Skating on Thin Ice

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The establishment of three bridge banks by the Nigeria Deposit Insurance Corporation to take over the operations of the failed banks has created more problems for them than it was meant to solve

Umaru Ibrahim, managing director, Nigeria Deposit Insurance Corporation, NDIC, is not a soothsayer. And so he could not exactly tell where and what the state of the Nigerian financial system will be in future even though he is one of the chief regulators in the financial sector. But he gave a glimpse of what is actually happening now in the sector which has weathered a lot of turbulence since 2009 and is still in the throes of a deep crisis. As a regulator, Ibrahim’s view is germane to restoring confidence of both investors and depositors to the banks. But could he? The answer could be found in his verdict: “We are still scrambling to correct the system. It is going through the recovery phase. Nobody can say where the system can be in the next 10 – 20 years. We are in a recovery period – dealing with toxic assets, fixing so many things for the banking system to work. I don’t have a crystal ball to say where the system will be in the next few years.” Understandably, there has been a lot of rot in the banking system which the NDIC and the Central Bank of Nigeria, CBN, the regulatory agencies, should be held responsible for not smelling a rat on time despite that they carried out regular supervisory activities in the banks. Ibrahim thinks NDIC is not to be held responsible. According to him, the corporation raised alarm when its investigations uncovered the problems in the banks. “When these things (rot in the banking sector) were happening we shouted. The ones we examined, we shared our report. In 2008, when we published our report we classified the banks and it did not go down well with the CBN governor at the time” and he called a breakfast meeting to repudiate it, Ibrahim told journalist, in Lagos, November 11. According to him, since 2009, the Corporation had been concerned about the poor level of corporate governance, unguided credit boom and the unfortunate deterioration in asset (loan quality of insured institutions. Hence, the CBN and the NDIC conducted special examination of 24 deposit money banks in August 2009 which revealed that 10 banks were in grave financial condition. The findings from the examination led to the removal of eight chief executive officers of the distressed banks and members of their executive management team and their replacement with new executive managements appointed by the CBN. The CBN also injected N620 billion into the affected banks as tier two capital and declared that no bank would be allowed to fail. As a result of the CBN interventionist action, Ibrahim recalled that owners of Wema Bank and Unity Bank were able to adequately re-capitalise their banks while Union Bank PLC is being recapitalised by shareholders and a consortium of international investors. Four of the intervened banks, namely: Oceanic Bank PLC, Intercontinental Bank PLC, FinBank Plc and Equitorial Trust Bank Limited, have all found willing merger partners/acquirers. In fact, Access Bank PLC. has successfully completed the acquisition of 75 percent majority interest in Intercontinental Bank PLC. Consequently, Intercontinental Bank has become a subsidiary of Access Bank with effect from October 14. The two banks are expected to merge in the second quarter of 2012. However, two years after the CBN intervened in the banks, the crisis of confidence has continued in the financial sector basically due to the inability of the apex bank to check the continuation of the problems which derailed the banks. This time around, it was perpetrated by the chief executives who replaced them. Although Ibrahim said critics were “very unfair to the interim chief executives” because they had only two years to rectify the rot in the system, the fact remains that both the NDIC and the CBN had already uncovered those misdeeds which were totally different from the allegations of misconduct against the new CEOs. This was obvious in their failed attempt to reposition three of the troubled banks. Hence, Ibrahim said while other banks had made and or were making series of efforts to improve their financial condition through recapitalisation, it was apparent that the other three of the intervened banks were not making much efforts that could likely yield any meaningful result by the end of September 2011. Thus to stop further damage to the banks before that day, the regulatory authorities had to further intervene in their affairs. Because of this, barely 56 days to the end of the September 30th deadline given to the banks to recapitalise, the NDIC, pursuant to the provisions of the NDIC Act, and after due consultation with the CBN and the federal ministry of finance, established three bridge banks for subsequent transfer into them of assets and liabilities of Afribank PLC. Bank PHB Plc and Spring Bank PLC. The Bridge Bank failure resolution option was adopted August 5, to resolve the problem of the three banks. Following this decision, three bridge banks were created to take over the assets and assume the liabilities of the three sick banks. The bridge banks are Mainstreet Bank Limited, Keystone Bank Limited, and Enterprise Bank Limited, replacing Afribank Nigeria PLC, Bank PHB Plc and Spring Bank PLC, respectively. The Bridge Bank mechanism was adopted by the NDIC to preserve and sustain daily operations of the failed banks by ensuring that all the 557 branches of the banks would continue to function. It was done to safeguard 6,667 jobs in the affected banks; enhance confidence of both depositors and creditors of the banks as well as prevent the systemic repercussions of the failure of the banks on the financial system thereby ensuring financial and macro-economic stability. According to Ibrahim, the three banks were acquired by the Asset Management Corporation of Nigeria, AMCON, the same day with an infusion of N678.8 billion ($4.526 billion). The infusion of money into AMCON is a source of worry to Nigerians who believe that the fund was not appropriated in the 2011 budget. Again, a school of thought believes that AMCON is a cesspit of corruption meant to cover up the debtors who supported the ruling party during the April elections and that as result, the debtors of the banks will go away scot-free. Denis Odife, chairman, International Centre for Economic, Social and Public Policy Analysis and Research, reinforced this viewpoint when he said that the assets management company was another name for a bail out of the same assets which only recently we all described as toxic assets. “The first question is whether “toxic assets” can, and could qualify for a bailout by government without first being “detoxified”, he argued. The NDIC boss has defended AMCON, saying: “It is not a bottomless pit but a well- structured institution

set up to help problem banks by investing in them. The debtors must pay. We are talking of billions worth of assets. AMCON is barely a year old. It is called a bad bank” because of the nature of its business. At present, the money AMCON is infusing into the banks is not appropriated. AMCON raises money by floating bond which is authorised by the ministry of finance. It gives the bonds to rescued banks which cash it at the CBN. No doubt, the NDIC action is well intended. But will it solve the problems in the affected banks? Does the NDIC take into cognisance the problems the courts might pose should they accede to shareholders’ demand and reverse the bridging of the troubled banks? The NDIC may opt to cross this bridge when it gets there. But the obvious thing now is that six court cases are pending in the Federal High Court and the Court of Appeal all in Lagos, against the process and manner the recapitalisation of the distressed banks were carried out. The cases were instituted by aggrieved shareholders who are challenging the nationalisation and the sale of their banks to new owners by the CBN. The bad news for the NDIC though is that last Tuesday, a Federal High Court in Lagos temporarily halted the operations of the bridged banks pending the determination of the suit in court. The ball is now in the NDIC’s court.