

COMMUNIQUE

Issued at the end of the

CONFERENCE ON FINANCIAL SYSTEM INTEGRITY IMPROVEMENT



Organised by



THE PRESIDENCY
PRESIDENTIAL ADVISORY COMMITTEE AGAINST CORRUPTION



THE CHARTERED INSTITUTE OF BANKERS OF NIGERIA

Think Ahead **ACCA**

Venue: Sheraton Hotel, Ladi Kwali Hall, Central Business District, Abuja

Date: June 30, 2017

INTRODUCTION

The Conference on Financial System Integrity Improvement was hosted by The Presidential Advisory Committee Against Corruption (PACAC) in collaboration with The Chartered Institute of Bankers of Nigeria (CIBN), Association of Chartered Certified Accountants (ACCA) and The Convention on Business Integrity (CBI) on Friday, June 30, 2017 at Sheraton Hotel, Ladi Kwali Hall, Central Business District, Abuja.

The Conference, which attracted participants from both the public and private sectors of the economy, was organized to further encourage discussions and suggest feasible solutions to the prevalence of unethical and illicit activities in the Nigerian banking and finance industry.

Welcome Remarks were delivered by Professor Itse Sagay, SAN, Chairman, PACAC; Professor Segun Ajibola, Ph.D., FCIB, President/Chairman of Council, CIBN; Mr Soji Apampa, CEO, Integrity Organization/CBI and; Mrs Jane Ohadike, Regional Head of Policy, Sub-Saharan Africa, ACCA.

The Keynote Address was delivered by Mr Nick Leeson, the former derivatives broker who broke Britain's oldest merchant bank, Barings Bank.

There were two sessions at the Conference with Mrs Mosun Belo-Olusoga, HCIB, Chairman, Access Bank Plc as Chairman of Session One and Dr J.K. Naiyeju, Former Accountant General of the Federation as the Chairman of Session Two.

Session One: Root Causes of Corruption in the Financial Services Sector

Panellists

1. Mr Okey Umeano, CFA, FCCA, Head, Risk Management, Securities and Exchange Commission, Abuja.
2. Mr Opeyemi Agbaje, Chairman, Board of Integrity Organization.
3. Mr Tunde Lemo, OFR, FCIB, Former Deputy Governor, Central Bank of Nigeria and Chairman, Lambeth Trust & Investment Company Limited
4. Mr Bamgbola Sokoya, Chairman, FGB Inter-Agency Asset Tracing Team.

Session Two: Policy Recommendations

Panellists

1. Mr Taiwo Oyedele, ACCA Council/PwC Partner
2. Mr Soji Apampa, CEO, Integrity Organization/Convention on Business Integrity
3. Professor Akpan Ekpo, Director General, West African Institute for Financial and Economic Management (WAIFEM).
4. Mr James Neville Onu, Head, Legal & Cooperation Department, Nigerian Financial Intelligence Unit (NFIU) represented Mr Frank Oka-Phillips Usani, Director General, NFIU.
5. Dr Biodun Adedipe, Chief Consultant, B. Adedipe Associates Limited.

PANEL DISCUSSION OUTLINE ON ROOT CAUSES OF FRAUD IN THE FINANCIAL SERVICES SECTOR

Global Phenomenon- Local Challenges

- Past and current experiences in the banking and finance industry have shown that the sector is not immune from the rot and corruption in the global economy.
- The current administration in Nigeria has made appreciable progress in its fight against corruption in terms of the amount of recoveries. However, little has been achieved in the area of high-profile convictions on financial frauds.
- Corruption is a global menace emerging from lack of integrity.
- Integrity is based purely on personal decisions and while it is relatively easy to legislate anti-corruption/fraud measures, it is difficult to legislate integrity.
- The reality of corruption further becomes obscured through nepotism, sub-optimal cultural practices and unrealistic expectations by the younger generation.
- Corruption in the financial services sector was summarized as a systemic issue which requires an integrated systemic-solution approach.

Financial Services Sector Focus

- Fraud in the financial sector has an enormous impact on the economy. The banking industry is particularly key for the growth and effective functioning of the entire economy. For instance, over 830 million pounds that was lost at the collapse of the Barings Bank due to fictitious activities and illegal transactions had a big effect on the industry as a whole. Hence, tackling corruption in the finance sector without special focus on the banking sub-sector would be incomplete.
- The fraud triangle was articulated as the main factors driving corruption in the system;
 - Pressure: High profit target and unhealthy rivalry between institutions as well as personal financial problems faced by employees.
 - Opportunity: Lack of an adequate internal-control system to check excesses and irregularities
 - Rationalization: justifying illegal acts with impunity.
- Excess charges have been known to compromise the integrity of the banking sector. However, since 2001, The Chartered Institute of Bankers of Nigeria (CIBN) through the Bankers Committee Sub-committee on Ethics and Professionalism has institutionalized an Alternative Dispute Resolution Mechanism to resolve such unethical practices or conflicts. It had adjudicated on a total of 1,889 petitions/cases with total claims of ₦320.4 billion and US\$415 million in local and foreign currencies respectively, out of which it has resolved 1,766 with ₦22.98 billion and US\$16.9 million awarded/refunded to petitioners/customers by banks.

Capacity and Knowledge of the Business

- Inadequate understanding of the workings of banks by most banks' staff creates the gap for fraudsters, like Mr Nick Leeson, to commit their acts.
- CIBN, in addition to its statutory mandate on certification programmes, has uniquely and consistently pursued strict adherence to the Code of Conduct in the Nigerian Banking Industry by all cadres of employees.
- The Code, developed in partnership with the Central Bank of Nigeria and the Bankers Committee, has been signed and affirmed by all the staff of Deposit Money Banks (DMBs). The Institute is now extending the signing and affirmation of compliance of the Code to staff of other financial institutions that deal with money or near money within the Nigerian Banking and Finance industry

Regulation and Promotion of Ethics and Professionalism in the New Era

- The financial services sector is generally "regulated" by 3 groups – the government through its agencies (e.g the Central Bank of Nigeria, Nigeria Deposit Insurance Corporation etc), self-regulation (players in the industry themselves) and stakeholders' activism.
- The drive to "look good" among competitors in the industry is primarily the driving force of most players and not the desire to uphold good ethical and professional conduct or avoidance of government sanctions
- Generally, lip service is paid to fighting corruption and other unethical practices in the banking and finance sector.
- Tainted money that finds itself injected into the financial sector, like a computer virus, compromises the integrity of the system.
- About 75 percent of banks' staff would uphold high ethical conduct if strong controls are in place while about 75 percent would be fraudulent when controls are weak or inexistent.
- Unchecked risk in the financial services industry would have grave consequences not only on the sector but the entire economy.
- Conduct risk is a key issue which regulators should address in the banking and finance sector.
- The interconnectedness of the global financial system and technology have made criminal acts easier to carry out with unprecedented precision.
- The nature and level of risks in financial systems are rising while approaches to tackling them have technically remained unchanged for decades.

PANEL DISCUSSION OUTLINE ON POLICY RECOMMENDATIONS

At the Conference, the roles of the different stakeholders in ensuring financial system integrity improvement were emphasized across three broad categories: Prevention, Detection and Resolution.

Prevention

- Regulatory institutions' should build capacity for intelligent data gathering and processing while monitoring should be strengthened in order to be ahead of operators in the industry.
- Regulators should give due recognition to institutions that abide by corporate governance code. Corporate Governance ethos should be enforced by regulatory institutions and regulatory capture should be prevented.
- A framework should also be developed by all players in the financial services industry to appropriately reward good behaviour and sanction infractions. There is the need for a strong internal motivating force to keep banks' staff on the path of integrity.
- The incentive-structure of the banking system should be reviewed not to be skewed in favour of the high-cadre staff.
- The current reward incentives by banks which rely on the amount of deposits attracted by staff, without probing into source, as a metric for performance should be discouraged.
- In addition to building strong individuals through professional capacity building, Government should also develop strong institutions in the country.
- For effective tackling of fraud in the banking industry, it is imperative for professionals to apply their skills and competencies for the public interest and ensure that public value is pursued and achieved.
- Specialized capacity/capabilities development programme should be developed for regulators and operators by institutions like the CIBN, ACCA and so on.

Detection

- A robust industry-wide risk management framework is critical for addressing corruption and lack of integrity in the financial services industry across banks and other financial institutions.
- A risk map of the entire financial system should be developed and made available to all players in the industry.
- There is the need for regulatory institutions to develop a more robust regulatory standards, systems and controls for actors in the banking and finance sector particularly as banking models are rapidly changing with the disruptive role of technology.
- The organizational structure of financial institutions should be revisited to ensure that well-trained risk-intelligent personnel are made to occupy strategic risk desks.
- There is need for financial institutions to pay more attention to conduct and culture risks.
- Financial institutions should adopt integrated reporting format to improve the quality of reporting in order to address the issue of fraud in the industry.

- There is the need to increase banks and stakeholders' publicity of the different channels for lodging cases of fraud and infractions in the industry (e.g Consumer Protection Department of CBN, CIBN Investigative Panel etc). This would equip banks' customers with the right information on where to direct their complaints.

Resolution

- Government review of the immunity clause is essential to effectively fight corruption in the country.
- Government should pursue the passage of the Bill at the National Assembly seeking to establish a specialized tribunal for the financial services industry.

Conclusion

The Conference was well-attended with delegates from both the public and private sectors of the economy. The faculty displayed excellent mastery of the subject matter and participants' contribution to the discussion was insightful.

Professor Bolaji Owasanoye

Executive Secretary
PACAC

Mr Soji Apampa

Chief Executive Officer
CBI

'Seye Awojobi, FCIB

Registrar/Chief Executive
CIBN

Mrs Jane Ohadike

Regional Head of Policy (Sub-Saharan Africa)
ACCA