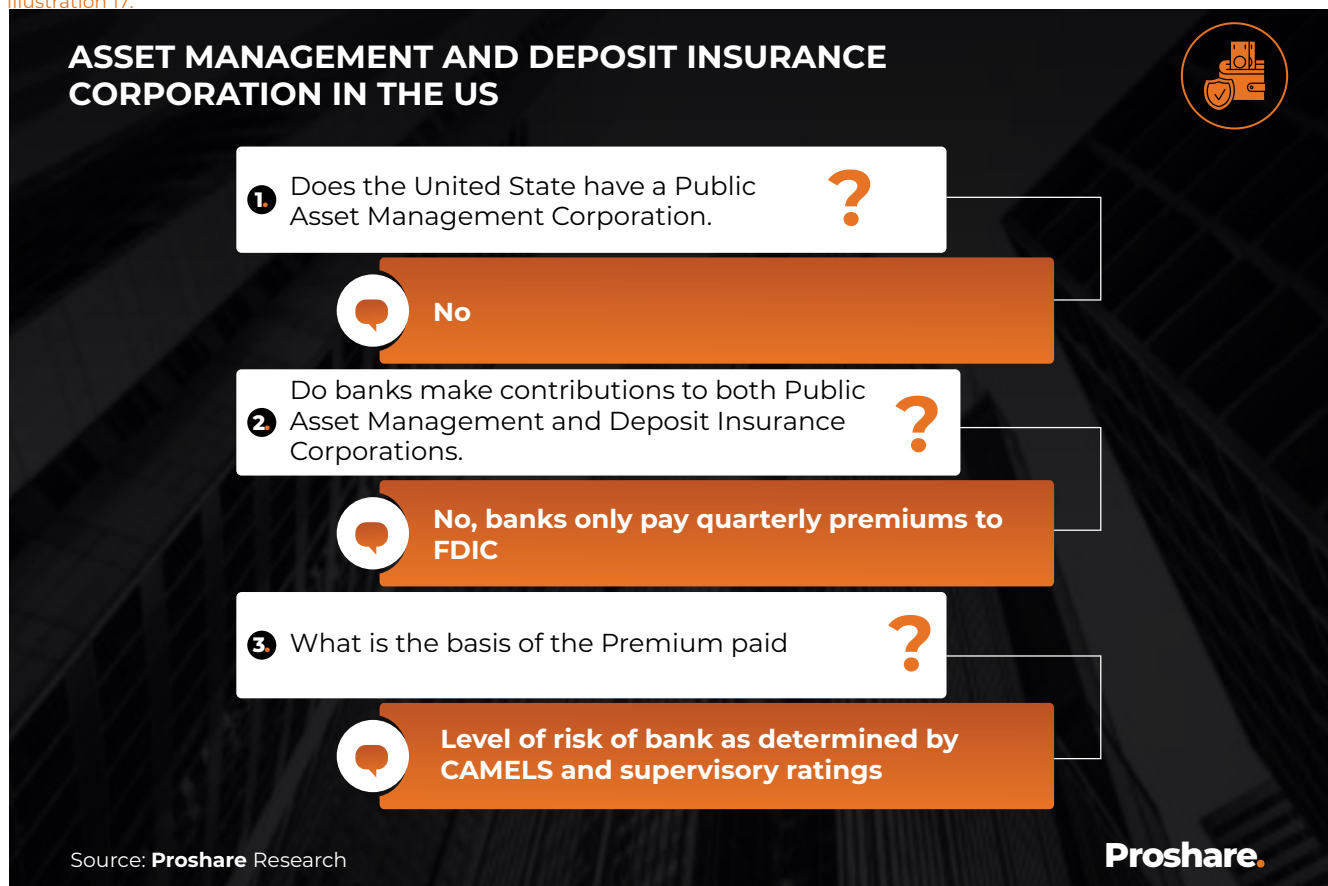


limit to £85,000 as a directive from the EU authority requires all member states to have a €100,000 limit or the equivalent in the national currency. The €100,000 was equivalent to £86,971 then and the scheme adopted £85,000.

United States (US)

In years of crisis, the FDIC has typically provided a timely resolution to failed institutions, by paying off insured depositors or merging the bank on an open or closed bank basis. How bank crises have been handled have varied according to legislation, experience gained by the FDIC, and the nature of the problem; when confronted with major problems where traditional approaches may not have worked. In nearly the first decades of its operation, all insured institutions paid the same assessment rate, regardless of the degree of risk posed to the fund, not until congress rebated the law related to federal deposit institutions in developing an assessment model that considered the risk posed by the insured institutions (see illustration 17)

Illustration 17:



Following the 1970s financial crisis, which resulted in the dissolution of the federal savings and loan insurance corporation, which primarily served as a safety net for savings and loan institutions, banks were confronted with a high-interest rate as a result of the depository institutions' deregulation of monetary control Act, which was introduced to reduce government control over deposit rates and allowed banks to invest in a range of assets. The deregulation allowed banks to raise interest rates to attract depositors, which, thereafter, banks were unable to recuperate costs as a result of their long-term loans in mortgages. After the insurance fund was estimated to be at a deficit of US\$75 billion,

with the percentage of loss of insured deposits climbing to 1.48%, the highest in history, exceeding the level of loss in 1933, the federal savings and loan insurance was dissolved. The resolution trust corporation was then established as a result of the federal savings and loan corporation's insolvency. Ultimately, The Resolution Trust Company (known as the asset management corporation) was established as a temporary agency to transfer to the Federal Deposit Insurance Corporation all assets of bankrupt institutions deemed insolvent by the Federal Savings and Loan Corporation. The asset management business completed its task in around six years by selling assets at a discount to private buyers, with the revenues going to the deposit insurance fund.

Before the establishment of the resolution trust corporation, insured institutions were assessed at the same rate regardless of the level of risk to the deposit insurance fund. The original assessment rate was set at 8.3 cents per \$100 of deposits, or 8.3 basis points. This was in use for approximately 60 years, since federal deposit insurance began operation in 1933. Nonetheless, Congress amended the legislation related to federal deposit insurance by establishing an assessment model that included the risk provided by the insured institutions. Years after implementing the risk-based assessment system in the aftermath of the crisis, the assessment rate was severely constrained by statutory restrictions that prohibited the FDIC from charging well-capitalized and highly rated institutions for deposit insurance once the deposit insurance fund reached the statutory requirement of 1.25% of estimated insured deposits. Following that, a small number of institutions used it, as approximately 95% of covered institutions paid zero assessment rates.

With the wide variation in deposit insurance funds, the differential pricing system was fully implemented in 2011 and became unchanged. The system was designed to mitigate the moral hazard, which arose from the previous approach since the new assessment rate was based primarily on two measures of risk under capital levels and supervisory ratings, with institutions classified based on their capital measurements. Supervisory measures were assessed using a CAMELS composite rating (capital, Adequacy, Management, Earnings, Liquidity, and Sensitivity). CAMELS ratings are on a scale of 1-5, with 1 being the highest, showing a strong strength in performance and risk management, and 5 being the lowest, indicating the weakest performance with inadequate risk management. Scorecards are applied to large institutions that are presumed to pose challenges and risks based on their structure and complexity. The scorecard is deemed to account for the loss severity that measures the magnitude of a bank's potential losses to the insurance fund based on a standardized set of assumptions about specific items such as liabilities and the recovery of assets. In respect to section 14 of the Federal Deposits' Insurance Act, the corporation has the ability by its virtue of authority to borrow from the state treasury department a sum up to 3 billion. Thus far, the corporation has not had occasion before or after its crisis to use its borrowing authority.

FDIC Assessment Rates:

Assessment rates are designed to reflect considerably the risks posed to the deposit insurance fund by providing a forward-looking measure of capturing risks when they are assumed rather than when events result in losses. Banks' assessment rates are determined quarterly, with small banks being referred to as banks with an asset of less than 10 billion; they are assigned an individual rate based on their financial data and CAMELS ratings. Similarly, large banks—those with 10 billion or more in assets—use the scorecard method to calculate assessment rates. The scorecard combines supervisory ratings with financial metrics to assess the bank's ability to withstand stress and loss severity score in the event of failure. Whilst the assessment base rate is calculated as an average consolidated total asset minus average tangible equity, the rates are subject to adjustments such as:

- A decrease in the issuance of long-term unsecured debt, including unsecured debt and subordinated debt.

- ② An increase in the value of holding long-term unsecured or subordinated debt issued by other insured banks.
- ② An increase in significant brokered deposit holdings for large banks that are not well-rated or undercapitalized (see illustration 18).

Illustration 18:

FDIC TOTAL BASE ASSESSMENT RATES



Total Base Assessment Rates for Established Institutions (insured 5 or more years)

	Established Small Institutions CAMELS Composite			Large & Highly Complex Institutions
	1 or 2	3	4 or 5	
	(All numbers in basis points) Quarterly			
Initial Base Assessment Rate	3 or 16	6 to 30	16 to 30	3 to 30
Unsecured Debt Adjustment **	-5 to 0	-5 to 0	-5 to 1	-5 to 0
Brokered Deposit Adjustment	N/A	N/A	N/A	0 to 10
Total Base Assessment Rate	1.5 to 16	3 to 30	11 to 30	1.5 to 40

Total Base Assessment Rates For Newly Insured Small Institutions (those Insured Less Than 5 Years)

	Risk Category I	Risk Category II	Risk Category III	Risk Category IV
	(All numbers in basis points) Quarterly			
Initial Base Assessment Rate	7	12	19	30
Brokered Deposit Adjustment (added)	N/A	0 to 10	0 to 10	0 to 10
Total Base Assessment Rate	7	12 to 22	19 to 29	30 to 40

Note:

Assessment base equals average consolidated total assets minus average tangible equity, with additional adjustments for custodial banks and banker's banks.* Total base rates that are not the minimum or maximum rate will vary between these rates. Total base assessment rates do not include Depository Institution Debt Adjustment ("DIDA").

** The Unsecured debt adjustment cannot exceed the lesser 5 basis points or 50% of an insured depository institutions initial base assessment rate; thus, for example, an insured depository institution with an initial base assessment rate of 3 basis points will have a maximum unsecured debt adjustment of 1.5 basis points and cannot have a total base assessment rate lower than 1.5 basis points. The unsecured debt adjustment does not apply to new institutions or insured branches.

Source: FDIC, Proshare Research

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Summary of Findings, Recommendations and Conclusion. 

2022 Market Review and 2023 Outlook

Yesterday and Tomorrow: Answering the Cashflow Question.

A Proshare Report **Out** in January, 2023.



Summary of Findings, Recommendations and Conclusion.

- ② Nigerian Banks are faced with a variety of challenges, that impact negatively on their profitability. Stakeholders say that over-regulation is a major threat to the banking business in Nigeria.
- ② While the regulator is bothered about Monetary & Price Stability and for this reason it charges the CRR debits (at an effective rate of 60% of deposits), it must not in the process hamper the credit expansion and intermediation potentials of the banks.
- ② While maintaining a stable financial system, the NDIC charges banks deposit premiums (based on a differential rate system amounting typically to between 0.3 and 0.5% of insurable deposits) but simultaneously, the banks contribute AMCON (to the tune of 0.5% on bank Assets). These two charges serve the same purpose and therefore amount to multiple charges and excessive inflation of the operating expense of banks.
- ② For the same reasons, Nigerian banks have created less credit, recorded lower earnings, and have not lived up to their profitability projections. Nigerian banks trade below their book value due chiefly to their low returns on Assets.
- ② Since the establishment of AMCON in 2010, the NDIC has been redundant as AMCON appears to have taken over its responsibility. AMCON rescued AfriBank Nigeria Limited, Bank PHB, and Spring Bank and intervened in Oceanic Bank, Union Bank, Intercontinental Bank, and many others.
- ② The NDIC has liquidated over 500 deposit-taking banks whose licenses have been revoked by the CBN: about 50 deposit money banks, 50 primary mortgage banks, and over 300 microfinance banks. This translates to an insured payment of over N119bn and an uninsured payment of over N101bn to over 5.5m depositors, creditors, and shareholders of closed insured banks.
- ② The NDIC premium and AMCON charge are additional tax burdens that create a chain effect. They affect the cost of operation and profitability of banks, their payout to shareholders, their interest payment to depositors, and the welfare package of their staff.
- ② We found that both charges are an equivalent of 17.25% of operating expenses, 36.4% of Profit After Tax, and almost one-half of personnel expenses and raise the effective tax rate from 30% to 58%. The two charges also deprive depositors of up to N390bn in additional interest payment.
- ② On the global scene, we found that the US adopted the good bank bad bank model when it established the Resolution Trust Company RTC in the 1980's to address the looming financial crisis, after which the RTC was shut. Today, the UK and the US only have Deposit Insurance companies, namely: FSCS and FDIC respectively.

Recommendations

- ❶ AMCON should have a windup programme committed to a fixed date for ending its corporate existence. The plan should include a process for handling outstanding loans that have not been paid by debtors and are due for collection.
- ❷ NDIC should immediately stop charging insurance premiums on bank deposits with the Central Bank of Nigeria (CBN). The argument that it is a defensive mechanism for sustaining the financial system's stability is neither convincing nor compelling. Tighter credit oversight and punishment for errant bank behaviour are better tools for handling systemic stability. Charging banks on risk-free deposits with the CBN cannot be an efficient option for building systemic rail guards. The best way to ensure good quality risk assets is human capital development for credit officers and institutional buy-in to best global credit prices to ensure compliance with CBN's rule of a 5% cap on non-performing loan ratios (NPLRs).
- ❸ CBN should support the building of larger deposit bases by increasing financial inclusion. With over 41m small and medium-sized enterprises (SMEs) either unbanked or underbanked, the Nigerian financial system has headroom for deposit growth. With N3.2trn in circulation and N2.7trn outside the banking system, dragging many monies outside banks into these deposit-taking institutions would improve bank deposits and lending. The increase in bank deposits relative to total money in circulation would enhance the effectiveness of monetary policy and reduce the strain on bank operations.
- ❹ The good bank bad bank model of loan resolution may not be replicable or sustainable. In this light, the monetary authorities must ensure that traditional resolution mechanisms are adequately staffed and trained to provide continuous regulatory oversight.

Conclusion

The AMCON must go into the sunset satisfied that it did its best to protect the Nigerian financial system. The NDIC must see its role as preemptive rather than remedial. The Nigerian financial system of the present and future must have built-in stabilizers that ensure sustainability and the aversion of systemic weaknesses. Bank intelligence, reviews and interventions must be continuous.

Corrective action for bad conduct must be immediate and punitive. Bank chief executive officers and their boards of directors must bare personal and collective responsibility for a bank running into loan troubles. The loan granting process must be rigorous and data-driven and involve detailed credit appraisal memorandums (CAMs) with scenarios analysis that shape the conversation around credit approval.

The NDIC should not distort market rationality by charging premium rates that do not reflect the nature of the risk of deposits. Systemic protection will do better with rigorous credit approval processes and monitoring frameworks, not by charging ambiguous insurance premiums. The best way to protect deposits is by ensuring that loan origination, approval and monitoring are at the level of best global financial practices. Trying to slay a giant by nibbling at its feet will not work. Bad loans require strong loan oversight and reporting, not kicking the dust of insurance premiums into the eyes of bank profitability.

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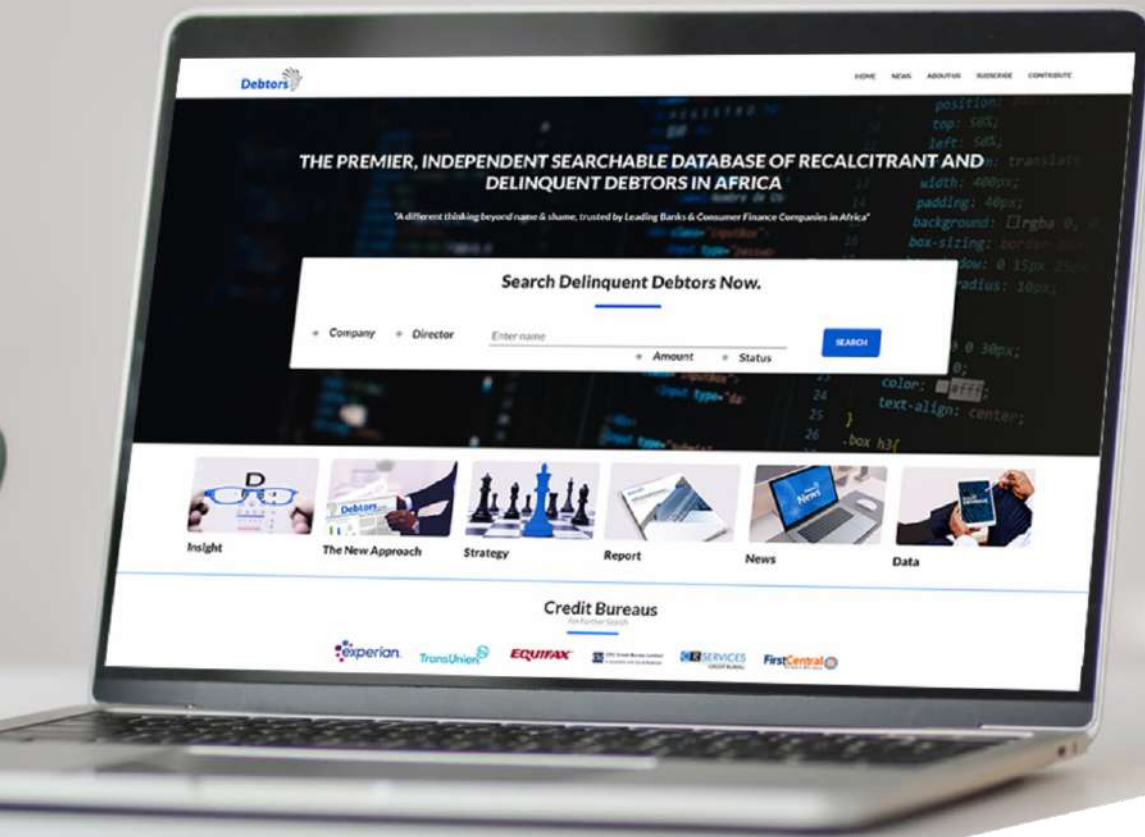
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10. Interbank Rates Drop Significantly as CRR Credit of c.N200bn Hits Banks.
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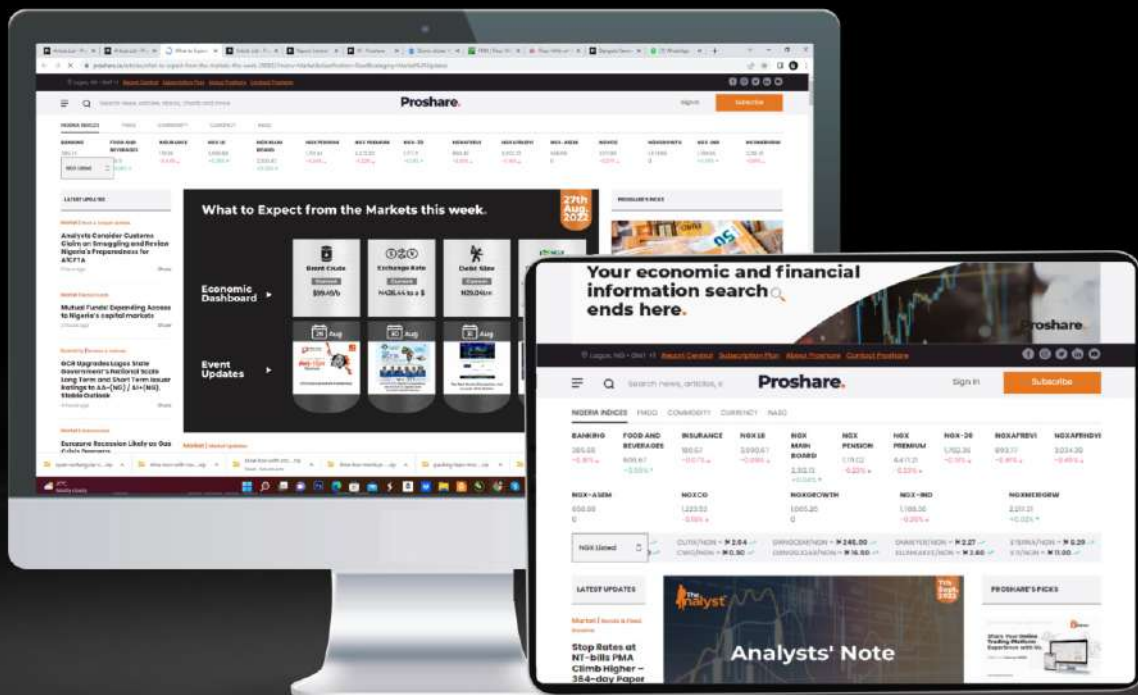
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