



### MACROECONOMIC INDICES

INDICATOR	PERCENTAGE/VALUE
INFLATION RATE JAN (YOY)	12.30 %
MPR (%)	6.00
OPEC OIL BASKET (\$/barrel)	76.75 (22/03/10)
90 DAY T- BILL RATE	1.55 (23/03/10)
INTERBANK CALL RATE	1.29 (23/03/10)

### MARKET SNAPSHOT

		% Δ WEEKLY	% Δ YTD
NSE ASI	24,517.88	1.56	246.62
CAP(Nbn)	5,924.91	-0.27	10.63
VOL('bn)	2.48	13.71	
VAL('Nbn)	21.41	26.35	
DEALS	32,608		
GAINERS	66		
LOSERS	35		

### WEEKLY TOP GAINERS

Company	Price (N)	%Δ
CUSTODIAN & ALLIED INS	3.78	24.75
GTASSURE	2.67	21.36
BCC	64.61	18.36
DANGOTE FLOUR PLC	16.06	15.37
ECOBANK	6.84	14.96

### WEEKLY TOP LOSERS

Company	Price (N)	%Δ
STACO	0.61	0.61
UNITY CAPITAL	0.70	0.70
ALUMACO	12.24	12.24
PRESTIGE	2.83	2.83
FCMB	9.00	9.00

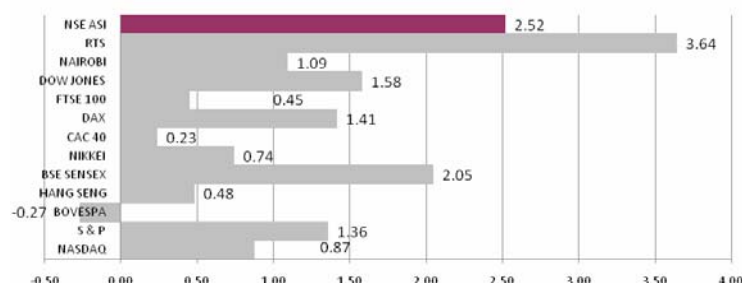
### WEEKLY MOST TRADED

Company	Price (N)	Volume
ZENITH BANK	16.85	141,167,329
DIAMOND BANK	9.30	126,866,568
ACCESS BANK	9.99	106,901,334
FIRST BANK	15.12	97,887,973
UBA	14.50	95,616,780

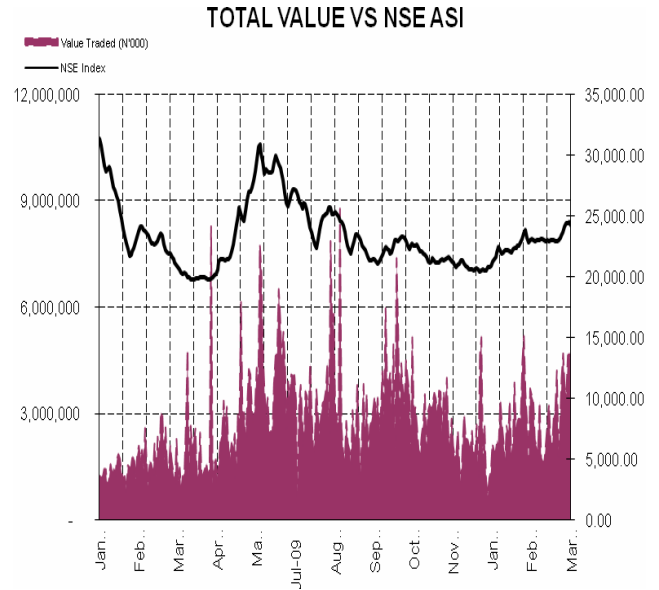
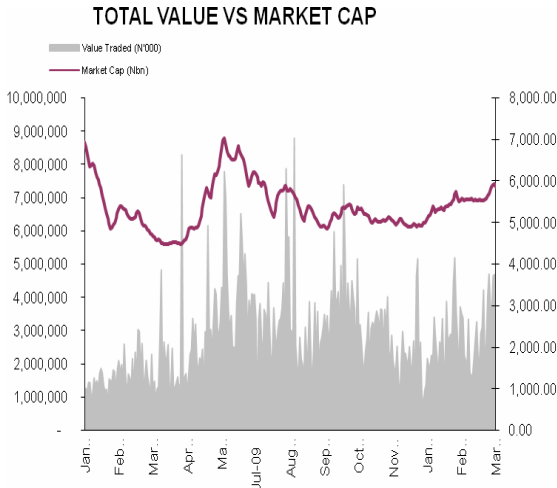
### STOCK MARKET REPORT FOR THE WEEK MONDAY 11<sup>TH</sup> MARCH TO THURSDAY, 18<sup>TH</sup> MARCH 2010

Major equity markets around the globe sustained their northwards sojourn to close in the positive territory last week. Our universe of sample equity markets saw the Dow Jones NASDAQ and the S & P 500 all record 1.58%, 0.87% and 1.36% upside respectively at the end of our review period. In Europe, the bulls were agog with major indices recording positive movements. The FTSE 100, German Dax and France's CAC 40 all gained 0.45%, 1.41% and 0.23% respectively. A similar story was recorded in the Asia/Pacific region, as the bears were confined to the woods. The Hang Seng, BSE Sensex and the Nikkei 225 all churned up 0.48%, 2.05% and 0.74% respectively at the end of the week. On the local scene, NSE ASI tested and maintained the 24,000 point to close at 24,262.34 recording 2.52% hike at the end of proceedings. It is currently at its YtD zenith.

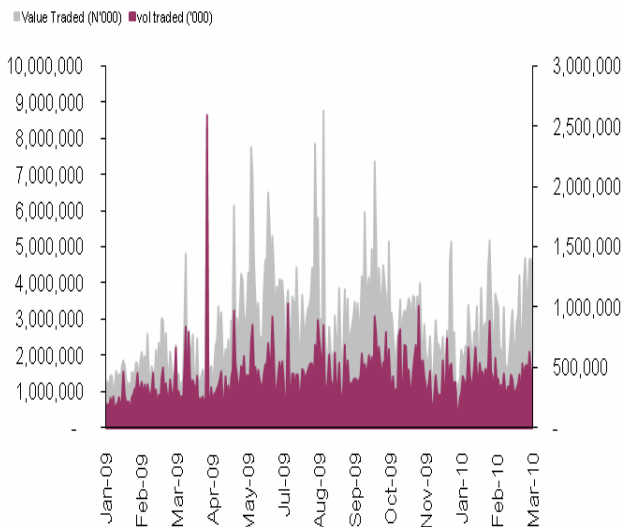
SELECTED INDICES (WEEKLY PERFORMANCE %)



Transactions were upbeat with total volume and value traded increasing by 21.91% and 30.57% respectively. A turnover of 2.02 billion units of shares valued at N17.27 billion, in contrast to a turnover of 1.65 billion shares worth N13.22 billion was recorded two weeks ago. The Banking subsector was the most active during the week (measured by turnover volume). Volume in the Banking subsector was largely driven by activity in the shares of Zenith Bank Plc, Diamond Bank Plc and Guaranty Trust Bank Plc, Access Bank Plc, First Bank Plc, UBA Plc, Fidelity Bank Plc, Sterling Bank Plc and Skye Bank.



**TOTAL VOLUME VS VALUE TRADED**



**BANKING REFORMS – CENTRAL BANK OF NIGERIA (CBN) TO JETTISON UNIVERSAL BANKING**

**INTRODUCTION**

The Central Bank of Nigeria (CBN) last week announced that it would soon stop the issuance of universal banking licenses to operators in the nation’s banking industry. A new banking system structure which is in line with the ongoing reforms in the banking sector is being considered. The new arrangement is expected to protect commercial bank activities from pressures from non-commercial banking operations, to allow them concentrate in the provision of their traditional banking activities. Operators would be issued different categories of licenses, depending on whether the bank is interested in carrying out business at international, national and regional levels. Those interested in the provision of specialized banking

services, like non-interest banks, small and medium enterprises (SME) banking, would also be expected to get separate operational licenses.

The Central Bank had in 1999, under the tenure of Joseph Sanusi, introduced the universal banking license scheme. Under the scheme, banks were allowed to operate in all sectors without differentiation as merchants, commercial or mortgage banks. The implication would bring the current services of subsidiary companies of banks into a non-operating financial holding company under a new model, with the bank as a subsidiary, details about how it would work would be spelt out during a transitional period that would last between 18 and 24 months to ensure that normal banking operations are not disrupted.

#### **WHAT IS UNIVERSAL BANKING?**

A system of banking where banks are allowed to provide a variety of services to their customers. In universal banking, banks are not limited to just loans, checking and savings accounts, and other similar activities, but are allowed to offer investment services as well. Universal banking has some advantages as well as disadvantages. The main advantage of universal banking is that it results in greater economic efficiency in the form of lower cost, higher output and better products. However larger the banks, the greater the effects of their failure on the system. Also there is the fear that such institutions, by virtue of their sheer size, would gain monopoly power in the market, which can have significant undesirable consequences for economic efficiency. Also combining commercial and investment banking can give rise to conflict of interests. Conflict of interests was one of the major reasons for introduction of Glass-Steagall Act in US. The main disadvantage is that universal banking permits concentration of economic power in a handful of large banking

institutions that hold equity positions in companies that are also borrowers of funds.

#### **WHAT WENT WRONG WITH UNIVERSAL BANKING IN NIGERIA -**

Only a decade ago Nigerians argued that the reason why so many of our banks went belly up in the early 90s in the wake of the first financial crisis of that period following from the June 12 political crisis of 1993 was because of size. We all reasoned then, that our banks were too small and therefore did not have the required Balance Sheet, to absorb risk (Victor Ogiemwonyi, January 2010).

The hype then was to get as much size as possible to be able to absorb risk as well as have the capacity to underwrite large ticket items. It was also argued that a large balance sheet also allowed a bank to be more efficient, as it can better manage its expenses. We also noted the large German and Japanese banks at the time that were usually involved in their industries. The thinking was that, because they were very large, they were better able to finance their industries which also provided them with business to support their operations. This quest for size was also going on quietly in the consolidation of the banking industry in both the UK and the USA. This was the underlying reasons for Universal Banking and then Consolidation.

In Nigeria, the experience was quite interesting. Traditional Merchant Banks first converted into commercial banks, to later float investment banking subsidiaries after a few years. The conversion then, was to take advantage of large and cheap deposit brought about by having a number of retail outlets (branches). Therefore, banks were already warming up to the prospect of exponential growth before the arrival of Professor Soludo, as the CBN Governor. The

erstwhile CBN Governor was an astute believer in size – the bigger a bank is, the less the prospects of failure.

What we have seen in the Nigerian variant of Universal Banking has been a model more like the old conglomerates that had any number of businesses that were sometimes far flung and requiring different management skills, which in most cases did not exist within the group. We have seen many of our Banks become importers and exporters simply because they saw from their client trades with them they seem to be profitable in that line, We have seen those who had gotten into areas of telecommunication, without thinking of the developmental cost and the continuing maintenance that will be required for years to come. It is a business that is driven by technology and it changes rapidly. While Telecommunication might seem to throw out a lot of cash flows, it also requires a considerable amount of money to keep expanding the network and keeping it efficient. Most large telecommunication companies the world over find it difficult to make money despite the high cash flows associated with their operations, because achieving a critical mass in terms of subscribers and cost inputs can be a challenge, because it is a moving target. The more subscribers you get, the more money will be required to expand the network to give them quality service (Victor Ogiemwonyi, January 2010).

Banks also became real estate speculators, and Special Purpose Vehicles (SPVs) became rampant. Most of these subsidiaries are headed by bankers without prerequisite experience and knowledge of the industry the subsidiary operates in. They do not know whether they want to be financiers or builders. Some mix up all the aspects, early stage financing which really should be long term lenders, commercial property financing, and

then mortgage which again should be left to the mortgage institutions licensed to do that.

The outcome of these practices revealed that all was not well with the system. The colossal losses recorded by these subsidiaries led to most of them being shut down or merged with commercial banking operations. It became clear that most of these subsidiaries could not survive on their own. The scraping of universal banking would create a level playing field between subsidiaries floated by banks and their competitors.

It did not come as a surprise that the new CBN Governor has been moving towards getting back to specialist banking, that is, going back to when the banking industry had defined areas of specialty and had specialists tilt. Development banks did development banking, Merchant Banks did wholesale banking and Issuing House business, Commercial banks did their commercial banking, Retail banking was carried out by the likes of Federal savings bank and of course the agricultural sector was supported by the Nigeria Agricultural Bank.

## ISSUES

Universal banking still has its achievements which are highlighted below:

- History from 1894 till 2000 the growth in Nigeria banking sector has not been matched by the growth in the last 10yrs. The number of failed banks from 1894, most especially between 1945-1955, cannot be compared to today
- Global banks have realized that risk is mitigated by merging various services - that is why banks that had strong retail and commercial arms fared better in the current crisis globally

- Some would argue that the universal banking system was never the problem faced by the banks in Nigeria the crisis is as a result of regulators not training themselves to effectively monitor the banks
- The task of monitoring about 80 to 25 banks was a challenge to the CBN due to lack of manpower, expertise and resources. What precedent does it have to monitor or supervise greater number of institutions?
- The policy being canvassed may not help. –how will the banks find the leverage to finance big capital project. e.g. Dangote is sourcing funds from the middle east be

it at 3%-6%, what is the benefit to the Nigerian economy and financial system

## CONCLUSIONS

No matter what size or model of Banking we opt for, good management with well understood and supervised regulation will always ensure the survival of the system. Several cases of bad management may influence the CBN Governor. It does not mean that universal banking is bad.

### Disclaimer

This report has been prepared by LeadCapital research from various sources that we believe are accurate. It is given for informational purposes only and is not a solicitation to buy or sell the securities mentioned herein. LeadCapital research views herein are expressed in good faith and every effort has been made to use reliable comprehensive information but no representation is made as to its accuracy or completeness. The opinions and information contained in this report are subject to change and neither LeadCapital research nor LeadCapital is under any obligation to make public any announcement with respect to such change. This report is produced independently of LeadCapital and the recommendations (if any), forecasts, opinions, estimates, expectations and views contained herein are entirely those of LeadCapital research. With the exception of information regarding LeadCapital, reports prepared by LeadCapital research are based on public information. This report does not provide individually tailored investment advice. While care has been taken in preparing this report, no responsibility or liability is accepted by Leadcapital research for actions taken as a result of information provided in this report.





