

## **SUPERVISORY ACTIVITIES**

Bank Supervision in the NDIC is the responsibility of three departments, namely, Bank Examination Department (BED), Insurance & Surveillance Department (ISD) and Special Insured Institutions Department (SIID). As the names imply, on-site examination is carried out by BED and SIID while the ISD is charged with the responsibility of maintaining off-site surveillance over all insured banks. Both the On-site and Off-site supervision ensure that the insured institutions remain healthy at all times and/or where there are problems, they would be detected and addressed promptly. In addition, supervision protects the bank depositors, encourages competition among banks and assists in efficient and orderly payment system

## **OFF-SITE SUPERVISION**

Off-site supervision involves the receipt and analysis of returns from insured banks on a periodic basis to ascertain the banks' compliance with prudential regulations. Returns, basically, are requirements of the regulatory/supervisory authorities from the banking institutions which are made on determined periodic basis to assist in ensuring that the banks conform to desired operating rules. Two categories of regulatory returns can be identified. These are statutory and non-statutory returns. Statutory returns are the returns that must be made by financial institutions as provided for in various acts governing the banking business. Non-statutory returns on the other hand are those returns which the regulatory/supervisory authorities can require from banks in their day-to-day operations. These non-statutory returns are usually called for by means of circulars or questionnaires.

Returns required to be prepared and submitted by financial institutions in the system are expected to be made in specified formats in accordance with instructions and in a consistent manner. The specified returns formats can only be changed or varied by the regulatory/supervisory authorities. All items are to be completed with no item left blank. Presently, the periodicity and types of bank returns can be categorized into the following:

- Mid-month
- Monthly
- Quarterly and
- Semi-Annually/Annually

Others are irregular, depending on the financial environment as well as the objective of the regulatory/supervisory authorities.

Upon the receipt of the appropriate returns by the Insurance and Surveillance Department (ISD), they are first checked for completeness, accuracy and consistency before they are

analyzed with the aim of identifying salient problem areas in the banks' operations and to proposing appropriate remedies to the banks. The analysis which takes the form of spreadsheets and ratios are in turn further subjected to level, trend, peer and industry analysis. The analysis is concluded with a report on the condition and performance of individual banks and the industry. A recurrent feature of these reports is the rating/ranking of individual banks and recommendation for corrective action in areas where weaknesses are observed. Information from off-site surveillance serves as the basis for identifying potential financial distress in the individual banks. On confirmation of distress through on-site examination, supervisory measures are adopted to contain the situation and maintain stability. Those measures may include granting of loans, take-over of the management of the bank or directing the bank to make specific changes in its management. The adoption of any of the measures will depend on the severity of the problems identified. The Corporation also uses such returns to monitor its Insurance Risk Exposure. The Off-site Surveillance performs the following functions:

### **DEPOSIT INSURANCE**

The Off-site Surveillance is responsible for the orderly collection and administration of Deposit Insurance Premium. It assesses premium payable by banks using External Auditor's Certified Statement of Deposits and Call Reports. Onsite deposit verification exercise is also conducted with a view to ascertaining the actual insured deposit payable by each bank. The department developed and implemented the Differential Premium Assessment System (DPAS) where banks are charged based on their perceived level of risks. The DPAS framework incorporates both quantitative and qualitative factors. It is meant:

- To provide incentives for sound risk management in insured institutions.
- To ensure fairness in deposit insurance pricing
- To reduce the overall premium burden on insured institutions.

### **REPORTING ON FINANCIAL CONDITION OF BANKS**

This is usually carried out through the analysis of periodic call reports. Also, through the analysis of the call reports, rating and categorization of banks into various risk buckets is done for regulatory purposes. The bank rating had assisted the Corporation and the CBN in designing regulatory interventions for different categories of banks as appropriate.

### **PROVISION OF EARLY WARNING SIGNALS**

Through the Off-site surveillance, signals of problems in banks are detected early and addressed. Where the problems persist, On-site Examinations are conducted to assess potential problem areas earlier identified by Off-site Surveillance, with a view to resolving such problems.

## **MONITORING OF BANKS COMPLIANCE WITH PRUDENTIAL STANDARDS**

The Corporation through its Off-site Surveillance monitors banks to ensure their compliance with the Prudential Standards as well as necessary guidelines such as codes of Corporate Governance and risk management framework in order to ensure their safety and soundness.

## **DEVELOPMENT AND DEPLOYMENT OF TOOL FOR OFF-SITE SURVEILLANCE**

The Bank Analysis System (BAS) jointly developed by NDIC and CBN to ensure credible results of bank analysis, had been enhanced to electronic-Financial Analysis and Surveillance System (e-FASS) that had ensured availability of required information from supervised banks on an on-line real time basis. That development had assisted in reducing the problems associated with off-site supervision such as late and inaccurate rendition of returns

## **ON-SITE SUPERVISION**

To complement the off-site surveillance, on-site examinations are usually undertaken to determine the reliability of the banks' returns sent to the regulators, determine banks' adherence to laws and regulations as well as verify the quality of their assets. The type of examination to undertake usually depends on the initial objectives of the exercise. Accordingly, a maiden examination is carried out six months after a bank commences operation to ascertain compliance with the conditions under which it was granted license. At least once a year, a routine examination is supposed to be carried out on a bank to determine its financial condition. Special target examinations are conducted when the CBN and NDIC have reasons to believe that a bank is carrying on its business in a manner detrimental to the interests of its depositors and other creditors or has insufficient assets to cover its liabilities or contravenes the provisions of the banking and NDIC Acts.

The examination of a bank generally entails an appraisal of the soundness of the institution's assets; an evaluation of the adequacy of internal operations, policies and management; and analysis of key financial factors such as capital, earnings, liquidity, and interest rate sensitivity. Also, bank examination involves a review to ascertain the correctness or otherwise of banks' returns on their operating books of account in order to ensure compliance with all banking laws and regulation as well as monetary policy circulars; an overall determination of the bank's solvency; and ensuring that the banking operations, especially external transactions, are being carried out in accordance with standard accounting practices. The CAMEL (Capital, Assets Quality, Management, Earnings and Liquidity) rating is used as an internal assessment guide to determine how sound a bank is. This is done with a view to highlighting the position of a particular bank in comparison with the rest of its peer group, as well as determine the level of health of the particular bank in respect of capital-to-risk-weighted-assets ratio parameters.

After an examination a copy of the report is sent to the board of the bank which is required to send its response on the observations and recommendations within 14 days from the date of presentation. The bank's response forms the basis of any post-examination follow-up. The bank is allowed three months from the date of presentation before monitoring visits are conducted to ascertain the degree of compliance/implementation of the directives/recommendations as contained in the examination report. The examination plans of the CBN and NDIC are harmonized to avoid duplication and to achieve optimum coverage of insured banks within the limits of the resources available to the two institutions. The CBN and NDIC sometimes carry out joint examinations if the circumstances of a particular bank to be examined demand this arrangement.

### **SUPERVISION OF OTHER FINANCIAL INSTITUTIONS**

Other financial institutions such as Micro Finance Banks and Primary Mortgage Institutions (PMIs) are supervised by Special Insured Institutions Department of the Corporation. It covers both the on and offsite aspect of their supervision.