# Turbulence in the banks: Some notes

By Edwin Madunagu

THREE days after the summary dismissal of the chief executives of five Nigerian banks, I asked a friend of mine who happens to be a former bank Chair and economic researcher with the Central Bank of Nigeria (CBN) whether the apex bank actually had the power to do what it had just done. My friend replied in the affirmative: that the Central Bank has disciplinary powers of such magnitude over financial institutions in the country. I then asked why the Central Bank should have such powers over other companies. His single answer to my two questions was simple: " Other companies do not collect other people's money".

It was a necessary tutorial on the capitalist economy, a subject that appears mysterious anytime I look at it or discuss it. I have therefore learnt to always proceed from the basics. Later that day, I discussed the same subject with a younger friend of mine, a struggling underemployed fellow. He lamented that he operated accounts with one of the affected banks and was also one of the bank's shareholders. I laughed, but my friend was not amused. He appeared, and sounded, very angry with the people who were toying with his "meager lifeline". But by the time he said goodnight to me his anger had shifted from the bank directors to the Central Bank and its Governor.

Why this sudden change? Because he believed that what had happened was a "Northern agenda". He said all the things that I later read in the print media. The versions in the media were, of course, more intellectually expressed and more elaborate. But since my young friend was in a genuine crisis of his own I decided to leave the discussion the way it stood, only murmuring that it was a "disaster". But I did not indicate what exactly was a disaster: the sacking of the Chief Executive Officers (CEOs) of five banks, one of which was his own, or the allegation against the officers, or the threat to his "meager lifeline", or indeed my own personal fears.

Since many people are as confused as myself and my younger friend, we may need to go back to the basics. Here is the general understanding: Banks receive money deposits from the public for safe-keeping and withdrawal as the depositors wish. Banks also give out loans to businessmen and women on conditions that include payment of interests, in addition to the amount borrowed (capital), and surrendering of property whose value is commensurate with the amount borrowed. Such property is called "collateral". Borrowers are also required to "service" their loans, that is, as long as the loan subsists, to periodically pay up the interest or fractions of it.

One of the functions of the Central Bank of Nigeria (CBN) is to supervise and discipline the banks to ensure that they keep the rules of banking operations. It does this directly through its functionaries and indirectly through agents and agencies it appoints. In addition, banks are required to summit periodic reports to the Central Bank. As my banker friend said, the Central Bank, acting on behalf of the government, has to protect depositors' money and shareholders' investments in the banks -by ensuring compliance with banking laws. To do this the Central Bank has to ensure that banks do not indulge in practices that result in "unrepayable" or "bad" or "toxic" loans.

The dismissed bank executives were alleged to have violated virtually all the rules sketched above: loans were alleged to have been granted without adequate collaterals; loans, including those given out to themselves and their friends, were not serviced and they became "bad loans"; reports submitted to the Central Bank were "cooked", that is, "faked"; bank executives were becoming stupendously rich as individuals while the banks they managed were becoming bankrupt or "failed"; they were "laundering" money and using their friends as "fronts" to collect loans from their own banks; they were spending the banks' money recklessly and illegally; some of them could not immediately explain huge withdrawals and transfers of funds from their banks and appeared to have made attempts to disguise the original sources of such funds.

The result was that the banks were near collapse and this threatened terrible consequences for depositors, shareholders and investors and indeed the economy. The Central Bank then stepped in, removed the banks' executives, their boards and their managements and appointed new ones; injected huge sums of public money into the failing banks and took steps to recover the "bad" loans. The Central Bank invited the Economic and Financial Crimes Commission (EFCC) to help recover unpaid loans and investigate and prosecute perceived or suspected criminal acts. It has also been announced that the troubled banks might be offered for sale. It may be recalled that the charges brought against the indicted Nigerian banks and their directors were similar (in fact, almost identical) to the charges brought, about a year ago, against bank executives in America and several European countries.

Almost all the initial comments commentaries and analyses that I heard or I read on that matter – from the South and from the North – agreed with the Central Bank that terrible things were happening in the nation's banks. Beyond that, almost all commentators and analysts said – in different ways – that they had long known or suspected, that the banking industry was rotten, despite favourable media reports and propaganda. Again, they all agreed that the Central Bank, through its Governor, had the power and responsibility to intervene to salvage or sanitise the situation and take action against the erring banks and their directors. These were the broad, but fundamental agreements. So, what are the bases for the sharp, and often bitter, controversies we have so far witnessed? More specifically, why the charges of over – dramatisation, arbitrariness, malice, over-zealousness, violation of "due process" and above all, "Northern agenda" brought against the Central Bank and its Governor?

I shall proceed from a general descriptive proposition. The capitalist political economy (or the type of capitalist political economy that operates in Nigeria) and the politics and political culture that go with it have, as their lubricants, several "maladies": extreme exploitation, corruption, nepotism, selfishness, state robbery, primitive accumulation, religious bigotry, patriarchy and sexism, armed robbery, kidnapping and assassination, unemployment and mass poverty, coexistence of obscene affluence and abject poverty, marginalisation and alienation and ethnicity or tribalism. Since the maladies are national and country-wide afflictions, any bloc of the ruling classes can accuse any other bloc – correctly and truthfully – of any or combinations of these maladies.

The above should not be construed as an attempt to block the examination of concrete charges by one bloc or fraction of the ruling classes against another. On the contrary, the "descriptive proposition" provides the background and proper context for concrete examination of every concrete allegation. Fortunately, in the present case, the courts should be able – and this a pious hope – to tell the nation – I hope very soon – whether the bank executives committed the offences they were alleged to have committed, and to what degree, and whether there was any malice in the action of the Central Bank Governor. This is the extent that anyone can go, using legal methods, to prove or disprove both the charge of criminal act against the bank executive and the charge of "Northern agenda" against the Central Bank Governor. Beyond that, what is before the nation is a question of intra-class struggle, using ethnicity. However, there is a small aspect of the current turbulence in the nation's banks that can be fruitfully examined.

More than two commentators have recalled what one journalist predicted several months ago as the new Central Bank Governor was being screened for confirmation, namely: that the new Governor would intervene in five banks, remove their Chief Executive Officers and executive directors, and offer the five banks for sale. The "prediction" continued: the new "Sheriff" would create conditions for Northern investors to take over the troubled banks, and this would be a way of correcting the injustice which the former Governor visited on the North when he consolidated Nigerian banks some years ago. Now, the banks that the journalist mentioned in his "prediction" were exactly the ones the new Governor subsequently "invaded". How do we explain this coincidence? Let me play the devil's advocate – as some commentators had done – and answer that people close enough to the banks and knowledgeable enough in such matters could see, long ago, before the new Governor came on board, that the five banks under discussion were "rotten".

This may, in fact, be a plausible explanation. But why, did the former Governor not do anything about the "rot"? Because, according to several commentators, the former Governor was too close to the embattled former bank executives. The "explanatory" note which several commentators do not offer explicitly but which is central to their argument is that the former Governor is a Southerner, the former bank executives are Southerners and the new Governor is a Northerner. It has however been suggested – and the new Governor has agreed – that "action" should also be taken against Central Bank supervisors who saw the rot but failed to take action against the erring banks and their directors – before the "Sheriff" arrived.

*• This column is proceeding on short vacation.*