

## Nigeria

Aina Blankson LP

### Repeal of the universal banking model

The Central Bank of Nigeria (CBN) recently reviewed the universal banking model in favour of separate banking licences as provided by the Banks and Other Financial Institutions Act (Bofia), Cap B3 Laws of the Federation of Nigeria, 2004. It implemented regulations requiring banks to divest their non-banking businesses for fresh licences to operate as either commercial, merchant, specialised or development banks.

The universal banking model, which was previously adopted by the CBN in 2001, authorised Nigerian banks to engage in non-core banking financial activities, either directly as part of banking operations, or indirectly through designated subsidiaries, as against the banking businesses specified by BOFIA.

The Act permits the business of receiving deposits or current accounts, savings accounts or other similar accounts, paying or collecting cheques drawn by or paid in by customers, the provision of finance, or such other business as the Governor of CBN may, by order published in the Gazette, designate as banking business.

The new regulations require Nigerian banks to restructure as follows.

#### Commercial banks

Solely commercial banks are to operate on the following basis.

(i) On a regional basis within a minimum of six and a maximum of 12 contiguous states in Nigeria, lying within not more than two geo-political zones, as well as within the Federal Capital Territory, Abuja. Geo-political zones was defined to mean the geo-political grouping of states constituting of the Federal Republic of Nigeria, including the North Central, North East, North West, South East, South West; South South and any other zones which the CBN may prescribe in writing from time to time.

(ii) On a national basis with operations within every state of Nigeria.

(iii) On an international basis with operations in all the states in Nigeria, as well as offshore operations in any country of choice, subject to CBN's approval and

compliance with regulatory requirements of the host.

Permitted activities for such commercial banks are specified in Section 3 of Regulation No. 1, 2010. By Section 4 of this regulation, the banks are prohibited from engaging in:

- (i) insurance underwriting;
- (ii) loss adjusting;
- (iii) re-insurance;
- (iv) asset management;
- (v) issuing house and capital market underwriting;
- (vi) investment in equity and hybrid-equity instruments save and except for those investments permissible under Bofia;
- (vii) proprietary trading, save as permitted by the regulations;
- (viii) provision of financial advisory services other than in accordance with the provisions of Section 3(h) of Regulation No 1; and
- (ix) any other business activities that may be restricted by CBN from time to time.

#### Merchant banks

Regulation No. 2 of 2010 requires banks wishing to restructure solely as Merchant Banks to undertake most of the prohibited activities for commercial banks as above. They are, however, prohibited from accepting deposit withdrawals by cheques, granting retail loans or engaging in any form of retail banking, holding equity interest acquired in a company for more than six months while managing an equity issue and providing insurance underwriting services, loss adjusting, re-insurance or other related insurance activities.

#### Special institutions

The third category of banks permitted under Regulation No. 3 of 2010 covers those classified as Specialised Institutions, including non-interest banks (regional and national), primary mortgage institutions, microfinance banks, development banks and discount houses.

It is also pertinent to note that, although the CBN failed to specify the place of foreign-owned banks, the repeal applies to foreign-owned as well as local banks.

Thus, while the CBN has recreated the separate banking structures adopted before the universal banking model on one hand, on the other hand it has created a bank holding company arrangement in Nigeria, allowing affiliates of depository institutions (commercial banks) to engage in the non-banking activities prohibited by the regulations.

However, the CBN has failed to lay down guidelines for operating bank holding companies, causing banks to question the viability of the option. Some of the doubts surrounding the bank holding company arrangement are yet to be resolved even as Nigerian banks have started their reorganisation.

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