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Preventing Financial Scandals With Training The Impact of Nigeria's Financial Scandal on Local Banks

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The recent financial scandal in Nigeria has stirred local media attention and attracted international focus from all over the world. As word spread about the distribution of a billion dollar bailout, questions began to surface about the soundness of banks in this coastal African country. Concerns continued to grow when the Central Bank of Nigeria's (CBN) new Governor, Sanusi Lamido Sanusi removed the CEO's of five of the largest Nigerian banks. As a result of the Governor's actions, many local Nigerian financial institutions are preparing for a potentially negative blow to both their economy and to the funds of their customers.

The Situation

The cause of the recent financial situation in Nigeria dates as far back as October of last year when the CBN extended financial support to several Nigerian Banks.¹ Due to a serious liquidity strain, the CBN had offered an Expanded Discount Window (EDW) to these banks. The EDW extended credit facilities on the basis of collateral in the form of commercial paper and bankers' acceptances.

However, problems grew when banks neglected to pay back what was lent to them during the EDW. As of June of this year, the total amount outstanding at the EDW was N256 billion (US \$1.6 billion).² While many banks benefited from the EDW, five of the largest banks in Nigeria reportedly owed the most money – *Oceanic Bank, Intercontinental Bank, AfriBank, Finbank and Union Bank*.³ The CBN identified these five banks as probable sources of financial instability, most likely suffering from deeper problems due to non-performing loans.

When officials reviewed the activity in the EDW, they discovered that four of these banks had been almost permanently locked in as borrowers and were clearly unable to repay their obligation. A fifth bank had been a very frequent borrower when its profile ordinarily should have placed it among the net placers of funds in the market⁴. It also became evident that the affected banks were taking money from the interbank market to repay their exposure to the discount window. To the CBN, it quickly became clear that the banks had no cash at all and that their balance sheets had shrunk – both signs that the banks were going under.

¹ Jaco Maritz, "Nigeria: Central Bank Acts Boldly to Stabilise Banking Sector," [<http://allafrica.com/stories/200908240069.html>], August 24, 2009.

² Maritz.

³ Maritz.

⁴ Maritz.

As a result of this financial scandal, Sanusi enacted a N400 billion (US\$2.5 billion) bailout on Friday, August 14, 2009.⁵ Sanusi also immediately suspended and replaced the CEOs and executive directors of the five banks with acting CEOs to head their management teams. According to Sanusi, these actions were taken to resolve and stabilize all the institutions and help them to continue business as normal. The CBN has also reported that it will extend its examination to cover all of Nigeria's 24 banks⁶.

The Solution

Although the CBN has recently put a recovery plan in place to remedy Nigeria's financial situation, local banks must also take action during this time to protect themselves, their employees and their customers. The best plan of action that these banks can take to remain secure is to provide training for all bank staff. An effective training program will help employees to understand the current financial situation, including how those five particular banks failed and what could be done to prevent it from happening. In addition, employees should be able to recognize the history of their country's banking industry, the past crises the industry has endured, and changes that have been made to ensure its stability.

Through training, employees will also become familiar with internal auditing procedures and the external regulatory bodies that exist. When the CBN audits the bank, the employees will be better prepared to help ensure a smooth and successful examination. An educated staff will demonstrate to the CBN that the bank is accurately performing all its duties. By implementing a comprehensive training program, Nigerian banks can build a knowledgeable, educated staff that is fully prepared to not only handle the recent financial scandal, but to handle any future scandals, should they occur. The implementation of a training program offers local Nigerian banks the following benefits.

Increased Employee Confidence

Comprehensive training will give bank employees the skills and knowledge they need to effectively accomplish all of their daily responsibilities without concentrating on the financial situation at hand. Rather than feeling overwhelmed or worried about the current financial scandal, employees will feel confident about completing their tasks and helping the bank to succeed. By teaching employees what is happening in the industry as well as what their own responsibilities are during this time, the bank will prevent any unnecessary concern or distraction among its staff.

Reassured Customers

A well-trained bank staff will also help to reassure customers during this financial scandal. A knowledgeable and educated staff will be more equipped to answer any questions and communicate with their customers about the financial situation. Training teaches all frontline staff to properly communicate with customers about the safety and soundness of the Bank and their funds. Customers will in turn feel more relaxed, reassured and comfortable with their banking experience. Reassuring customers during the current financial scandal will keep them coming back to the bank as well. Additionally, an educated staff will also attract new customers to the bank.

Reduced Risk

Training teaches all frontline staff how to properly communicate with customers about the safety and soundness of the Bank and their funds without increasing the risk to the Bank of saying something they shouldn't. Knowledgeable and confident employees will also make fewer mistakes – avoiding costly errors and lowering the possibility of risk to the bank. Training will also reduce risk to the bank by

⁵ Maritz.

⁶ Maritz.

helping them remain compliant with all banking policies and procedures. An ongoing training initiative will keep all staff knowledgeable about banking laws and regulations and provide proof to examiners of their efforts.

Final Word

While the CBN works to pick up the pieces of the recent financial scandal in Nigeria, local banks can take their own steps to remain stable in today's economy. Through training, banks can build an educated, knowledgeable staff that is confident and prepared to protect their bank and reassure their customers during this difficult time. In addition, training will also help banks to demonstrate their stability and security in order to satisfy examiners. So, when the CBN comes knocking at their doors, Nigerian banks will be able to present strong, compliant institutions run by well-trained staff – the best defense against even the worst financial scandal.



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