

THE GUARDIAN



Q & A with Ola Vincent, Former CBN Governor

Highlights:

- 🔴 Ex-CBN Governor Warns Sanusi on Bank Reforms: Don't Disrupt The Climate Of Trust
- 🔴 Why Foreign Banks Are Cautious
- 🔴 CBN Shouldn't Act In A Hurry
- 🔴 Banks Must Be Given Fair Hearing

Chief Ola Vincent is former Governor of the Central Bank of Nigeria (CBN), having superintended over the affairs of the country's banking sector between 1977 and 1982. He had joined the apex bank as an Assistant General Manager in 1961, from the Ministry of Finance and rose to the position of General Manager before joining the African Development Bank (ADB) in 1966 as Vice President, Operations. Ola was to return to the apex bank as Special Adviser to the Governor in 1973 before being appointed Governor in 1977, and he retired in 1982. In terms of number and size of banks, as well as political environment, a lot of water seems to have passed under the bridge between Ola's era at the CBN and now; but the octogenarian said that the rules of engagement largely remained the same.

In an exclusive interview with MARCEL MBAMALU at his Victoria Island residence, he spoke on the current crisis in the banking sector. Excerpts:

Q: How do you see the intervention of the CBN in the risk portfolios of the five Nigerian banks?

Well, there is one principle, which must be observed - fair hearing. The present situation was not brought about by what the bankers did. But when the result of the audit was prepared, those involved should have been invited and the matters exposed so that you hear what they have to say on the findings. This is a basic rule.

In a bank audit, when the examiner visits a bank, he discusses with those involved; and when he has formulated his opinion and the result of the audit prepared, the Central Bank will still send this to the Managing Director with a request that he should convene a meeting of the board to discuss the proposition.

So, whatever we have now is not because of the actual misdemeanor of the bank executives. The real issue is that an audit was carried out; the person whose account has been audited should be invited by the person who authorised the audit to look at the issue and figures together. In the face of what has happened, the CBN has not done this. And fair hearing is a major issue in law under a democratic system.

Let us hear the other side. Whether what the bank executives and the debtors had to say would have modified something is a different matter. But you need to give him the opportunity to explain themselves because the auditors might have been looking at the matter in a different way. He will then tell them this is what has happened.

Q: The business of banking has to do with double entry and there is really little one can do to controvert what is already in the records; again there are issues concerning collateral. How do you comment on all these?

There is an issue about collateral. But collateral is a matter of opinion. For instance, what collateral did Columbus give when he went to discover America? For 10 years, he was going around to get supporters to finance the project but eventually he found somebody. What collateral did he give?

Collateral is dependent on the project, on the people financing it, and on the people who devised the project. The banker might decide to give weight to the quality of the project - and the quality of the proposed manager - and go less on guarantees and directors. He will still ask for it; but the decision will be based more on the quality.

For instance, if somebody says he wants to drill oil, the first question is whether the man has got the permission and licence. Are you up to date with rent and so on? The banker is not going to ask for your collateral, because it is something, which you ask for as a backup.

It (collateral) often comes when the banker must have decided that this is not a good project. He is just telling the borrower that he (the banker) doesn't trust the project or its manager. But if it doesn't work out, he will fall back on the collateral.

But when you are examining a proposal, you examine what he wants to do with the money. Is he competent to manage the project? At what rate will the return be coming in?

Q: So, would you say the affected banks actually took the wrong steps as at the time they were giving out the loans, which are said to be non-performing now?

The decisions are not wrong. It is an evolution. Somebody may plan to build a power station on the request of the government and payment has to be made every three months. If the government reneges or fails to perform, the situation has changed.

So, the operator of a project may have very good reasons why he cannot pay. What if he expects money from the government and government does not pay? The determining factors vary.

Somebody may say he has found gold in a place. Then, you must look at all the geological reports to confirm that there is gold. How does he want to bring out the gold? That is the issue. But you cannot criticize somebody over the failure or inadequacy of a deal. You must read the reports and the operations; and you must find out why he cannot perform as briefed.

You cannot generally talk about banks lending without collateral. You must take each project and see the assumptions. If those assumptions were falsified and it is not within the power of the bank or its approval to do anything about it, you cannot, in arrears, begin to condemn them for being too careless. Nobody can predict the future perfectly. You take assumptions and hope that your assumptions will come out right.

My point is that before you can officially condemn somebody on this question, you must look at the situation and say this is what he should have foreseen; but if it is something, which he could not have foreseen, you cannot blame him.

For instance, what collateral did they give to bring the Nigerian railway from Lagos to Jos? The rail is a very big project; but it is a question of faith. But on what do you base your faith? The people going to Jos said they wanted to bring down tin; and the tin is there. If the railway line has been built and the quantity of tin didn't materialize, then you go back and check the report about the availability of tin.

But a good banker looks at the project and the person who has come forward to operate the project. Collateral will come in but it is not the first question. When the issues are joined, you will explain why you did so. But in most cases the explanation is that another bank wanted to take the project. But until the matter has been put down, I will personally not be involved in saying whether or not the action of the CBN was right.

Q: But were the affected banks not wrong in taking some of the decisions?

The banks were wrong in what aspect?

Q: In the area of giving out loans

No. It is difficult to start judging the action of another person when the issues have not been exposed to him for his comments.

The notion that the banks might have been wrong is not a fair proposition. To me, as a former operator in the system, I will not like somebody too look at the records and say I was wrong. No, I will like the person to bring the matter to my notice and I will look at it to say what was operating in my mind at the time I did it.

You may even find something worse than the question of collateral like the company to which he had lent belonging to him. Did he tell the Board of Directors that he had interest in it? As soon as he says that, the board will look at it very well to make sure that the project is qualified enough to get the facility. The quality of the project and the operators is very crucial.

Q: How would you react to the EFCC-assisted loan recovery drive of the apex bank, at least in the context of the debtors' claim of discrepancy in figures published by the CBN?

The loan recovery technique is a bit rough. It is quite possible that some of the borrowers did not heed the request of the bank; but it is important to sit them down and clarify why they have not paid. If he was expecting money from the government and this fund is not forthcoming, you cannot compel him to go elsewhere to bring the money. The principle of fair hearing also applies to the question of the debtors. They should know that borrowing or lending is not a criminal affair; it is a matter between a willing lender and a willing borrower and if there is any disagreement, they should sit down together and look at it.

Q: Do you mean the intervention of the EFCC is actually unnecessary?

EFCC may be looking at it in the sense that these are public funds and it is not fair that one chap acts in a way that will make it impossible for the banks to perform its duties to other customers. But it is not, in the first time, a discussion with the EFCC.

Q: In what ways does the government contribute to the issue of non-performing loans?

This is why there should have been prior discussion. Until you talk to the other person, you won't know whether, or not, government is behind it.

The idea of jumping into conclusion is the problem that we have. There is no financial system, which is based on credit, where this sort of thing does not happen. That is why when this kind of situation occurs, you have to discuss with the borrower - not to drag him as if he or she is an armed robber.

The lesson, which we have to draw from the present situation, is that if somebody had been assumed to have gone wrong, we must talk to him first; and it is during the discussion that you know if it had been a deliberate attempt on his part to disregard the normal rule.

Q: What positive impact do you think the shake-up is likely going to have on the banking sector?

Banking is based on trust. It is also an international business. If you now go around and say that many of the people in your banking system are rogues, you cannot expect banks in other countries to trust your banking industry. So, you must be careful when making accusations or allegations; you must be sure that what you are saying is true and know the best way to say it.

A bank is in England and you now go there and say that some of the banks in Nigeria are corrupt; why should the English bank say that there are 10 banks there and one of them could be good.

You see, you have disrupted the climate of trust that we had. So, it is bound to have an effect internationally. Even in Nigeria, there is the fear that if bank X could be funny, how could one believe that Bank Y is not doing the same thing?

As a journalist, your employers do not pay you at the end of everyday; you get your salary at the end of the month. But you believe that at the end of the month they will pay. If they don't pay your salary by the beginning of a new month, you may be thinking next month's salary could come much later. It is a matter of trust and we should do whatever it takes to build up that trust.

Q: Are we doing that now?

No, the trust has been disrupted; but it can be built back, because we must have it back. We cannot put our money under our mattresses.

The CBN has denied reports that foreign banks are already rejecting new letters of credit from Nigerian banks based on the controversy confronting the industry, including the manner with which the apex bank managed the non-performing loan' issue...

If your system here is not in order, how do you expect another person, who does not live here, to honour your letters of credit? It is a normal reaction. Then the CBN has to take extra measure to assure them we have so much money here. But there has been a disruption of trust and this can be reduced.

Q: How?

For instance, they have examined 10 banks. When they are through and we know the extent of the problem, then we devise a means to prevent it. That's the response to meltdown. In

Britain, the government acquired 60 per cent of the banks. Once you have ascertained the problem, the CBN will sit down and determine how to solve the problem.

Q: Is the injection of N420 billion part of the intervention you are suggesting?

The government issued treasury bills and most of the buyers are banks. They have a system whereby if a bank requires more money, it can go back and negotiate and convert the treasury bills into cash. As soon as it has the cash, it returns the money. That's why they have the EDW. It was prescribed by the CBN to allow banks, which required liquidity to go to the CBN. It started since last year and it has been going on.

Q: Was it not a kind of response to the crisis?

The new CBN Governor's view is different. He must have had his own reasons for going the way he went. He carried out an audit.

There are 24 banks. Before first action, which he took, every bank should have been examined and we know to what extent they are involved. Then, when you want to deal with the matter, it is not only the reaction of the banks that one needs to consider, but also that of the international banking community and the financial system in the country.

The governor had to go to London to explain, which shows the international character of the system. We buy goods from them. People have to pay us and we have to pay people. We are inter-connected.

So, whatever is happening here will be interpreted by other people. The culture and function of the Central Bank is to lend as the lender of last resort. If a bank is in a liquidity problem, the CBN should allow it say, six months to resolve the problem; and if the liquidity crisis persists, it will call the shareholders to say 'you have to recapitalize otherwise we intervene.'

The CBN did that through the Expanded Discount Window. And that was the misunderstanding that some people in the National Assembly had. It is the function of the CBN to lend. There is a pool of money from which they divert funds to the banks.

Q: But CBN said it actually printed the N420 billion...

Well, to have a currency, you have to print it.

It is the inter-linkage of the financial system that makes it a delicate organism. And sometimes, people blame the Central Bank: why did you allow the banks to do this? If you say bank X is not good, Mr. A. who banks with Bank Y may say, 'look these people might go the same way.'

And if there are 20 banks, all of them will be under suspicion. It is this linkage that makes it difficult to deal with a bank without giving it sufficient notice, because it's going to affect those who have nothing to do with it. If Bank X fails, why should somebody think that Bank Y would not fail?

Q: Are you saying the action of the CBN Governor is not the best?

Well, I cannot judge, for the simple reason that when the 13 other banks come out, we will be able to see. But there is a principle that we have to apply. A man should not be condemned until he has been proved guilty. You carried out an audit, and then you should bring in the

person whose books have been audited to comment on the report. Then it is quite possible that a compromise or an agreement will be reached on how to deal with the particular situation.

Q: There are talks about plans to sell the banks to foreign investors and the CBN, last week, said it is averse to minority ownership of banks in the country. What do you make out of the whole scenario?

These are imaginations. It's the existing shareholders who will say where their new operators would come from. They could decide to have a rights issue and bring up the money from among themselves. So I do not understand the problem in this system.

Q: The CBN is lending money, but it has already changed the banks' leadership. Does this amount to takeover of the affected banks?

Lending money is the work of the Central bank. The change in leadership is a separate operation. And the procedure or process for this is laid down.

I'm not a judge and they're in court about that; if you want to look at this matter properly, you have to empty your mind. People say that the N400 million is a loan and the other people can rally around and pay.

You have first, the liquidity ratio, which is related to the N25 billion capital. When issues have become controversial, people try to explain in different angles. The question of changing ownership is laid down in CAMA (Companies and Allied Matters Act).

Has he said he's offering them to foreign investors? A foreign investor can own a bank 100 per cent under the current law. It is not a new thing. And if we're talking about an existing company, then the procedures laid down in CAMA would now be followed.

You see, people are imputing motives and projecting things. I don't think we have reached the stage where people can objectively discuss the matter.

An audit has been carried out; those affected should be given a copy and they discuss it in a way that would not disrupt the economy. And the fact that somebody is supposed to maintain 30 per cent liquidity is at a given date.

Errors could be made, but my position is that we should be fair to one another. This is a democracy and the rule that you must hear the other side is fundamental. I wouldn't like to be condemned on the basis of what another you see, because what we see may not be the reality.

So what the auditors have seen, the people running the bank should now say that they did them or not. That does not mean the Central Bank should believe or take them. But it should obtain from them their explanation on actions, which they have taken and have resulted to a particular situation. That is my own view and I won't try to judge until all the facts have been out.

The banks are human organisations handled by human beings' so, there could be mistakes. Once you've decided to check what they are doing, you should bring whatever are your findings to the notice of those who are running the banks and ask for their own opinion. And on the basis of that, you can then take actions.

Then the question is that if you say Bank A is going down, then the public will say what happened to Bank A might happen to Bank B. So, you will disturb their emotions. But at times, you cannot help it because the owners of the bank should have been told the problem and asked how much time they required to correct the errors, because the principle of fair hearing is fundamental.

Many banks have gone down. Since one of the biggest banks in America - **Lehman Brothers** - fell, the signal became clear. People should have been careful; when such a big bank went down, everybody should have taken care.

Something happens to a particular bank, and the customers of the other bank are put on edge, as they begin to wonder whether the same thing would not happen to theirs. And that is why we have the Deposit Insurance Commission.

You can have a situation where you want to instill confidence. If somebody has N50 million as deposit, his problem is different from somebody who has only N1 million. So once you declare a bank bankrupt, you will now say anybody who has deposits below N500,000 (and can prove it), will be paid immediately.

Delay disrupts the system. The promise to pay should be automatic. And that's part of the thing you have to discuss with the bank before it goes out of operation. And that's how to increase confidence, because if you don't lose money in a bank, you don't have to worry. But if you have money in a bank and it is declared bankrupt and it is taking months or years before you get your money back, it upsets depositors.

Q: On margin loans

There is no stable electricity supply; so the real sector is not working. What was left for the bank as at the time the loans were granted was to service those who wanted to buy stocks.

There is another issue of not having the refineries working; so, the products have to be imported, which involves foreign exchange. This has always created problems between the banks and the oil companies. The Dollar now goes for N150, and that's a major upset. Banks are involved in this.

So, we have what is called environmental factors. If we had refineries, banks would still be involved, but everything will be in Naira. With electricity supply, the projects from the real sector will be attractive enough and the banks would not spend so much on stock exchange affairs.

These are issues that require delicate handling. At the moment, let them bring the report of the other banks.

Q: There is this concern that with the partial treatment given to the issue, other banks could cover up their tracks...

There is no reason to doubt their integrity. There is a limit, because if an auditor is going in now, he's going in at the end of August. There is very little you can do by way of cooking up, because it is a double entry. What you didn't put in, you cannot take out.

It is this lack of trust (even the way EFCC intervened) that has caused a lot of problems. Why do you ask someone to post a bail of N1 billion when the minimum wage in

the country is fixed at less than N10, 000 per annum, and there are people who are living on less than one dollar a day?

In other words, there are people living on less than N100 a day; and you now say you want a Minister as surety. If a minister comes out and is sacked today, the man has to find another Minister.

For a person who is a Managing Director, you must assume he has been in the system for, at least, 20 years. So he cannot just disappear into thin air. For some of them, it could have been on the basis of self-recognition. He submits his passport and cannot travel; and he has not been proved guilty, because if he had he would have been sent to jail.

But it shouldn't be so; this mistrust on people who are doing well. Of course, shifting the corruption gaze to bankers suits the interest of political operators.

There is lack of decency, a man is the chief executive of a bank; they say something is wrong with the bank, and you say you must hold him. He was doing his work and nobody has come out with any concrete evidence that when he was there, this is what he did. I don't think that we care enough for those who are being accused. We have General Obasanjo, who can recount some of the things they did to him in prison.

In fact, General Yar'Adua never came out alive. We need to correct that aspect of our administrative arrangement. You call them chief executives of banks and you are ready to manhandle them because of just an allegation.

Some people think what have been said are facts, but they are not. They are allegations, which still have to be proved. So that humaneness has to be infused into our system. They have been accused, but the judge has not yet looked into it. It is just like somebody two even numbers and arriving at an odd number answer; and the other person says it is an even number.

As I have said, we have to wait until we get the report of other banks. And when we get the reports, we would see the extent of the rot in the system. But you know what? We should not destroy the system, because the system is based on trust and confidence; and trust is a very delicate object.

Q: Under your watch, what did the regulatory functions of the apex bank look like?

Under my watch, there were only about five banks. We tried as much as possible to help banks stay in business. It was like a virus, because if bank A is down, there is no way you can convince customers of bank B that the same fate could not befall their bank.

We also attached a lot of importance maintaining confidence in the system. At the moment, people are abusing the politicians - they stole money, they laundered money - and this is an occasion for the politicians to be given a respite. Isn't it?

Q: Talking of memoirs, what do you like remembering about your days as the number one banker in the country?

The colleagues I worked with had respect for one another. We shared information and we agreed as to the best thing to do in every situation. We spent a lot of our time discussing;

people were generally aware of what was going on. When we did not have executive director, we discussed.

Source: The Guardian, 200909

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