

Banker's Academy BRIEFINGS

Banker's
Academy

Wednesday, September 30, 2009

Learning from the Anti-Consolidation Attacks on the Nigerian Banking System

By Dr. Linda Eagle

Anti-consolidation efforts have re-emerged in the Nigerian banking industry in an effort to shake public confidence in five of Nigeria's largest banks. The recent Nigerian bank consolidation, an effort to pool bank resources to raise the 25 million Naira (NGN) required for capitalization by the Central Bank of Nigeria (CBN), is intended to improve services rendered by the banks and the overall stability of the banking system.

Adequate capital is vital to maintaining any stable business environment – the banking industry is no different. With adequate capitalization, depositors and creditors are protected in a time of failure, banks can attract funds at lower cost, and most importantly, they can maintain a high liquidity position. This high-liquid, low-risk position is exactly what Nigerian anti-consolidation forces are trying to destroy. With an eye toward defense, Nigerian banks have been rushing at an unprecedented rate to prepare and train their employees for the fallout anticipated from these attacks.

How Did This Happen?

Some might wonder why these forces are looking to destroy what these Nigerian banks have worked so hard to obtain. According to some officials, the pure and simple reason is what often motivates so many when it comes to money: personal gain. They say that the anti-consolidation forces are made up of former bank owners who did not benefit from the consolidation exercise, a powerful clique in the present government, and other constituents of three of the six Nigerian geopolitical zones who also felt left out by the consolidation effort.¹

They further claim that the main goal of these individuals was to shatter the newfound public confidence in the banking system, which they hoped would result in a massive withdrawal of funds that would rock the liquidity of the banks involved.² These individuals were also hoping that a general mistrust by the people of the Nigerian government would quickly spur their anti-consolidation efforts forward. Some tactics used included sending threatening text messages to account holders from the five targeted banks, which contained false information about their accounts.

With the banks in a potentially fragile state, these forces hoped to exploit the predicted recent NGN400 billion (US\$2.5 billion) bailout that was enacted by newly-elected CBN Governor Sanusi Lamido Sanusi

¹ *Gabrie, Omoh I & Mamah, Emeka. "Group Plots Takeover of Five Top Banks"*
[<http://www.vanguardngr.com/2009/08/26/group-plots-takeover-of-five-top-banks/>] August 26, 2009.

² *Gabrie & Mamah.*

on August 14. While the motives and effectiveness of the bailout are debatable, it is clear that the stability of the Nigerian banking system, as well as the people's faith in the system as a whole is at stake. The Arewa Consulting Forum (ACF) has tasked the CBN with keeping the public informed of all developments in this area.³ In response, CBN officials are working hard to maintain the newfound confidence of Nigerian citizens in their banking system, a challenge in a time of world economic crisis.

As of September 1, four out of the five fired bank chiefs had been arrested on five separate charges, totaling 131 counts each.⁴ Some of the charges included violations of bank code of conduct, failing to submit an accurate monthly bank return to the CBN, granting non-performing loans and keeping inaccurate bank balance sheets. The chiefs face serious fines and prison times in addition to their destroyed professional reputations.

The investigation that followed the bailout, which initially included a thorough audit of five major Nigerian banks, resulted in Sanusi firing the chief executives and boards of these banks. The probe found that the five selected banks did not possess the ability to meet the obligations of their depositors and creditors, placing them in a grave financial situation. As promised by the CBN, the investigation and audits have been expanded to include all 24 of Nigeria's banks.⁵

Preparing for a Larger Impact

The stack of charges brought against the arrested bank officials demonstrates a need to maintain awareness and compliance with banking regulations along with clear indications of the consequences for failure to comply. All 24 Nigerian banks will continue to feel the pressure of increased scrutiny even as the CBN's investigation wraps up. Media coverage of the scandal may undoubtedly create waves of uncertainty amongst the Nigerian people when it comes to the strength of their banking system. All banks, both large and small, must understand that the impact of the CBN's bailout and subsequent investigations will likely be felt by the Nigerian banking system for months, if not years.

Moving Forward

All banks must reevaluate their training and management strategies to ensure that this type of scandal does not happen again. A successful training program will allow bank employees to understand the recent crisis while also giving them the tools to ensure that it doesn't happen at their bank. With the recent scandal, many Nigerians are worried that their money may not be safe, and they are fearful that their banks may fall victim to the current crisis. The only way to combat this way of thinking is for consumer fears to be addressed openly and proactively, especially by front line bank employees, who need to be properly trained to answer questions and calm concerns. Finally, a broader education on Nigeria's banking history, past difficulties, and current struggles can only be beneficial to bank employees.

Internal and External Reassurance

Proper education is the base of increased employee confidence, which in turn translates to public confidence. The negative impact of this recent scandal on consumer confidence is very real and must be addressed. Losses in consumer confidence have intensified economic crises around the world for decades, and it is important to understand that the Nigerian banking system is not immune to this trend.

³ *Gabrie & Mamah.*

⁴ *Iriekpan, Davidson.* "Bank Chiefs Arraigned, Face 131 Charges," [<http://allafrica.com/stories/200909010001.html>], September 1, 2009.

⁵ *Jaco Maritz,* "Nigeria: Central Bank Acts Boldly to Stabilise Banking Sector," [<http://allafrica.com/stories/200908240069.html>], August 24, 2009.

Frontline banking staff who are not trained to properly communicate the safety and soundness of the Bank to customers can be potentially detrimental to reassurance efforts. If customers sense that banks are either trying to minimize the crisis or are unsure of how to deal with it, they will not feel comfortable entrusting banks with their funds and the liquidity crisis that the anti-consolidation forces were trying to cause could very well begin to take place.

A Positive Outcome

The good news is that projecting an image of stability and confidence is a move within reach of all banks. With training, employee morale increases. Confident, educated bank employees can offer sincere, informed responses to customer's questions and concerns. Reassured customers not only remain loyal to their banks, but tell other customers about their positive experiences with the competent, experienced staff of that bank as well.

Most importantly, educated employees make fewer internal mistakes that can negatively impact the bank's operations, lowering the risk of compliance breaches. Ongoing training efforts ensure that this knowledge is kept up-to-date with the latest developments in banking policy and procedure. The audits currently being conducted in Nigerian banks are a perfect example of why employees must be on their toes and ready to comply with officials no matter the circumstances.

Final Word

Although there is no immediate solution to the current Nigerian financial crisis, there are clear measures that banks can take to ensure that their employees are ready to handle both audit situations and everyday consumer inquiries and concerns. Training is the solution to meeting both goals. Prevention of a scandal is always a much simpler undertaking than recovery from an upset like the one caused by the recent arrests of the Nigerian bank chiefs. While the road to financial recovery in Nigeria may be long, with patience, education, and training, the CBN's goals of increased banking stability and consumer confidence can be ultimately reached.



Dr. Linda Eagle is Founder & President of The Edcomm Group Banker's Academy—a 22-year-old education and consulting firm dedicated to serving Banks, Credit Unions, Money Services Businesses (MSBs) and all areas of the Global Financial Community with thousands of generic and customized training programs in areas such as BSA/AML, Regulatory Compliance, Teller Training, Systems Training, Sales and Service Training, and many more.

The Edcomm Group Banker's Academy is headquartered in New York, NY. For more information, email linda.eagle@edcomm.com or call +1.212.631.9400.