CENTRE for FINANCIAL STUDIES

BREAKFAST SESSION ON

THE IMPLICATIONS OF BREXIT ON THE NIGERIAN BANKING INDUSTRY

HELD ON FRIDAY, JULY 1, 2016 AT THE BANKERS HOUSE, VICTORIA ISLAND, LAGOS

COMMUNIQUE

The Chartered Institute of Bankers of Nigeria Centre for Financial Studies (CIBNCFS), a subsidiary of The Chartered Institute of Bankers of Nigeria, organized a Breakfast Session on **Implications of BREXIT on the Nigerian Banking Industry**. The Session was held on Friday, July 1, 2016 at the Bankers House, Victoria Island, Lagos. A total of 112 (One hundred and twelve) participants drawn from Regulatory Institutions, Deposit Money Banks (DMBs), Tertiary Institutions, Microfinance Institutions, Oil and Gas Companies, Multinational Companies and the Diplomatic Community were present.

The **objective** of the Session was to x-ray the implications of the recently announced exit of the United Kingdom from the European Union on the banking industry in particular and the Nigerian economy in general and discuss opportunities to be leveraged on for improved business performance.

The following are the highlights of the Session:

1. The Significance of the UK

This is premised on certain fundamental issues which include:

- The historical relevance of UK in the Comity of nations.
- Most legal, economic, socio-cultural and commercial structures globally trace their origin to UK.
- The UK occupies a central position in global trade, politics and economic alignment
- Most Commonwealth countries still look up to UK for leadership and direction.

2. General Implications of BREXIT

Some global, social, political and economic considerations of BREXIT include

- Its implications on diplomatic relations.
- The possibility of Scotland and Ireland redefining their status as part of Great Britain.
- BREXIT was a shock to the world and has created a lot of uncertainties in the global economy. It suggested a seismic shift from regulatory authorities' ability to wield power to decision making by the people.
- The uncertainties would affect business performances, capital formation, asset value in terms of stocks and real estate, consumers and investors' confidence and consumers' purchasing power.
- The probable recession would not only be a UK recession but a European Union wide recession which, due to globalization and contagion effect, would be felt globally.
- The role of UK as the global financial centre could be altered with the resultant negative impact of BREXIT on Small and Medium Enterprises' (SMEs) ability to access cheap funds.
- It is likely that there would be a shift of trade and other transaction destinations away from the UK.
- Euro clearing presently in the UK is likely to move to another country in Europe. This would significantly impact banks as it would imply a two-way clearing instead of the initial one-way system. In other words, a UK clearing and the Euro clearing systems.
- The long-term impacts of BREXIT would only be a forecast as no one can accurately dimension them.
- BREXIT has produced immense political chaos such as the crisis of how to initiate Article 50; crisis of Prime Minister David Cameron's resignation; crisis of handling the tons of legislations needed to achieve the full implementation of BREXIT; crisis of the contagion effects of BREXIT on political decisions in other countries.
- BREXIT does not spell doom if the UK could strategically negotiate with the other European Union countries.
- The outcome of the referendum might have been different if voters were adequately equipped with the right information.

3. Implications of BREXIT on Nigeria and Nigerian Banks

For Nigerian banks, BREXIT throws open a number of pressing issues such as;

- Lending and borrowing as well as Correspondent banking relationships entered into under the aegis of Europe.
- The impact on assets and liabilities in GBP and the Euro given the possibility of depreciation and appreciation in those currencies.
- Treatment to be given to the differentials in currency values in the books of banks under the IFRS.
- Impact on banks' open position as designated in those currencies.
- Impact on bank customers whose deposits and assets are in affected currencies.
- Futures transactions in Euro and GBP.
- BREXIT could imply a smaller United Kingdom and reduce the UK's capacity to absorb Nigeria's export which currently stands at 5.9%.
- A smaller UK economy would also imply a significant reduction in the credit lines currently enjoyed by Nigeria.
- Remittances to Nigeria by its citizens in the UK will decrease significantly. According to an European Union report, the number of Nigerian professionals working in the European Union is more than the number of Nigerian professionals working within its shores. Nigerians sent home $20 billion worth of remittances in 2015.
- The Uk is currently Nigeria's largest source of foreign investment with assets worth over $1.4billion dollars earned in 2015. The event of BREXIT could affect the value of these assets
- Bilateral trade between Nigeria and the UK currently valued at £6 billion and projected to reach £20 billion by 2030 could be affected.

4. Lessons and Recommendations

- BREXIT has shown that there is the need for Nigeria to proactively diversify its export destinations and products in order to be able to absorb shocks from the international market.

- The banking industry would need to intensify efforts at sourcing credit lines outside of the UK and develop products and services that would appeal to the retail market.

- The Nigerian Government should brace itself to addressing the likelihood of an influx of Nigerians in the Diaspora to the country thereby exacerbating the currently high level of unemployment in the country. Presently, major banks in the UK are announcing job losses.

- To forestall possible contagion effect, Nigeria should take steps to mitigate the current UK's "cutting off" of the country as a result of the country's low economic performance in the last 18 months by looking at alternative business channels and lines.

- There is the need for Nigeria to develop a robust Risk Assessment Framework in the face of BREXIT. The Central Bank of Nigeria should, as a matter of urgency, intensify the current efforts at carrying out a proper risk diagnosis of BREXIT.

- The CIBN should expand the scope of and regualrly update the content of its capacity building efforts like the Compulsory Continous Development Programmes (CCPD) as a direct response to the expected developments from the effects of BREXIT.

- Political and corporate leaders should exhibit the highest levels of discipline in the management of resources which they hold in trust.