



Buy job postings in bulk
and Save up to 70%

- Post anytime within 12 months
- Filter out unqualified candidates
- Post in minutes

[LEARN MORE!](#)

My Mercedes is Bigger Than Yours

This Day (Lagos)

COLUMN

26 November 2007

Posted to the web 27 November 2007

By Ijeoma Nwogwugwu
Lagos

Chukwuma Charles Soludo, the Central Bank Governor has inadvertently unleashed a demon he can no longer control.

When in July 2004, he ordered the 89 banks operating in the country to shore up their capital base to N25 billion, failing which they would lose their licences, little did he know that the primary pre-occupation of banks would alter significantly from that of deposit/funds mobilisation and intermediation, to share capital mobilisation. The pronouncement, although not mandatory, that only banks with a share capital of \$1 billion would be allowed to manage the country's foreign reserves also sent them scrambling back to the drawing board on how to increase their capital base. Although Soludo in an interview with this paper last September attempted to justify the need for banks to raise more funds from the capital market and attract further investments from private equity in order to expand their business and branch out into new markets within and outside the African region; he could not justify why in spite of the promises he made in 2004 and 2005, the impact of enlarged banking operations in the economy is yet to be felt by the larger public.

To be fair, in the said interview he did turn to his aides who were with him to reel out the growth figures on the deposit base and credit administration in the banking industry since the consolidation exercise. He said prior to consolidation, deposits in the bank system stood at N2 trillion while total credit to the domestic economy was in the region of N1.33 trillion. But since the consolidation exercise, there has been a corresponding increase in the deposit base of the bank industry to N4 trillion; with banking system credit rising to N3.4 trillion. Soludo is absolutely right. However, closer scrutiny reveals that the proportion of banking sector credit being made available to smaller businesses and individuals in relation to the big blue chip companies and multinationals is rather appalling. It is skewed heavily in favour of the big companies with cash flows that can guarantee loan service repayment and a steady stream of current account turnover. Meanwhile, smaller businesses and customers are largely left to pick up the crumbs whenever the banks deem it fit to extend them some credit.

Ads by Google

Worse still is the fact that the big companies get these loans at lower rates of interest and are granted moratoriums ranging from six to 18 months before they are compelled to commence loan servicing. These companies, especially the multinationals, are in a position to secure loans under favourable terms because they have access to international markets where they can access cheaper funds. So for local banks to keep their patronage, they (the banks) have to match the terms offered by their counterpart institutions abroad. Oftentimes, the loans secured by such companies here are largely denominated in dollars which attract interest rates as low as nine to ten per cent. Sadly, similar mouthwatering terms are not enjoyed by the generality of the banking public, which if and when it secures loans, gets them at 20 per cent and more, after the inclusion of all sorts of bank charges. Quite frankly, the scenario being played out in the banking sector is such that smaller customers and businesses are being made to subsidise (cross subsidisation) bigger firms that can actually pay higher rates of interest.

If truth be told, most banks in this country are not interested in mass banking or extending credit facilities to the larger public. Recently, this writer was besieged by phone calls from the head of corporate affairs department of a bank not to publish an interview granted by its chief executive who had committed a major gaffe (among a couple of others) by admitting his bank is not interested in being a bank for the masses. As a face saving measure, I used my discretion to carefully edit the offensive statements made by the CEO which would have caused quite a bit of an uproar if published verbatim. But then again, this may be no fault of banks in this country because as Soludo pointed out in the same interview, the enabling environment and regulatory framework still does not exist. The lack of a credit bureau and an adequate identity card data base makes it impossible for banks to access a centralised system for customer profiling that would enable them determine to a large extent if a customer is creditworthy or not.

That being the case, why do banks keep having to go back to the capital market to raise more funds to expand their businesses in order to attract more customers and mobilise cheap deposits that they will eventually be made available to a select few? Examples abound: Zenith Bank Plc, yet again, has announced its intentions to raise more funds from the capital market. This would be its fourth foray into the market over a four to five period. Intercontinental Bank Plc after its last offer (the second in as many years) boasted with considerable aplomb that it now has the largest shareholders funds in country. Oceanic Bank Plc, which narrowly missed out on the bragging rights to the largest shareholders funds, then resorted to beating its chest after breasting the \$1 billion psychological threshold. I could go on and on with more disheartening examples. But I shall refrain from doing so for the time being.

The sad thing is that the public is falling for the antics of the banking industry. Every time these banks go to the capital market in search of funds, we all rush head long to subscribe for their shares without attempting to read between the lines. We also fail to carefully dissect their prospectus and demand to know from the banks how previous funds they raised from the market was deployed and if they were utilised efficiently. We are all lured by the capital gains to be made when their share prices move up (that is if we are fortunate to get our share certificates on time. But the registrars ensure that never happens), but we fail to pay attention to other performance indicators that matter just as much. In the process, we fail to notice that half of the banks are posting a negative growth on their earnings per share, because each time the basket of shares is increased, their EPS is diluted. Meanwhile, the projected weighted average of the price to earnings ratio in the banking industry is about 21 times, meaning their stocks are either over-valued and may be the subject of a speculative bubble; or if we are lucky, could be growth stocks with earnings expected to increase substantially in the future.

Another poser that needs to be raised to these banks is if the funds they are taking from the investing public are commensurate with the services they are churning out. I think not and for this reason, customers need to be wary because a larger capital base does not in any way translate to improved structures. Most of the banks, save for one or two, which I dare not mention for fear of alienating the others still have the same inadequate risk management regimes, compliance and internal controls structures they had in place pre-consolidation when they had lower shareholders funds. The irony is that for banks that boast of shareholders funds in the region of \$1 billion, most of them are still run by CEOs that prefer to micromanage, thus not reflecting the size of the business they are managing. Billion dollar corporations in other parts invest in people, structures and technologies that go pari-passu with the magnitude of their businesses. That is not the case in the banking industry here. Instead, what we have is an ego-driven industry with each CEO jostling to prove that his Mercedes is bigger than that of his rivals. The biggest loser in all this is the public that is being conned by the banks and their campaigns into thinking that the size of a bank's capital indicates that it is healthy. It does not. Banks abroad have been known to collapse, large share capital notwithstanding. Capital adequacy is simply one of several

indicators used to determine the size and health of a bank.

The capital banks raise, if it must be known, is not meant for lending to customers and cannot therefore have a direct bearing on prime lending rates which as indicated earlier have only moved down marginally from the heights at which they hovered before consolidation. Additional capital only enhances a bank's ability to expand its operations by opening up new branches and investing in new technologies to improve service delivery. This way banks are able to mobilise deposits from savers in the economy which in absolute terms is considerable can be lent to borrowers at marginally lower rates of interest. But a more methodical approach to lowering interest rates can be achieved by the Central Bank if in addition to the monetary policy instruments it has at its disposal, it also reviews the statutory reserve requirements imposed on banks.

Currently, the cash reserve and liquidity ratios (liquid assets requirements) imposed on the banks are too high. If the statutory provisions required of the banks are relaxed, interest rates will most likely sink to single digit levels. Granted that the CBN may feel helpless in the face of the lax fiscal regime operated by the Federal Government and other federating units of the nation over which it has little control, but through the introduction of a graduated liquidity ratio regime on the basis of turnover of individual banking liquid assets may provide just the solution Soludo has been searching for. That way, the CBN would no longer have to justify the need for banks to raise more funds from the capital market. Instead it will encourage them to focus more on their primary responsibility - that of intermediation for economic development.

Copyright © 2007 This Day. All rights reserved. Distributed by AllAfrica Global Media (allAfrica.com).

