Cross-border expansion of Nigerian banks: has it improved the continent's regulatory and supervisory frameworks?

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1. Introduction

Nigerian banks expanded into other African countries following the 2004 consolidation that increased minimum capital requirements more than tenfold. Most banks expanded their operations domestically and internationally by increasing branch networks in the domestic market and opening subsidiaries abroad. United Bank for Africa (UBA) and Access Bank combined are operating in more than 20 countries on the continent. Cross-border expansion has taken place through the setup of subsidiaries, thus adding to the number of banks in host countries.

In the case of Nigeria, we have five foreign-owned banks out of 23 banks in the country, namely, Citibank, Ecobank, Stanbic IBTC, Standard Chartered and Nedbank. While four of the banks have been operating for a while in Nigeria, Nedbank was just granted a license and only started operation this year. Therefore, what we have is a financial system where the number of Nigerian banks operating branches in other African countries far exceeds that of the foreign banks operating in Nigeria.

Economic theory would suggest that such cross-border expansion would have many benefits, both for the expanding banks and for the recipient banking system. The main benefits for the parent company would be risk diversification and greater profit opportunities for shareholders. The recipient banking systems, on the other hand, would benefit through increased intermediation and improved efficiency resulting from technological advancement, reduced interest rates and efficiency improvements due to increased competition.

Most countries have welcomed the expansion of Nigerian banks in their jurisdictions, as they are helping to deepen the banking sector on the continent through branch network expansion, the introduction of new financial products and the strengthening of the regulatory and supervision framework through the introduction of consolidated supervision and joint supervision of bank branches, which have helped to affect knowledge- and information-sharing among supervisors.

There is ample evidence in the economic literature that cross-border expansion can also impose a cost on domestic banks in host countries, whose market share is threatened by the new entrants and who could take more risks with adverse consequences for the stability of the banking sector. This could include behaviours such as potential adverse selection of clients for domestic banks due to the

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migration of less risky clients to the foreign banks who offer new and innovative products and services.

While the expansion has helped host countries expand their banking sectors and increase intermediation in their respective home countries, the poor risk framework at the beginning of the expansion and the effect of the financial crisis put a strain on some Nigerian banks, resulting in the failure of some, including Oceanic Bank, which had expanded to seven countries before the crisis. This necessitated broad-based reform in the Nigerian banking sector that has benefited countries with Nigerian bank presence.

The central bank implemented consolidated supervision and developed a framework for cross-border supervision implemented in 2010. The framework sets as a precondition for the presence of Nigerian banks in other countries the execution of Memoranda of Understanding (MMoU) with the host country. In Nigeria, all banks, whether local or foreign, are treated equally and are subjected to the same prudential and supervisory regulation. In case of liquidity crisis, the Central Bank of Nigeria is the lender of last resort to all banks. While the function of supervision of banks rests with the central bank, other agencies supervise non-financial institutions; therefore the need for coordination between the central bank and other regulatory bodies is essential. This paper will examine the effect of the cross-border expansion of Nigerian banks in the West African Monetary Zone (WAMZ), which includes: The Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra Leone. These countries were selected because 10 Nigerian banks operate in these countries and they have the most collaborative relationship in the area of supervision and regulation with the Nigerian authority. This close collaboration is helping to strengthen information-sharing through formal arrangements such as, MMoU, joint supervision and development of common regulatory and supervisory framework for the zone. The paper will cover the period 2005–12 to capture the period before and after the cross-border expansion of Nigerian banks and explore the notion that the presence of foreign banks helps build a domestic banking supervisory and legal framework, and enhance overall transparency in both home and host countries.

The rest of the paper is organised as follows: Section 2 reviews the economic literature on the benefits and costs of cross-border banking expansion. Section 3 discusses the extent of Nigerian bank expansion and the nature of the expansion on the African continent, while Section 4 outlines the impact of Nigerian banks' expansion in strengthening the banking system and, more importantly, in improving the regulatory and supervisory environment, with a focus on the West African sub-region. Section 5 highlights the importance of even greater coordination and collaboration in banking supervision, as the development of a harmonised common regulatory framework for the zone is imperative in securing and sustaining the gains made in intermediation and financial sector stability. Section 6 concludes the paper.

2. Nature and extent of Nigerian banks' expansion in Africa

Nigerian banks' cross-border activities started in 2002, with two banks setting up operations in a few countries in Africa, and increased after the 2004 banking sector consolidation in Nigeria. Following the 2004 increase in minimum capital requirements from NGN 2 billion ($17 million) to NGN 25 billion ($210 million), the Nigerian banking system consolidated and the number of banks fell from 89 in 2003 to 24 at the end of 2013. The total assets of the banking sector increased from NGN 2,767 billion ($23 billion) in 2003 to NGN 14,932 billion ($127 billion) in 2008. By the end of 2008, more than half of the 20 domestically owned Nigerian banks remaining had subsidiaries in at least one other African country, compared to only two in 2002[2] (Table 1). United Bank for Africa (UBA) led the way, with subsidiaries in more than 20 African countries. Although cross-border expansion of Nigerian banks was temporarily halted by the global financial crisis in 2008–09, it picked up after conditions stabilised following intervention in the banking sector and the strengthening of risk management and supervisory frameworks by the Central Bank of Nigeria.

Sample of Nigerian banks' cross-border subsidiaries in other African countries and beyond

As at end-2012

Table 1

Bank	Countries in operation	Outside Africa
Access Bank	Burundi, Côte d'Ivoire, Democratic Republic of Congo, The Gambia, Ghana, Rwanda, Sierra Leone, Zambia	London, UK China
United Bank for Africa (UBA)	Angola,[1] Benin, Burkina Faso, Cameroon, Chad, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Gabon, Ghana, Guinea, Kenya, Liberia, Mali,[1] Mozambique, Senegal, Sierra Leone, Uganda, Tanzania, Zambia	New York, US London, UK Paris, France
Guaranty Trust Bank (GTB)	The Gambia, Ghana, Liberia, Sierra Leone	London, UK Hong Kong[2]
Afribank/Mainstreet Bank	Ghana	London, UK
Zenith Bank	The Gambia, Ghana, Sierra Leone	London, UK South Africa
Diamond Bank	Benin, Côte d'Ivoire, Senegal, Togo	Dublin, Ireland
Bank PHB / Keystone	The Gambia, Liberia, Sierra Leone, Uganda	
Skye Bank	The Gambia, Ghana, Guinea, Sierra Leone	
FCMB Bank	The Gambia	London, UK South Africa
First Bank	Democratic Republic of Congo	London, UK Paris, France
Union Bank	Benin, Ghana[3]	London, UK South Africa

[1] Yet to commence operation. [2] Request for representative office in progress. [3] Union Bank has minority stake of 32.4% in HFC of Ghana.

Sources: Individual banks' websites.

[2] UBA and Guaranty Trust Bank engaged in cross-border banking operations vis-à-vis a few countries starting in 2002.

The cross-border expansion of Nigerian banks was motivated by several factors that are both economic and ideological in nature. Motivated by the need to maximise profit and the value of shareholders' funds, the banks engaged in aggressive regional expansion. Additionally, based on the belief that banking systems in many African countries are still less developed and less capitalised than in Nigeria, and the significant opportunities in financing trade between these countries, Nigerian banks saw an opportunity to leverage their success, experience and technology platform to deliver services in these markets, where returns are expected to be at least as high as those in Nigeria. At first, the banks' expansion was concentrated on Anglophone countries, suggesting that language and similarities in the legal environment played a role. It has since moved on to some Francophone countries (like Côte d'Ivoire, Burkina Faso and the Democratic Republic of Congo). A combination of financial reforms in the host countries and a favourable macroeconomic environment in Nigeria played a role in the expansion as high oil prices led to the accumulation of sizeable international reserves of $62 billion the highest in the history of Nigeria – at end-2007.

Some banks sought a role as pan-African or regional banks. With a large asset base, a deep stock market and resulting efficiency improvements on the home front, the banks wanted to play a regional role on the African continent. The desire to establish themselves as regional banks following consolidation contributed to the expansion drive. In 2008, Nigerian banks ranked 1–15 in the African Business Survey (see *African Business* magazine, December 2008) in the category of the most capitalised businesses in Africa. Therefore, they were well positioned to play an increasing role in the sub-region's financial sector. Rather than depend on host countries to raise capital, many of the banks raised capital in Nigeria, contributing to foreign direct investment (FDI) in the host countries to which they expanded. The non-existence of capital markets in most sub-Saharan countries to which the Nigerian banks expanded suggests that the parent companies contributed to the host countries' banking systems by raising capital outside, thereby adding to the financial base in the host countries. There are a few cases where partial ownership from the host country is involved.[3] Nevertheless, the expansion has so far been funded by raising capital from the Nigerian market, and the model of expansion suggests that Nigerian shareholders have funded the expansion of the banks. Even after meeting the increased capital requirement after consolidation, some banks raised additional capital both domestically and internationally by issuing global depositary receipts (GDRs) (Table 2).

[3] For example, GTBs in The Gambia, Ghana and Sierra Leone are 78%, 70% and 87% owned by the parent company in Nigeria, respectively, while the remainder are owned by other local and international partners. Also, Oceanic Bank in Ghana is majority owned by the parent company. In most cases, however, the Nigerian parent company controls 100% of its subsidiaries in the sub-Saharan countries to which they expanded.

Capital-raising activities by Nigerian banks, 2006–08		Table 2
Banks	*IPOs* Domestic (USD millions)[1]	*GDRs* International (USD millions)
Access	1,162	–
Afribank	854	–
Fidelity	410	–
First Bank	1,948	–
GTB	–	824
Intercontinental	853	–
Oceanic	1,492	–
UBA	556	295
Diamond	145	500
Zenith	458	–
Total	**7,878**	**1,619**

[1] This is converted using the exchange rate at the time the funds were raised in the market. Most of the domestic capital-raising occurred in 2007/08 when the exchange rate was NGN 117 to USD 1.

Sources: Central Bank of Nigeria; individual banks' annual reports, various years.

There are a number of countries in which Nigerian banks account for a significant share of the banking sector (Table 3). These countries will need to develop a deeper and closer cooperation with the regulatory authorities of the home country to ensure financial stability and sustain the financial sector development that is starting to pick up in most African countries. While some cooperation currently exists, such as the signing of an MMoU between the regulatory authorities in some countries, more collaboration on information-sharing and ways of dealing with insolvency can be explored.

Countries with significant presence of Nigerian banks, 2012[1]			Table 3
Country	Number of banks	Number of Nigerian banks	Asset share of Nigerian banks (% of total)
The Gambia	12	7	38.6
Ghana	26	7	16.2
Liberia[2]	8	4	26.3
Sierra Leone	14	6	40.2

[1] The Gambia: Access, Bank PHB, Guaranty Trust Bank (GTB), Skye and Zenith Banks. Ghana: Access, GTB, Intercontinental, Oceanic, UBA, Union (HFC), Zenith. Liberia: Access, Bank PHB, GTB, UBA. Sierra Leone: Access, Bank PHB, GTB, Skye, UBA, Zenith. [2] This number does not include Ecobank. Although headquartered in Togo, its largest operation is in Nigeria and its majority shareholders are also Nigerian. If Ecobank is included as a Nigerian bank, the share rises to 71% in Liberia.

Source: Various central banks, 2009.

Many market analysts also observed that some element of follow-the-leader dynamics helped fuel the expansion. When a leading bank undertakes investment in a foreign market, it may encourage others to follow. In competition for market share, Choi et al (1986) found evidence that large banks emulate their competitors' cross-border strategy regarding investment decisions in the main financial centres. The expansion drive of Nigerian banks was led by one, and others followed its lead.

3. Review of economic literature on the cost and benefits of cross-border expansion

Economic research has long established the benefits of foreign bank entry and its potential impact on intermediation, innovation, competition and development of the host country's financial sector. Cross-border banking in the form of foreign bank entry has increased sharply and has affected countries' financial systems in many ways. Foreign bank entry has been found to improve the functioning of domestic banking systems through increased market competition and improved efficiency. The presence of foreign banks may stimulate domestic banks to reduce costs, increase efficiency and diversify the financial services offered as competition puts domestic banks under pressure to improve the quality of their services in order to retain market shares. This may improve the quality of financial services available and may lower interest rate margins and profits.

Levine (1996) analyses the potential costs and benefits of foreign bank entry. He states that foreign banks could play a useful role in promoting capital inflows and competition, thus modernising and improving the efficiency of the financial system and the regulatory framework in the host country. Levine, however, suggests that the role foreign banks play in promoting capital inflows is relatively less important for a country's growth performance, suggesting that a more important role is their role in improving the functioning of the payment system, introducing technological innovations and improved risk management and regulatory frameworks.

Economic theory would suggest that cross-border expansion should lead to many benefits such as enhanced competition, technological advancement, increased intermediation, reduced interest rates and increased efficiency. Competition due to entry of foreign banks is expected to affect several dimensions: efficiency, costs and incentives for institutions and markets to innovate (Uiboupin (2005), Claessens and Lee (2002)). Foreign bank entry, especially in developing countries, helps to increase the supply of loanable funds to domestic firms which gain access to a larger pool of capital. Studies have shown that efficient banks can promote economic growth (Berger et al (2005)), and foreign bank entry would result in improved efficiency. Improved financing opportunities for small and medium-sized enterprises (SMEs) and a stronger SME sector may be an engine of economic growth. Another mode of transmission is through greater overall flow of bank credit to the private sector. Healthier banks may not only provide greater credit flows from their own portfolio, but may also compete more effectively with the rest of the banking industry in the provision of credit.

There is general agreement in the literature that the entry of foreign-owned banks increases competition and efficiency in the banking sector of the host country. This is mainly because the entry may reduce risk exposures for the banks through greater geographical and sectoral diversification, and enlarge the aggregate quantity of capital invested in the banking sector. Researchers and analysts encourage entry of banks as a means of strengthening weak and inefficient banking structures, particularly in emerging economies (Hermes and Lensink (2003), Hasan et al (2000)). This is because banks that are willing and able to expand into other countries are generally assumed to be larger, in healthier financial condition, more professionally managed and more technically advanced than the average bank in the country. Thus, there is an expectation that these banks will help raise the bar for all banks in the host country. However, cross-border banking, while having the potential to lead to a more efficient financial sector, also creates potential challenges for bank supervisors and regulators. Thus, a clear delineation of authority and responsibility by regulatory authorities across jurisdictions is required to safeguard the financial system and to harness the full benefits of cross-border activities (Claessens et al (2001)).

There are counterarguments suggesting that foreign bank entry may not increase credit growth due to higher cost. Detragriache et al (2006) suggest that the higher operating costs for foreign banks in low-income countries may lead to a reduction in credit extension as they struggle for market share in the host country. On the other hand, Micco and Panizza (2004) show that spreads were lowered with the entry of foreign banks in Latin American countries. These positive results have occurred through various channels. Lower costs of financial intermediation (measured in the form of margins, spreads and overheads) and lower profitability (Claessens et al (2001), Berger et al (2005)) have resulted from bank entry. Other researchers (Martinez Peria and Mody (2004)) have observed some evidence of a better quality of financial intermediation, like less loan-loss provisioning, with more foreign entrants.

There is emerging empirical research analysing the determinants, cost and benefits of cross-border banking, especially in the European markets, but a few studies exist for the African continent. A growing number of papers using cross-country and bank-level data have investigated the effects of foreign bank entry in the local banking system and its competitive effect on the local banking system (Hermes and Lensink (2002)). The entry of foreign banks has intensified competition in many African countries' banking systems as new financial products such as the use of ATMs, internet banking and mobile banking are being introduced. In some countries in the study, foreign banks are pushing the regulators to help deepen the market through the development of Treasury bill markets, suggesting that the banking system on the continent is becoming more competitive and innovative and that countries are strengthening the regulatory system.

Most country-level studies point to a positive effect of foreign bank entry on the banking sector. Denizer (2000) investigates foreign bank entry in Turkey's banking sector, showing that the net interest margin, overhead expenses and returns on assets are related to foreign ownership. Denizer also indicates that foreign bank entry has a strong competitive effect on the banking sector: it lowers the return on assets and overhead expenses. Hasan and Marton (2000) investigate the Hungarian banking sector during the transitional process, and conclude that banks with higher foreign bank ownership involvement are associated with higher efficiency. Goldberg et al (2000) study the role of foreign banks in determining the health of domestic financial systems in Argentina and Mexico. They find that the health of banks, and not their ownership, is the critical determinant in the growth, volatility and cyclicality of bank credit. But diversity in ownership tends to contribute to greater stability of credit in times of crisis and domestic financial system weakness.

Banks that expand internationally are typically more efficient, better capitalised and come from countries with a more developed banking system. Based on this, it is expected that the efficiency of a less developed host country banking system should improve as a result of the entry of foreign banks. Recent empirical evidence counters the traditional view that argues against giving access to foreign banks as they might worsen the allocation of credit and increase the risk to financial crisis and business cycle sensitivity of lending. Studies by Focarelli and Pozzolo (2005) and Goldberg (2002), looking at the European economy, found evidence that foreign bank entry is beneficial for host countries' economies. They argue that because of the drive for market share, foreign banks help to increase the amount of credit available and improve the efficiency of local banks, thus reducing interest margin, as new entrants charge lower interest to gain market share. Additionally, foreign bank entry has been found to improve overall welfare in the host country through the inflow of foreign investment (Bayraktar and Wang (2005)).

A growing number of studies have reviewed the effects of cross-border banking on financial intermediation and efficiency, and have found the existence of a positive relationship. Improvement in the ability of households and firms in a country to access finance and the actual usage of banking services, one way in which the intermediation functions of banks are measured, is enhanced by bank entry (Claessens et al (2001), Berger and Hannan (1998)). Banks are in a better position to lend if they are able to mobilise deposits and increase their asset base. The entry of banks also should increase total banking sector assets and the number of products the system is able to provide to customers. On the efficiency front, improvements in cost ratios and a decrease in profitability are considered good indicators of competition and increased efficiency. Thus the analysis of foreign bank entry focuses on whether the banking sector is more developed and able to perform the function of channelling mobilised deposits to borrowers for economic development.

Empirical evidence has shown that foreign bank presence causes higher per capita GDP growth in some host countries. A study by Macias et al (2009) finds that cross-border bank lending exerts a significant positive effect on economic growth in the African region as a whole, but a significant and negative impact in oil exporters where weak institutions leave these countries exposed to international banking risks. In a theoretical model, Besanko and Thakor (1992) analyse the allocational consequences of relaxing entry barriers and find that equilibrium loan rates decline and deposit interest rates increase, even when allowing for differentiated competition. In turn, by lowering the cost of financial intermediation, and thus lowering the cost of capital for non-financial firms, more competitive banking systems lead to higher growth rates. Additionally, Giannetti and Ongena (2005) find that the presence of foreign banks led to more entrepreneurial activities; however, access to finance by "connected" firms may be reduced, and therefore could lower the probability of "insider lending" and strengthen the stability of the system. Berger et al (2001) also suggest that foreign banks rely on hard information to initiate lending as they study their new and unfamiliar environment. Thus, insider lending is reduced due to better screening of borrowers.

4. Impact of Nigerian bank expansion on the supervisory and regulatory framework in the West African Monetary Zone

Following the crisis of 2008, the Nigerian authorities introduced robust regulatory framework that have helped to strengthen the banking sector. These measures are being adopted by countries in the WAMZ region in line with the regulatory harmonisation for the region. Against this background, the Central Bank of Nigeria implemented consolidated supervision and developed a framework for cross-border supervision implemented in 2010. The framework sets as a precondition for the presence of Nigerian banks in other countries, the execution of MMoUs with the host country. As of today, a total of 38 MMoUs have been initiated and 15 signed with regulatory/supervisory authorities within Africa and outside the African continent.

This has resulted in the banking sector getting stronger and safer, not only in Nigeria, but in the WAMZ. These measures have included the initiation and introduction of a framework that instituted better information-sharing and joint supervision through the College of Supervisors of the WAMZ with membership of all the countries in the zone. This arrangement has not only improved technical knowledge throughout the region, it has also improved monitoring and crisis management in the region. The capacity-building programme for bank supervisors being provided by the Central Bank of Nigeria to countries in the region since the 1980s received a further boost from 2010 following the widespread expansion of Nigerian banks within the sub-region. Additional training for bank examiners is being offered free of charge through the College of Supervisors of the West African Monetary Zone (CSWAMZ). Also, joint home-host on-site bank examinations of Nigerian banks' subsidiaries has provided an avenue for practical experience-sharing between the supervisors of the Nigerian central bank and the host supervisors in the sub-region.

WAMZ countries that have taken measures to improve the regulatory framework and banking sector stability

Table 4

Country	Membership in Colleges of Supervisors	Have increased capital requirements since 2009?
The Gambia	√	Yes
Ghana	√	Yes
Guinea	√	Yes
Liberia	√	Yes
Nigeria	√	No
Sierra Leone	√	Yes

Source: Individual central banks' websites; WAMI surveillance report.

In Nigeria, all banks, whether local or foreign, are treated equally and are subject to the same prudential and supervisory regulations. In case of liquidity crisis, the Central Bank of Nigeria is the lender of last resort to all banks. Foreign and local banks are treated the same in terms of liquidity support. However, in some countries in the zone, there are different capital requirements for foreign-owned banks.

The Financial Services Regulation Coordinating Committee (FSRCC), which regulates the financial system, is specified by Section 43(2) of the Central Bank of Nigeria CBN Act 2007, with the membership of this committee consisting of the Central Bank (Chairman), Corporate Affairs Commission, Federal Ministry of Finance, National Insurance Commission, National Pension Commission, Nigeria Deposit Insurance Commission (NDIC), Securities and Exchange Commission (SEC), Abuja Securities & Commodity Exchange, Nigerian Stock Exchange and Federal Inland Revenue Service (FIRS).

These agencies meet on a bimonthly basis to discuss any issues in the bank and non-bank financial institutions in the country and their impact on the economy and financial stability. Currently, the Committee operates through five standing subcommittees and two ad hoc committees through which it achieves its objectives: Financial Sector Soundness, Legal and Enforcement, Information Sharing, Financial Market Development, Harmonisation and Coordinating, Consolidated Supervision and International Financial Reporting Standards (IFRS) Implementation Sub-Committee. In addition, in Nigeria there are a number of bills pending enactment at the national assembly to help strengthen the banking sector and to ensure that risk management frameworks are strengthened. These include the amendment of the Banking and Other Financial Institutions (BOFI) bill, which seeks to repeal and re-enact the original act by proposing tougher measures against irregularities in the banking sector and stiffer penalties for insider abuses. These bills will also strengthen the operations of Nigerian banks both at home and in host countries. Other measures are being instituted to improve data and reporting quality, such as the adoption of the International Financial Reporting Standards (IFRS) and the upgrade of the electronic financial analysis and surveillance system (eFASS), which is the main platform used by banks for the rendition of returns to supervisory bodies.

The number of bank branches increased in all countries. The branch network increased in Ghana from 595 in 2007 to 640 in 2008. The contribution of Nigerian banks to this increase was about 20% as they vied for market share. In Sierra Leone, the branch network increased from 44 in 2007 to 75 in 2011, with Nigerian banks contributing more than 26% of the increase. In The Gambia, the number of branches increased as well, from 41 in 2007 to 64 in 2011, with Nigerian banks' share reaching 35% by 2010. Nigerian banks' strategy was to bring banking to the unbanked by expanding branch networks beyond the capital city. In Liberia, UBA is the only bank with a branch network in Nimba County as at 2009. In Sierra Leone, of the seven branches of Guaranty Trust Bank, four are outside the capital city, and the same trend is observed in other countries.

In many host countries to which Nigerian banks expanded, the authorities recognise that Nigerian banks have contributed to enhancing the competiveness of the banking system and improving access to financial services. An assessment of banking sector development in Sierra Leone commissioned by the Bank of Sierra Leone, while stressing that more needed to be done, acknowledged the contribution of Nigerian banks in the country's banking system development. According to the study, "new Nigerian banks have enhanced competitiveness significantly, but banking could be more competitive, more cost reducing and credit-risk rating improved. Newer, foreign-owned banks are growing fast, and could come to dominate the system in the near future" (full report on the Bank of Sierra Leone website).

Significant improvements in the risk management practices of banks in the WAMZ have been achieved as Nigerian banks champion the implementation of more robust risk management frameworks in the host countries of the zone, in preparation for transition to the Basel II/III Capital Accords. The frameworks drew largely from the lessons learnt in the aftermath of the Nigerian banking crisis and the global financial crisis. This has provided a strong basis for strengthening the supervisory review process in the affected countries. The Central Bank of Nigeria has spearheaded the provision of financial and technical assistance to some members of CSWAMZ for the automation of banks' statutory returns through the implementation of eFASS and related software, with the aim of enhancing data integrity and timeliness in returns rendition. This would facilitate early detection of risk signals in individual banks and the system as a whole.

Apart from the Bank of Ghana, other supervisors in the WAMZ learnt the practical application of risk-based supervision from the Central Bank of Nigeria. Bank supervisors from Nigeria have assisted other regional supervisors in understanding and implementing of risk-based supervisory approaches in their respective jurisdictions. The presence of Nigerian banks in the sub-region has helped to provide an audit trail for cross-border transactions, thereby assisting in the fight against money laundering/financing of terrorism in the region and promoting transparency in financial transactions. It has also helped create awareness of the need to establish explicit deposit insurance schemes as an effective safety net element in member countries of the sub-region, and has strengthened cooperation among supervisory authorities to minimise regulatory arbitrage.

5. Summary and conclusion

To fully reap the benefit of the pan-African presence in the region, the legal and institutional frameworks must be reformed. While market forces have played a part in enlarging the banking systems in these countries, the legal and institutional environment needs to be reformed to enable them to perform their functions better. The legal and regulatory environment plays a pivotal role in the smooth operation of the financial sector and in the efficient management and integration of capital flows and domestic savings. The value of the claims of financial institutions on borrowers is dependent upon the certainty of legal rights, coupled with the predictability and speed of their fair and impartial enforcement. Legal and regulatory frameworks that empower the regulator and govern the conduct of market participants form the cornerstone of the orderly operation and development of the financial sector. A system that will ensure enforcement of rules and investors' and borrowers' protection will go a long way towards improving access to finance in the countries.

Further strengthening and reforming of the regulatory and supervision framework should be a priority for the countries in the zone to safeguard the financial system. Effective cooperation between host and parent country authorities is a central prerequisite for the supervision of banks' international operations. In relation to the supervision of banks' foreign establishments, two basic principles are fundamental: first, that no foreign banking establishment should escape supervision; and secondly, that the supervision should be adequate (Basel Concordat (1983)). The need for reform is imperative, especially in countries where a major part of the financial system is controlled by a parent company outside the home authorities' jurisdiction. Strengthening the system in the presence of cross-border banking will require country-level and regional initiatives.

Adoption of consolidated supervision should be a priority. Effective supervision of cross-border operations has to start with effective and efficient home supervision. All supervisory authorities responsible for safeguarding the soundness of their respective financial systems should adopt a set of well established principles of effective supervision, which should include consolidated supervision. Supervisors must ensure adequate monitoring and application of appropriate prudential norms to all aspects of the business conducted by banking organisations. The current MMoUs between the countries should be enhanced to ensure that they conform with the Basel Concordat document on the supervision of foreign banks.

The main priority should be to ensure that both home and host country authorities have adequate access to information regarding the risk exposures and management of cross-border banks. This requires close and timely information-sharing between home and host authorities, during normal times and especially in the times of stress.

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