



**THE CHARTERED INSTITUTE OF BANKERS OF
NIGERIA CENTRE FOR FINANCIAL STUDIES
(CIBNCFS)**

**COMMUNIQUE ISSUED
AT THE END OF THE
WEBINAR ON RISK MANAGEMENT AND THE
CORONAVIRUS: STRATEGIC ACTION IN A VUCA
WORLD**

VENUE: ONLINE VIA ZOOM PLATFORM

DATE: FRIDAY, MARCH 27, 2020

1.0 Background

The Webinar on Risk Management and the Coronavirus: Strategic Action in a VUCA World was held Online on Friday, March 27, 2020 via the Zoom Platform. The aim of the session was to intimate participants with a better understanding of the Coronavirus while providing relevant strategies for risk management in the banking sector. The Webinar also discussed the impact of the virus and resulting Pandemic on businesses, the national as well as global economies

The Webinar was viewed by 100 registered participants via the Zoom conference call application and 25 participants via YouTube in 20 different cities across 4 countries in 3 different continents. The event was facilitated by 4 resource persons listed as follows:

- a. Prof. Olalekan Asikhia, Director, CIBN Centre for Financial Studies (CIBNCFS)
- b. Mr Joseph Angaye, Assistant Director, Risk Management Department, Central Bank of Nigeria (CBN)
- c. Dr Olukayode Oyedepo, Primary Care Physician, Reliance Family Clinic
- d. Mr Abiodun Ogunoiki, Deputy Chief Risk Officer, FSDH Merchant Bank Limited

2.0 Presentations

Highlights of the presentations made were as follows:

2.1 The Coronavirus Outbreak

The presentation on the Coronavirus Outbreak was delivered by Dr Olukayode Oyedepo, Primary Care Physician, Reliance Family Clinic. The following were highlights of his presentation:

2.1.1 Background

- ✚ The Coronavirus had been in existence since the 1960s as a bat virus. However, as of 2019, the virus had mutated to contain a cross species strain
- ✚ The virus is not airborne but contained in respiratory droplets which are dispersed when we cough or sneeze. Such droplets cause infection when it gets into the mouth, nose or eyes which leads to the throat and eventually to the lungs.
- ✚ The data as at March 27, 2020 shows that in over 199 countries, there are 536,615 confirmed cases, 24,116 death and 124,402 recoveries been made. In Nigeria, there are 65 confirmed cases with 3 discharged and 1 death.
- ✚ An infected person can be asymptomatic for about 5 – 14 days while still being highly productive.
- ✚ Most severe cases have only been seen in older people usually above 40 years of age and those with underlying health conditions such as heart diseases and generally immunocompromised states.

- ✚ The coronavirus is similar to classical flulike symptoms, only amplified 2 - 3 times over. Early symptoms include; Fever, Sore throat, Cough (usually dry), General Malaise, Diarrhea, and pneumonia in severe cases.
- ✚ Diagnosis is done via blood or respiratory samples and the results are ready within hours or a few days.
- ✚ Temperature checks as a preventive measure are largely ineffective as infected persons may be asymptomatic during screening.
- ✚ The Pandemic would help reshape our behaviors and culture with regards to hygiene.

2.1.2 Preventive Protocols

The following are preventive measures that should be taken to evade Coronavirus:

- ✚ Sneezing or coughing into disposable tissues or the crook of your elbow
- ✚ Avoid touching your face as much as possible, the use of N95 face mask might be pointless since the virus has been noted to enter the body through the eyes.
- ✚ Washing hands regularly with soap and under running water for at least 20 seconds.
- ✚ The use of hand sanitizer and surface sanitizer is recommended as well as frequently sanitizing used surfaces e.g. Lysol.
- ✚ Stay at home – Self isolation for anyone who has been in contact with a confirmed case or returning from an endemic region
- ✚ Social distancing and restrict outdoor activities
- ✚ Take a lot of Vitamin C

2.2 Covid-19 & the Nigerian Economy: Impact & Lessons

The presentation on Covid-19 & the Nigerian Economy was delivered by Prof. Olalekan Asikhia, Director, CIBN Centre for Financial Studies (CIBNCFS). The following were highlights of his presentation:

2.2.1 Impact on Global Economy

The major impact to the global economy is highlighted below as follows:

- ✚ Major Loss of value in Global Shares. As of March 19, 2020, the following indices declined as follows:
 - ✓ Nikkei: -28.7%
 - ✓ Dow Jones: - 31.7%
 - ✓ FSTE100: -34.1%

- ✚ Major restrictions to movement of people and goods. According to IATA (International Air Transport Association), more than 100 countries have enforced travel restrictions in the wake of the Coronavirus.
- ✚ Due to a reduction in economic activity, global growth rates are expected to slow to 1.5% from 2.9% in 2020. (OECD)
- ✚ According to the International Monetary Fund (IMF) there would be a global recession this year that will be at least as bad as the downturn during the financial crisis in 2008.
- ✚ Factory services in China have slowed down significantly. The Chinese Bureau of Statistics reports that in the first 2 months of 2020, production fell by 13.5%. This would have major effects on other economies of the world since China makes up a third of manufacturing globally, and is the world's largest exporter of goods.

2.2.3 Impact on the Nigerian Economy

- ✚ Nigeria has not been left out of the pandemic. As at March 27, 2020 the total number of cases confirmed in Nigeria had climbed to 65 people including one death. This occurrence has led to travel restrictions and limitations in gatherings of more than twenty people.
- ✚ As a result of the pandemic, global demand for crude oil has fallen. This is particularly true of China whose demand for 10 million barrels per day makes them the number one importer of crude oil
- ✚ The coronavirus pandemic is affecting a wide range of energy markets – including coal, gas and renewables but its impact on oil markets is particularly severe because it is stopping movement of people and goods and dealing a heavy blow to demand for transport fuels.
- ✚ The IEA forecasts that global oil demand would slow to 99.9 million barrels a day in 2020, down around 90,000 barrels a day from 2019. This is a sharp downgrade from the IEA's forecast in February, which predicted global oil demand would grow by 825,000 barrels a day in 2020.
- ✚ Nigeria, a country dependent on oil for majority of its revenue would be greatly affected by this slowed demand. This led the IMF to revise its forecast for Nigerian growth from 2.5% to 2% in 2020.

2.2.4 Impact on the Federal Government (Expectations)

- ✚ There will be reduction in targeted revenue collections this year
- ✚ The budgeted oil benchmark will be reviewed from \$57 to \$30 per barrel
- ✚ The target to generate N252.08bn from privatization proceeds in 2020 will be grossly affected
- ✚ The plan of the Bureau of Public Enterprises to generate total net revenue of N266.8bn from sale of public assets for 2020 budget implementation will be grossly affected because of the pandemic.
- ✚ Expect further rise in inflation rate

- ✚ Reduction in revenue from Nigeria Customs Service from N1.5tn to N943bn
- ✚ Reduction in consumers' purchasing power due to rising inflation.
- ✚ Reduction in consumers' patronage of goods and services.

2.3 Risk Management Strategies for the Banking Industry.

Mr Joseph Angaye, Assistant Director, Risk Management Department, Central Bank of Nigeria availed participants risk management strategies for the banking industry to deal with the current pandemic. The following were highlights of his presentation:

- ✚ Risk is an attempt to identify threats to our objectives in order to take proactive measures to reduce the likelihood of the risk occurring or reduce the impact if they occur.
- ✚ Risk management involves preventing nasty surprises from occurring. If good risk management practices are put in place then risk managers would be prepared for any contingencies.
- ✚ Risk Managers should always keep the Black Swan Theory in mind. The theory is a metaphor that describes an event that comes as a surprise, has a major effect, and is often inappropriately rationalized after the fact with the benefit of hindsight
- ✚ Banks are the engine of the economy, therefore what affects the economy affects the banking and finance industry directly.
- ✚ The best way to manage risk is to take proactive measures against any. If we fail to do this, the impact would come at a high cost.
- ✚ It is important for all organizations to have a business continuity plan. A business continuity plan articulates how a firm will continue to provide services to its stakeholders in the event of significant disruption. The plan contains the kind of risks they are exposed to and how to deal with such risks. Such risk ranges from operational, market to third parties as well as cyber security risks.
- ✚ There are gaps in most institution's business continuity plan. Before Covid-19 Pandemic, most banks were only prepared for risks from fire, hacking, terrorism etc.
- ✚ Covid-19 is expected to affect the operation, credit and liquidity positions of banks

Mr Angaye identified various types of risks banks would be exposed to as a result of the pandemic. They are discussed in detail below as follows:

a. Operational Risk - Impact on Operational Activities

- ✚ Operational risk is the risk that people, processes, technology used to provide services to customer could be affected due to the pandemic.
- ✚ Key personnel getting infected with the virus could lead to lock down of the premises and as such prevents the firm from rendering essential services to the customers.
- ✚ The reliance on third parties such as vendors, merchants etc. for provision of essential services could hamper operations should such operators become infected.

- ✚ The banks need to be careful and risk aware to ensure that the tools used to provide financial services are not equally being used as a medium to transfer the virus.

b. Credit Risk – Impact on Credit

- ✚ Credit risk is the risk that a customer might default on loan payments.
- ✚ One major impact of the Covid-19 crisis is the disruption in global supply chains. This has in turn impaired the capability of businesses to repay loans obtained for trade purposes. This in turn implies a negative impact on the banks credit portfolio
- ✚ There is also the possibility of debtors being infected with the virus. In the event of the death of a debtor or key personality in a company/business which has taken a loan from a given bank, the bank would be faced head on with the challenge of credit risk.

c. Liquidity Risk – Impact on Liquidity Position

- ✚ Banks have a key role in financial intermediation i.e. mobilizing funds from the surplus unit to the deficit unit.
- ✚ In a cash dominant economy like Nigeria, the impact of the pandemic would involve customers making more cash withdrawal transactions than deposits. This would therefore have an impact on the liquidity position of banks.

d. Market Risk – Impact on the market

- ✚ The pandemic also have a major impact on interest rate and foreign exchange rate due to the recent decline in oil prices and subsequent devaluation of the Naira.

All aforementioned issues ought to have been addressed by banks in an Enterprise Risk Management (ERM) framework which should have been adopted long before the current crisis. Having the framework in place would go a long way in ensuring business continuity of banks and mitigating the impact of the pandemic.

3.0 Panel Discussion

3.1 Panelists

- Prof. Olalekan Asikhia, Director, CIBN Centre for Financial Studies (CIBNCFS)
- Mr Joseph Angaye, Assistant Director, Risk Management Department, Central Bank of Nigeria (CBN)Dr Olukayode Oyedepo, Primary Care Physician, Reliance Family Clinic
- Mr Abiodun Ogunoiki, Deputy Chief Risk Officer, FSDH Merchant Bank Limited

It is also important to note that though attending as a participant, Mr Kevin Moore, Director, Global Business Development, Chartered Institute of Securities and Investment (CISI) availed insights during the panel discussion and answered questions from the audience.

The following were highlights of the panel session:

3.2 Covid-19 and Anticipated vaccine

- ✚ There are different countries who have made claim to have gotten a cure to the virus. It however takes about 6 months to a year for an approved drug to go through the necessary trial stages.
- ✚ There would be a cure for the coronavirus but at the moment we might be at the very least, 3-6 months away from a cure or vaccine. The World Health Organization (WHO) is however considering all submissions from all countries who posit to have found a cure.
- ✚ Except we are able to break the chain of infection, we may need to wait for the cure or vaccine. This suggests that the lockdown may continue for 3 – 6 months or when the cure/vaccine would be available.

3.3 Impact & Effect of Covid19 on Investors

- ✚ During this period, it would be a safer option to leave investments in mutual funds or money market funds. However, this is largely dependent on the investors' risk appetite.
- ✚ An investor with a low risk appetite is advised to put a chunk of funds in risk free assets previously mentioned while an investor with a high-risk appetite could invest in stocks and/or agribusiness platforms. Furthermore, the NDIC and other similar organizations exist to protect investors' principal.
- ✚ During this period, potential investors would be keeping precautionary savings with relatively less investments due to the uncertainties posed by the current economy. Furthermore, investors would be more inclined to invest in a more structured facility than in stocks.

3.4 Impact & Effect of Covid19 on Businesses & the Economy

- ✚ Most businesses would have to close down physical branches/operations and work on building a bigger online presence.
- ✚ Online businesses would thrive and continue to operate during this period
- ✚ Currently, banks are granting customers relief from the effects of the pandemic by freezing repayments for mortgages over a specified period. Banks are also offering lower interest rates on loans.
- ✚ The importance of cyber security at this period cannot be over-emphasized
- ✚ The economy may go into recession this year, however this largely depends on the policy actions taken by the government to stimulate the economy.
- ✚ Sensitizing small businesses and petty traders in particular on the use of electronic/virtual means of payments is crucial to prevent the spread of the virus. This is because the use of electronic means of payment still poses a challenge for a cash dominant economy like Nigeria as there exist a wide financial inclusion/literacy gap.
- ✚ In the United Kingdom, the big banks such as HSBC, Barclays and RBS – in an attempt to keep businesses afloat granted interest holidays and 3-months mortgage repayment holiday.

3.5 Impact & Effect of Covid19 on the Banking Industry

- ✚ Globally, banks are being advised to restructure their loan books to reflect the effects of the pandemic.

- # The Central Bank of Nigeria released a circular encouraging banks with peculiar issues to seek their audience. In this regard such issues would be resolved on a one on one basis.
- # Banks would have to be more creative on how to mobilize deposits. This is because as opposed to making deposits, more people would be inclined to keep cash for precautionary savings as a result of the pandemic and there would be less investment because of uncertainty in the economy.
- # Apart from deposits, banks should consider commercials papers, bonds etc. to raise funds. There, however, has to be a motivation in order to incentivize or encourage people to invest. This could be in the form of banks increasing interest rate above the risk-free rate or treasury bills rate.
- # In the UK for example, businesses and tax-payer money were used to keep banks afloat during the financial crisis of 2008/2009. This period is therefore a chance for banks to keep the tax-payers and businesses afloat.
- # The CBN recognizing the impact of the pandemic on small businesses issued a policy to reduce interest rate on all intervention loans from 9% to as low as 5%.
- # In order to assist banks and customers who might be severely impacted by the pandemic, a circular was issued allowing banks to approach the CBN on a case by case basis where such customer or bank is given regulatory forbearance and permission to restructure such facility.
- # A one (1) year moratorium period has also been introduced on loans granted to sectors such as oil and gas, agriculture and manufacturing. This can also be extended to other sectors and individuals who are severely impacted given the genuineness of the case.
- # A limitation of handling issues on a case by case basis is that banks may be overwhelmed since all individuals would be affected by the pandemic.
- # The activation of the business continuity plan for banks have helped to ensure that customers are provided with basic services needed to weather the current storm.

4.0 Recommendations

Recommendations from the session are outlined below as follows:

4.1 Banking Industry

- # The banks should comprehensively review their loan books in order to determine the extent to which they are exposed to the virus. For example, sectors heavily affected include aviation & airline, tourism & hospitality, oil & gas, sectors.
- # Banks should be cautious of cyber security risk and improve on cyber security measures because as banks initiate the business continuity plan which makes most operations digital, they would be open to more fraudulent attack.
- # Banks need to intensify efforts on technology to ensure there is no downtime in digital operations while being conscious of fraudulent activities
- # Given that most staff are now working from home, banks should ensure encryption of all staff laptops and other equipment which could potentially be compromised by hackers.
- # CBN in a bid to support financial services industry during this critical period, issued a circular giving banks regulatory forbearance to restructure loan facilities that might be affected by the

virus. Banks should therefore take advantage of this opportunity by searching their loan portfolio in order to identify facilities prone to virus and strategize with the CBN on whether to increase the tenure or restructure some of the facility terms.

- ✚ Banks should be conservative at this period in terms of creating forex assets. This is primarily due to the drop in crude oil prices brought on by low demand from oil importing countries affected by the pandemic.
- ✚ Banks should also be conservative in granting forex facilities to customers whose FX facility is different from the currency he does business i.e. Nigerian banks should be careful in granting FX facility to customers earning Naira during this period.
- ✚ Banks should lend to sectors the CBN identified as key sectors during the pandemic. These include the Health Sector. By doing this, banks could get relief from the Cash Reserve Ratio (CRR) which was recently increased from 22.5 to 27.5.
- ✚ Banks should take advantage of the Intervention Fund CBN is introducing to curb the spread of the virus and contain the pandemic.
- ✚ Banks should ensure clean notes are available in the ATM Machines to prevent people from going into the banking hall
- ✚ Banks should ensure that the hygiene at the ATM machines are monitored thoroughly and ensure they have sanitizers and hand washing materials close by.
- ✚ All banks should actively review Enterprise Risk Management (ERM) framework. The information security departments should be alert at this time and not negligent.

4.2 Individuals & Businesses

- ✚ To prevent the spread of the virus through the use of ATMs and cash held, individuals should explore online means of payment such as internet banking, USSD codes, Mobile Apps etc. as it is possible for respiratory droplets to fall on cash held as well as ATM Machines. If cash must be used then sanitizers should be used to sanitize the hands immediately afterwards.
- ✚ Every organization should address the gaps in their business continuity plan.
- ✚ There should be strengthening of the business continuity plan to address the risks that Covid-19 introduces.
- ✚ Provision of hand sanitizers and hand washing materials on business premises.
- ✚ Arrangements should be made in the business continuity plan to ensure staff are provided with tools needed to work from home while key personnel only are allowed in the business premises in order to prevent total shut down of operations and to ensure rendering of basic services.
- ✚ Some of the steps to take to reduce incidence of cybercrimes include the use of encryption on all laptops, use VPN (Virtual Private Network), etc. Asides from digital authorization, staff authorizing should follow up with phone calls to take extra precautions and penetration test should be regularly done by banks.

4.3 Government & Regulatory Institutions

- ✚ Diversification from oil and gas and growing other sectors of the economy - It is essential to hasten the agenda to diversify the Nigerian Economy. At present, majority of Nigeria's revenue is received from Crude Oil sales and since 90% of Nigeria's forex revenue is gotten from crude oil, it is expected that whenever there is a drop in sales or production, it would affect external reserves.
- ✚ More aggressive focus should be on critical and emerging sectors such as Agribusiness, Entertainments/Arts and Manufacturing. Considerably greater investment in affordable health care and health tourism in Nigeria.
- ✚ The government should provide more incentives to encourage investment.
- ✚ Increased funding for healthcare - The current developments serve as a lesson for Nigeria that economic conditions depend not just on standards of living or GDP but on the actual performance of health systems themselves. Therefore, there should be a significant increase in funding of healthcare options for average Nigerians (hospitals, locally produced drugs, quality drugs)
- ✚ Removal Of Oil Subsidy - Now that fuel prices are low (N125 per litre), this would be the best time for a total removal of petroleum subsidies in order to have some savings. N450bn was budgeted for as fuel subsidy in the 2020 budget. This is money that could be better spent on other sectors such as healthcare, infrastructural deficits and provision of welfare packages as well as relief materials for the public.

5.0 Conclusion

The novel coronavirus is not only disrupting the movement of people and goods but also disrupting every sector and facet of the economy. The Covid-19 virus has brought to fore the fact that we operate in a Volatile, Uncertain, Complex and Ambiguous world whereby despite the implementation of best practices in risk management, a virus outbreak could still disrupt global markets and restrain growth rates. However, while the virus has revealed some of the gaps in our risk management strategies, it has also ushered in some wave of opportunities that individuals, businesses and the government can take advantage of. It has renewed our focus on the importance of technology in our everyday lives, the need to be cyber resilient as well as the possibility of working flexible hours and remotely.

The pandemic has brought about a sudden lifestyle change and given us a sneak peek into what the 5th industrial revolution would bring as well as jobs that will be relevant in next 10-20 years. More importantly, it has made businesses more innovative, creative and given them the need to develop and address gaps in their business continuity plan and risk management framework.

As earlier mentioned, it is important for everyone to take safety precautions from the use of hand sanitizers, washing of hands, to staying at home in order to prevent the spread of the virus. Business should also leverage technology more to ensure business continuity while being cyber-crime conscious. Banks should prevent downtime in operations to ensure provision of essential services as well as take

advantage of circulars issued by the CBN while the Nigerian government should diversify from oil and increase funding to healthcare sector as well as other critical and emerging sectors of the Economy.

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