

# OpenSpaces Compliance Consultants (OpenSpaces) Survey of Compliance in Nigeria's Deposit Money Banks (DMBs)



# CONTENT

<b>Introduction</b> .....	3
<b>Broad Conclusions of the Survey</b> .....	4
<b>The Survey</b> .....	5-6
■ Purpose	
■ Survey Method	
■ Survey Participants	
<b>The Detailed Findings of the Survey</b> .....	7-12
■ Hinderance To An Effective Compliance Culture	
■ Firm’s Perception of the Compliance Function	
■ Independence, Reporting and Board Oversight of the Compliance Function	
■ Resourcing the Compliance Function	
■ Effectiveness of the Central Bank of Nigeria (CBN)	

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Published by OpenSpaces Compliance Consultants Ltd. Views expressed in the survey are based on our analysis of the responses received from respondents and not the views of OpenSpaces Compliance Consultants Ltd.

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# Introduction

We undertook this survey to assess the state of compliance in Nigeria's Deposit Money Banks (DMBs) following the Central Bank of Nigeria's (CBN) reforms of the Banking sector between 2007 and 2009.

READERS may recall, Nigeria's banking sector, similar to the banking sectors of the European Union and the USA, was seriously affected by the 2008 Global Financial Crisis (2008 GFC). However, Nigeria's banking crisis was also as a result of the following factors:

- Fraud on the part of the senior management and in some cases, the Board of Directors of banks that were negatively affected by the crisis
- Very weak oversight, of financial institutions, by the regulatory agencies charged with supervising the financial services industry
- Poor Corporate Governance practises in the financial services industry
- Lack of an effective independent compliance function.

To address these weaknesses, the CBN took over 8 banks and injected a capital sum of circa N400 Billion. In addition, together with the Securities and Exchange Commission of Nigeria (SECNG), instituted the following reform measures:

- Scrapping of the Universal Banking structure. Banks were now no longer allowed to operate as both commercial and investment bank
- Improved corporate governance framework including imposition of a time limit on which a director can serve on the board of a bank and limits on the tenure of the CEOs of Banks
- Prohibition on banks from having non-banking business subsidiaries. Non-banking business subsidiaries must now be held in a holding company structure
- Creation of a new banking license regime i.e. International Banks, National Banks and Regional Banks
- Increased awareness and focus on regulatory compliance by the CBN and SECNG and this included a requirement that Banks must have a Chief Compliance Officer who must be a senior manager of at least a General Manager (GM) or equivalent.

**"Nigeria's Banking crisis was in part due to external factors and internal factors such as weak corporate governance and ineffective regulatory oversight."**

**"The first ever survey of compliance in Nigeria's financial services industry."**



# Broad Conclusion of the Survey

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The detailed findings of the survey are presented from page. 7 onwards, however, the broad conclusions from our analysis of the responses received from respondents are the following:

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- THE ACTIONS of the CBN and SECNG, in response to the crisis, has lead to an increased awareness, within financial institutions of the role of compliance;
- The compliance profession in Nigeria is developing and Compliance Officers are trying their best, against a background of inadequate (or perceived inadequate) guidance and support from the regulatory agencies, to develop a compliance culture within their institutions;
- Inadequate skills and experience are major issues affecting the growth of the compliance profession in Nigeria;
- Compliance Officers presently feel that the agencies are too remote from the institutions they supervise.

Our view based on our experience and working with financial institutions in Nigeria is that the compliance profession in Nigeria is still at its early stages and can only get better. However this will only be possible through concerted and co-ordinated efforts by the regulatory agencies in the following areas:

- Strengthening the role and autonomy of the Compliance Officer
- Proactive supervision of institutions and better engagement with them
- Substantial review of the current rules and improved rule making process.

“CBN regulatory reforms increased awareness of the role of Compliance”

“Compliance profession is developing in Nigeria, but Inadequate skill and experience remains an issue”

“Regulatory support and practical guidance from the CBN is needed by compliance officers”

# The Survey

## Purpose, Method and Participants

Questionnaire was developed to focus on key areas of the Compliance Function.

WE UNDERTOOK the survey to examine the issues listed below:

- Whether the CBN and SECNG regulatory reforms including the emphasis on regulatory compliance had been backed up by practical measures to assist the development of regulatory compliance in Nigeria
- Establish the views of Compliance Officers in Nigeria on the effectiveness of the regulatory agencies;
- Gain an insight into the challenges and hindrances faced by Compliance Officers in Nigeria;
- Gather reliable information that can be used to establish priorities for the future development of Regulation and Compliance in Nigeria.

### Survey Method

We undertook the survey by developing a questionnaire that asked respondents to answer a series of questions on various aspects of regulation and compliance in Nigeria i.e:

- Compliance Function
- Reporting and board oversight
- Organisation and structure of compliance team, resources, independence and autonomy
- Training and development

**“Responses received were predominantly from the DMBs”**

- Senior Management’s attitude to compliance;
- Effectiveness of the regulatory agencies;
- Areas for improvement.

To preserve confidentiality, the questionnaire was completed on an anonymous basis through an internet based survey form and no personal data was collected or retained.

### Survey Participants

We contacted the Chief Compliance Officers (CCO) of the then 25 Banks (currently 17 as a result of the merger and/or government take over of the 8 banks that were brought under CBN management) in Nigeria and CCOs of a limited number of SECNG regulated securities houses.

Through the kind assistance of the Committee of Chief Compliance Officers of Banks in Nigeria (CCOBIN) we were able to obtain responses from 12 CCOs of DMBs and from CCOs of 3 Stockbroking and Securities firms and 3 Investment Banks.

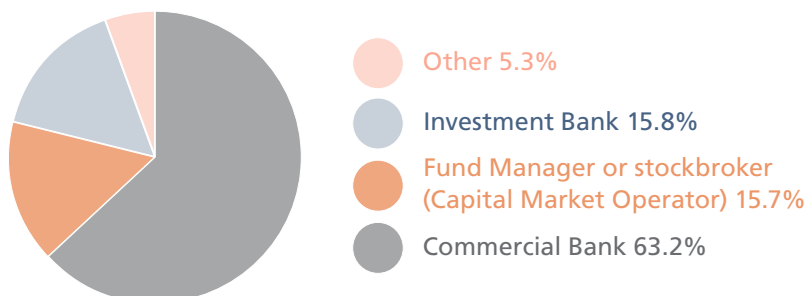
Consequently, whilst we are refraining from making firm conclusions, we, however, believe that the survey findings provides a very useful insight into how compliance officers of DMBs feel about compliance, the effectiveness of the regulators, challenges and areas of improvements.

**“Survey respondents were the Chief Compliance Officers (CCOs) of 17 Commercial Banks (now Deposit Money Banks), 3 CCOs of Merchant Banks and 3 CCOs of Stockbroking and Securities Firm”**

**“The survey examines the effectiveness of the CBN and SECNG regulatory reforms, the views of Compliance Officers and the challenges they face.”**

# The Detailed Findings of the Survey

The result and analysis of the survey are based on the information received from the 19 respondents, fig.1 (right) illustrates the sectoral distribution of respondents

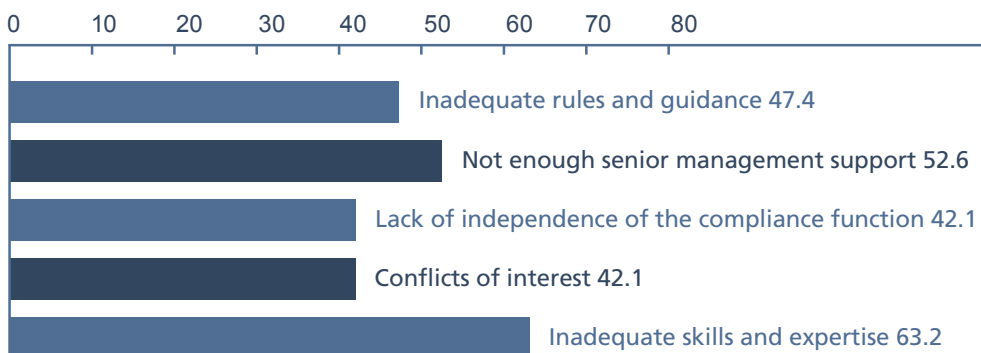


**Fig.1:**  
Distribution of respondents across various financial establishments

“63% of the survey respondents were CCOs of Deposit Money Banks”

## Hindrance To An Effective Compliance Culture

63% OF THE survey respondents indicated that the lack of adequate skills and experience was a major factor preventing the development of a compliance culture in Nigeria’s financial institutions. Other factors (see graph below) cited were inadequate rules, a lack of independence and conflicts of interest.



**Fig.2:**  
Hindrances to an effective compliance culture in Nigeria’s financial service industry

“Inadequate skills and expertise identified as a major hindrance to CCOs developing an effective compliance culture within their firms.”

“Development of compliance is hampered by a lack of adequate senior management support and inadequate rules and guidance from the regulators.”

## Firm’s Perception of the Compliance Function

WE ASKED respondents a series of questions to determine how firms regarded the compliance function. Questions included whether the compliance function was combined with another

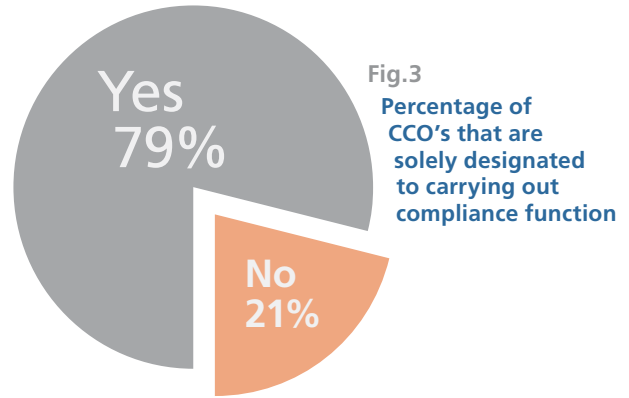
function e.g. Risk Management, Internal Audit etc. A firm’s perception of the compliance function can often be determined by whether it is a standalone function or combined with other activities (subject

to the size of the firm, its business and regulatory requirements)

The results indicated that the attitude towards compliance function is highly regarded as 79% (15) of respondent firms employ an individual, who is solely designated to carrying out the compliance function of the firm. In contrast to 21% (4) respondents carry out the compliance function along with other functions e.g. internal audit, operations etc.

The figures clearly indicate that the presence of a compliance function is relevant to firms operating within the Nigerian financial system, thereby providing a good platform for the development of compliance.

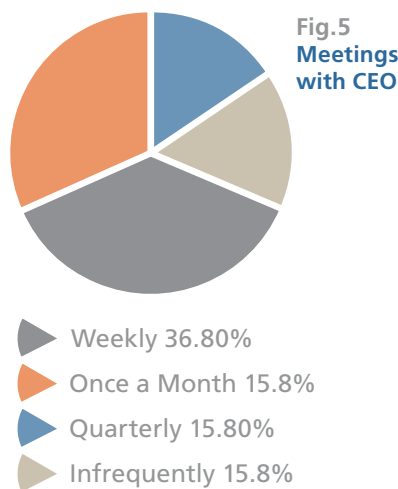
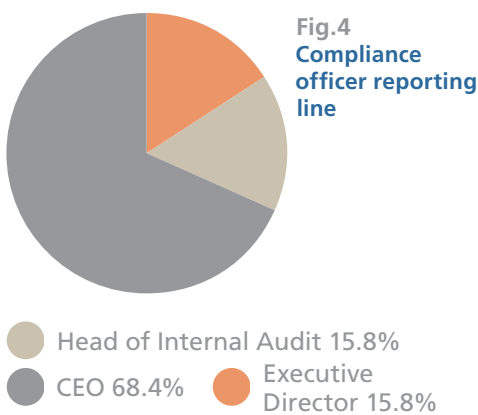
“Overwhelming majority (79%) of CCOs did not combine the role with another function thus indicating that the role was given adequate prominence by their firm.”



## Independence, Reporting and Board Oversight of the Compliance Function

The purpose of this section was to gain a credible insight into the relationship and level of engagement between a firm's senior management and the compliance function. Firms' with a high level of senior management engagement with the compliance function often have positive compliance culture. Figures 4 to 7 are graphical representations of the responses received from the respondents on this issue and the results broadly indicate the following:

a) The vast majority of CCOs report directly to their respective CEOs and also had meetings with them on a weekly or monthly basis i.e. 68% see Fig 4 and 5 respectively;

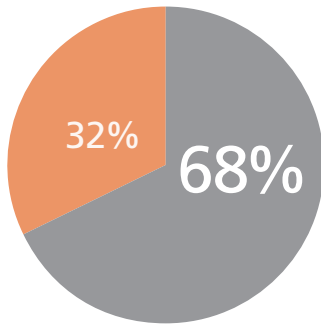


“Majority of CCOs report directly to the CEO and hold weekly or monthly meeting with the CEO”

“The level of engagement between a firm's senior management (including the Board) and Compliance often indicates the strength, depth and/or weakness of a firm's compliance culture”

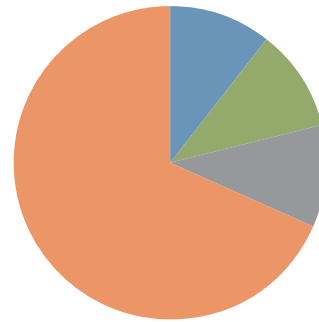
“Over 68% of respondent CCOs hold quarterly meeting with the Board of Directors”

b) WITH REGARDS to Board engagement, a majority of Institutions have a formal board level compliance committee to which the CCO reports to on a quarterly basis i.e. 68%, see Fig 6 and 7 respectively.



**Fig.6: Board Oversight of Compliance**

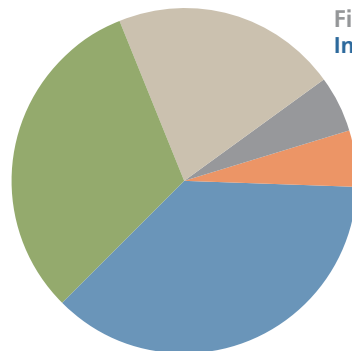
- Compliance issues are dealt with by a board level committee
- Compliance issues are dealt with by another committee



**Fig.7: Meeting with board responsible for Compliance**

- Quarterly 68.4%
- Annually 10.5%
- Never 10.5%
- Monthly 10.5%

c) WITH REGARDS to independence, 68% felt they had some form of independence in exercising their responsibilities. See Fig 8



**Fig.8: Independence in exercising autonomy**

- Independent 31.6%
- Very independent 21.1%
- Little or no independence 5.3%
- Not much independence 5.3%
- Reasonable amount of independence 36.8%

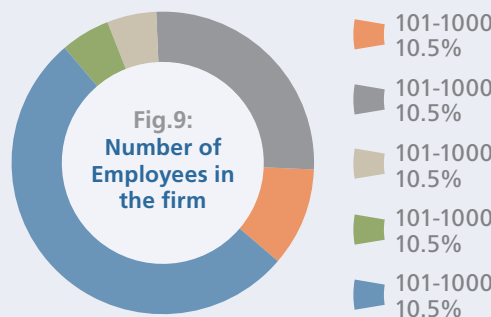
“11% felt there was not much in way of autonomy when seeking to undertake their role”

Our overall conclusion, in this section, is that within the Deposit Money Banks, senior management and the Board of Directors engage actively with the compliance function and the CCO is given the required respect and seniority. However, it is difficult to establish if this translates into a positive compliance culture especially as 40% of our respondents had earlier indicated that a lack of independence was one of the factors hindering the development of compliance in Nigeria (see Fig 2 at paragraph 1, page 6).

“A significant percentage of CCO’s felt they had sufficient independence to enable them effectively execute their role”

## Resourcing the Compliance Function

IN THIS section we sought to establish whether the compliance departments of Deposit Money Banks are adequately resourced. We also tried to establish if there is a correlation between the size of the institution and that of its compliance team.



“Average size of compliance team is 5”

THE RESULTS indicate the size of the compliance team does not necessarily correlate with the size of the firm; however, trends indicate that 84% (16) of compliance teams on average have 5 staff members (figures derived from mean of 1-5 (42%)



& 6-10 (42%). The vast majority of respondents (63%, 12) believed that their compliance team was adequately resourced.



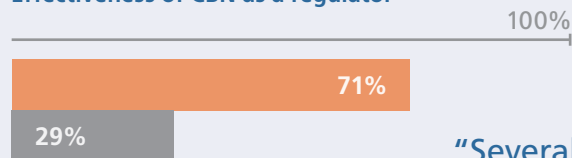
## Effectiveness of the Regulators: CCO's Views

ONE OF the fundamental ingredients to developing an effective and robust compliance framework is the effectiveness of the regulatory agencies. In this section of the survey we wanted to ascertain CCOs opinion on whether they had enough support from the regulatory agencies and if they felt the agencies were effective in developing compliance in Nigeria.

The results indicate that CCOs of commercial banks, who are

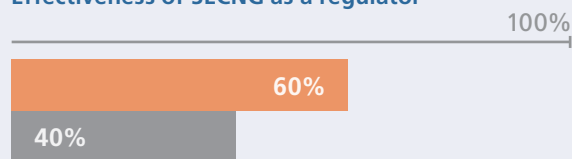
**"71%**  
of respondents indicated that CBN was effective as a regulator"

Fig.11:  
Effectiveness of CBN as a regulator



"Several areas of regulatory weakness highlighted by CCOs"

Fig.12:  
Effectiveness of SECNG as a regulator



regulated by the CBN, consider the CBN to be quite effective in providing guidance to enable them carry out their responsibilities effectively. Of the respondents regulated by CBN, 71% (10) consider CBN effective while 29% (4) did not. See Fig 11

With regards to SEC, the analysis revealed that respondents primarily regulated by the SEC, 60% (3) consider the SEC to be effective in providing guidance and support to effectively execute their role while 40% (2) were dissatisfied with SEC (See Fig 12).

IN ADDITION, survey respondents provided us with details of what they felt were the weaknesses of the regulators and these are listed below:

- Hastily developed regulations that do not take into consideration the country's peculiar geo-political structure
- Not enough monitoring and oversight by regulatory authorities
- Regulations are usually vague and not direct/specific:
- Lack of guidance from Regulators: Inadequate guidance and direction on some areas of compliance
- Contradictory pronouncement by regulatory agencies

- Obsolete rules
- the regulators do not keep a comprehensive record of changes to the rules
- Lack of adequate support from regulators
- Communication gap between Government and Operators on Policies
- Adequate time not given to effect the regulation properly

The survey also gave the opportunity for CCOs to comment on aspects regulators could improve on to help improve compliance in Nigeria, some of the responses are listed below:

- Conduct regular trainings
- Walk the Talk – Regulators

- should not only put out circulars but also ensure they assist banks to meet the contents of the circular.
- Partner reputable companies in the world and create capacity for the industry by organising trainings.
- Regulators should upgrade the quality of their staff
- Re-orientate the mentality of its staff to have an open mind and be receptive to international best practices
- The regulators should set standard and additional qualifications for Compliance Officers to increase professionalism in the industry.
- Enhanced level of supervision and support for firms.



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