



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

COMMUNIQUÉ ISSUED

AT THE END OF THE

**WEBINAR ON “NON-PERFORMING LOANS & THE
GLOBAL STANDING INSTRUCTION (GSI) POLICY:
IMPACT & INSIGHTS FOR FINANCIAL STABILITY”**

VENUE: ONLINE VIA ZOOM PLATFORM

DATE: TUESDAY, AUGUST 18, 2020

1.0 Background

The Webinar on **Non-Performing Loans & The Global Standing Instruction (GSI) Policy: Impact & Insights for Financial Stability** was held on Tuesday, August 18, 2020 via the Zoom Conference Call Platform. The Webinar was the third in the CIBN Advocacy Dialogue Series, which was conceived principally to address critical issues affecting the banking industry and the economy with the aim of proffering pragmatic solutions. The Series was also conceived most importantly, to support the regulators in ensuring the growth, sustainability and vibrancy of the financial industry.

The Third Edition of the Series aimed to shed light on the recently released GSI Policy and its implications on financial system stability. Other objectives of the Webinar were the following:

- Articulate the risks and implications of bad debts and the problem that recalcitrant debtors pose to the financial system and the Nigerian economy.
- Create awareness and enlightenment on the new guideline on the GSI.
- Highlight the benefits of the GSI Policy to the banking industry and the Nigerian economy.
- Clarify the roles of regulators, operators, other financial institutions, bank customers and other stakeholders in the implementation of the GSI guideline.

The Webinar was facilitated by the following Distinguished Resource Persons:

- a. **Keynote Speaker - Mr. Kevin Amugo**, *Director, Financial Policy & Regulation, Central Bank of Nigeria*
- b. **Mr. Chibuzo Anthony Efobi**, *Assistant Director & Macro Prudential Analyst, CBN*
- c. **Distinguished Panelist – Dr. Adesola Adeduntan, FCIB**, *MD/CEO, First Bank of Nigeria Limited, represented by Mr. Olusegun Alebiosu, Group Executive, Chief Risk Officer, First Bank of Nigeria Limited*
- d. **Distinguished Panelist - Hajiya Saratu Aliyu**, *National President, NACCIMA, represented by Barrister (Mrs.) Margaret Orakwusi, National Officer and Chairperson, Maritime Trade Group, NACCIMA*
- e. **Distinguished Panelist - Mr. Osaro Eghobamien, SAN**, *Managing Partner, Perchstone & Graeys*
- f. **Moderator – Dr. Biodun Adedipe, FCIB**, *Chairman, Research Committee, CIBN & Chief Consultant, BAA Consult*

2.0 Address by the Keynote Presenter

The keynote presentation was expertly delivered by Mr. Amugo, who explained the rationale behind the GSI Policy and its role in ensuring financial stability. The highlights of his presentation are as follows:

- It is the aim of the CBN to increase loan advances, as this is an indicator of economic prosperity. However, it is also important to control the incidences of Non-Performing Loans (NPL) which may rise as loan advances increase.

- Banks play key roles in financing developmental projects and facilitating economic growth. A stable financial system supports banks in playing these important roles.
- Appropriate regulatory policies are needed toward ensuring the safety, soundness and stability of the banking system.
- The GSI Policy was introduced specifically to support the banking industry in reducing the rate of un-serviced loans, improve loan recovery efforts and uphold responsible borrowing.
- From August 1, 2020 till August 18, 2020, over ₦50 million Naira has been retrieved from recalcitrant debtors as a result of the GSI policy.
- The CBN in consultation with relevant stakeholders, is currently working on the protocols for GSI (Non-Individuals) and will soon release its operational guidelines.
- Maintaining a safe and sound banking sector is in the interest of all stakeholders.
- In collaboration with operators, the CBN will continue to promote policies that strengthen the integrity of the banking system.

3.0 Highlights of the Panel Discussion Session

The panel discussion was facilitated by distinguished panelists who offered insights based on their areas of expertise and stakeholder perspectives. The panelists were:

- i. **Regulator's Perspective – Mr. Chibuzo Anthony Efobi who stood in for Mr. Amugo**
- ii. **Industry Operator's Perspective - Mr. Olusegun Alebiosu who stood in for Dr. Adeduntan**
- iii. **Bank Customer's Perspective - Barrister (Mrs) Margaret Orakwusi who represented Hajiya Aliyu**
- iv. **Legal Perspective - Mr. Osaro Eghobamien, SAN**

The following are the highlights of the panel discussions and the subsequent Question & Answer Session.

a. Regulator's Perspective –

- Joint accounts to which a loan defaulter is signatory are currently not debited but flagged as “GSI Recognized”.
- Bank customers should be wary of who they open a joint account with, as BVNs associated with a loan defaulter's account will be impacted by the GSI Policy.
- The CBN frowns at the use of the GSI Trigger when the loan in question is currently being restructured by the lending bank.
- The GSI Policy would not debit an account with insufficient balance or an account with a negative account balance.

b. Industry Operator's Perspective

- The GSI Policy is a coordinated approach to addressing the issue of Non-Performing Loans in the Nigerian Banking System.
- The cause of most bank failures is traced to bad loans, as banks have to contend with bad credit repayment culture/attitude of debtors.

- Banks nurse a fear of lending to SMEs despite the fact that this sector could bring growth to the Nigerian economy.
- The cost of recovery of bad loans is at times greater than the value of the loan itself.
- The number of debt recoveries would have increased and consequently, influence discipline in loan repayment after one year of the implementation of the policy.
- The GSI Policy would not affect the willingness of borrowers to deposit their money in the banks because it is in their best interest to save their money in the bank as this guarantees safety of their money. Customers who leave their savings in the bank are less likely to experience armed robbery attacks.
- Cheap funds are available to borrowers with good credit scores and without records of loan defaults across different banks.
- The issue of trust between the banks and borrowers need to be addressed.
- Bank customers need to develop a culture that encourages a sense of responsibility towards the bank with respect to loan repayment.

c. Bank Customers' (Businesses) Perspective

- As the voice of Nigerian businesses, NACCIMA is of the opinion that the GSI Policy has the capacity to promote a stable financial system and enhance loan recovery across the Nigerian banking sector if properly implemented.
- The GSI Policy indirectly improves customers' credit ratings, as the policy will compel prompt repayment of loans, and in turn boost their credit rating and history.
- The GSI Policy would also eliminate incessant harassment by bank collections/loan recovery agents as the policy affords creditor banks the opportunity to recover past due obligations without recourse to the borrower.
- The interest rates should be competitive and if possible, in single digits. From the borrower's perspective, one of the major reasons for loan default in Nigeria is the unfavorable terms of the loans. That is, high interest rates.
- It is important to create favorable terms of payments that make repayment of loan easy for businesses to bring about growth in the Nigerian economy and improve rate of loan repayments as in the developed world.
- The policy affords credible borrowers increased access to finance.
- The objective of the Policy to reduce NPLs may not be achieved as it only focuses on personal accounts, given that majority of bad debts in Nigeria according to available reports, are corporate loans rather than individual loans.

d. Legal Perspective

- The GSI Policy is based on a consensual agreement between the bank and the borrower.
- The GSI Policy is an escalation of bank reconciliation practices that had existed within individual financial institutions.

- Before the GSI Policy, banks independently pursue reconciliation procedures. However, with the introduction of the GSI policy, we are currently looking at a system of banking without borders. That is, all banks are involved in the reconciliation process.
- It is the responsibility of the Chief Risk Officer to determine the status of each loan and initiate the GSI trigger where he/she deems appropriate.
- Legislation should be introduced to appropriate risk of a loan default in the event of unforeseen circumstances such as the Covid-19 pandemic. The person who bears the risk of a defaulted loan in the event of such a circumstance needs to be determined.
- If properly implemented, the GSI Policy portends benefits such as encouraging a loan repayment culture, increasing creditors' confidence, enhancing access to credit, curbing liquidity challenges, protecting depositor funds and increasing depositors' confidence in the banking sector.
- The Policy also provides an avenue where checks and balances amongst players and stakeholders are promoted.
- Implementation of the Guidelines is likely to result in reduction of court dockets in actions for recovery of loans and garnishee proceedings over time.
- The judgment creditor in a Garnishee Proceeding may not be a bank and therefore, the GSI Policy will not be applicable in this context. A complication that may arise is which party takes precedence where a judgment creditor applies a garnishee order on an account and at the same time a bank triggers the GSI on that account. The simple answer would be that where the GSI is triggered first, it will practically take precedence over the garnishee order due to the fact that by the time the judgment is effected, the account would have been debited by the triggered GSI. In effect, a Garnishee bites only when it is served upon the bank.
- The GSI Guidelines are a positive step towards efficient management of NPLs in the banking sector and promotion of a more watertight financial system in Nigeria. The absence of clear modalities for the unimpeded operation of the GSI may however, open up conflict. It would be prudent to examine the gap areas and take proactive steps to remedy identified defects. This will not only mitigate conflict that may likely arise, but also stimulate confidence and economic activity in an ailing economy.
- Under the Pension Reforms Act (PRA) 2004, pension funds and assets in a debtor's Retirement Savings Account (RSAs) are protected from attachment, injunctive and garnishee proceedings, and cannot be used to satisfy any judgment obtained against such debtor. The Guidelines do not mention retirement savings accounts expressly, and so it is unclear whether the Guidelines anticipate attachment of RSAs under the GSI.

5.0 Recommendations

Recommendations from the session are outlined below as follows:

5.1 Industry Operators

- The Industry operators should work with the Central Bank of Nigeria to ensure nationwide sensitization of the GSI Policy and its implications for bank customers.
- The interest rates on loans should be reviewed downward to encourage business persons not to default on loans.

5.2 Government & Regulatory Institutions

- The Central Bank of Nigeria should work with banks to ensure nationwide sensitization of the GSI Policy and its implications for bank customers.
- Incorporate into the guidelines an internal dispute resolution mechanism whereby all conflicts can be amicably resolved. Only when all aspects of this mechanism have been fully exhausted without result should either of the parties be encouraged to go to Court. This would ensure more efficiency with regards to conflict resolution.
- Establish a clear compensation mechanism for bank customers in the case of wrongful debit due to GSI activation.
- Provide clarification on the meaning of “last resort” in the Guidelines.
- Make clear provisions on steps to be taken before the GSI is triggered, and its position relative to extant laws.
- For easy execution of judgments and subsisting court orders, GSI Policy could be extended to apply to judgment sums upon tendering of copies of such judgments by the creditor bank. This will help in reducing the court’s dockets, facilitate quick resolution and reduce expenses incurred in debt recovery.
- should clarify the application of RSAs balances vis-à-vis the provisions of the Pension Reforms Act (PRA)
- CBN should provide a uniform template or stipulate minimum provisions (or contents) of the ‘education mandate’ on the GSI Policy for uniformity, and most importantly for borrower protection.
- Creditors should be mandated to provide explanation in the language spoken and understood by the borrower, with the insertion of an illiterate jurat made a requirement before the execution of the Mandate by an illiterate borrower.
- CBN should organize capacity building exercises for the Participating Financial Institutions (PFIs) on these requirements, to guard against non-compliance.
- The Guidelines should include the timelines for PFIs to respond to requests and inquiries by the concerned stakeholders.
- It is unclear whether a single master agreement is contemplated between the NIBSS and all the PFIs or if separate agreements are contemplated between participating banks and NIBSS. Whilst it is more logical to have a single Master Agreement with

all the PFIs and the NIBSS as parties, it is recommended that there should be provision for ascension agreements for PFIs that subsequently intend to participate in the GSI.

- Extend the provisions of the Guidelines to NPLs of corporate entities, without triggering massive winding up processes or bringing corporate operations to a halt.
- Strengthen and enforce the Bankruptcy law.

5.3 Bank Customers/Borrowers

- Business owners should take loans only for viable transactions and projects.
- Bank customers should take loans with the intention to pay back.
- Bank customers should do all within their power to maintain a good credit score and reputation within the banking community.

6.0 Conclusion

It is the belief of the participants that although the GSI Policy is a welcome development, there are certain gaps which could be exploited by various stakeholders in the loan disbursement ecosystem. For example, it is important to clarify the meaning of “last resort” and the attachment of Retirement Savings Account balances under the GSI Policy.

The Webinar was expertly facilitated by seasoned resource persons who thoroughly discussed the key issues, the outcome of which positive appraisal by all the participants and stakeholders.

Mr. 'Seye Awojobi, FCIB

Registrar/Chief Executive

The Chartered Institute of Bankers of Nigeria