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# Banker

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## At a Glance:

# 22nd World Conference of Banking Institutes

Hosted by

## The Chartered Institute of Bankers of Nigeria

April 24 - 28, 2017

### Features

- Re-professionalising Banking through Continuous Education
- The Need for & Role of Banking/Finance Standards: Global, Regional & National
- Re-thinking the Future of Banking and Finance & Life-Long Learning: Regulations
- Effects of Interest Rate on the Economy

# THE BANKERS CREED

## Hugh McCulloch's Advice to Bankers of 1863

(Hugh McCulloch (1808 – 1895) was an American Banker who helped launch the American National Banking System and was Secretary of the Treasury during the civil war and reconstruction)

- Let no loans be made that are not secured beyond a reasonable contingency. Do nothing to foster and encourage speculation. Make your loans on as short term as the business of your customers will permit, and insist upon the payment of all paper at maturity, no matter whether you need the money or not. Give credit facilities only to legitimate and prudent transactions. Never renew a note merely because you may not know where to place the money with equal advantage if the note is paid.

- Distribute your loans rather than concentrate them in a few hands. Large loans to a single individual or firm, although sometimes proper and necessary, are generally injudicious, and frequently unsafe. Large borrowers are apt to control the bank; and when this is the relation between a bank and its customers, it is not difficult to decide which in the end will suffer. Every dollar that a bank loans above its capital and surplus it owes for, and its managers are therefore under the strongest obligations to its creditors, as well as to it stockholders, to keep its loans under its control.

- Treat your customers liberally, bearing in mind the fact that bank prospers as its customers prosper, but never permit them to dictate your policy.

- If you have reasons to distrust the integrity of a customer, close his account. Never deal with a rascal under the impression that you can prevent him from cheating you. The risk in such cases is greater than the profits.

- Pay your officers such salaries as will enable them to live comfortably and respectably without stealing; and require of them their entire services. If an officer lives beyond his income, dismiss him; even if his excess of expenditures can be explained consistently with his integrity, still dismiss him. Extravagance, if not a crime, very naturally leads to crime. A man cannot be a safe officer of a bank who spends more than he earns.

- The capital of a bank should be a reality, not fiction; and it should be owned by those who have money to lend, and not by borrowers.

- Pursue a straightforward, upright, legitimate banking business. Never be tempted by the prospect of large returns to do anything but what may be properly done under the National Currency Act. "Splendid financiering" is not legitimate banking, and "splendid financiers" in banking are generally either humbugs or rascals.


THE CHARTERED INSTITUTE OF BANKERS OF NIGERIA

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# GUIDELINES FOR SUBMISSION OF ARTICLES FOR PUBLICATION IN THE NIGERIAN BANKER

1. The Nigerian Banker Journal welcomes original scholarly research articles from practising professionals, academics, financial consultants/analysts, book reviewers, researchers and policy review analysts, etc in the area of banking and related subjects.

2. Submission of an article for publication in The Nigerian Banker Journal presupposes that the article has never been previously published, nor is it being concurrently submitted for publication elsewhere.

3. Articles should be typed double spaced on A4 size paper and should not exceed 15 pages, bibliography and footnotes inclusive. Long articles should be divided into logical parts so that they can be published in parts, if found publishable.

4. Articles previously presented at Seminars/Workshops/Conferences/Lectures etc may be adopted for publication in The Nigerian Banker Journal provided it is acknowledged at the bottom of the cover page of the article, e.g. "The original version of this article was presented at a seminar on ..................... organised by ... ... ... ... ... ... ... ... ... ... ... on ..................................

5. The cover page should contain the following information:
   Title of Article
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   Brief bio-data of the Author at the bottom page e.g. XXX is a Senior Lecturer at ...... University; or XXX, Financial Analyst, Research Department, ABC International Plc.

6. Text references should be cited in the text as follows: Author's last name, publication year and page e.g. (Alawode A. C., 2002, Pg 30)

7. Full references using the Harvard method should be listed alphabetically at the end of the text as follows: Alawode, A. C., (2002), Federalism and National Building; The Nigerian Banker, Vol. 1 No. 1, June, Lagos.

8. Footnotes should be avoided.

9. Check tables and figures (rows, columns and totals) properly. Explanatory paragraphs should be as near as possible to the relevant tables and figures, which should be appropriately numbered.

10. Only articles that are of high quality in content and relevance may be published. Unpublished articles may not be returned to their authors.

11. One hard copy of the article in addition to soft copy are to be sent by writers. Articles sent without a soft copy may be delayed or not published.

12. Articles lost in transit are the responsibility of the author(s).

13. All articles are the opinions of the authors, neither the Research, Strategy and Advocacy Committee nor the CIBN and its officials are liable thereon.

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## (May 2016 - May 2018)

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# From the Desk of the Chairman, Editorial Board

Between April 24 and 28, 2017, about one thousand local and foreign delegates gathered at the Eko Hotels and Suites for the 22nd World Conference of Banking Institutes (WCBI) hosted by The Chartered Institute of Bankers of Nigeria (CIBN). The Conference, with delegates from over 30 countries, had as its theme, **Rethinking the Future of Banking and Finance & Lifelong Learning.**

The Conference was graced by dignitaries from the Nigerian government, traditional institutions and the private and public sectors of the economy. Some of the dignitaries in attendance were the Vice President of the Federal Republic of Nigeria, Professor Yemi Osinbajo, GCON, SAN represented by Ambassador Adeyemi Dipeolu Ph.D., Special Adviser to the President on Economic Matters, Office of the Vice-President; The Executive Governor of Lagos State, Mr. Akinwunmi Ambode FCA, represented by Mr Akinyemi Ashade, Commissioner for Finance, Lagos State; Oba Adeyeye Enitan Ogunwusi, Ojaja II, Ooni of Ife; Igwe Nnaemeka Alfred Achebe, CFR, mni, Obi of Onitsha; Oba Rilwan Bababtunde Osuolale Aremu Akiolu, CON, Oba of Lagos; Oba Oladipupo James Kolade (Oluwademilade 1), Olupoti of Ipoti-Ekiti and; Oba Kayode Kupolokun, Obalaaye of Erinjiyan-Ekiti.

The 22nd WCBI featured local and international faculty from various fields relevant to the banking and finance industry. The Conference had five Business Sessions and four Parallel/Interactive Sessions on Technology, Payment Systems, Regulations and Artificial Intelligence/Blockchain.

This edition of The Nigerian Banker has included papers delivered during the Conference as well as the Communique issued at the end of the programme. These papers serve not only as a refresher of the important subjects discussed during the Conference but also as veritable resources and reference materials for the Institute's members, stakeholders and the general public.

It is also instructive to note that the Global Banking Education Standards Board (GBEStB) was launched during the Conference. This global body has the mandate to design industry-led and internationally agreed standards for the education of professionals in Banking and other allied sectors.

Incidentally, three months after the inauguration of the GBEStB, a Past President of CIBN, Dr Segun Aina, OFR, FCIB was elected as the pioneer Chairman of the global body. Dr Aina would be supported in this international role by three Vice-Chairmen - Mr Simon Thompson of The Chartered Banker Institute, Scotland; Ms Carrie Leung of The Hong Kong Institute of Bankers and Mr Anthony Yaw Oppong of the Chartered Institute of Bankers, Ghana.

On behalf of the Editorial Board members of The Nigerian Banker, I wish Dr Aina and his team a successful tenure as they begin the arduous task of setting global banking standards. We believe that these standards are highly imperative and would be instrumental in addressing the myriad of challenges facing the banking industry across different nations and economies.

It is also worthy of mention that the 22nd WCBI was preceded on April 24, 2017 by the 1st National Fintech Conference in Nigeria organised by the CIBN Centre for Financial Studies (CIBNCFS), Fintech Associates Limited (FAL) and Digital Finance Institute (DFI), Canada.

We have also included in this edition of the journal a position paper on the Effect of Interest Rates on the Economy by the CIBN Centre for Financial Studies (CIBNCFS). This paper is intended to stimulate further discussions as our great nation continues to find a viable path towards achieving a sustainable and effective monetary policy rate.

Finally, the Editorial Board of The Nigerian Banker congratulates the global banking community for the successfully held 22nd World Conference of Banking Institutes (WCBI) and The Chartered Institute of Bankers of Nigeria (CIBN) for a notable hosting.

**'Seye Awojobi, FCIB**

## WELCOME ADDRESS BY

## PROFESSOR SEGUN AJIBOLA, Ph.D., FCIB, PRESIDENT/CHAIRMAN OF COUNCIL
## *THE CHARTERED INSTITUTE OF BANKERS OF NIGERIA*

### *AT THE OPENING CEREMONY OF THE*
### 22ND WORLD CONFERENCE OF BANKING INSTITUTES

### HELD ON TUESDAY, APRIL 25, 2017
### AT THE EKO HOTELS AND SUITES, VICTORIA ISLAND, LAGOS.


**Protocols**
It gives me great pleasure to welcome the global banking community to the 22nd World Conference of Banking Institutes holding at the commercial nerve centre of Nigeria, Lagos State. On behalf of the Governing Council, members, management and staff of The Chartered Institute of Bankers of Nigeria (CIBN), I express our deep gratitude to all the banking institutes across the world for reposing this confidence in CIBN by granting us the rights in 2015 to host the 22nd edition of this biennial gathering of great minds in global banking and finance industry.

Let me specially recognise the presence of our Distinguished Guest of Honour, Professor Yemi Osinbajo, SAN, Vice-President of the Federal Republic of Nigeria at this Conference. And also to our amiable host Governor, Mr Akinwunmi Ambode,FCA, Executive Governor, Lagos State, we say thank you. Other Special Guests here present are also duly recognised - Mrs Kemi Adeosun, Minister of Finance, Federal Republic of Nigeria; Mrs Margaret Mwanakatwe, Minister of Commerce, Trade and Industry, Zambia; and Mr Godwin Emefiele, CON, FCIB, Governor, Central Bank of Nigeria.

It is indeed gratifying that since the CIBN won the hosting rights for this Conference, the Institute had received unprecedented support from stakeholders, both locally and internationally. Locally, we have enjoyed huge support from the Central Bank of Nigeria (CBN), the Nigeria Deposit Insurance Corporation (NDIC), all the Deposit Money Banks (DMBs), merchant banks, other non-banking financial institutions, traditional rulers, federal ministers, state governors, Risk Managers Association of Nigeria (RIMAN) and top professionals across the country's banking and non-banking sectors. It is instructive that Risk Manager's Association of Nigeria (RIMAN) is also collaborating with the Institute to run a certification programme on Risk Management. One hundred and forty-two (142) students have enrolled since the commencement of the Programme in April 2016

Outside the shores of the country, the hosting of this Conference has also received support from the Chartered Institute of Management Accountants (CIMA), the Finance Accreditation Agency of Malaysia and several others.

Distinguished Ladies and Gentlemen, the theme of the Conference – **Rethinking the Future of Banking and Finance and Life-Long Learning** – is highly germane to our current experiences in the global banking space. I am particularly elated that the Keynote Address on this important topic would be delivered by none other than the famous thought-leader and widely published author on the future of several socio-economic issues – Mr Adjiedj Bakas.

Although the future of banking remains speculative, there are clear indications and a general consensus that a number of factors would continue to disrupt some already established banking models. For instance, a 2015 survey conducted by Bank Innovation, a report which benefited from the responses of key stakeholders in the banking industry across continents, identified thirteen (13) critical developments that would shape banking by 2020. These include: increased competition from non-traditional competitors such as FinTech; "more fragmented" banking with incumbents losing more and more pieces as consumers build their own suite of products from a multitude of providers; increased specialisation to serve specific customer needs with speed and adequate value for money; banks would still remain the trusted advisors and there would still be need, albeit reduced significantly, for face-to-face interactions between bank customers and the banks; digital systems like Blockchain, Ripple, Ethereum will be commonplace, etc.

Similarly, as technology is disrupting the nature of work at an unprecedented rate, there is the need for a new and inclusive approach to learning on the job.

While several researches have alluded to the positive correlation between income levels and educational attainment, it has however been realised recently according to The Economist that a college degree at the start of a working career does not answer the need for the continuous acquisition of new skills, especially as career spans are lengthening.

The foregoing stresses the importance of stakeholders in the banking and finance sector coming together to develop new strategies that would not only meet the present demands for financial products and services but also look into the future and prepare for the technological and demographic disruptions that are bound to redefine banking and the skills required of bankers within the next few years. This also calls for a revisit of the different curricula at our tertiary institutions on the teaching of banking and finance and other allied courses. These essentially encapsulate the primary objectives of this 4-day Conference that would feature top professionals from different parts of the world as discussants on the carefully selected sub-themes of the Conference.

Distinguished participants, in order to derive the utmost benefit from this Conference, I would like to encourage you to actively partake in any of the Parallel Sessions of the Conference which would critically examine issues around Technology, Payment Systems, Regulation and Artificial Intelligence.

Ladies and Gentlemen, the pedigrees of the Resource Persons at this Conference assure me that the resolutions to be reached at the end of this event would not be pie-in-the-sky projections into the future of banking and lifelong learning, but practical solutions based on tested empirical evidence that would adequately equip participants to exploit the opportunities in the bank of the future and mitigate any challenge that may ensue.

Distinguished audience, for the first time in history, the Global Banking Education Standards Board (GBEStB) will be launched during this Conference. The GBEStB is a global initiative created to re-professionalise banking and rebuild public trust and confidence in the system while entrenching global standards in banking education and development.

At this point, I am pleased to inform this esteemed gathering that, incidentally, the current agenda of The Chartered Institute of Bankers of Nigeria (CIBN), code-named the 7 Cs mandate, is in line with the theme of the Conference as we are poised as an Institute to position bank professionals to remain cutting edge amidst the emerging trends in the industry. Kindly, therefore, indulge me to intimate you with some of the humble steps we have taken in this regard:

- **Capacity Building:** The CIBN was appointed by the Central Bank of Nigeria as the Sole Accreditation Agency for the implementation of the Competency Framework for the Nigerian Banking Industry. The implementation of this Framework has started in full swing.

- **Certification:** To enhance banking and financial-related reporting, the Institute entered into collaboration with Caleb University to run a Master's programme on Financial Journalism. Recently, CIBN has also commenced discussion with the Nigerian Bar Association (NBA) to run a joint certification programme on Loan Processing and Documentation for Lawyers.

- **Codification:** The Institute continues to collaborate with other legally competent bodies to further its mandate. In the last one year, we have initiated collaborative talks with the Chartered Institute of Management Accountants (CIMA) and the National Universities Commission (NUC).

- **Constructive Engagements:** We engage our broad stakeholders on discussions that would impact on not only the banking and finance industry but the economy as a whole. This administration has ensured that communiques issued at our various fora are circulated to relevant agencies both in the public and private sectors of the economy and implementation milestones are adequately monitored.

- **Communication:** The Institute, acknowledging the importance of reducing the cost of communication, drawing stakeholders closer and hastening decision-making implemented a Closed User Group (CUG) among all the office-holders, Governing council and staff of the Institute. The Institute has also commenced work on the introduction of a radio and television programme tagged "You and Your Banker" to educate the public on banking issues.

- **Creativity:** An ideas portal was created in August 2016 and the Institute continues to synthesise and incorporate into its work process the brilliant suggestions from its various stakeholders.

- **Consolidation:** We have further intensified efforts at ensuring that the Institute's activities are taken to the grass roots.

Finally, my esteemed audience, this Conference has been adopted by the Lagos State Government as part of the celebrations to mark the "State of Excellence" at 50. This is indeed significant, considering the central role of Lagos State as a major commercial nerve centre in the African continent. Hence, I am confident that at the end of this Conference, you would not have only benefited immensely from the incisive discussions at the Business Sessions but would also have had a firsthand experience of Lagos State as a high functioning financial tourist centre and investment haven.

Once again, I welcome you all to the 22nd edition of the World Conference of Banking Institutes.

Thank you for your attention and I wish you all a rewarding Conference.

**Professor Segun Ajibola, Ph.D., FCIB.**
President/Chairman of Council
The Chartered Institute of Bankers of Nigeria
Tuesday, April 25, 2017.


L-R: Mr. Andrew Davies, Advisor, International Finance Corporation, Australia; Mr. Adjiedj Bakas, Founder, Trend Office BAKAS, Netherlands; Mr. Ade Ayeyemi; Group CEO, Ecobank Transnational Incorporated; Prof. Segun Ajibola, Ph.D., FCIB, President/Chairman of Council, CIBN; Mr. Tay Kay Luan, FCIB, Executive Director, Australia New Zealand Institute; Mr. Temitope Odukoya, Partner, West Africa Financial Advisory Leader, Deloitte (Nigeria); Dr. (Mrs.) Olateju Somorin, President/Chairman of Council, CITN; Mr. Kevin Moore; Director Global Business Development, Chartered Institute for Securities & Investment, UK.

## Summary of the Keynote Address

## Delivered by Futurologist Adjiedj Bakas

***At the 22nd World Conference of Banking Institutes, April 25, 2017 in Lagos, Nigeria***

### *A New Future 4 Finance*


Mr. Adjiedj Bakas

**Money makes the world go round.** This has always been the case in the history of humanity. And it will remain so all through 21st century. With the world population growing from the current 7 billion people to a projected 9 billion in 2050, the world's GDP needs to quadruple between 2017 and 2050 in order to finance everything that this demographic shift brings along.

The financial industry has to change, because if the industry keeps working as it does today, this ambition can never be met. The industry should keep in mind the following trends:

**Bottom-up movements all over the world become stronger:** The blockchain technology which can revolutionise banking and insurance industries, is a bottom-up product. More outsiders will come up with revolutionary concepts, ideas and practices in the next couple of years. What is the successor of blockchain?

**Ethics becomes very important in the financial industry:** In the West, banks caused havoc by selling Credit Default Swaps (CDS) to SMEs, universities, hospitals and many other customers who trusted the bankers that sold these poisonous products, which only benefited banks and bankers, not their customers. In the UK, the SME-lobby group, Bully Banks, reacted fiercely, causing the banks enormous PR damage and forcing them to pay back 90% of the damage they caused. In other regions, we see the same pattern: ethics and morals return in the industry in the next couple of years. That's a good thing.

**New players from the tech industry enter the markets.** With mobile banking and many other innovations, new players change the market. In the UK, your bank account number is the same number as your mobile phone number (they are linked actually), an innovation caused by Telcos and which is very customer-friendly. But how long will Telcos, IT companies and other outsiders still need banks in order to offer financial services to the public?

**People form financial cooperation's all over the world.** In the Netherlands all health insurance companies are corporations of people, founded by people and later turned into large companies. Everywhere in the world we are going to see the rise of new collectives of people, forming corporations in the financial industry. Smokers can start a health insurance company


A Cross Section of Panelists at the 22nd WCBI which loves smokers and offers them special benefits, e.g. the best treatments for lung cancer and financing this.

**Small becomes the new big:** Although global financial markets become more interconnected, and demand a larger scale of financial companies, we will see more smaller banks and insurance companies emerging. Governments will break up banks which have become too large, too big to fail. What happens when Deutsche Bank files for bankruptcy?

**States are your best friends**: Many banks and insurance companies have been posing as multinationals; yet, when trouble came, they were saved by states. But, thanks to blockchain, we might soon be able to bank without states, even without even central banks. What is this democratisation of banking going to do?

**The commoditisation of banking technology** and the expansion of firms such as MasterCard, which can provide partner banks with everything they need to run a credit-card business, is giving a big boost to domestic and regional banks that would previously have been outclassed by international rivals. Technology has been a big leveller in the financial industry. And it will become much more influential.

**Digitalisation is related to fast internet and a solid electricity infrastructure**: Although many innovations in the financial industry start in developing countries, they are enforced only if these conditions are met. It is therefore in the industry's interest that in the regions where they operate, electricity and IT-infrastructure are up to date and modernised soon.

We are on the brink of revolutionary times for the global financial industry. Some embrace these changes, others fear them. Yet, the future is not for those who are afraid; the future is for those who dare. I dare you to dare.

**Futurologist Adjiedj Bakas sold more than 1 million books. He is a regular lecturer and is considered 'a very important trendwatcher' *(China Daily)*, who 'brilliantly uses his roots in three continents' *(Times of India)* and 'explodes with enthusiasm' *(Suddeutsche Zeitung)*. According to Dutch dailies, *NRC Handelsblad, Telegraaf* and *Volkskrant,* he is 'the major trendwatcher of The Netherlands'. And Dutch prime minister Mark Rutte calls him 'very inspirational'. His latest book is Capitalism and Slowbalisation.**

R-L: Ambassador Adeyemi Dipeolu, Ph.D., Special Adviser to the Nigerian President on Economic Matters; Prof. Segun Ajibola, Ph.D., FCIB, President/Chairman of Council, CIBN; Alhaji Umaru Ibrahim, FCIB, mni; Managing Director/Chief Executive, NDIC; Dr. Segun Aina, OFR, FCIB, Past President, CIBN and Chairman, 22nd WCBI Local Organising Committee; Otunba (Mrs) 'Debola Osibogun, FCIB, Past President, CIBN, Co-Chairperson, 22nd WCBI Local Organising Committee; along with a cross section of participants at the 22ND WCBI Conference

# Re-Professionalising Banking through Continuous Education


**Professor John K Ashton Ph.D FCIB**

Professor of Banking, Bangor University Academic Director Chartered Banker MBA
Editor in Chief: The Journal of Financial Regulation and Compliance.


***Selected Paper Delivered at the 22nd WCBI***

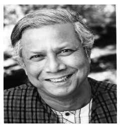
## Many UK bankers have had no banking education.

**Andrew Hornby was the CEO of HBOS between 2006 and 2009.** A Harvard MBA and past management consultant, **Hornby had a highflying career in retailing for ASDA, Blue Circle and LaFarge before joining HBOS.**

Fred Goodwin was a Chartered Accountant. **He was CEO of the Royal Bank of Scotland between 2001 and 2009.** Nicknamed 'Fred the Shred' for his aggressive attitudes towards cost cutting.

**Both presided over huge increases in the scale of their banks – before their banks collapsed.**

## Banking is central to modern Life Access to credit is a HUMAN right!



**The financial system is essential to the conduct of modern life, both for firms and households. Muhammad Yunus in his 2006 Nobel peace prize speech declared access to credit is a basic human right.**

Banking is an essential utility for engaging with the monetary economy.

More people in the European Union have access to banking than a gas supply or telephony (European Commission, 2009).

## Misunderstanding risk and negative corporate cultures

In both cases, UK regulators reported the banks, collapse due to poor decision-making, cultural failings, deficient risk management and a limited knowledge of banking business:

**HBOS ---** *"Its Board failed to instil a culture within the firm that balanced risk and return appropriately, and lacked sufficient experience and knowledge of banking."* (FCA/PRA 2015)

**RBOS ---** *"Thepoor decisions made by RBS management and Board which made RBS highly vulnerable to failure, and the underlying aspects of RBS's management style, governance and culture .. contributed to those poor decisions"* (FSA 2011)

## What is Bank Culture?

- **There are many explanations of why malevolent bank cultures arise.**
  - The business environment creates pressure to violate laws and norms and the opportunity to do so without detection.
  - Misconduct is embedded in the firm. and wrongdoing is normalised.
- **Variation solutions have been proposed**
  - More research
  - Oaths for bankers
  - Culture seen to be a prudential risk and part of the compliance framework.
  - Greater involvement of Human Resources departments.


## Recent Evidence on Bank Culture - Are Bankers just Bad People? (Cohn *et al* 2014)

- Cohn *et al* (2014) consider 2 experiments to determine the importance of social identity of bankers in their behaviour - 128 bank employees were used in the experiment.
  - When bankers are acting NOT as NY investment bankers their behaviours are as ethical and appropriate as the average (if not more so).
  - **When bankers assume the identity of a banker their behaviour is much more and unethical?**
  - An emphasis on money may be influencing this.

## What has gone wrong? Is More Management Education the Answer?

**Ground-breaking work from Bangor (and Leeds) Universities King *et al* (2016) Journal of Corporate Finance.**

- *Banks with CEOs with higher Management Education exhibit better accounting and market performance.*
- **Bank CEOs with higher Management Degrees shift the bank's business model towards non-traditional sources of income and a riskier asset portfolio.**
- *Bank CEOs take more risks if remunerated on performance.*

***Education is important – yet not just any education. CEOs with general management education have riskier banks.***

## Why does this occur?
## Risk and Ethics in the 'New' Academic Finance

- Many finance practitioners view ethics as central to the sustainable long term operation of financial institutions; this view is not always supported in academic finance.
  - **Finance theory is amoral – it makes few, if any, moral judgements beyond profit maximisation. Finance is concerned with economic rather than moral values.**
  - Individual financial decisions are often viewed as unimportant in general equilibrium frameworks. They are Irrelevant.
    - E.g. Dividend or capital structure choices should cancel each other out.
  - **Academic finance presents itself as a mathematical or engineering subject, divorced from ethics, risk management and sustainability.**

## What must we do as academics / universities?

- **We must reassess and re-examine our theories and assumptions**
- The methods and assumptions of financial theory can have a negative influence on the practice of finance – problems needlessly arise due to how people have been trained.
- ***A* new critical focus is required as to what we teach.**
- We must promote critical thinking and evaluative skills amongst our students.
- Banking is more than an offshoot of finance.

**Some academic ideas encourage and compound poor behaviours.**

## Escaping the Ivory Tower – Bankers and Universities need to work together.

- **It is essential to study banking with a critical mind**
- To develop the ability to recognise the dangers and importance of risk management, sustainability as well as profitable strategies.
- **Academics need to engage with banking business and professional bodies.**

Bankers should be aware that quality matters in higher education.
**Professional qualifications, high professional standards and ethical behaviour are all essential.**

## Conclusions – Parting Thoughts

PRIFYSGOL BANGOR UNIVERSITY

- **Banking provides economic opportunity and development. Banking is essential to modern life.**
- How we practise banking affects lives.
- **A partnership between universities and banking can enhance our comprehension of this most important profession**.
- High quality professionally grounded banking qualifications are essential in this development


A Cross Section of Panelists at the 22nd WCBI

Moody's
ANALYTICS

# The Need for and Role of Banking/Finance Standards: Global, Regional & National

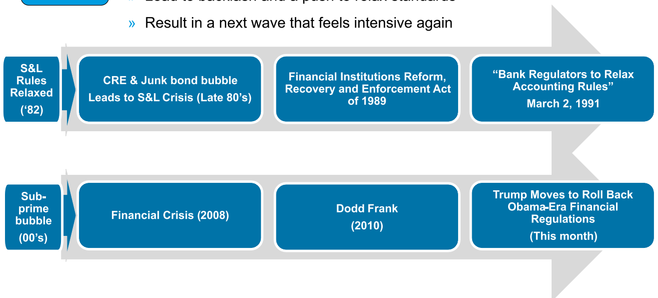
Ari Lehavi - Executive Director, Moody's Analytics

***Selected Paper Delivered at the 22nd WCBI***

## Regulatory standards: contentious, but essential

Too often…

» Triggered by crises / reactive
» Intensive / Over-zealous / rushed
» Lead to backlash and a push to relax standards
» Result in a next wave that feels intensive again




## Standards: Regulatory vs. Voluntary

Regulatory

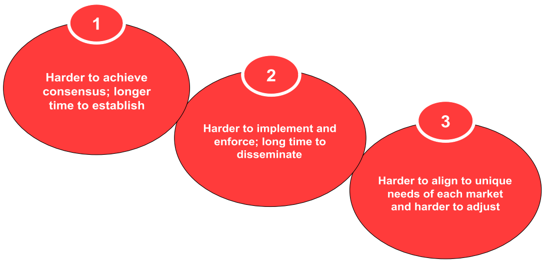
» Often incorporated as part of regulatory policies
» Issued by a government body
» Mandatory
» Enforceable by law

Voluntary

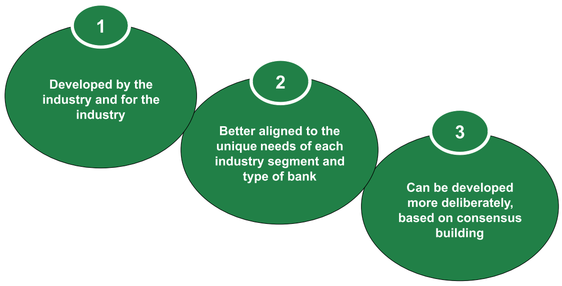
» Associated with industry self-regulation
» Established by an industry body or by a private institution
» At times can be written into regulations and become de facto regulatory standards

**In either case, the goal is to promote safety, stability, trust and efficiency.**

## When it comes to setting international standards, the challenges facing regulators in 'getting it right' are even greater.




## Voluntary standards are usually preferred by industry participants…




**…But as with regulatory standards, industry self regulation on an international level is equally, if not more, daunting!**

## But we are now facing a crisis of trust in the banking system and it must be addressed as a global issue, with both regulatory and voluntary standards.

**>> As Bank of England Governor Carney noted, we have shifted from a 'Crisis of Solvency' to a 'Crisis of Legitimacy'**

**>>This is an existential threat requiring us to make some hard choices to restore trust**

## This 'crisis of legitimacy' is driven by conduct breakdowns in many of our financial institutions

**Conduct Risk:** often defined as risk to the delivery of faircustomer outcomes, or to market integrity

» The global industry is plagued by financial malfeasance, mis-selling, and dishonesty
  - Major breakdowns at venerable institutions across the globe (most recently, Wells Fargo)
  - In the UK, we saw aggressive mis-selling of so-called Payment Protection Insurance (PPI)
  - Massive losses from traders making outsized market bets and manipulating financial benchmarks (to set rates for loans and forex contracts)

» Public trust in financial institutions continues to erode
  - According to Edelman, a public relations firm, banking and financial services ranked last among 15 industries that the public trusted "to do what is right"
  - In countries most affected by the financial crisis and its aftermath, levels of trust remain at or near their lowest levels

## Two aspects of conduct risk need to be addressed:

1 **Systemic / Institutional (Cultural) Issues**

- Banks have built-in internal pressures, such as mis-aligned incentives and conflicts of interest
- An aggressive profit-seeking culture further promotes bad behaviour
- Such systemic issues are complex and difficult to change

2 **Lack of Agreed Professional Standards**

- Agreed standards for professional ethics and conduct can help address conduct risk failures
- Professional standards often do not have teeth (consequences) to be effective
- Strong individual accountability is important
- Bank professionals can resist systemic bank pressures if held accountable

## 1. Systemic issues: currently being tackled by various regulators and, to some extent, by industry bodies, such as the BSB in the UK

**Areas of Focus**

- Customer focus
- Complaint resolution mechanism
- Board governance
- Conflicts of interest
- HR practices (incentives, hiring, firing, promotions)
- Tone from the top and middle
- Culture of challenge
- Consistency of message and action

**These issues cannot be solved by regulations alone, but a global regulatory standards framework must be set in place.**

## 2. While we can work towards voluntary mechanisms to influence systemic issues (e.g., UK's BSB), professional standard setting is well within our ability to address via self-regulation

**Examples of Professional Standards**

- Ethics and honesty
- Customer well-being
- Compliance with the word and spirit of rules and policies
- Obligations to report behaviour inconsistent with the above
- Obligation to develop a sufficient level of knowledge and understanding of customer needs
- Obligation to develop a sufficient level of understanding of products and risks

**What can we, as industry advocates, do to promote such professional standards?**

## The GBEStB--launched here this week--can be the mechanism to achieve such professional standards

**Skills / Competence**

- Important theme
- Creates confidence and builds trust in bankers
- Promotes the idea of banking as a profession

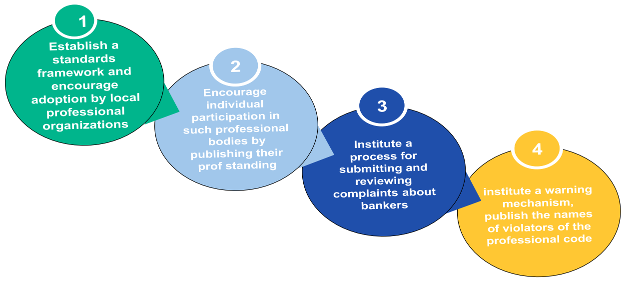
**Conduct / Ethics**

- Should be considered in the context of conduct risk
- Positioned to address individual accountability
- A significant win if effective

## Notwithstanding the complexity of setting international standards, it is encouraging to note that an industry-led approach has been successful in the past

| Regulatory vs Voluntary | How Standards are Developed |
|---|---|
| Int'l Regulatory Body Sets Standards (FSB; Basel Committee) | » Regulators/ central banks recognize that a major issue is plaguing the industry and that a global response is needed<br>» Regulators / central banks determine that the industry will not solve the problem on its own<br>» Enforcement is achieved via regulatory mandates |
| Industry Body Sets Standards Adopted in Int'l Markets (GIPS) | » The industry recognizes a major issue and that a global response is needed<br>» The industry agrees–on a voluntary basis—to take on a coordinated response to the issue<br>» Enforcement is achieved via moral suasion and pressure |

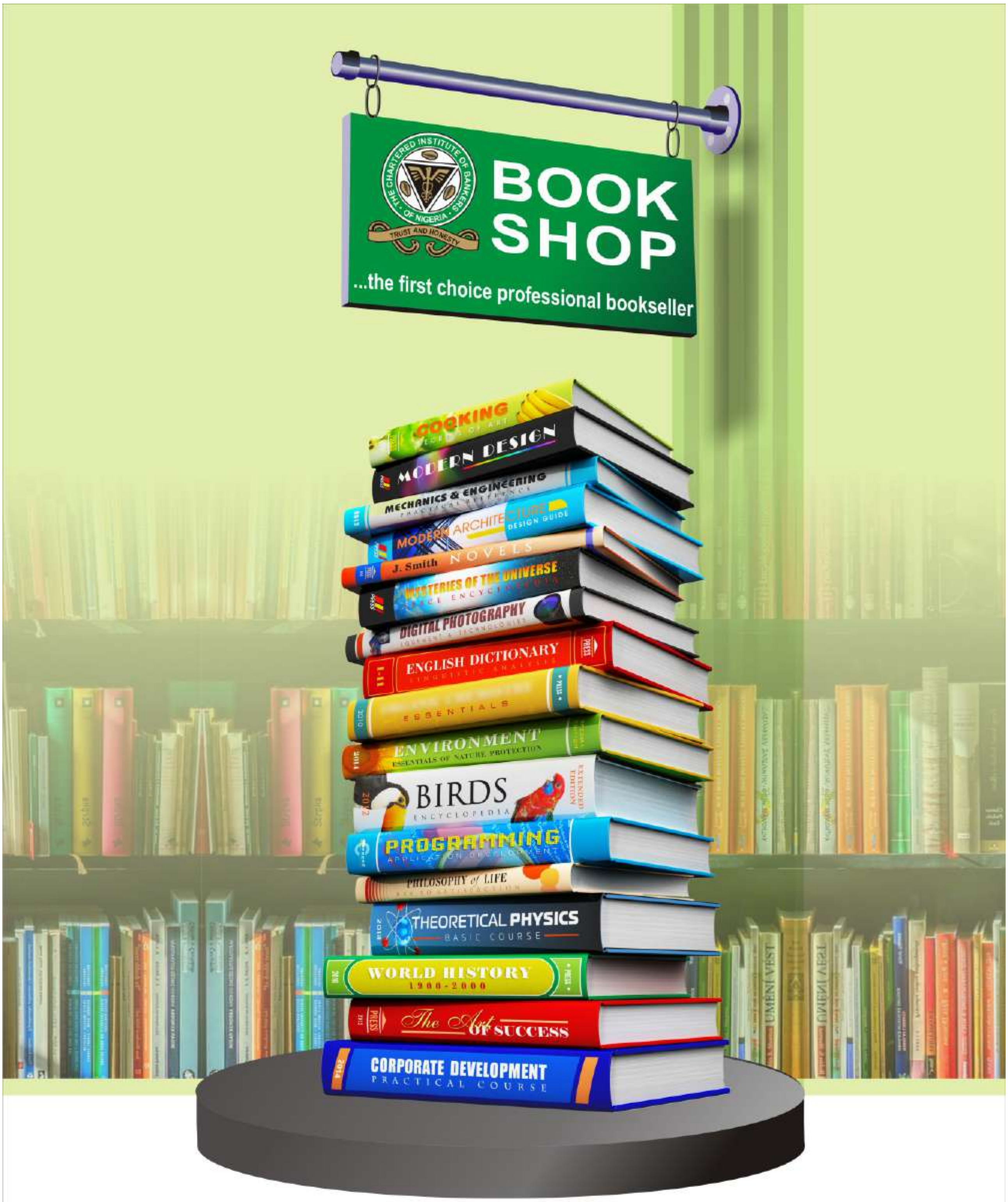
## Setting voluntary professional standards can be equally effective




## The key is to start now; ensure that the plans align with the unique needs of each market; and establish a starting baseline that can be developed over time


# Final thoughts to consider

- Can professional standards achieve their intended objectives while systemic issues remain in place?
- Can regulators fix systemic issues?
- Can the industry do more to address systemic issues?
- Are professional standards still necessary if systemic issues can be fixed?

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    **Journal**
    Alawode L., Obi H. & Usman C. (2008) An Empirical Investigation into the Rate of Loan Defaults. *Journal of Banking* 1(1), 54-82

    **Proceedings**
    Williams, M. (2006) The Dynamics of the Nigerian Banking System. In: Nwankwo, A., Charles, R., Akintunde, J.F. and Subaru, J.P. (eds.) Banking in Nigeria from Independence Till WCBI 2017, 9-12 May 2017, Lagos, Nigeria. Taylor & Francis. pp. 211-216.

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9. Footnotes should be numbered serially on relevant pages.
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# 22ND WORLD CONFERENCE OF BANKING INSTITUTES (WCBI)

***HOSTED BY***

## THE CHARTERED INSTITUTE OF BANKERS OF NIGERIA (CIBN)

## APRIL 24 - 28, 2017

L-R: Oba Oladipupo James Kolade (Oluwademide 1), Olupoti of Ipoti-Ekiti; Ooni of Ife, Oba Adeyeye Enitan Ogunwusi Ojaja II; Obi of Onitsha, His Royal Majesty Igwe Nnaemeka Alfred Ugochukwu Achebe, CFR,mni and; Oba Rilwan Babatunde Osuolale Aremu Akiolu, CON, Oba of Lagos.

A Cross Section of the Participants at the Conference

Ahlaji A.O.G. Otiti, OON, FCIB, Founding Father/Past President, CIBN embracing Prof. Segun Ajibola, Ph.D., FCIB, President/Chairman of Council, CIBN while Mr 'Seye Awojobi, FCIB, Registrar/Chief Executive, CIBN and Mr Festus Anyanwu, FCIB, Group Head, Ethics and Professionalism Division, CIBN look on.

L-R: Otunba (Mrs) 'Debola Osibogun, FCIB, Past President, CIBN; Dr 'Segun Aina, OFR, FCIB, Past President, CIBN; Alhaji Umaru Ibrahim, FCIB, mni, Managing Director/Chief Executive, NDIC; Prof. Segun Ajibola, Ph.D., FCIB, President/Chairman of Council, CIBN; Ambassador Adeyemi Dipeolu, Ph.D., Special Adviser to the President on Economic Matters and; Mr Akinyemi Ashade, Commissioner for Finance, Lagos State singing the National Anthem at the Conference.

A cross section of participants

A cross section of resource persons at the Conference


A cross section of resource persons during a Business Session

Group Photograph after the launch of the
Global Banking Education Standards Board (GBEStB) at the Bankers House

# 22ND WORLD CONFERENCE OF BANKING INSTITUTES (WCBI)

*HOSTED BY*

## THE CHARTERED INSTITUTE OF BANKERS OF NIGERIA (CIBN)

**APRIL 24 - 28, 2017**

Lagos State Cultural Troupe performance at the Welcome Cocktail of the 22nd WCBI Conference

Cross section of participants relishing the evening at the Gala Dinner

Cultural Troupe Performance

Dr Okwu Joseph Nnanna, Deputy Governor, Financial System Stability, Central Bank of Nigeria delivering his paper on Disruptive Trends in the Financial Services Sector: The Role of Regulators and Regulatory Institutions

Mr Alastair Tyler receiving the flag of the United Kingdom from Prof. Segun Ajibola, Ph.D., FCIB, President/Chairman of Council after London Institute of Banking & Finance won the bid to host the next World Conference of Banking Institutes

Delegates at the 22nd WCBI during a tour of the Olusegun Obasanjo Presidential Library (OOPL), Abeokuta, Ogun State, Nigeria

# Re-Thinking the Future of Banking and Finance & Life-Long Learning: Regulations

**O. J. Nnanna, Ph.D,** Deputy Governor *(Financial System Stability)*

## *Selected Paper Delivered at the 22nd WCBI*

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### Outline

- **Introduction**
- **The Nigerian Financial System – Structure, Composition and Infrastructure**
- **Changing Trends in Banking System Regulation and Surveillance**
  - Global Developments in Regulation
  - Global Developments in Regulation: Unintended Implementation Consequences
  - Recent Global Developments in Regulation since the crisis
  - Recent Regulation of the Nigerian Banking System
- **The Current State of The Nigerian Banking Sector**
  - Regulatory Outcomes and Implications of macroeconomic shocks and externalities
- **New Challenges to Shape Domestic and Global Regulation**
  - Financial Technology, A New Tsunami?
  - Shadow Banking, Another Threat?
- **Next Steps in Regulation**
- **Conclusion**

### Introduction

- The financial system represents the engine of economic growth. Empirical literature exist to support this assertion:
  - Gibson & Tsakalotos (1994) showed that the benefits accruable from a healthy and developed financial system relate largely to efficiency in savings mobilisation (investments) and financial intermediation (banking services) which have helped to drive economic activities.
  - Kasekende (2008), provided empirical evidence to prove that countries with better and efficient financial systems grow faster than countries with weak and inefficient financial systems.
- The soundness and stability of the financial system is essential to achieving economic growth.
- Banks are critical institutions in the financial system and have significant implications for the financial system stability.
- The Money Market : composition and size of the operators
- The Capital Market : composition and size of the operators
- Other operators (insurance, pension fund managers)
- Financial Services Regulation Co-ordinating Committee (FSRCC)

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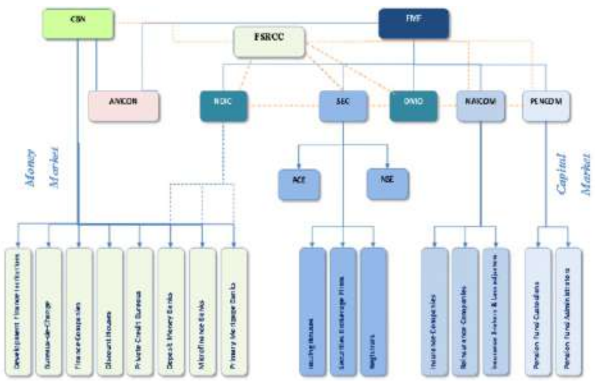
**The Nigerian Financial System – Structure, Composition and Infrastructure**

FSRCC as a common forum for the Market Regulators




### The Nigerian Financial System – Structure, Composition and Infrastructure

**Money Market:**

**Regulator;**

- CBN

**Operators :**

- Banks (26): 21 commercial, 4 merchant, 1 non - interest
- Money Market Dealers
- Money Market Association of Nigeria
- Discount Houses (1)
- Microfinance Banks (978)
- Finance Companies (75)
- Mortgage Refinance Company (1)
- Primary Mortgage Banks (34)
- AMCON
- Development Finance Institutions (5)
- Bureaux -de-Change (3,147)
- Private Credit Bureaux (3)
- National Collateral Registry
- Private and Public Individuals

**Capital Market :**

**Regulators;**

- FMF
- SEC
- **Operators :**
- DMO
- Investment and Securities Tribunal (IST)
- Issuing Houses
- Stock Brokering Firms (203)
- Registrars (18)
- Primary Dealer Market
- Central Securities Clearing System (CSCS)
- Private and Public Individuals

---

**The Nigerian Financial System – Structure, Composition and Infrastructure**

**Recent developments in payments infrastructure:**

- Automated Teller Machine (ATM)
- Point of Sales (POS) Terminals
- Mobile Banking
- Mobile Payments
- Online Web Portals
- Electronic Funds Transfer
- International Payments (SWIFT)
- Central Securities Clearing System
- Real -Time Gross Settlement (RTGS) System
- CBN Interbank Funds Transfer System (CIFTS)
- Nigeria Electronic Fraud Forum ( NeFF )
- NIPPS
- Scripless Securities Settlement Systems (s4)
- Bank Verification Number (BVN).

### Changing Trends in Banking System Regulation and Surveillance

**Developments in Global Regulation**

- Global regulations have largely been outpaced by rapid changes and sophistication of financial markets and payments instruments
- A co-ordinated approach to regulation dated back to 1988 when countries came together under the auspices of the Basel Committee on Banking Supervision (BCBS) and agreed to issue principles on capital requirements for international financial institutions.
- To address the significant changes in the global financial architecture the Core Principles for Banking Supervision (BCPs) known as Basel II was issued.
- Subsequently, the Basel III was issued in response to the lessons learnt from the 2007/08 crises.
- Regulation since Basel I had been to check systemic risk, contagion and spillovers, but implementation resulted in unintended distortions that fuelled the most recent financial crisis.

## Changing Trends in Banking System Regulation and Surveillance

### Developments in Global Regulation: Unintended Consequences of Implementation

- Securitisation and disintermediation
  - Minimum capital requirement led banks to increase their off - balance sheet transactions that escaped regulatory oversight.
  - Financial transformation – banks were offloading credit risk from the balance sheet, transforming such into financial instruments.
  - Unregulated markets received a huge component of resources as they were under no obligation to meet regulatory compliance rules
  - unregulated markets led to abuse as exemplified by the US subprime lending crisis.
- Credit derivatives
  - Banks created these contracts to take on the credit risks of third-party clients
- The failure of rating agencies
  - Risk-weights computation of capital based on Basel ratios, placed significance and power in the hands of rating agencies.

## Changing Trends in Banking System Regulation and Surveillance

### Recent developments in global regulation since the global financial crisis

- Asset quality review and stress testing linked in the European banking union during 2014;
- US is now focusing on the qualitative aspects of banks' stress testing; and
- European Central Bank making efforts to introduce a more harmonised approach to the setting of Pillar 2 capital add-ons and the use of banks' internal models in the European banking union.

## Changing Trends in Banking System Regulation and Surveillance

### Recent Regulation of the Nigerian Banking System

- Adopted stringent prudential oversight measures relative to Basel recommendations
  - Capital adequacy ratio of 10% (national banks) and 15% (international banks) higher than Basel's 8%
- On market discipline and self-regulation, banks contribute to a sinking fund to repair the banking system in the event of a crisis
- Instituted a macro-prudential framework:
  - Watershed period, 2004 – 2005
    - Banking System Consolidation and the Emergence of Banks "too big" to fail
  - Stress-testing framework to evaluate the financial industry resilience to severe shocks
  - Counter-cyclical provisioning policy to mitigate the volatility and boom-bust cycles
  - Developed a new early warning system (EWS) for banking supervision to strengthen monitoring of risks

## The Current State of the Nigerian Banking Sector –

### Regulatory Outcomes and Implications of Macroeconomic Shocks and Externalities

Despite regulation, financial system stability remains a challenge in recent times due to:

- *foreign exchange market illiquidity*
- *dwindling external reserve*
- *rising inflationary pressures*
- *negative output growth*
- *foreign capital flow reversal*
- *low commodity price*
- *low global output growth*
- *unconventional monetary policy in the Advanced Market economies*
- *uncertainties in the Euro Area, UK, US and China*

***Trends in FSIs***

Assets-Based Indicators (industry average)

- NPLs – 14%
- Liquidity Ratio – 36%

Capital - Based Indicators (industry average)

CAR – 13.9%

NPLs/Capital Ratio – 38.4 %

Capital(T1)/RWA Ratio – 12.9 %

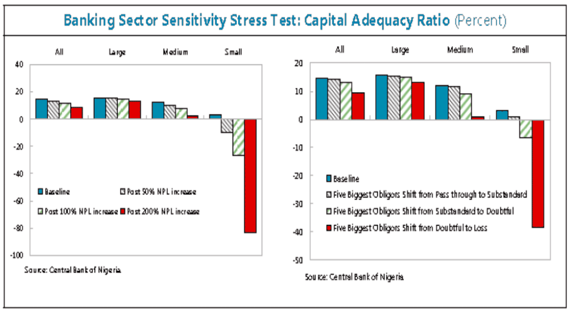
Income and Expenses Based Indicators (industry average)

- ROA – 1.3%
- ROE - 18.2
- NIE/GI Ratio – 63.8%
  - NIE/GI is the noninterest expenses to gross income

## The Current State of the Nigerian Banking Sector –

### Regulatory Outcomes and Implications of Macroeconomic Shocks and Externalities

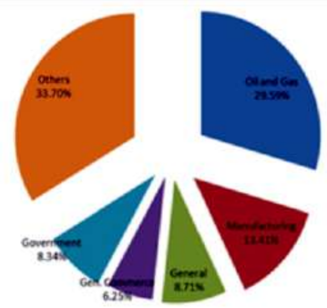
Banking sector vulnerabilities under stress conditions




## The Current State of the Nigerian Banking Sector –

### Regulatory Outcomes and Implications of Macroeconomic Shocks and Externalities

Sectoral Credit Distribution shows the banking sector vulnerability to shocks in the oil and gas sector




Oil and Gas – 29.5%
Manufacturing – 13.4%
General – 8.7%
General Commerce – 6.3%
Government – 8.3%
Others 33.7%

## New Challenges to shape domestic and global regulation

### Siamese Twins?

- Financial Technology, a new Tsunami?
- Shadow Banking. Another Threat?

## Financial Technology, a New Tsunami?

- **Why Tsunami?**
  - 88% of banking institutions fear of revenue losses as the use of banking services significantly narrowing owing to increased financial innovations in payments, money transfers and loans (Global Fintech Report 2017, PwC Survey)
  - Share of risk is estimated at 24% of total revenues –
    - a threat to performance and asset quality of financial institutions
    - Job losses also expected
    - Central bank seigniorage
  - Is it slowing down any soon? Definitely No.
    - 30% of consumers plan to increase their usage of financial services provided by Fintech companies
  - Huge investment ongoing
    - 82% of financial institutions seeking to collaborate with FinTech companies. The partnership is up from 32% in 2016 to 45% on average in 2017
    - At the global level, the distribution of banks-FinTechpartnerships is uneven, suggesting further expansions
      - Germany, 70%; South Korea, 14%; US, 53%; UK, 43%
    - 50% aiming to acquire FinTechstart-ups
    - investment rose at a compound annual growth rate of 41% over the last 4 years
    - received cumulative investment worth US$ 40.0 in a PwC's DeNovo research

## Financial Technology, a New Tsunami?

- Why Tsunami?
  - New entrants
    - Technological companies: Google, Apple, Samsung
    - e-Retailers: Amazon, Alibaba
    - Social media: Facebook, SnapChat
  - Fintech companies are raising the stakes going into new areas
    - Blockchain technology being used for digital identities to address cybersecurity and build trust, i.e. going beyond crptocurrency
    - Advanced Artificial Intelligence
    - Biometric authentication
  - Deloitte outlook (Tech Trends 2017: The Kinetic enterprise) suggest that financial institutions are apparently moving towards:
    - Dark analytics so that behind-the-scene communications can be analysed for greater transparency
    - Machine intelligence: towards machine learning and robotics process automation
  - Fostering Ponzi Schemes such as MMM
  - **Fintech are platforms for shadow banking**

## Shadow Banking, Another Threat?

- **What is Shadow Banking (SB) – a brief reminder:**
  - Financial Stability Board (2012) defines SB as "credit intermediation involving entities and activities (fully or partially outside the regular banking system".
  - A recent one by Claessens and Ratnovski (2014) is quite imperative for situating regulation, SB involves "all financial activities, ***except traditional banking***, which rely on a private or public backstop to operate" (emphasis mine)
  - Involves risk transformation: credit, liquidity, maturity
- Some examples (Claessens and Ratnovski, 2014):
  - Securitisation – claims tranching, maturity transformation, liquidity puts from banks to SIVs, etc.
  - Collateral services – e.g. supporting the efficient re-use of collateral in repo transactions, securities lending
  - Bank wholesale funding arrangement – use of collateral in repos and the operations of the tri-party repo market
  - Deposit-taking and/or lending by non-banks – insurance and bank-affiliated companies
- The emphasis is to show that:
  - Non-traditional banking transactions are constructed to circumvent regulation and a rigorous regulatory oversight.
  - The instruments are not clearly understood, the operators difficult to trace.

## Shadow Banking, Another Threat?

- Finding backstop make room for target regulation (Claessens and Ratnovski, 2014):
  - Shows where new shadow banking risks reside
  - Explains why shadow banking poses huge macro-prudential and other regulatory challenges
  - Knowing the backstop helps regulators to pose the important questions
  - It suggests that the migration of risks from the regulated sector to shadow banking - often suggested as a possible unintended consequence of tighter bank regulation.

## Next Steps Regulation

- Tighter prudential regulation
  - Prudential regulation implies that banking institutions must have a "soul", a gatekeeper with good corporate governance
  - Strong corporate governance to focus on the composition, quality of board members
    - Otherwise, even adequately capitalised banks can be prey to agency hazards
  - KYC procedures would have to be deepened and enlarged.
- Enthrone strict monitoring procedure
  - Apply fully the use of the early warning system to identify not only capital needs but where risks reside on the CAMELS
  - Enlarge stress testing to include sensitivity analysis
  - enforce for timelines to correct exposure to prudential requirement.
  - Sustain target audits on credit (concentration exposure), market risks (especially for foreign exchange exposure).
- Need for a legal framework for crowd funding; and mutual fund platforms and rules for the identification of users.
  - This should identify the backstops as a basis for instituting prudential requirements for FinTechand shadow transactions.

# Conclusion

- The new perspective to banking sector regulation entails a thorough appraisal of international and domestic developments, as well as an understanding of the transmission mechanism of the various sectors of the economy
- To function healthily without distortions, continuous regulation is needed to avoid any toxicity associated with excessive leveraging, excessive transformation and, recently, the new financial technology Tsunami and shadow banking
- The CBN has upheld its commitment to this new paradigm of ensuring efficiency and transparency in the provision of financial and banking services in Nigeria, as well as in the regulation of the banking sector

# COMMUNIQUÉ ISSUED

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## 22ND WORLD CONFERENCE OF BANKING INSTITUTES

**Theme:**
**Re-thinking the Future of Banking and Finance & Life-Long Learning**

**Date: April 24 - 28, 2017**
**Venue: Eko Hotels & Suites, Victoria Island, Lagos, Nigeria**

### Introduction

**The Chartered Institute of Bankers of Nigeria** (**CIBN**) successfully hosted the **22nd World Conference of Banking Institutes** (**WCBI**) for professionals from financial services industry and other stakeholders involved in bank operations, education and training across the world. The Conference, which was held for the first time in West Africa, took place at Eko Hotels & Suites, Victoria Island, Lagos, Nigeria from April 24 to 28, 2017. The Conference, with the theme "***Re-thinking the Future of Banking and Finance & Life-Long Learning"***, was timely, considering the disruptive roles of Information and Communication Technology (ICT) on formally entrenched banking and finance models.

There were delegates from over 32 countries at the Conference. The countries represented include the United States of America (USA),The United Kingdom (UK), Canada, Australia, Singapore, The Netherlands, South Africa, The Gambia, Ghana, France, New Zealand, Kenya, Zambia, South Korea, India, South Sudan, Egypt, Sierra Leone, Liberia, Mongolia as well as Nigeria, being the host country.

The Conference had in attendance representatives from both the public and private sectors of the economy, viz the Federal Government of Nigeria, Lagos State Government, Central Bank of Nigeria (CBN), Nigeria Deposit Insurance Corporation (NDIC), Finance Accreditation Agency, Malaysia (FAA), Risk Manager's Association of Nigeria (RIMAN), Chartered Institute of Management Accountants (CIMA), UK, First Registrars and Investor Services (FRIS), Honeywell Group, as well as Chairmen and Managing Directors/Chief Executive Officers of banks in Nigeria and other stakeholders in the banking and finance industry.

The traditional institution was also well represented. The Royal Fathers in attendance included Oba Adeyeye Enitan Ogunwusi, Ojaja II, Ooni of Ife; Igwe Nnaemeka Alfred Achebe, CFR, mni, Obi of Onitsha; Oba Rilwan Bababtunde Osuolale Aremu Akiolu, CON, Oba of Lagos; Oba Oladipupo James Kolade (Oluwademilade 1), Olupoti of Ipoti-Ekiti; and Oba Kayode Kupolokun, Obalaaye of Erinjiyan-Ekiti.

### Opening Ceremony

At the Opening Ceremony, Professor Segun Ajibola, Ph.D., FCIB, President/Chairman of Council, CIBN delivered the Welcome Address and used the opportunity to welcome the global banking community to Nigeria and intimate delegates on the importance and relevance of the WCBI. The Distinguished Guest of Honour, His Excellency, Professor Yemi Osinbajo, GCON, SAN, Vice-President, Federal Republic of Nigeria, gave the Opening Address. Professor Osinbajo was ably represented by Ambassador Adeyemi

Dipeolu, Ph.D., Special Adviser to the President on Economic Matters, Office of the Vice President. Mr Akinyemi Ashade, Commissioner for Finance, Lagos State also delivered a Goodwill Message on behalf of The Executive Governor of Lagos State, Mr. Akinwunmi Ambode, FCA.

The high point of the Opening Ceremony was the Keynote Address delivered by Mr Adjiedj Bakas, Founder, Trend Office BAKAS Netherlands. Mr Bakas demonstrated in practical terms the overarching influence technology incursion would have on the future of banking and finance and the imperative of players in the industry to continue to hone their skills and competencies in the digital age for global competitiveness.

## Business Sessions and Parallel/Interactive Sessions

The Conference had five (5) Business Sessions with carefully selected Chairmen and forty-five (45) subject-matter experts as Speakers and Panelists.

The Business Sessions, which spanned two days, had ***Mr Andrew Davies, Advisor, International Finance Corporation, Sydney, Australia*** as Chairman for Business Session 1; ***Professor E.P.M. Gardener***, Managing Director, The Management Centre/Programme Director, Chartered Banker MBA, Bangor University, Bangor, Wales for Business Session 2; ***Mr. Peter J. Armond, FCIB***, President, Alliance of African Institute of Bankers/Chief Executive Officer, Zambia Institute of Banking & Financial Services for Business Session 3; ***Alhaji Umaru Ibrahim, mni, FCIB***, Managing Director/Chief Executive Officer, Nigeria Deposit Insurance Corporation for Business Session 4; and ***Dr. (Mrs) Sarah Alade, OON, FCIB***, former Deputy Governor, Economic Policy Directorate, Central Bank of Nigeria for Business Session 5.

**The sub-themes for the Business Sessions were:**

- Envisioning the Future of Banking and Finance in the Global Economy.
- Re-Professionalising Banking through Continuous Education.
- The Dynamics of Competition: Present & Future.
- The Need for & Role of Banking/Finance Standards: Global, Regional & National.
- The Desire for Life - Long Learning.

There were also four Parallel/Interactive Sessions on *Technology*, *Payment Systems*, *Regulations* and *Artificial Intelligence/Blockchain*.

## Highlights and Recommendations

### A. Highlights

- In an era of digital transformation, there are clear indications that the future of banking would continue to be disrupted and formally entrenched models redefined. Factors that would cause these disruptions include increased competition from non-traditional competitors such as FinTech, change in consumer behaviour, increased specialisation to serve specific customers, and digital systems like Blockchain, Ripple and Ethereum.
- The rapid rate at which these factors disrupt business processes underscores the need for an inclusive methodology for achieving continuous learning and acquisition of skills on the job.
- The world population is expected to grow to 20 billion by the end of the century while the world Gross Domestic Product (GDP) is expected to quadruple by 2050. This provides enormous market opportunities for banks and other financial institutions.
- Research findings indicate that 80 per cent of credits available to Small and Medium Enterprises (SMEs) are sourced from non-banks. This is a strong indication of the intense competition banks would continue to face from non-bank financial institutions. It is reassuring that the Economic Recovery and Growth Plan for 2017-2020 that was recently launched by the Federal Government of Nigeria intends to achieve sustainable inclusive growth and GDP growth rate of 7 per cent by 2020.
- According to the Plan, macroeconomic fundamentals such as fiscal, monetary and trade policies would be aligned to stimulate the economy and support growth. Equally, sectoral policies would be implemented to diversify the economy through investments in agriculture, manufacturing, mining, financial industry, services, and construction in a digital economy.
- The Plan would focus on re-building and rehabilitation of key infrastructure to strengthen Nigeria's competitiveness. Included in the Plan is also the roadmap for security improvement, war against corruption and economic revitalisation, while efforts towards the diversification of the Nigerian economy would pay more attention to the agriculture and manufacturing sectors. There are also efforts at revamping the railway system and the power industry.
- The Nigerian Government is committed to transparency in governance and to improving *Ease of Doing Business* in the country. To achieve this, the banking and finance sector would play a central role, especially in ensuring the successful implementation of the plan through Public-Private Partnership (PPP).
- The emergence of digital banking platforms continues to threaten the brick-and-mortar system. Therefore, banks that leverage on technology would attract a larger market share in the future than those investing in physical assets.
- Premium would be placed on high quality professionally grounded banking qualifications and high ethical standards for the future business of banking.
- Life-long learning for professionals in banking and finance is essential to remain relevant in a knowledge-based economy and the constant change arising from technology, government policies and globalisation. Life-long learning is

also a strategic instrument for organisational growth.

- FinTech would take over about 40 percent of the global financial services market in the next 10 years. Hence, banks should pay particular attention to the following emerging technologies -Internet of Things, Virtual/Augmented Reality, Artificial Intelligence and Distributed Ledger.
- The ecosystem of FinTech consists of Robo-Advisor and Personal Finance, Blockchain and Cryptocurrency, Insure-techs, Reg-techs, Digital banks, Alternative finance, as well as Payments and Remittances.
- New digital banking channels like the Blockchain technology continue to provide alternatives to payment and settlement systems by traditional banking institutions.
- The use of Artificial Intelligence (AI) would continue to be central in the future of banking. There are tremendous benefits as well as embedded threats in AI.
- The Global Banking Education Standards Board (GBEStB), launched at the Conference, is expected to develop voluntary global educational standards that will address communication, technical and core competencies as well as organisational competencies. It is also aimed at making banking standards acceptable to everyone in the banking sector regardless of the country, though voluntary. It will address ethical awareness, which will be helpful in reinforcing ethical expectations and also promote positive outcomes for customers through conducted ethical programmes.

### B. Recommendations

At the end of the Conference, the roles of the different stakeholders in 'Re-thinking the Future of Banking and Finance & Life-Long Learning' were identified as follows:

#### Government

There is the need for government at all levels to:

- Design and develop an economic growth plan that would finance the Small and Medium Enterprises (SMEs) by reviewing the lending policy of banks in their business models.
- Make capitalism more inclusive and organised to cater for the deficit in financing of the SMEs. It is highly essential that banking services are made cheaper and more inclusive, thus making savings easier.
- Develop initiatives that will support SMEs as a factor of social development to boost employment generation as well as wealth creation.
- Improve collection of taxes that would be utilised to engender the needed growth in the economy.

#### Regulatory Institutions

Regulatory institutions should:

- Add principle-based standards to regulations so as to add value to the financial sector as well as to block the loopholes created by the rules-based standards.
- Intensify advocacy for financial literacy curriculum in educational institutions and for the larger society.
- Work together to produce common standards for financial institutions. Also, they should develop a global regulatory framework to improve global banking practice and standards.
- Enhance continuous education for operators as well as for regulators, using e-learning methodologies.
- Emplace effective supervision and control mechanisms for the 'Too–Big-To-Fail' megabanks. Also, the systemic impact of such banks should be tracked and effective risk management models, systems and procedures implemented.
- Develop tighter but adaptable and enforceable regulatory framework, legal framework for crowd-funding and mutual fund platforms and rules for the identification of users and strict monitoring/procedures.
- Study the process of adopting Blockchain as a new medium of exchange.
- Anticipate potential risks and/or threats in the emerging technologies and devise mechanisms to mitigate the threats.

#### CIBN, Banks and other Business Enterprises

There is the need to:

- Re-examine the traditional attitude to risk-taking, in view of the positive correlation between risk and returns.
- Put special focus on the millennial in financial education.
- Intensify and leverage technology and Artificial Intelligence to improve service delivery to customers. Bankers should provide bespoke services to customers through the deployment of new technologies. Similarly, new investments should give more attention to digital technology rather than physical infrastructure.
- Strategically partner with universities and banks through academic engagement that will enhance comprehension of the profession and re-professionalism.
- Review the way banking culture is developed and the modalities for training people, with bankers/banks paying more attention to the output and outcomes of their actions while entrenching professional conduct.
- Revisit the criteria for certification of banking practitioners and corporate citizenship by banks.
- View competition in a collaborative manner that allows industry players to work together and provide better services as well as develop new products that would meet the ever changing demands of customers. This can be achieved through partnering with other sectors such as Telecommunications, FinTech, Insurance, among others.
- Create fundamental support systems that will be embedded in the human capital processes and policies to ensure life-long learning in banks.
- Provide employability skills for

professional bankers, domesticate competencies and adopt life-long learning for bankers with feedback mechanism that measures progress.

- WCBI should ensure promotion of internationally recognised qualifications for members of banking institutes and itemisation of personal qualities of these members.
- Strategic collaborations with the non-bank financial institutions are important to secure the future of the financial services industry.
- Embrace emerging technologies and engage employees more, sustain usage through collaboration and learning in order to ensure growth. Similarly, financial institutions should educate staff on the future of banking, through convenient learning, convenient testing and collaborative education.

## Conclusion

The Conference was highly enlightening and the resource persons handled the Sessions with excellent touch of expertise. Participants' contributions to the discourse were also insightful.

**The Conference envisioned the following in the nearest future:**

- **Bottom-up movements**. The blockchain technology which can revolutionise banking and insurance industries, is a bottom-up product. More outsiders will come up with revolutionary concepts, ideas and practices, in the next couple of years.
- **Importance of ethics.** Ethics and morals will return in the industry in the next couple of years.
- **Entrance of FinTech players.** With mobile banking and many other innovations, new players will change the market landscape. In the near future, most of the FinTech players will take over the function of banking operations using their platforms without physical structures.
- **People Form Financial Corporations all Over the World**. Everywhere in the world, we are going to see the rise of new collectives of people, forming corporations in the financial industry. Smokers can start a health insurance company which loves smokers and offers them special benefits, e.g. the best treatments for lung cancer and financing their needs.
- **Small Becomes the New Big**. We will see smaller banks and insurance companies emerging. Governments will break up banks which have become too large, too big to fail. What happens when a Nigerian top bank files for bankruptcy? This is better imagined!
- **The Commoditisation of Banking Technology.** Technology has been a big leveller in the financial industry and apparently will become much more influential.

"We are on the brink of revolutionary times for the global financial industry. Some embrace these changes, others fear them. Yet the future is not for those who are afraid; the future is for those who dare. I dare you to dare" - *Futurologist Adjiedj Bakas.*

**Dr. Segun Aina, OFR, FCIB**
Chairman
22nd WCBI Local Organising Committee

**Mr. 'Seye Awojobi, FCIB**
Registrar/Chief Executive
The Chartered Institute of Bankers of Nigeria

Cross section of participants at the Conference

# THE CHARTERED INSTITUTE OF BANKERS OF NIGERIA CENTRE FOR FINANCIAL STUDIES (CIBNCFS)

*IN COLLABORATION WITH*

## FINTECH ASSOCIATES LIMITED (FAL)
## &
## DIGITAL FINANCE INSTITUTE (DFI)

## COMMUNIQUÉ ISSUED AT THE END OF THE 1ST NATIONAL FINTECH CONFERENCE IN NIGERIA

### HELD AT ORIENTAL HOTEL, VICTORIA ISLAND, LAGOS
### DATE: MONDAY, APRIL 24, 2017

**Introduction:**
The 1st National FinTech Conference, a collaboration between The Chartered Institute of Bankers of Nigeria Centre for Financial Studies (CIBNCFS), Fintech Associates Limited (FAL) and Digital Finance Limited (DFI), Canada was held on Monday, April 24, 2017 at the Oriental Hotel, Victoria Island, Lagos. The Conference attracted participants from both the public and private sectors of the economy and was facilitated by 33 Resource Persons in 7 different Sessions.

The Conference also featured the national FinTech Start-up challenge with 6 finalists and 4 Judges from four different countries.

Welcome addresses were delivered by Dr. Segun Aina, OFR, FCIB, Chairman, Fintech Associates Limited and Christine Duhaime, Founder/Executive Director, Digital Finance Institute of Canada. Goodwill messages were delivered by the President/Chairman of Council of the Chartered Institute of Bankers of Nigeria, Professor Segun Ajibola, Ph.D, FCIB and Chief Olusegun Osunkeye, CON, Former Chairman, Lafarge Africa Plc while Opening Remarks and the Keynote Opening Address were given by Mr. Ade Ayeyemi, Group CEO, Ecobank Nigeria and Dr. Okey Enelamah, Minister of Industry, Trade and Investment respectively.

In his Keynote Address, Dr. Okey Enelamah noted the benefits of FinTech by giving the example of the Government Enterprise and Empowerment Programme which was executed by the Ministry of Industry, Trade and Investment through the Bank of Industry. The programme offers soft loans to market women, farmers and artisans. The scheme deployed FinTech in loan disbursement thereby reducing cost and improving efficiency compared to the traditional means of granting loans. Till date, over thirty thousand (30,000) beneficiaries have accessed soft loans through this platform.

The 7 Business Sessions at the Conference were:

a.) Financial Services and Blockchain
b.) Financial Inclusion
c.) Nigeria as Africa's FinTech Leader
d.) Lessons in FinTech
e.) RegTech in Nigeria
f.) The Future of Artificial Intelligence & Machine Learning n Finance
g.) Tech CEO Roundtable

**Highlights**
The highlights of the Conference are:

- Increased collaboration between banks and FinTech companies would lead to a reduction in bank branches, operational costs and contribute to financial inclusion
- In future, Blockchain technology would rise in importance in the financial services industry. A World Economic Forum Report states that in a few years, at least 10% of global GDP would be stored on the Blockchain.
- Bitcoin is 100% secure as long as it is used as a mode of settlement as opposed to being traded as a speculative asset.
- Financial inclusion is not a one-man affair. It should be a collaboration between the banks, FinTech companies, regulators and the postal agencies.
- The major challenge in developing economies is leveraging the use of technology and mobile phones in transforming financial activities into financial inclusion.
- The common long distance between bank branches and some rural areas provides viable market opportunities for financial service practitioners or mobile money agents to exploit.
- In locations where mobile money agents are also scarce, FinTech is a veritable platform to reach the unbanked and underbanked.
- Recently, the Ministry of Education, in collaboration with the Ministry of Science and Technology, launched an initiative called Code Lagos. This initiative is aimed at educating Lagos State residents on data coding.
- FinTech service providers thrive on trust to provide additional financial

services for their customers.

- Most FinTech companies tend to focus on payment solutions alone. However, there are other financial services and products that can be provided on Fin-Tech platform, for instance, money management solutions.
- Access to capital alone does not guarantee the success of a Fin-Tech start-up but constant update of skills and knowledge.
- A narrow view of RegTech looks at using technology to facilitate compliance with regulatory requirements in the industry while the broader view looks at both the compliance and supervision of operators in the industry.
- Shared services would play a critical role in the efficiency and effectiveness of FinTech companies.
- Artificial Intelligence applications are created to perform virtually the same tasks as human beings with minimal errors and in a time efficient manner. This has implications on the future of jobs.
- The more knowledge/information acquired by Artificial Intelligence machines, the more powerful and effective they are.

**b. Recommendations**

*At the end of the Sessions, the roles of the different stakeholders in the growth of the digital economy were emphasised as follows:*

**1. Government and Regulatory Institutions·**

- To become a global leader, the Nigerian government should create an enabling environment for the growth of FinTech in the country. This would include quality education, (e.g. development of FinTech courses in tertiary institutions), infrastructure as well as the consistent support of regulatory policies.
- Innovators should be encouraged to work closely with regulators before products are released to the market. This would prevent waste of resources on expensive innovations which may not meet regulatory requirements. For example, in the UK the Innovation SandBox team, created by The Guernsey Financial Services Commission, was introduced to assist prospective innovative or start-up financial service businesses that are considering applying for a regulatory licence or registration from the Commission.

**2. Banks, FinTech Companies and Tech-Preneurs**

- Disruptive financial technologies should be focused on providing products for low income sectors. FinTech companies and banks should collaborate to provide these services.
- Financial service practitioners or mobile money agents are encouraged to further increase their presence in remote areas where physical bank branches and ATM machines are unavailable.
- Tech-Preneurs should strive to constantly adapt their business models to the ever-evolving Blockchain technology.
- FinTech companies should focus not only on payment solutions but other financial services such as money management solutions.
- Fintech companies should not provide a one-size-fits-all financial service solution for all categories of customers. On the contrary, FinTech services and products should be tailored to customers' needs.
- Financial practitioners should create an intelligent database management system which would better facilitate decisions on the provision of custom-made financial services to relevant segments of the society.
- Partnership between banks and other operators in the FinTech ecosystem would be essential in the expansion of FinTech in the country.
- FinTech companies should also consider collaborations with each other in the provision of shared services in order to reduce the regulatory burden. This would also greatly reduce expenses.
- Artificial Intelligence applications need to be further developed for providing financial services for the unbanked.

**3. The Chartered Institute of Bankers of Nigeria Centre for Financial Studies (CIBNCFS)**

- To further achieve its mandate to build the capacity of banking professionals in the banking and finance industry, the Institute, and indeed the CIBNCFS, should organise more capacity-building programmes for both the regulators and operators in the country's FinTech space.
- The CIBNCFS should collaborate with the Lagos State Government and Fintech Associates Limited/Digital Finance Institute to further the Code Lagos and Code Nigeria Initiatives.
- The CIBNCFS should produce well-researched documents on the provision of innovative financial services to low-income earners in Nigeria. This can be done in collaboration with well-recognised tech-preneurs and FinTech companies.

**Conclusion and Announcements**

The Session was well-attended with delegates from both the public and private sectors of the economy. The faculty displayed excellent mastery of the subject matter and participants' rated the Conference as very enlightening.

**Mr. 'Seye Awojobi, FCIB**
Registrar/Chief Executive
The Chartered Institute of Bankers of Nigeria

**Mr. Detan Akinhanmi**
Knowledge Events Executive
Fintech Associates Limited, Nigeria\

**Ms. Christine Duhaime**
Founder/Executive Director
Digital Finance Institute, Canada

# 1st National FinTech Conference in Nigeria

## A Collaboration Between the CIBN Centre for Financial Studies, FinTech Associates Limited and the Digital Finance Institute

*April 24, 2017*

Prof. Segun Ajibola, Ph.D., FCIB, President/Chairman of Council, CIBN delivering his Goodwill Message

Dr. Okey Enelamah, Minister of Industry, Trade and Investment delivering his Keynote Address

Dr. Segun Aina, OFR, FCIB, Chairman, Fintech Associates Limited delivering his Welcome Address

Ms Christine Duhaime, Founder/Executive Director, Digital Finance Institute of Canada delivering her Welcome Address

Mr Ade Ayeyemi, Managing Director/Chief Executive Officer, Ecobank Plc delivering his Opening Remarks

L-R: Chief Olusegun Osunkeye, CON, Former Chairman, Lafarge Africa Plc; Prof. Segun Ajibola, Ph.D., FCIB, President/Chairman of Council, CIBN; Ms Christine Duhaime, Founder/Executive Director, Digital Finance Institute of Canada; Dr. Okey Enelamah, Minister of Industry, Trade and Investment; Dr. Segun Aina, OFR, FCIB, Chairman, Fintech Associates Limited and; Mr Ade Ayeyemi, Managing Director/Chief Executive Officer, Ecobank Plc

A cross section of participants at the Conference

# EFFECTS OF INTEREST RATE ON THE ECONOMY

*A POSITION PAPER BY*

**THE CHARTERED INSTITUTE OF BANKERS OF NIGERIA CENTRE FOR FINANCIAL STUDIES (CIBNCFS)**

## Section I: Introduction

Interest rate is a major tool used by central banks to regulate the amount of money in circulation. It is an important macroeconomic variable capable of transforming and redirecting the growth pattern of a country's economy. Interest rate is used as a tool to control money supply, inflation and, indirectly, economic growth. In reality, any "policy-game" around the interest rate would have significant economic implication on growth and inflation.

The definition of interest rate differs, depending on whether it is viewed from the perspective of a lender or borrower. For a lender, it simply represents the opportunity cost of releasing the fund to the borrower instead of investing it in other ventures. Interests are also charged by a lender to account for the likelihood of default in repayment. For a borrower, it is the premium on the amount borrowed necessitated by the lender's consideration of the time value of money.

Different economies have experimented with varying degrees of interest rates to achieve their economic objectives. This usually ranges from a very low (single-digit, for example in the United States of America) rate to a high (double-digit, for example Nigeria) rate.

The primary determining factor in an economy's choice of interest rate depends largely on which macroeconomic objectives it intends to achieve – economic growth/low unemployment or low inflation. It has indeed been argued by economists and other experts that to simultaneously achieve the twin objectives of economic growth and single-digit inflation rate in an economy is rather difficult, if not impossible.

For instance in the United States of America between 1981 and 1982, inflation rose to 14% a year and the Federal Reserve System (the Fed) increased interest rate to 20% to address the increasing inflation. This eventually led to recession, but the Fed was able to achieve the objective of significantly reducing the persistent increase in the price of goods and services. On the contrary, between 2001 and 2002 when the Fed observed the need to stimulate growth in the US economy, interest rate was reduced to 1.25% and this contributed to the US economy's recovery in 2003.

The US examples given above

naturally raise some questions: what macroeconomic objective should an economy pursue using the tool of interest rate – growth/employment or inflation? How does understanding the type of inflation – demand pull or cost push – in an economy assist the monetary policy authorities in making informed decisions about interest rate? Are there tested policy mixes that can simultaneously achieve the objective of high economic growth and low inflation rate? Is the level of development of an economy an important factor to consider by its monetary policy authorities in fixing the interest rate? Are there other macroeconomic variables or government policies that can be used to stimulate growth and realise low inflation without significant fluctuations in the rate of interest? What policy mix could Nigeria adopt to address the current stagflation – high inflation, high unemployment and poor growth? What is the way forward for Nigeria as an important economic hub in the African continent?

This paper addresses these questions under 4 main sections. Section I introduces the subject of the effects of interest rate on the economy. Section II focuses on the nexus between interest rate, growth/employment and inflation. Section III dwells on The Nigerian economy and traces its history of interest rate. The Section also briefly explains the extent to which this important macroeconomic tool, interest rate, has achieved the desire for improved growth, full employment and low inflation. Section IV concludes by presenting The Chartered Institute of Bankers of Nigeria's position on solutions to the lacklustre performances of Nigeria's economy as it relates to the current high interest rate.

## Section II: Interest Rate, Growth/Employment and Inflation: The Nexus

Market players across the world normally react to the monetary policy authorities' pronouncements on interest rate primarily because of its overarching impact on Gross Domestic Product (GDP), employment and inflation. Expectations are generally high few days before the authorities' meetings which, in most economies, are held quarterly. These expectations are often based on how the authorities' decision, especially on interest rate, would affect the prevailing economic/business data of the country, the relationship with other economies, the prices of commodities, the geo-political situation and the general outlook of the domestic and international economies. It is therefore not surprising that the decisions from such meetings normally make headlines of major business news outlets while the market responds instantaneously. The centrality of interest rate on the economic, political and social fortunes of a country is so significant that any distortion would affect the business fundamentals of a nation which, due to contagion effects, can lead to a global economic crisis if the affected country plays a critical role in global trade. The most recent example of a contagion effect is the global financial crisis of 2008 which emerged from the sub-prime mortgage crisis in the US.

Generally, central banks have as one of their primary objectives the maintenance of stability for countries' prices and monies. This is usually achieved either by targeting growth/employment or inflation – but, as mentioned in the preceding section, the two are hardly achieved simultaneously using interest rates as a tool.

There is, however, a macroeconomic dilemma whereby, in most cases, a country's pursuit of growth usually leads to a high level of inflation and vice versa. While economic growth is always desired using low interest rate to stimulate spending, the likelihood of it resulting in higher rates of inflation is also perceived to be detrimental to any economy. Inflation has the following negative impacts on the well-being of any economy:

1. It reduces the purchasing power of money. This can lead to a situation where the savings culture is eroded coupled with a disincentive to invest money in productive activities in the long run.

2. A reduction in purchasing power also perpetuates poverty and leads to poor living standard as the same amount can only purchase fewer goods and services in an economy.

3. Inflation makes financial planning difficult, especially as it makes long-term projections and decisions difficult to make. Inflation also causes inefficiencies in a market, which slows down business processes.

4. It is considered as a severe "moral injustice" as it rewards spend thrifts – debtors - to the detriment of savers or investors.

Hence, most monetary policy authorities, in a bid to ensure a low inflation rate and shield its negative impacts, would raise interest rates. High interest rate discourages spending and hence the amount of money in circulation. According to Investopedia, higher interest rates mean that consumers do not have as much disposable income and must cut back on spending. When higher interest rates are coupled with increased lending standards, banks make fewer loans. This affects not only consumers, but also businesses, which cut back on spending for new equipment, thus slowing productivity or reducing the number of employees.

The tighter lending standards mean that consumers will cut back on spending, and this will affect many businesses' bottom lines. This will cause the businesses to reduce the number of employees that they have and to hold off on any major equipment purchases.

Higher interest rate therefore leads to slow growth which, when prolonged could, ultimately end up in recession, leaving a significant percentage of the population unemployed or underemployed. This is usually the macroeconomic fix faced by most economies. Economists have attempted to explain the implications of this concept using the Phillips Curve - the tradeoff between inflation and unemployment.

The aforementioned therefore suggests that before the monetary authorities of any particular economy uses interest rates to achieve their primary objective of price stability, it is critical to understand the underlying factor behind the persistent rise in the prices of goods and services in the economy. Essentially, inflation can be induced either through too much money chasing too few goods – demand-pull inflation – or by an increase in prices of inputs like labour, raw materials, etc. – cost-push inflation.

To tackle a demand-pull inflation, for instance, Governments and central banks would have to implement tight monetary and fiscal policies like increasing the interest rate, lowering government spending or raising taxes. For cost-push inflation, the approach would be different as there may be need for governments to reduce the strength and therefore bargaining power of trade unions; development of policies that would reduce cost of raw materials, e.g. developing alternative energy sources.

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*Consumers would desire to save to take advantage of the high interest rate on their savings.*
*http://www.investopedia.com/articles/stocks/09/how-interest-rates-affect-markets.asp*

# 2017 PRE AGM AND ANNUAL GENERAL MEETING (AGM)
## THE CHARTERED INSTITUTE OF BANKERS OF NIGERIA (CIBN)
### MAY 19 & 20, 2017

Cross section of participants at the 2017 Pre AGM

Group photograph of participants at the 2017 Pre AGM


Prof. Segun Ajibola, Ph.D., FCIB, President/Chairman of Council, CIBN delivering his Opening Remarks at the 2017 AGM


Mr Ken Opara, FCIB, National Treasurer, CIBN presenting the Treasurer's Report at the 2017 AGM

Prof. Segun Ajibola, Ph.D., FCIB, President/Chairman of Council, CIBN discussing with Mr 'Seye Awojobi, FCIB, Registrar/Chief Executive, CIBN and Dr Uche Olowu, 1st Vice President, CIBN

Mr. Femi Ekundayo, FCIB, Past President, CIBN contributing to the discussion at the 2017 AGM

Dr (Mrs) Felicia Anyanwu, HCIB raising her observations at the 2017 AGM

A cross section of participants

**Section III: History of Interest Rate in Nigeria and Level of Achievement of Macroeconomic Objectives**

Lending Rate in Nigeria averaged 14% from 1961 until 2016, reaching an all-time high of 37.80% in September of 1993 and a record low of 6% in April of 1975.

In July 2016, the CBN increased the MPR (Monetary Policy Rate) from 12% to 14% in a bid to control persistently rising inflationary pressure brought about by the then recently introduced floating exchange rate regime.

As enunciated above, this relatively higher interest rate would have implications for borrowers, lenders, economic activities and eventually, economic growth. It took close to eight (8) months for the macroeconomic objective of the apex bank to tackle the spiralling inflation to be achieved as inflation rate consistently rose each month, save in February 2017 when it slowed to 17.78% from 18.72% in the preceding month.

According to Trading Economics, Nigeria's consumer prices (a measure of inflation) increased by 18.72% year-on-year in January of 2017, following an 18.55% rise in the previous month. The inflation rate accelerated for the 12th straight month to the highest rate since September 2005, as prices continued to rise for food, housing and utilities. Inflation rate in Nigeria averaged 12.32% from 1996 until 2017, reaching an all-time high of 47.56% in January of 1996 and a record low of -2.49% in January of 2000.

The primary reason for increased interest rates by the Monetary Policy Committee under the Central Bank has been the benefits it affords lenders, given the current state of the economy. Besides the banks and other domestic financial institutions, the increased interest rates are expected to encourage foreign investment and increased flows of scarce foreign exchange to Nigeria.

However, higher interest rates can adversely affect funding, particularly for Small and Medium-Sized Enterprises (SMEs) businesses which constitute over 70% of all businesses and a major employer of labour in Nigeria. It is therefore not surprising that the statistics for unemployment or underemployment in the country is still high, with official figure stating over 13%.

The unabated increase in inflation for 12 consecutive months suggests that there may be a need for all stakeholders to critically review the current state of the economy and develop strategies to address it.

Given the definition of demand-pull and cost-push inflation above, it is somewhat difficult to draw a clear line of the type of inflation currently being experienced in the country. The current inflation appears to be a blend of these two extremes. Hence, to mainly focus and adopt the use of interest rate to solve the high inflation rate problem may not be the best policy path to tread by the country. While different economies have successfully used interest rates to solve its economic woes and achieve price stability, it must be acknowledged that economic and social fundamentals across countries differ.

In the following section, recommendations for effective policy mixes and initiatives to tackle high inflation rates and to spur economic growth In Nigeria will be discussed.

**Section IV: Conclusion and Recommendations**

In conclusion, while the efforts of the CBN to control inflation and stimulate foreign investments

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*http://www.tradingeconomics.com/nigeria/lending-rate*
*http://www.tradingeconomics.com/nigeria/inflation-cpi*

through monetary policy are laudable, stakeholders in the Nigerian economic value chain should also develop hybrid policies to adequately address the current stagflation in the country.

***It is therefore the view of The Chartered Institute of Bankers of Nigeria that:***

- The Central Bank of Nigeria should continue to build more credibility for markets (businesses, investors, consumers) to buy into its inflation target which currently stands at between 6% and 9%. This would ensure that players in the market do not react arbitrarily, e.g. through disengagement of workers, to any slight change (increase or decrease) from the CBN's inflation target as they would be confident of the apex bank's ability to restore the economy to its target rate in the medium term.

- There is the need to develop homegrown strategies and policy mix to tackle the peculiarities of the Nigerian economy. More policies and programmes such as the Central Bank of Nigeria's Anchor Borrowers' Programme (ABP) should be developed. This scheme is expected to lift thousands of small farmers out of poverty and generate millions of jobs for unemployed Nigerians. If successfully implemented, it would significantly improve agricultural value chain in the country and reduce the heavy reliance on imports which has put pressure on the country's foreign exchange market and indirectly contributed to the high rate of inflation.

- While the Monetary Policy Committee (MPC) focuses on using macroeconomic tools to tackle the poor economic conditions in the country, the government should also focus on other factors which have resulted in capital flight, the unresponsiveness of foreign investors in Nigeria and the overall contraction of the economy. Specifically, the security challenges facing the country should be further addressed in a holistic manner through the creation of a strategic dialogue platform for all aggrieved parties. High interest rate alone would not vouchsafe inflow of Foreign Direct Investment, but a safe business environment is also required. A stronger bond between savings and investments should be created to achieve economic growth. This can only be achieved if the purchasing power of the average Nigerian is not overwhelmed by high inflation rates. As discussed in the section above, high inflation rates erode the value of the Naira, making goods and services more expensive and indirectly discouraging savings that can be used to pool financial resources for productive investments.

- There is the need for greater initiatives to promote SMEs and made-in-Nigeria good/services. This would, among other things, offset the high demand for foreign goods and services and hence tame the outflow of scarce foreign exchange. The recent passage and signing of the Bill on Secured Transactions in Movable Assets Act is a step in the right direction.

- In addition to the use of interest rate to solve the demand-pull inflation, various supply-side policies should be developed to address the current cost-push inflation. These would include: using the tax system to provide incentives to help stimulate factor output; religious commitment to the promotion of local-content initiative in the country; and huge investment in human capital development by the government and other stakeholders which would translate to increase in output per capita.

- The current high unemployment rate should be tackled indirectly by the government. The government should focus on providing an enabling environment for business growth rather than focusing on the provision of jobs for the teeming population of the unemployed. Anecdotal evidence suggests that Nigerian citizens have the entrepreneurial resilience and skills to create jobs for themselves and others, given an enabling environment. This environment would include basic infrastructural facilities; removal of bureaucratic bottlenecks in approving business enterprises; granting tax holidays for entrepreneurs with outstanding business proposals, and so on.

# 2017 CIBN ANNUAL LECTURE

## Theme: National Integration, Citizenship and the Challenge of Economic Policy Making

***June 15, 2017***

***DELIVERED BY PROFESSOR OSITA OGBU***

Prof. Segun Ajibola, Ph.D., FCIB, President/Chairman of Council, CIBN

Mr. Aigboje Aig-Imoukhuede, CON, FCIB, President, Nigerian Stock Exchange, Chairman of the Occasion delivering his Remarks


Mr Akinyemi Ashade, Commissioner for Finance, Lagos State delivering the Goodwill Message on behalf of His Excellency, Mr Akinwumi Ambode, FCA, Executive Governor of Lagos State

The Guest Lecturer, Prof. Osita Ogbu, Professor of Economics and Director, Institute for Development Studies, University of Nigeria, Nsukka and former Minister and Economic Adviser to the President of the Federal Republic of Nigeria delivering his paper

L-R: Mr Ken Opara, FCIB, National Treasurer, CIBN; Dr Uche Olowu, 1st Vice President, CIBN; Mr. Aigboje Aig-Imoukhuede, CON, FCIB, President, Nigerian Stock Exchange; Prof. Segun Ajibola, Ph.D., FCIB, President/Chairman of Council, CIBN; Prof. Osita Ogbu; Mr Akinyemi Ashade, Commissioner for Finance, Lagos State and; Mr Bayo Olugbemi, FCIB, 2nd Vice President, CIBN

Prof. Segun Ajibola, Ph.D., FCIB, President/Chairman of Council, CIBN presenting a plaque as a token of CIBN's appreciation to Mr. Aigboje Aig-Imoukhuede, CON, FCIB as the Chairman of the 2017 Annual Lecture

Prof. Segun Ajibola, Ph.D., FCIB, President/Chairman of Council, CIBN presenting a plaque as a token of CIBN's appreciation to Prof. Osita Ogbu as the Guest Lecturer

A cross section of participants at the 2017 CIBN Annual Lecture

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