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Research Paper

Financial Regulations and the Nigeria's Banking Sector

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ABSTRACT:- Nigeria's banking sector over the years witnessed series of regulatory frameworks for a safe, stable and efficient financial system. This paper seek to explain the trends and impact of financial regulation on the Nigeria's banking sector after the bank consolidation exercise in 2005. Activities of the regulatory bodies were examined in the light of theoretical perspectives of financial regulation, their roles as well as the institutional structures portrayed the system's regulatory model. The study theoretically establish a positive relationship between financial regulation and banking sector development in the country. The trends shows that financial regulation increases the safety, confidence, stability and efficiency in the system.

Keywords:- Financial regulation, financial system, stability, regulatory model, Nigeria

I. INTRODUCTION

The 2008-2009 global economic crises at its worst phase threw up a myriad of inefficiencies in the structures for economic management in virtually all jurisdictions across the globe. These weaknesses were most evident in the financial services industry, a sector that formed the root and channel for the cyclonic spread of the crises to all nook and crannies of the globe. Thus, the subprime challenge in the housing/mortgage sector snowballed or spilled into the insurance industry, the credit markets (deposit money banks) and the capital markets. This became an instant pointer to failings and failure of the institutional structures for regulation of the various segments of the financial market (Mukhtar, 2010).

This in turn threw up a debate among Nigerians as to how an effective regulation could be installed to avoid future regulatory failures in the Nigeria's financial sector. An important aspect of the current review of the financial sector regulatory structures which was prompted by the collapse of major banks in the US and the UK as to whether a unified or consolidated financial sector regulation is more appropriate in preventing financial sector crises. In view of the above, as consolidated model for financial regulation was re-oriented in Nigeria both during and after the crises. This study strives to examine the impact and effectiveness of financial regulation on monetary stability with clear emphasis on the banking sector.

Financial regulation/supervision is being put in place to ensure a sound and safe financial system in an economy. However, inadequate supervisory framework and lack of an effective risk asset data base and information sharing system as well as lack of commitments and abuse of duties on the side of financial institutions have contributed in no small measure in disrupting the activities of banks, insurance companies and securities firms thereby, leading to distasteful incident of bank distress and liquidation by the regulators. In line with these problems, various financial sector legislations/acts have been promulgated as well as the introduction of different strategies all aim at increasing the effectiveness of financial regulation and supervision. These measures are mutually reinforcing and are design to timely identify and diagnose emerging problems in the sector with a view to presenting most efficient resolution directed towards ensuring continued public confidence and stability in the Nigeria's financial system.

II. REVIEW OF LITERATURE

2.1 Conceptual Definitions

Regulation means an official rule made by government or some other authority. It is a set of specific rules or agreed behavior either imposed by some government or external agency or self-imposed by explicit agreement within the industry that shave the activities and business operations of the institutions in the industry to achieve a defined objective (Chris, 2003). Regulation is seen as a body of specific rules of agreed behavior either imposed by some government explicit agreement within the industry that limit the activities and operations of financial institutions (Olorushola, 2003). It can be observed that, financial regulation stand in position to ensure rules are followed, behavior is sanitized and operations among stakeholders are guided toward effective and efficient financial system.

Financial system is a composition of various institutions, markets, instruments and operators that interact within an economy to provide financial services (Uffot, 2003). In the same vein, it is a conglomerate of various institutions that interact to surrender financial services to appropriate customers. These services among others include resource mobilization, allocation, financial intermediation and facilitation of foreign exchange transactions to boost international trade (Olorunshola, 2003). In view of the above, financial system is simply a systematic arrangement within the financial base of an economy paving way for interaction among various institutions, markets, instruments and operators to provide financial services. This of course, is in tandem with the views of Uffot and Olorunshola (2003).

Financial regulation according to Eatwell (1998) is vexed, there is no commonly accepted set of theoretical principles defining it, and that a major problem is building coherent theory of regulatory practice is that potential scale of losses associated with extreme event. Nonetheless, an attempt could be made to establish the components of financial regulation. It is a set of specific rules or agreed behavior imposed by government or its agencies to be able to control and guide the activities financial system for the achievement of desired objectives (Chris, 2003). The essence of financial regulation can be disaggregated from the above definition into its constituent components, thus;

1. Ensure that products and services provided by financial institutions synchronize with the operating legal and regulatory frameworks.
2. Enable each financial institution locates its activities within the boundaries defined by the laws and set of regulations that guide the domain of the market.
3. Protect investors and depositors from the exploitative vagaries of financial institutions.
4. Ensure competitive equity, by creating and maintaining level playing field among operators. Kama (2003) opines that the need to regulate financial institutions cannot be over emphasized, although banks and other financial institutions have profit motive and profit related decisions in their daily operations, financial service have generally being viewed as a matter of public interest.

From the forgoing, financial regulation serves as a hub to the efficiency and stability of financial system (monetary stability). Financial institutions play a pivotal role in mobilizing savings, and efficient transformation of savings into real capital for investment. Hence the existence of a great number of risks inherent in the process of financial intermediation and maturity transformation pose threat to the efficiency of financial system. Thus, to erect confidence in the system characterized by volatile environment, financial regulation becomes the catalyst for mitigating the existence of market failures arising from externalities, market power and information problem (Chris, 2003). To achieve the intended objectives, the potency of financial regulation and structure could be assessed by stability, efficiency and fairness (Long and Vittas, 1992). They argued that stability of the financial system depends on the structure as well as the level of capitalization. The efficiency parameter is a function of the concentration in the financial markets and expansion in the range of financial services. The assessment tool of fairness deals with the extent of protection enjoyed by the users of financial services from the clutches and abusive tendencies of financial institutions. Fairness also entails creation of level playing turf (field) for competitors in the industry and insulating customers or users of financial services from the avarice of financial institutions (Long and Vittas, 1992).

To ensure the attainment of fundamental goals of confidence and safety in the financial system, Date (1982), classified regulation into three categories: preventive (limiting risks incurred); supportive (rendering assistance); and protective (offering protection in the event of failure). In this classification, Eatwell and Taylor (1998) argued that, for efficient effective financial regulation to be ascertained, the content and domain of the regulator should be the same as the domain of the market that is regulated. They posited that there is the need to perform in a coherent manner, the standard tasks of a financial regulator such as authorization, provision of information, surveillance, enforcement and policy development. Financial regulation is perhaps the most important determinant of differences in financial structure exhibited by countries at a similar level of growth and development (Vittas, 1992). Consequently, Long and Vittas (1992), categorized financial regulation into six main groups: macroeconomic, allocative, structural, prudential, organizational and protective.

Macroeconomic regulation guarantees control on the economic activity by participants in the industry in form of reserve requirement, deposit ceilings, restriction in foreign investment as well as interest rate contribution. Allocative controls emphasize equity in resource allocation by insuring that priority activities are given prominence or preference. Structural control examines the reach and depth of the financial system in terms of entry, expansion, range of activities by the financial institutions so as to avoid excessive concentration of market power. Prudential control is concerned with the safety and soundness of the system so as to maintain public confidence. The hub of organizational control is to ensure the smooth functioning and integrity of the system and information flow. The protection control emphasize the protection of users of financial service especially the small depositors and non professional investors in the industry. In addition it ensures that information is disseminated to consumers and that compensation funds are made available in situations of failure (Long and vittas, 1992).

2.2 Theoretical Framework

A regulatory model consist of agencies and a set of measures embodied in legislation or in government policy, which primary goal is to constrain, shape control the behavior of financial institutions. The idea of whether or not government and its agencies should intervene in financial matter has been fairly treated in literature. In particular, using Keynes' advocacy of direct and active government intervention through "the invisible hand of the public sector" to strengthen and enhance the flow of capital in the economy. This paper will adopt three working theories of financial regulations, thus; agency theory, risk management theory and the regulatory dialectic theory.

Agency theory as developed by Stiglitz in 1989 to justify the government goals of safety and protection. Regulatory intervention is required for the protection of public savings when it is threatened by the behavior of financial institutions. The main trust of this theory is that, government agencies must be present to supervise and limit the excesses of financial institutions toward customer safety and protection. The theory also focuses attention on the problems of hidden actions and hidden information, what Sinkey (1992) called "moral hazard" and "adverse selection" respectively, to set strategies in order to circumvent the problems and ensure safety and confidence of savers in the system.

Risk management theory, developed by Davis in 1991 to explain why regulators are concerned with monitoring and supervising the management of risks, such as liquidity and credit due to the effect of mismanagement by major banking financial institutions, of the amount and timing of such risks on other parts (layers) of the financial system. The main trust here is, the level of risk in the system, the volatile nature of financial sector require an ultra-sound to ensure risks are minimal and participants bear less burden in the financial system (Currie, 2003).

The regulatory dialectic theory is based on the work of Kane (1981). This theory strives to explain the ongoing struggle between the regulators and financial institutions. The regulators attempt to impose constraints on the financial system (interest rate, product, geographic control etc). The institutions who tend to be driven by profit or wealth maximization motives, attempt to circumvent the restrictions because they consider such as structural arbitrage. This process (contagion), create cost and benefit analysis for government officials leading to reactive adjustment in operative codes of regulation. In a nutshell, Kane's theory examine the struggle engage by both the regulators and the financial institutions to achieve their goals, in the process some adjustment emerged (exogenously) leading to regulatory changes toward financial or monetary stability.

2.3 Financial Regulations And Monetary Stability (Emperical Review)

Das, Quintyn and Kina (2004), seek to explore the impact of regulatory governance on financial system stability, they used multi-cross-sectional data of developing and developed countries and applied Weighted Least-square Regression, found a significance influence of regulatory governance on financial system soundness. Using variables reflecting macroeconomic conditions, structure of the banking system and the quality of political institutions and public sector governance.

In his quest Iganiga (2010), aim at assessing the effect of financial reforms (regulation) on the effectiveness of financial institutions with emphasis on banking sector, using data from 1986, and applying classical least square technique, found that the performance of the financial sector has been greatly influence by the reforms. As domestic savings increase by 5% and capital base of firms rekindled public confidence and increasing savings by 3.6%.

In the same vein, Ningi and Dutse (2008), explore the impact of CBN's consolidation in the banking sector, they found a significant difference as the CBN's decision has changed the market structure, increased the efficiency and reliability of banks, create opportunities for participants and raised their intermediation potentials.

Moreover, Idowu and Babatunde (2010), investigated the effect of financial reform on capital market, using time series data (1986-2010), applying Ordinary Least Square Regression, found a negative relationship between the two variables, i.e. financial reform deterred capital market development.

III. INSTITUTIONAL STRUCTURE OF NIGERIA'S FINANCIAL SYSTEM (REGULATORY MODELS)

The institutional structure of financial regulations currently used by most countries evolved alongside the evolution and development of financial markets rather than as a result of coordinated efforts of setting up a regulatory framework that meets all regulatory objectives. Major factors that influence the choice of a particular design of institutional structures for financial regulation include; the decision and preference of political authorities, the nature and size of a country's financial sector and the practice that have built up in a country's central bank. Internationalization of financial services, emergence of large financial conglomerates and lesson from financial crises in other countries are some regional or external factors that equally influence the choice of financial regulatory structure among countries (Mukhtar, 2010). This therefore explains why there is a wide range of models to institutional structures across the world, with no single model considered as the optimal or best for all countries.

Despite some differences in the institution structure; almost all countries provide regulation for banks, insurance companies and securities firms. In the same vein, three major models of institutional structure for financial regulation can be observed among the various models used worldwide. These are; the "Multiple-Agency" regulator model (where each type of financial activity is regulated by specific or specialized agency), the "Unified" regulator model (requires merging all existing regulatory institutions into a single institution to undertake both prudential and market conduct supervision in the financial sector), and the "Common" regulator model (where one regulator is responsible for at least two of the three major financial sectors while another regulator takes care of the other). However, Nigeria's institutional structure for financial regulation revolves around the multiple-agency regulator model, as the three major financial sector activities are regulated by entirely independent agencies. The CBN and NDIC jointly regulate Banks, NAICOM regulates insurance companies and SEC regulates securities firms. This model allows clarity of objective, focus, responsibility and accountability. Because of the complexities associated with financial sector, it is difficult for a sole regulator to strike a balance between different objectives of regulating each subsector.

Adopting the multiple-agency regulator model will ensure that, the objectives of each agency are clearly and unambiguously specified. This will also keep each agency focused on her objectives and held responsible in the event of any regulatory failure. Nevertheless, it has been criticized on the ground that; it does not provide for effective consolidated supervision and create room for regulatory arbitrage. As financial institutions become more sophisticated, they have exploited the regulatory gap often created by the multiple-agency regulator system to avoid regulation or reduce regulatory burden. There is also duplication of regulatory efforts. Despite the serious flaws associated with this model, it is widely used mainly because the institutional structure of financial regulation currently used in most countries reflect the historical evolution of their respective financial sectors.

IV. FINANCIAL REGULATIONS IN THE NIGERIA'S BANKING SECTOR

The Central Bank of Nigeria (CBN) in collaboration with the National Deposit Insurance Corporation (NDIC) regulates and ensures sanity and efficiency in the banking sector. The supervision and examination of banks are premised on the legal authority given by the provision of sections 30-32 of BOFID 1991 as amended whereby the CBN Governor is given power to appoint a Director of Banking Supervision (DBS) with the responsibilities to carryout supervisory duties in respect of banks and other financial institutions in the country (Nwoha, 2003). In carrying out this duty, the DBS shall among other things under conditions of confidence, examine periodically the books and affairs of each bank; access at all times the accounts and vouchers of banks in the country. NDIC is required by its enabling Act to assist the minority authorities in the formulation and implementation of banking policy so as to ensure safe and sound banking system.

It is the responsibility of the Banking Supervision Department (BSD) to process the returning schedule of the activities of banks. In this respect, the department plays the following roles in ensuring smooth operations in the Nigeria's banking industry;

1. To receive meaningful information on timely basis from banks, stock exchange and other financial institutions so as to facilitate early detection of problems.
2. To monitor compliance of banks with the BOFID and the monetary policy circular.
3. To perform its supervisory function of scrutinizing, analyzing and processing information on each institution.
4. To control the structure and system of banking in the country, identify trends and developments in the industry.
5. To ascertain the accuracy and timely delivery of reports, determine the adequacy and internal control system of banks.
6. To relate, compile and submit reports and ensure that, reports are effectively coordinated and working papers are properly kept to support compilation of information and facilitate verification.
7. To employ corrective measures where deficiencies are found.

The role of NDIC can be brought into sharper focus when examined within the context of its activities in the discharge of its primary mandate of deposit insurance. The roles are;

A. To guaranty deposit; it is to guaranty payment of depositors in the event of failure of an insured bank. In 2003, the corporation had paid about N3.29b to depositors representing 63% of total insured claims to the depositors of 34 banks in liquidation.

B. To protect depositors through supervision; supervision of insured banks as an integral part of the mechanism for ensuring safe and sound banking practices and the corporation has continued to accord this top priority. This entails on-site examination and off-site surveillance, both of which are mutually reinforcing. The off-site supervision provides early warning signal which is used in prioritizing on-site examinations and assessing potential problem areas.
C. Failure resolution in the banking industry; it is worth noting that NDIC was established when banking sector was already in crises, there were about seven technically insolvent banks in 1988. NDIC had over the years successfully adopted the following measures;
1. Accommodation facilities were granted to ten (10) banks which had serious liquidity crises to the tune of N2.3b in 1989 following the withdrawal of public sector funds from commercial and merchant banks.
2. Take-over of management and control of twenty-five (25) distressed banks by CBN/NDIC to safeguard their assets; acquisition, restructuring and sale of seven distressed banks to investors.
3. Closure of 36 terminally distressed banks that failed to respond to various regulatory/supervisory initiatives.
The combined effect of these measures was a significant reduction in the level of distress in the banking system. As part of the failure resolution measures, NDIC continue to serve as the liquidator to 34 closed banks (CBN, 2010).

V. IMPACT OF FINANCIAL REGULATIONS ON THE NIGERIAN BANKING SECTOR

Financial or monetary stability is the resiliency of the financial sector/system to anticipated adverse shocks while enabling the continuing smooth functioning of the financial system intermediation process (CBN, 2010). A stable financial sector contributes to broader economic growth and rising living standard. The system performs one of the most important functions in the welfare of its citizens by supporting the ability of households and firms to hold and transfer financial assets with confidence.

To this end, the Central Bank of Nigeria (CBN) as the apex regulatory body of the Nigeria's financial system in collaboration with other regulatory authorities in the federal government stood firmly to promote this objective by installing unique expertise to the management of the economy. Nevertheless, various intervention measures were sequentially put in place to further strengthen the system.

Review of the Universal Banking Model

The Universal Banking model adopted in 2001 has allowed banks to diversify into non-bank financial business, following the bank consolidation exercise in 2005, banks became awash with capital, which was deployed in a variety of financial services and setting up subsidiaries. Soon, a number of weaknesses began to surface, such as inadequate skills and poor risk management practice, poor corporate governance practices and the inability of regulators to keep pace with the development and growth in the sector facilitated a high incidence regulatory arbitrage (CBN, 2010).

In effect, the laudable objectives of UB model were vitiated by operators, with bank operating as financial supermarkets, to the detriment of core banking practices. In order to address this challenge, the CBN has reviewed the UB model with a view to inducing banks to focus on core banking businesses. Under the new model, banks will not be allowed to invest in non-bank subsidiaries. Banks which currently hold such investments would be required to either divest or spin off the business. The three classes of deposit money banks being proposed are international banks, national banks, and the regional banks.

This revision and reorientation has no doubt impacted on the banking industry as there is increases in focus and innovation in the sector, various financial products were introduced and bank distress has been considerably reduced. The reviewed UB model also favors specialization as well as efficiency and stability in the system.

Establishment of Asset Management Corporation of Nigeria (AMCON)

The high incidence of non-performing loans in the banking industry and the consequent erosion of the capital of many banks informed the need to take urgent action hence, the establishment of AMCON. The essence is to free banks from the burden of toxic assets. AMCON commenced operations in December 2010 with the issuance of consideration bonds worth N1036.3 billion of which N740 billion was earmarked for purchase of the Non-Performing Loans (NPL) in five commercial banks. The breakdown is as follows, Wema bank N15.2 b; Intercontinental bank N146 b; Bank PHB N140 b; Oceanic bank N200 b; Union bank N239 b; and Others N295.8 b. the rescued banks were expected to enjoy two sets of funds injection: one was to buy up their NPL and the other to cater for their capital adequacy (Sanusi, 2011).

In addition, the AMCON in 2011 acquired the assets of Bank PHB and Afribank as a result of liquidation and inability to compromise their Non Performing Loans (NPL), the intervention was highly significant as investors and depositors are contended, employees are retained only the names of the banks were changed. Bank PHB changed to Keystone bank while Afribank changed to Mainstream bank. This has been a remarkable development in the Nigeria's financial sector where confidence and resistance are combined to ensure monetary stability.

Promoting Customer Protection

In order to further endanger public confidence in the banking system and ensure customer protection, the CBN established a consumer and financial protection division to provide platform through which consumers can seek redress (CBN, 2010). In the first three months of the division's operations, about six hundred consumer complaints were received a clear manifestation of the absence of an effective complaints resolution mechanism in banks. In order to further redress this challenge, the CBN has issued a directive to banks to establish Customer Help Desk at their head offices and branches. Also, through the division, the CBN in 2010 commenced a comprehensive review of the guide to bank charges with a view to making them realistic and consumer friendly.

Furthermore, it is important that bank customers are properly educated and enlightened on their rights and responsibilities. Consequently, the Consumer and Financial Protection Division (CFPD) initiate a program on consumer education and enlightenment nationwide through various information dissemination medium (such as public lectures, media adverts, etc). Currently the CBN is also collaborating with Consumer Protection Council (CPC) on the review of the CPC Act No.66 of 1992 to further empower the regulators to enforce discipline in the market.

Banking Reforms

A holistic investigation into what went wrong in Nigeria leading up to the banking crises in 2008 found eight interrelated factors responsible. These were macroeconomic instability caused by large and sudden capital inflows, major failures in corporate governance at banks, lack of investor and consumer sophistication, inadequate disclosure and transparency about the financial position of banks, critical gaps in the regulatory framework and regulations, uneven supervision and enforcement, unstructured governance & management processes at the CBN/ and weaknesses in the business environment (CBN, 2012). Each of these factors is serious in its own right. Acted together they brought the entire Nigerian financial system to the brink of collapse (Anyanwu, 2010).

It is all known that, a well-functioning financial system matters to everyone and to the economy at large. The Nigerian economy has huge potential for growth. To realize this potential, it is imperative that we learn lessons from the crisis and take steps to not only fix the problems, but to also introduce measures to establish financial stability, a healthy evolution of the financial sector and ensure the banking sector contributes to the development of the real economy. As a result, the Nigerian banking system has steadily evolved, following wide and far-reaching reforms embarked upon by the regulatory authorities. Following the banking crisis of 2008, the Central Bank of Nigeria articulated a blue print known as ***"The Project Alpha Initiative"*** for reforming the Nigerian financial system in general and the banking sector in particular. The reforms aimed at removing the inherent weaknesses and fragmentation of the financial system, integrating the various ad-hoc and piecemeal reforms and unleashing of the huge potential for the economy (Sanusi, 2012). The reform program was necessitated by the need to strengthen the banks. The policy thrust at inception, was to grow the banks and position them to play pivotal roles in driving development across the sectors of the economy. As a result, banks were consolidated through mergers and acquisitions, raising the capital base from N2 billion to a minimum of N25 billion, which reduced the number of banks from 89 to 25 in 2005, and later to 24 (CBN, 2011). In a nutshell, the above discussions could be summarized in a table to show the impact of the reform exercise on the Nigeria's banking sector and the economy in general:

The Nigerian banking reform, despite its laudable achievements is confronted with certain challenges. First and foremost is the wrong perception of the intent of the reform. The reluctance of Nigerians to accept positive changes in global dynamics is another challenge. There is incontrovertible evidence that the excessive liquidity in the system measured by broad money (M2), narrow money (M1) and currency in circulation is partly attributable to the high cash transactions for economic activities, which has continued to undermine the efforts to achieve price stability. Yet the cashless policy has faced significant resistance, despite its prospect for economic growth and development and the global trend in the intensity of the usage of electronic payments.

The Introduction of Interest-Free Banking

The Central Bank of Nigeria (CBN) introduced non-interest banking in Nigeria in 2010/2011 to meet the financial needs of predominantly Muslim segment. Being a multi-religious and multi-ethnic society, the policy was highly criticized by the non-Muslim as imposition of Islamic religion on Nigerians and misuse of national resources to favor a particular religion, Islam. Though it appears the policy has come to stay, there is still great concern about the creation as well as viability of Islamic banking system in Nigeria. It is for these reasons that an attempt is made by various studies to re-analyze the practicability of Islamic banking in Nigeria. However, unlike the religious and political debates that assumes subjectivism, sentimentalism, bigotry and jingoism, the policy triumph do to its adaptability and consistency.

In recognition of the potential benefit of non interest banking to the economy, the CBN has finalized the regulatory and supervisory framework for Islamic banking in Nigeria, the following milestone have been achieved so far;

1. Admission of CBN as a full member of the Islamic financial services board (IFSB) based on Malaysia. IFSB is a standard setting institution, made up of regulatory and supervisory bodies.
2. The formation of inter-agency committee comprising of the CBN Federal Inland Revenue Service (FIRS), the Nigerian Accounting Standard Board (NASB), PENCOM, the SEC and the NDIC to define the role each will play under the new concept.
3. Receipt of a technical grant from the Islamic Development Bank (IDB) Jeddah through the federal ministry of finance to support CBN in developing the regulatory and supervisory framework, building the capacity of supervisors, and conducting and international conference to create needed awareness.

The NDIC also releases a draft framework for a Non-Interest (Islamic) Deposit Insurance Scheme for stakeholder comments and inputs. In October 2010, the CBN joined 11 other Central Banks and two multilateral organizations to form the International Islamic Liquidity Management Corporation (IILM), to be based in Malaysia. The aim of the IILM is provide treasury instruments that are *Shariah* (Islamic principle) compliant to address the liquidity management issue of Islamic banks and serve as instruments for open market operations involving Islamic financial institutions. In January 2011, the CBN released the Framework for the regulation and supervision of Noninterest banking as well as two other guidelines.

The introduction of the non-interest banking in Nigeria has herald the entry of new markets and institutional players thus deepening the nation's financial markets and further the quest for financial inclusion. In fact, the first fully licensed non-interest bank in the country (Jaiz Bank Plc.) started business on Friday, January 6, 2012. Jaiz Bank so far mobilized a substantial amount of deposits which before its inception remain idle because of religious and cultural influence fortunately the bank is able to mobilize funds from all parts of the country regardless of any discrepancies in religion and culture. Investors became more contended and confident as risks are minimized, profits are shared on agreed ratio, interest rate is zero and investment will be highly enhanced. There is also capacity building, entrepreneurship development, clear incentives and mutual agreement in contracts. Through the three accounts it operates; savings account, general investments account and the special investments account, Jaiz bank makes it easy for diversification and deepening the market, reducing the size of the unbanked funds, provides new sources of international capital flow and improves regional competitiveness. On the contrary, non interest banking in Nigeria is currently facing a series of challenges which includes religious connotations, wrong perception and stiff resistance, misinformation and skewed understanding by many toward its operations which could potentially deter prospective investors in the banking industry (Sanusi, 2012).

The Introduction of Consolidated and Crossed-Boarder Supervision

The banking sector consolidation of 2005 provided huge capital for banks and the funds have enabled them engage in rapid expansion, domestically and internationally. The expansion in banks' operations, products and services development, and the emergence of large complex banking organization beyond national borders, have brought about challenges which have rendered the current supervisory approach insufficient. In response, CBN has initiated a framework for consolidated and cross-border supervision of banks. The adoption of the consolidated and cross-border supervision in 2009 helped in;

1. Containing the financial instability associated with cross-border activities (risk of contagion)
2. Harmonization of accounting standards, regulatory and legal framework.
3. Reduction of information gap between home and host regulators or supervisors; and
4. The resolution of cross-border crises
5. Signed "Memoranda of understanding" with a number jurisdiction where Nigerian banks are operating across borders.

Development in the Payments and Settlements System

Empirical evidence suggests a positive correlation between an efficient payments and settlements system on one hand, and economic growth on the other. The benefits of an efficient payment system include low transaction costs and a predictable efficient market response to monetary policy, both of which engender financial system stability. In realization of these benefits and in line with the financial system strategy on payments system, the CBN has initiated the payment system vision 2020 in 2009 with the following objectives;

1. Migrate from cash base to e-payment system for transactions.

2. Develop national mobile and electronic cards payments infrastructures.
3. Ensure inter-operability and interconnectivity of e-payment service providers.
4. Develop an effective framework for consumer protection and dispute resolution.
5. Develop a policy and oversight mechanism for the payments system.
6. Ensure that the Nigerian payments system complies with the West African Monetary Zone (WAMZ) standards; and
7. Ensure appropriate legal backing for the national payments system.

The Nigerian payments system has witnessed significant improvements over the years, moving from rudimentary level during its early years of banking business to the current level of sophistication. The high dependence on cash for settlement has result in inefficient allocation of resources and a low depth of financial intermediation, with adverse repercussions on monetary implementation. In addition, it has discouraged the use of specific banking services, resulting in the high operational cost for the CBN.

At individual level, the volume and value of e-card transactions increased from 66,108,388 and N441.6 billion in 2008 to 114,592,66 and N645.0 billion in 2009, Reflecting increases of 73.34% and 46.1% respectively. Given the high dependency on cash in Nigeria, it is no surprise that Automated Teller Machine (ATM) transactions are widely used by individuals particularly in the urban areas. Lack of relevant ATM infrastructure in rural areas is a key challenge to the wider usage of bank accounts since it is the primary method for accessing bank accounts for many individuals. Available data on various e-payment channels indicated that, ATMs remained the most patronized channel accounting over 80% of e-payment transactions, while the Point of Sale (POS) was the least with less than 2% usage. In terms of volume, ATMs occupy 95.22%, POS occupy 1.8%, mobile phones 1.58% while web (internet) occupy 1.36% of e-transactions. In value terms, ATMs 85.05%, POS 1.71%, mobile phones 0.19% and web (internet) occupy 13.05% (CBN, 2012).

The usage of mobile payment is still at its infancy as the regulatory framework was only recently approved, as well as the licensing the payment service providers. The payment system supported by the CBN will no doubt complement its cashless policy and synchronize with the objectives of financial stability, efficiency as well as enhances customers' confidence in the financial arena. Notwithstanding the progress made so far, the Nigerian payments and settlements system is faced with some challenges which includes; weak infrastructure, high level of illiteracy, high dependency on cash transaction, high incidence of poverty and ignorance, low level of internet access and concentration of e-payments facilities in urban areas etc. it is however, expected that full implementation of the payments system vision 2020 project would address these challenges.

VI. CONCLUSION

The CBN remained dominant in the Nigeria's financial system. Its activities together with the NDIC boost the volume and value of transactions in the banking sector. The sudden growth witnessed in the banking sector is supported by the regulatory measures of CBN and NDIC, and depositors' confidence is enhanced through an integrated process involving stakeholders in the financial system. However, the regulatory and supervisory functions of CBN and NDIC have stemmed the incidence of widespread bad loans portfolio among banks through the establishment of Asset Management Corporation of Nigeria (AMCON). Moreover, the introduction of interest-free banking in Nigeria reduced the quantum of funds that are hitherto idle and outside the banking sector, this has created a framework for the owners of funds and the banks to maximize value and benefit through investments. Finally, variety of options in the payment system helped the CBN in actualizing its cashless policy and prompted banks to be keen competition for a better and efficient service delivery for their customers.

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