



# HOW THE CHANGING BANKING SECTOR LANDSCAPE CAN SUPPORT NIGERIA'S SOCIOECONOMIC REFORMS

PRESENTED AT **THE OCTOBER 2024** BREAKFAST MEETING OF  
THE NIGERIAN AMERICAN CHAMBERS OF COMMERCE

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# Protocol



# Agenda

- Introduction
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- Challenges with Banking Reforms
- Critical Roles of the Banking Sector in support of socio-economic reforms
- Conclusion



# Introduction

- Honor and a privilege to be here today
- Commitment to fostering bilateral trade relations between Nigeria and the United States.
- The issues define the future of Nigeria's economy.
- “The test of our progress is not whether we add more to the abundance of those who have much, it is whether we provide enough for those who have too little”.  
-Franklin D. Roosevelt
- Banking Sector is critical to Nigeria's ongoing socioeconomic reforms



# Nigeria's Economy in Brief

- Oil is the mainstay (90% of export earnings)
- Low export earnings from Non-Oil.
- Low ranking in ease of doing business- Nigeria ranked 131 among 190 economies
- Limited Infrastructure and industrial development.
- Inflation rate at 32.15% as at August 2024
- Unemployment rate **is currently** 5.3%
- Population: over 200 million
- GDP grew by 3.19% (year-on-year) in real terms) as at Q2 2024



# Nigeria's Socioeconomic Reforms

## Key Reforms in Nigeria before 2023

- ✓ Privatization and Commercialization
- ✓ Structural Adjustment Programme
- ✓ Investment and Trade Liberalization
- ✓ Anti-Corruption Reform
- ✓ Electoral Reforms

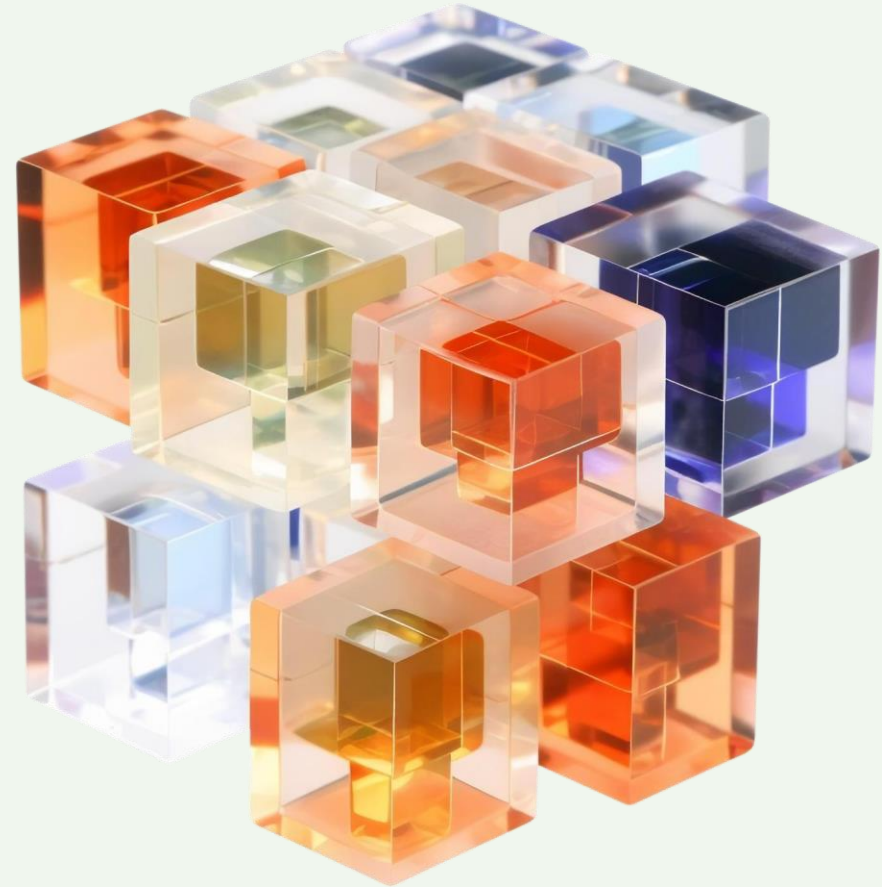
## Key Reforms in Nigeria from May 2023

- ✓ Petrol Subsidy Removal: Subsidy gulped about **N10.2trillion** between 2019 and 2023.
- ✓ \$1 trillion economy plan
- ✓ Infrastructure Development
- ✓ SME Financing
- ✓ Agriculture and Food Security
- ✓ Infrastructure
- ✓ Diversification through industrialization, manufacturing, creative arts etc
- ✓ Cash Transfer
- ✓ Monetary Policy Tightening



# The Changing Nigerian Banking Landscape

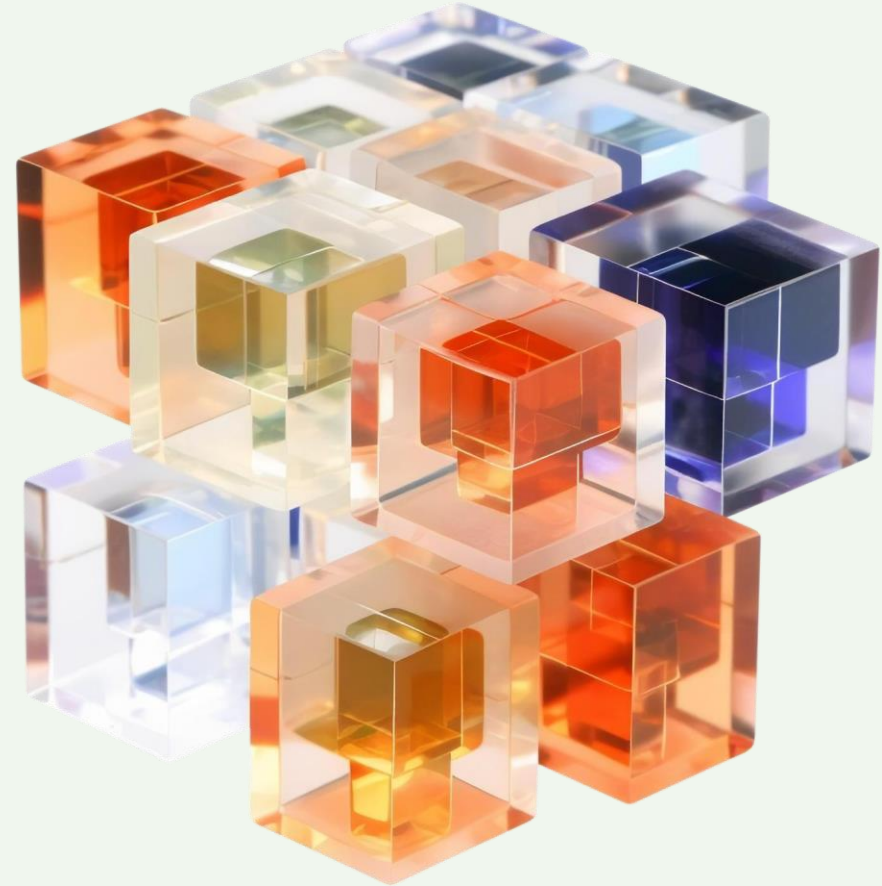
- ❑ In the past decades, the Nigerian banking sector has experienced a significant transformation
- ❑ The banking industry has historically evolved in many stages.
  - ✓ The un-guided laissez faire phase (1930-1959)
  - ✓ The control regime (1960-1985)
  - ✓ The Post Structural Adjustment Program (SAP) (1986-2004)
  - ✓ Consolidation and Recapitalization (2004-2006)
  - ✓ Post-Consolidation Reforms (2007-2010)
  - ✓ Banking Sector Further Reforms (2010-till date)
  - ✓ Banking Recapitalization (2024-2026)



# The Changing Nigerian Banking Landscape (Cont'd)

## Key Reforms Initiated by the Central Bank of Nigeria:

- Implementation of Basel III capital requirements (2021)
- Enhanced regulatory framework for fintech and digital banking
- Cashless Policy (2012)
- Bank Verification Number (BVN) (2014)
- Treasury Single Account (TSA) (2015)
- Foreign Exchange (Forex) Reforms (Continuous)
- Payment System Vision 2020
- National Financial Inclusion Strategy (2012)
- Banking Sector Recovery Plan (2020)
- Improved Customer Protection
- Banking Recapitalization (2024-2026}

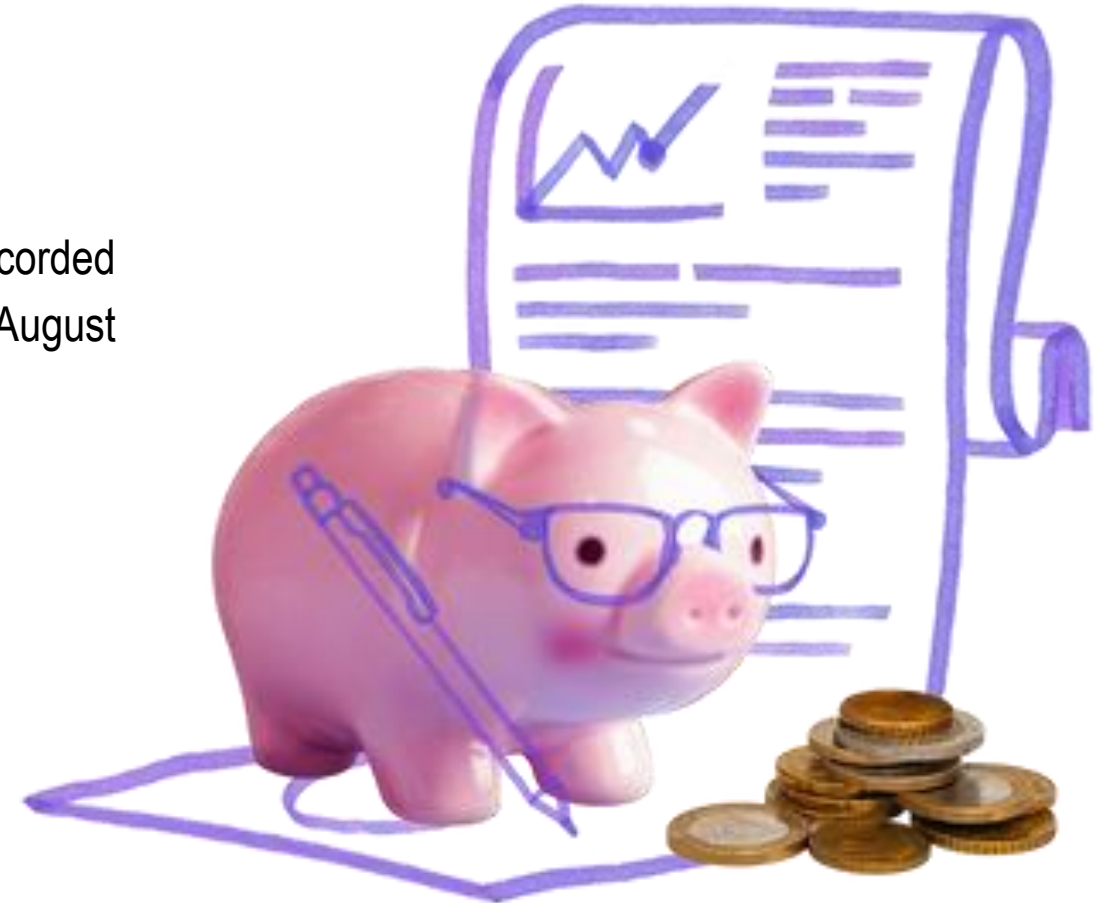


# Impacts of The Changing Nigerian Banking Landscape

## Total Credit to Private Sector (CPS)

- According to the CBN, the Total Credit to the Private Sector recorded significant growth from N362 billion in 1994 to N74.7 trillion in August 2024.

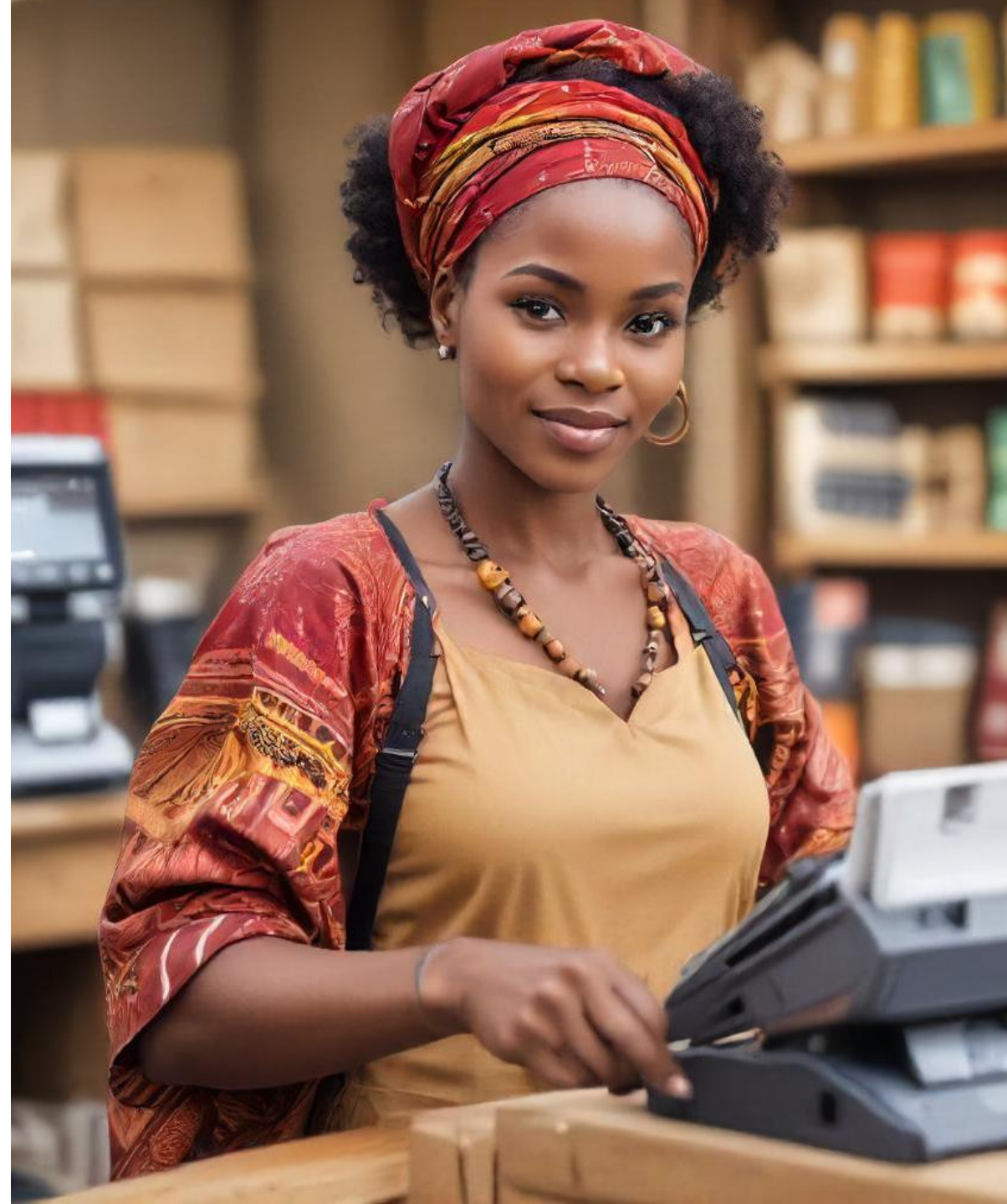
YEAR	NET DOMESTIC CREDIT ('billions)	CREDIT TO PRIVATE SECTOR ('billions)
1994	362	147
2004	1,890.00	1,466.00
2014	17,582.00	17,408.00
2024	105,883.00	74,732.00



# Impacts of The Changing Nigerian Banking Landscape (Cont'd)

## Financially Excluded Persons

- In 2014, about 41.6% of Nigerian adults were financially excluded
- At the end of December 2023, the rate of financially excluded adult Nigerians reduced to about 26%



# Impacts of The Changing Nigerian Banking Landscape (Cont'd)

## Banks' Reserves:

The CBN reported that:

- Banks Reserves grew from **N3.2trillion** in July 2014 to **N21.5trillion** in July 2024



# Banking Recapitalization

- ❖ In March 2024, CBN announced increased capital requirements for banks across the different license categories.
  - For Commercial Banks, the requirements are N500 billion, N200 billion, and N50 billion for international, National, and Regional authorizations, respectively.
  - N50billion for Merchant Banks with national licenses.
  - N20billion and N10 billion for Non-Interest Banks with National and Regional licenses respectively.
- ❖ This is in line with the current administration's ambition to achieve a trillion-dollar economy by 2030.
- ❖ Fidelity Bank Plc, GTBank Plc, Zenith Bank Plc, Access Bank, UBA FCMB, and a few others have commenced capital raising in line with CBN's directive.
- ❖ The significant devaluation of the naira over the last two decades, resulted in an erosion of the banking sector capital base in dollar terms.

CAPITAL DEFICIT OF BANKS ('billion)			
Categories of Banks	Lowest	Highest	Average
International	229	384	317
National	7	186	140
Regional	18	39	28
Merchant	31	48	38
Non-Interest	1.4	6.97	4.8

Source: KPMG 2024



# Likely Impact of the Current Banking Recapitalization

- ❖ Stronger and better-equipped banks that can service the needs of a fast-growing economy
- ❖ Expected to be a major attraction for much-needed Foreign Direct Investment
- ❖ Improve the overall financial system stability as banks become better positioned to withstand financial shocks or unexpected crises.
- ❖ Increase the sector's capacity to lend, including underwriting larger volumes and bigger transaction sizes
- ❖ Stimulate greater investments in digital innovation i.e technological advancements such as artificial intelligence (AI) and machine learning (ML), etc
- ❖ Enable the banks to pursue new growth opportunities such as geographical and vertical expansion
- ❖ To drive long-term value creation for shareholders and support the government's economic growth agenda.
- ❖ Engender a change in the banking industry's competitive landscape, with bigger and expectedly fewer banks.
- ❖ Banks with international authorization, will continue to drive international expansion with access to more markets, etc.



# The Current Digital Banking and Other Technological Advancements

Nigeria was recently named Africa's digital payments leader, and the country's banking sector is also the most digitized in the continent

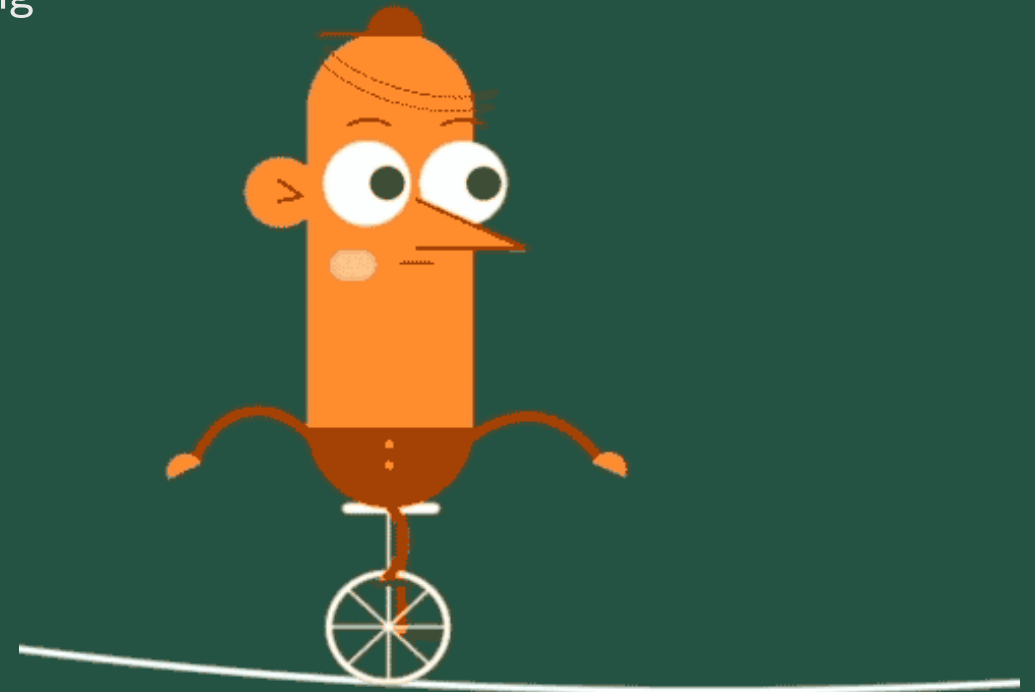
- ❖ Nigeria recorded 3.7 billion real-time payments in 2021, ranking among countries with the biggest real-time payments markets
- ❖ Digital Banking has made it possible to obtain financial services since the introduction of smartphones and the internet.
- ❖ It has unquestionably benefited the masses, in terms of convenience, accessibility, and cost savings.
- ❖ It has made the banking system easier to navigate
- ❖ Digital banking has provided various means by which the banking system has favoured the majority.
- ❖ It has provided a more accessible means of financial transaction as opposed to traditional banking.
- ❖ Digital banking has reduced the queuing system



# Challenges **with Digital Banking**

- ❖ **Cybercrime:** Protecting customer data and preventing cyber threats
- ❖ **Fear of job losses**
- ❖ **Non-discretionary**
- ❖ **Network Connectivity Issues**
- ❖ **Reduced Personal Interaction**
- ❖ **Increased Financial Risks**

Digital banking has come to stay with lots of benefits. Banks however, need to prioritize customer needs and provide robust security measures, user-friendly interfaces, and continuous innovation.



# Impacts of Digital Banking

- Significant growth in volume and value of e-payment transactions between 2014 and 2022

USE OF ATM AND OTHER ELECTRONIC CHANNELS ('billion)				
	ATM	ATM	POS	POS
Year	Volume	Value	Volume	Value
2014	0.4	3,700	0.02	312
2022	1.51	32,600	4	41,400

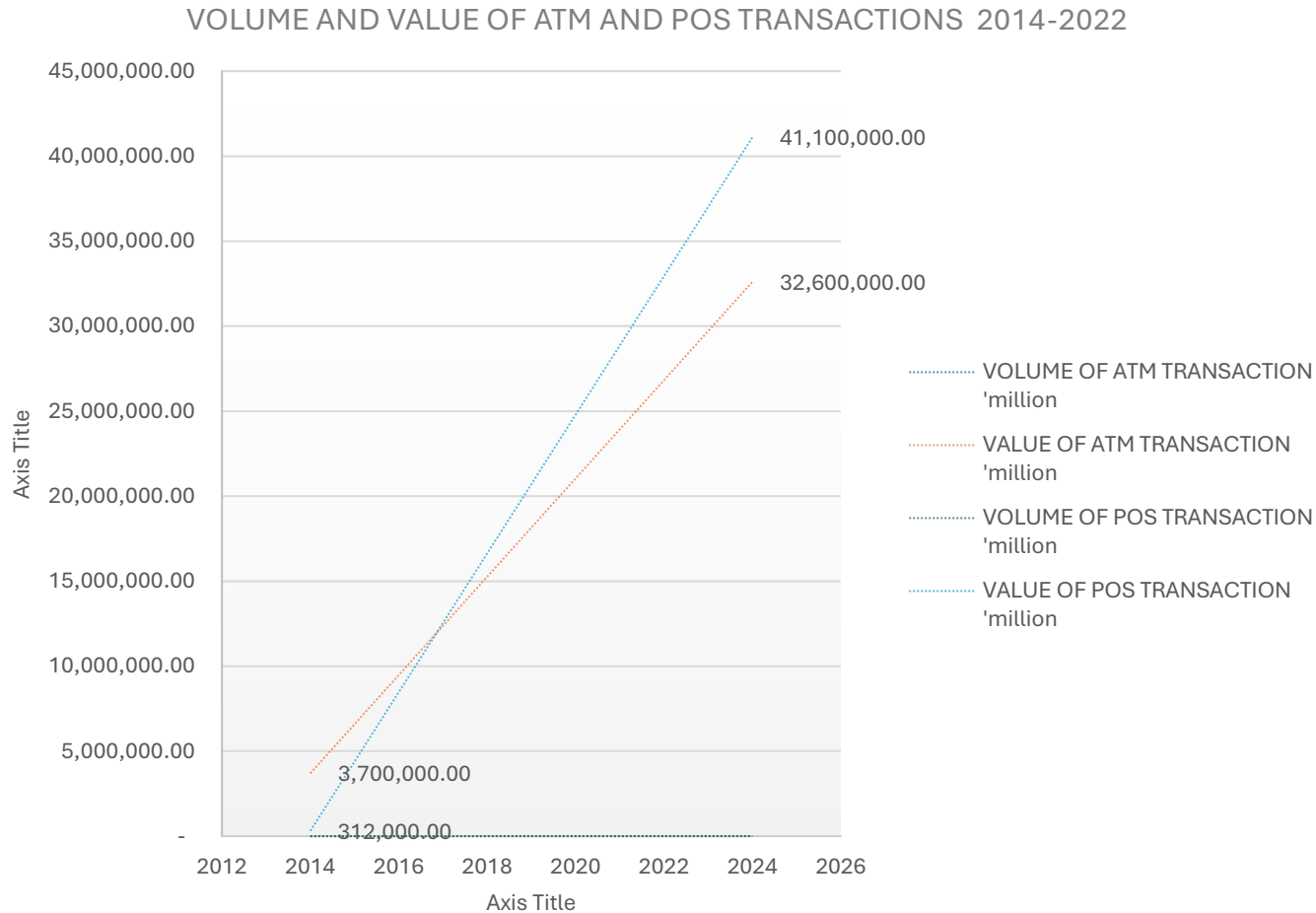
Source: CBN



- Significant reduction in cheque usage

# Impacts of Digital Banking (Cont'd)

## Improvement in electronic payment system in the last decade





# Recent Foreign Exchange Reforms By The Central Bank Of Nigeria



# New Reforms by CBN

Banks are now free to buy and sell FX at market rates. Customers who have FX are also free to sell FX at market rates. This has created liquidity in the FX Market

## 1. Unification of all official FX Windows to a Single Market

RDAS, I& E, Form Q, Invisible all collapsed to NAFEM

Re-introduction of willing-buyer & willing seller in determination of exchange rate

Convergence of official & parallel market rate

## 2. IMTO Settlement

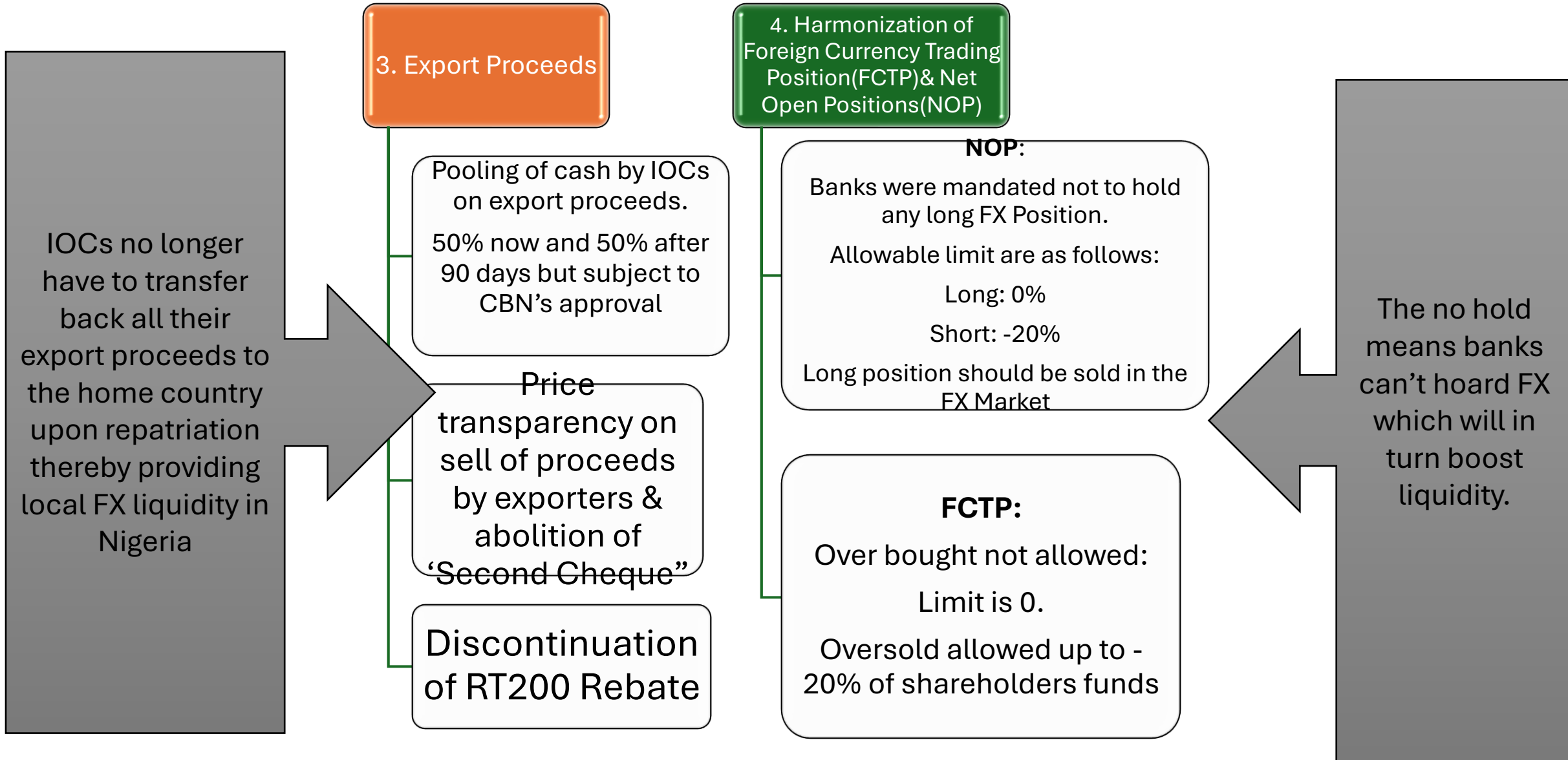
Payout of IMTOs to beneficiaries now in Naira as against Fcy

Removal of allowable limit of exchange rate quoted by IMTO

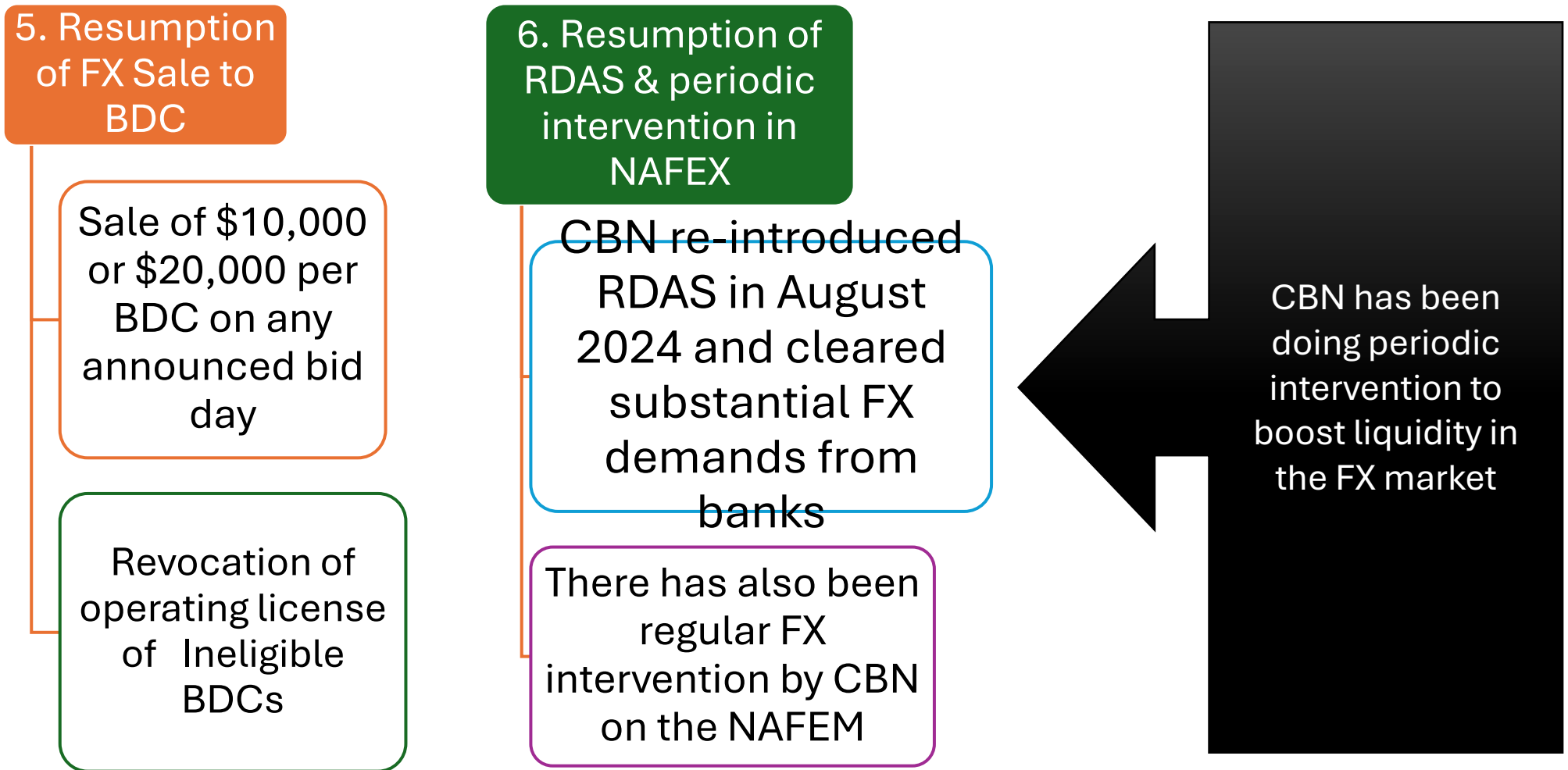
Licensing of new IMTOs & abolition of Naira 4 Dollar Incentives

The policy allowed Banks to trap the FX which before now were being withdrawn and sold in the parallel market by beneficiaries. This is one of the best policy that boosted FX liquidity for banks.

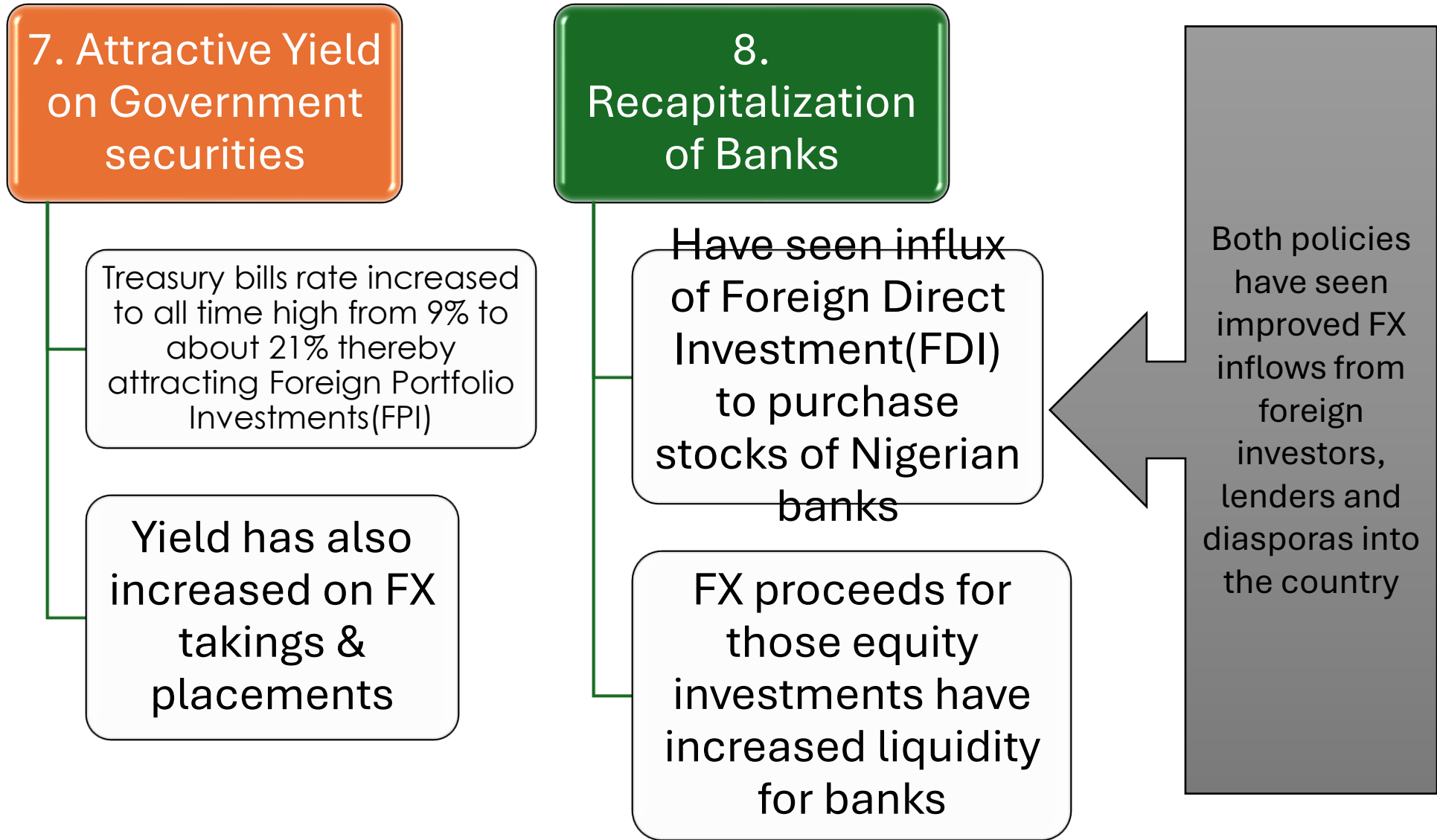
# ...New Reforms by CBN



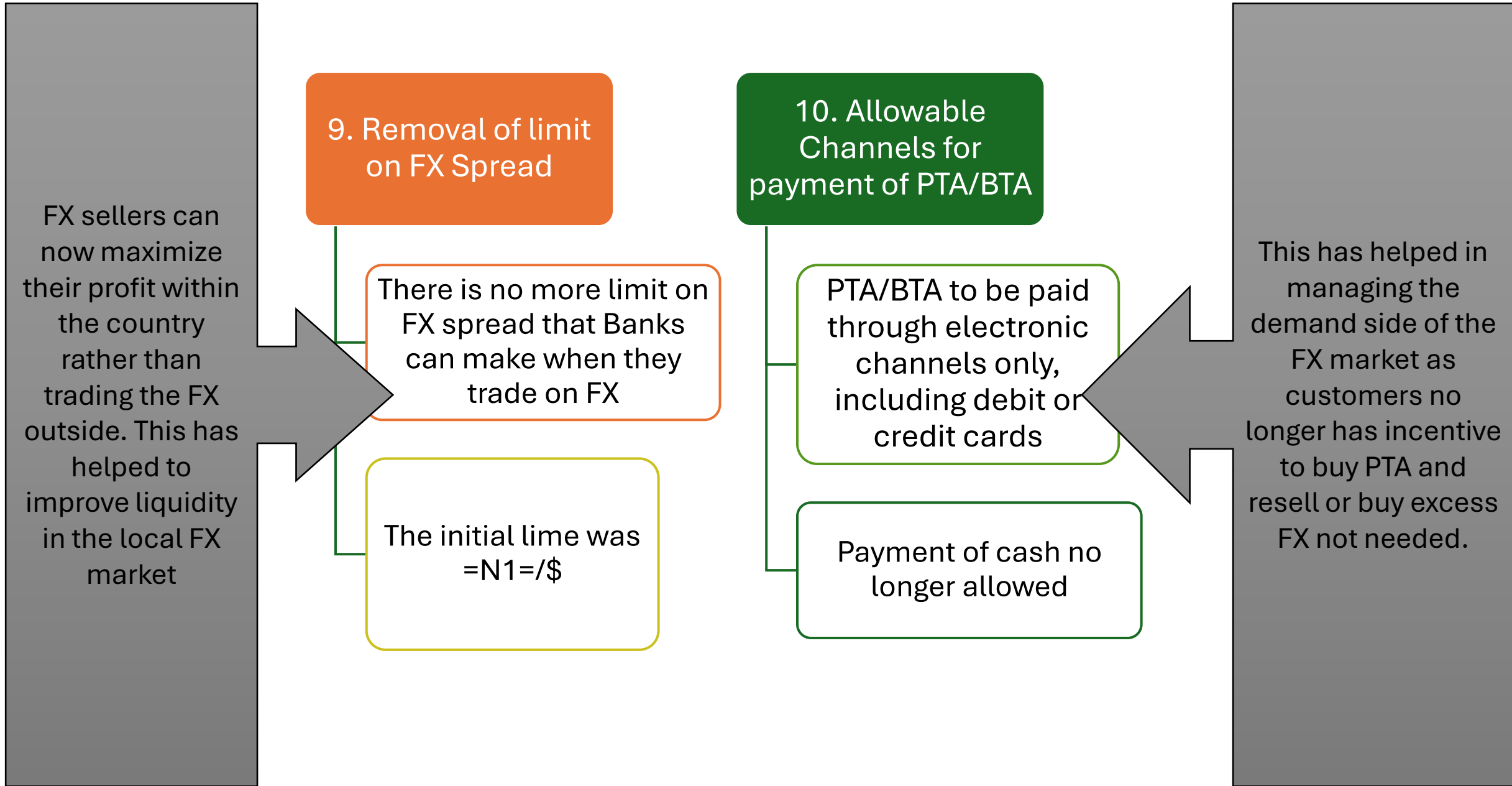
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# Foreign Exchange Reform and High Inflation in Nigeria

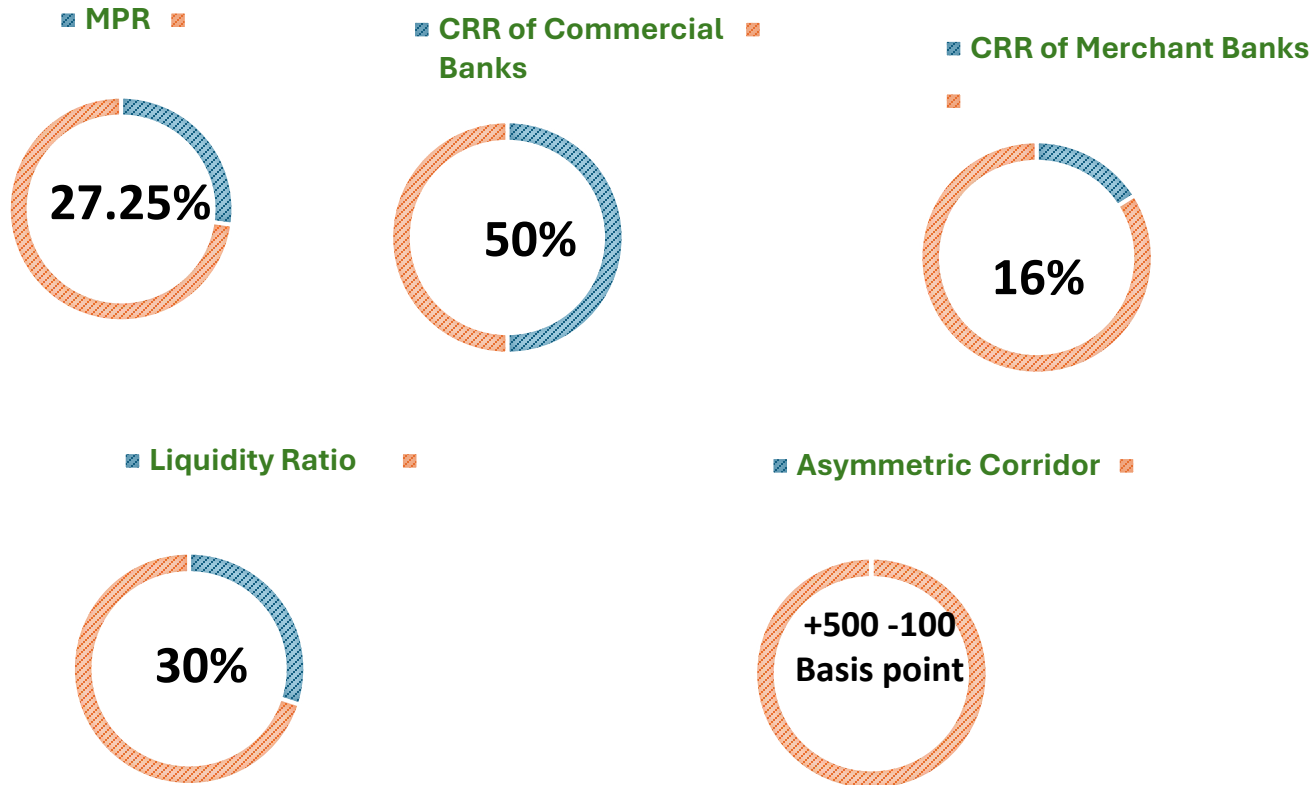
The various reforms of the CBN tend to address the 32.15% inflation in Nigeria in many ways such as:

- ❖ **Reduced Arbitrage:** A unified exchange rate eliminates opportunities for arbitrage reducing inflationary pressures
- ❖ **Increased Transparency:** Floatation of the Naira promotes transparency, reducing speculation and inflation
- ❖ **Improved Dollar Supply:** Increased dollar supply reduces scarcity, easing pressure on prices.
- ❖ **Conservation of Reserves:** Restricting FX for non-essential imports conserves reserves, reducing inflation
- ❖ **Stable Exchange Rate:** FX derivatives help stabilize the exchange rate, reducing inflationary expectations.



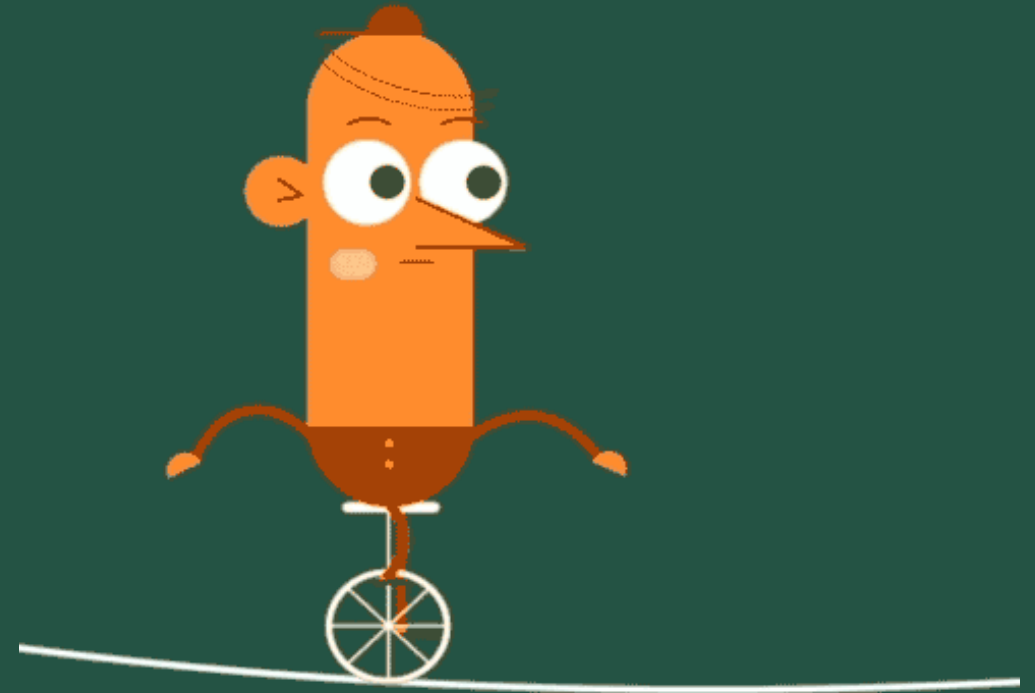
# Monetary Policy Tightening

❖ **Monetary Policy Tightening:** Efforts are being made to tighten monetary policy as the main focus of CBN is maintaining price stability. The outcome of the 297<sup>th</sup> MPC are as follows:



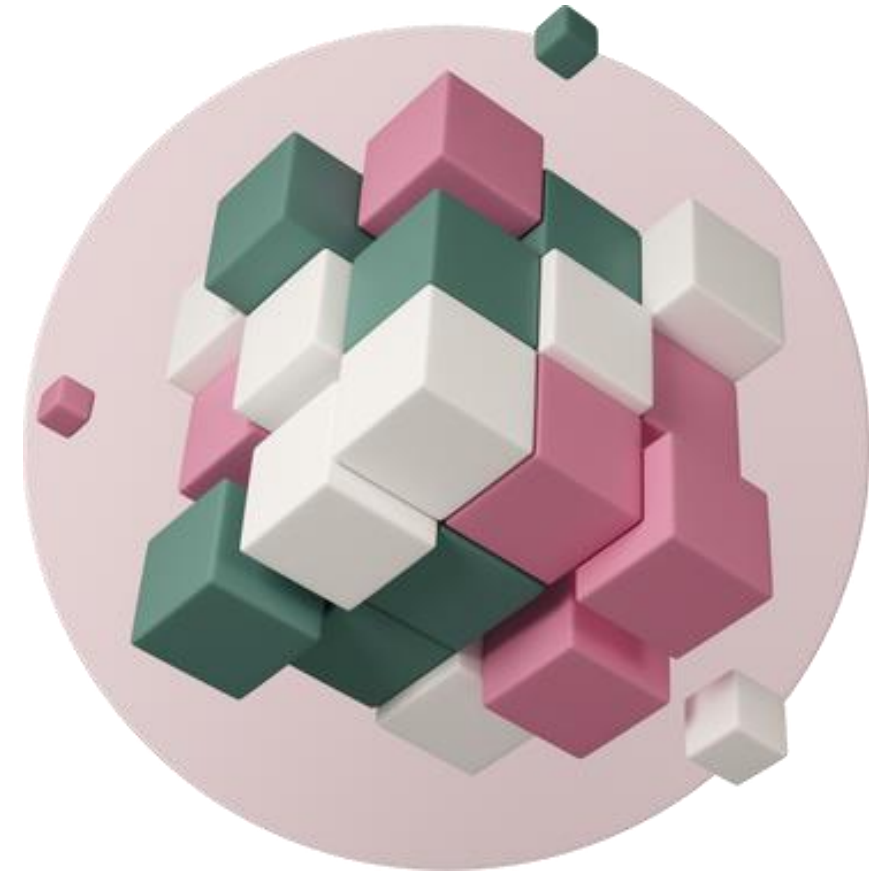
# Challenges **with Banking Reforms**

- ❖ Likely Increase in NPL
- ❖ Increase in Fraud
- ❖ Human Capital Challenge
- ❖ Service Issues
- ❖ Regulatory Pressure



# Critical Roles of the Banking Sector in **support of the socio-economic reforms**

- 1. Enable Economic Diversification:** The banking sector drives diversification
  - In the year 2020, Banks through CBN's intervention fund, provided N1trillion (approximately \$2.78 billion) loans to the manufacturing sector.
  - **Provide funding and financial services to industries, such as agriculture, technology, and manufacturing.**
  - **Support for SME**



# Critical Roles of the Banking Sector in **support of the socio-economic reforms (Cont'd)**

## 2. Deepening Financial Inclusion for MSMEs

- Banks have so far invested at least N4.5 billion in the SANEF Initiative.
- Empower MSMEs to grow, innovate, and create jobs, all of which are critical for economic reforms.
- Through technology-driven financial services, and supportive policies, banks provide the resources MSMEs need to thrive.
- According to Muhammad Yunus, founder of Grameen Bank, “Poverty is not created by the poor; it is created by the institutions that surround them.”



# Critical Roles of the Banking Sector in support of the socio-economic reforms (Cont'd)

## 3. Financing Infrastructure Development

- ✓ The banking sector, particularly through partnerships with foreign investors, can facilitate long-term financing for infrastructure projects that are crucial for Nigeria's economic future
- ✓ According to the World Bank, Nigeria needs to invest over \$3 trillion in infrastructure over the next 30 years to meet its development needs.
- ✓ Nigerian banks can play a key role in attracting international financing, particularly from institutional investors in the United States, who are seeking to invest in emerging markets with high growth potential.
- ✓ With the support of financial institutions, projects like the Dangote Refinery and Lekki Deep Sea Port are reshaping Nigeria's industrial landscape.
- ✓ Such investments would not be possible without a sound banking sector capable of structuring the necessary funding.



# Critical Roles of the Banking Sector in **support of the socio-economic reforms (Cont'd)**

## 4. Education and Healthcare

- Nigerian banks played a significant role in supporting COVID-19 relief efforts.
- The CBN provided through the Banks, a N100billion (approximately \$277.78 million) loan to the health sector.
- A fiscal stimulus package that included a N50billion (approximately \$138.89 million) credit facility was provided for households and small and medium enterprises most affected by the pandemic.
- Offering specialized banking products for education and healthcare

## 5. Remittances and Diaspora Banking

- Streamlining remittance processes
- Providing financial services to diaspora communities



# Critical Roles of the Banking Sector in support of the socio-economic reforms (Cont'd)

## 6. Digital Economy

- Banks are leading digital transformation via digital channels - automation, online banking, mobile app, POS, ATMs etc.
- Banks have invested in the developments of AI, robotic machine learning, open banking, etc.
- Supporting e-commerce and digital entrepreneurship
- Developing digital financial literacy programs



## 7. Corporate Social Responsibility (CSR)

- The Bankers' Committee committed \$100 million to the restoration and upgrading of the National Theatre
- Banks raised N5b to provide support to Nigerians during COVID.
- Banks have deployed escorts and police vehicles to police and other enforcement agencies to fight crime.
- Several other community development initiatives
- Environmental sustainability programs



# Critical Roles of the Banking Sector in support of the socio-economic reforms (Cont'd)

## 8. Deepening the Creative Sector

Many banks support the creative sector's programs via funding and capacity building.

- ✓ Gtbank fashion fare
- ✓ Access Bank creative support
- ✓ First bank support.
- ✓ Fidelity Creative Academy
- ✓ The Bankers Committee renovated the National Theatre.
- ✓ Funding support for those playing in the entertainment sector, actors, actresses, etc
- ✓ M O Abudu, RMD, Tera- Fela Durotoye, Akpobome ( Alias Ali Baba), have good testimonies to share I belief



# Critical Roles of the Banking Sector in **support of the socio-economic reforms (Cont'd)**

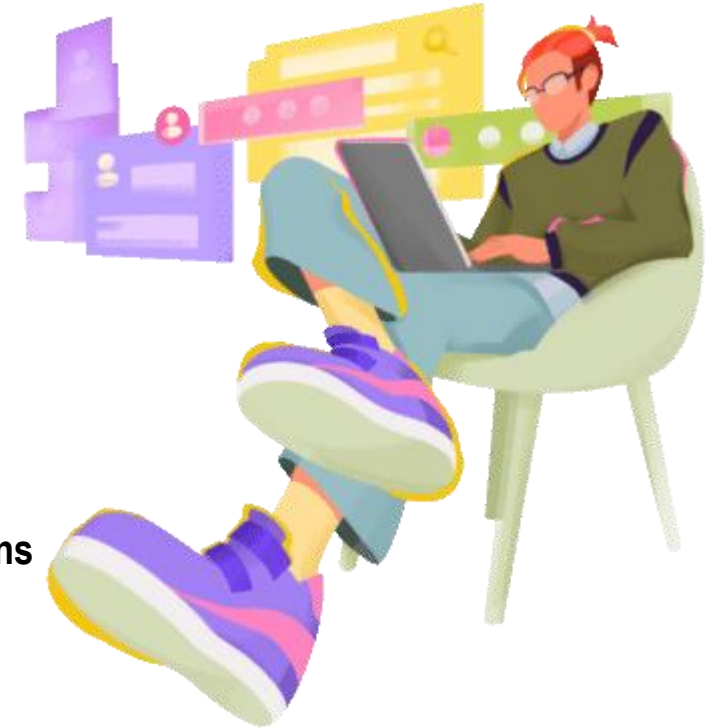
## 9. Vital Roles in the Implementation of African Continental Free Trade Agreement (AfCFTA)

- ❑ **Financing Trade:** for businesses to take advantage of AfCFTA opportunities.
- ❑ **Payment Systems:** Banks facilitate cross-border payments, enhancing trade efficiency.
- ❑ **Risk Management:** Banks offer risk management solutions to mitigate exchange rate and trade risks.
- ❑ **Advisory Services:** Banks provide guidance on AfCFTA regulations, market research, and business development.
- ❑ **Correspondent Banking:** Nigerian banks establish relationships with African banks, facilitating regional trade.

## 10. Collaboration with FINTECHs and other Financial Institutions to reach rural and unbanked populations to meet the CBN's target of 95% by the end of this year.

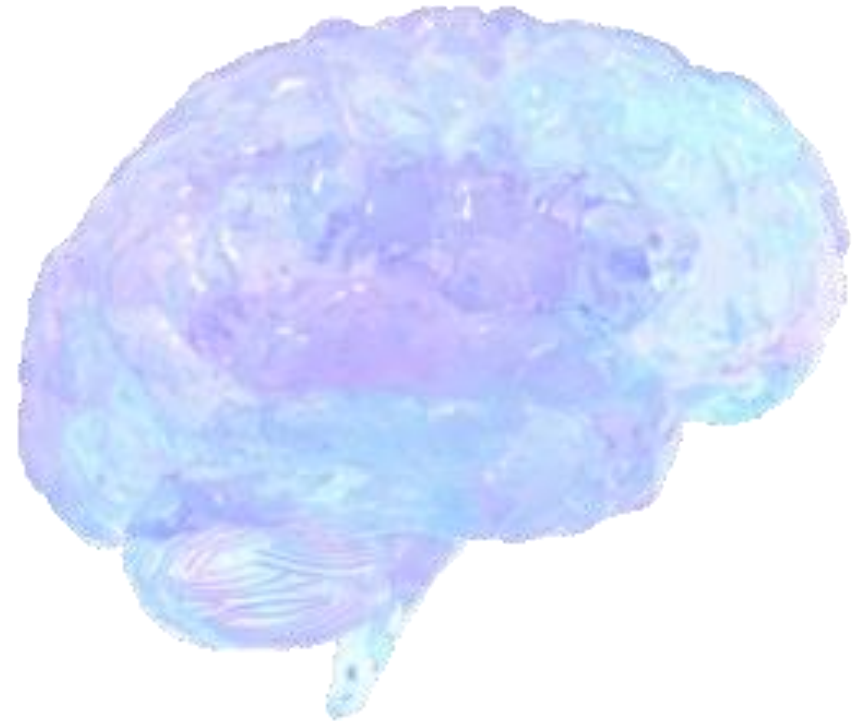
## 11. Nigerian Banks play active roles in the African Growth and Opportunity Act (AGOA)

- ❑ Nigerian banks can provide financing for businesses exporting to the US under AGOA.
- ❑ Banks can establish relationships with US banks, facilitating international transactions.
- ❑ Banks can support non-oil exporters provided under AGOA



# Conclusion

- The Nigerian banking sector's evolution is essential for supporting socioeconomic reforms.
- Financial inclusion, SME support, digital banking, green finance, and infrastructure financing are key areas of impact.
- The ability to compete globally and attract investment from partners like the United States hinges on the strength of our financial institutions and the trust built with international investors.
- Bilateral trade relations between Nigeria and the U.S. present immense opportunities for growth, especially in the areas of agriculture, energy, technology, and services.
- The Nigerian banking sector can act as a bridge, facilitating these investments while ensuring that they contribute to the country's long-term socioeconomic objectives.



# Conclusion

- ✓ The Nigerian banking sector stands at a pivotal point, where its role in driving socioeconomic reforms is becoming increasingly clear.
- ✓ As we adapt to the changing landscape, we must remain focused on building a financial system that supports sustainable development, fosters inclusion, and creates opportunities for all Nigerians.
- ✓ I am confident that, through collaborations such as those fostered by the Nigerian American Chamber of Commerce, we can build a future where the banking sector is not only a driver of economic growth but a cornerstone of national development.



Thank you

