

WEST AFRICAN MONETARY UNION

BANKING COMMISSION

**RECENT DEVELOPMENTS IN BANKING SUPERVISION
WITHIN THE WEST AFRICAN MONETARY UNION (WAMU)**

**15th Assembly of the Committee of Supervisors of West and Central African Banks
(CSWCAB)**

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The WAMU banking system has evolved, in 2009, within an economic environment marked by the effects of the financial crisis and international economic order, which, through a collapse in foreign demand, led to a slowdown in activities in sectors dependent on the external market, low prices of most exports and a decline in capital flows.

Inflation recorded a sharp decline during the year 2009, thereby keeping on a trend witnessed since the third quarter of 2008. Average inflation rate within WAMU stood at 1.1% in 2009 against 7.4% in 2008. The growth rate of gross domestic product, in real terms, is estimated at 2.7% for the year 2009, against 3.9% in 2008.

Taking into account the situation of bank liquidity, the Central Bank continued to inject liquidity into the money market, in the form of variable rate adjudication. These actions led to a relaxation of the average rate on this area one week to the interbank market, closing at 4.17% at the end of June 2010 against 4.71% at the end of March 2009.

The Central Bank for West African States (BCEAO) also decided, on June 16, 2009, to lower the discount rate and that of resale agreement by half a point, or 6.75% to 6.25% and 4.75% to 4.25% respectively. In this context marked by uncertainties, banking supervision sought to improve the solvency of banks by raising the minimum capital and promoting greater respect of supervisory standards in force within the Union and standards international.

I – SIGNIFICANT DEVELOPMENTS IN THE BANKING SECTOR

1/ Composition of the banking environment

The number of authorized credit institutions at the end of 2009, increased by two, to stand at 118 (99 banks and 19 financial institutions, including 3 branches) against 116 in 2008 (96 banks and 20 financial institutions), as follows:

States	2008	2009
Benin	13	13
Burkina	17	16
Côte d'Ivoire	21	23
Guinea-Bissau	4	4
Mali	17	17
Niger	12	11
Senegal	19	21
Togo	13	13
WAMU	116	118

This development reflects, on the one hand, the approval of four (4) banks, meaning two (2) in Cote d'Ivoire (Banque Sahélo-Saharienne pour l'Investissement et le Commerce-Côte d'Ivoire et Caisse Nationale des Caisses d'Epargne), and two (2) in Senegal (United Bank for Africa, and Crédit International) on the other hand, and withdrawing the approval of one (1) bank (Banque Agricole Commerciale du Burkina, Burkina absorbed by ECOBANK) and one (1) financial institution (Caisse de Prêts aux Collectivités Territoriales in Niger).

The banking landscape of the Union is still marked by the presence of seven (7) main groups that are: Ecobank (ETI), Société Générale, Bank Of Africa (BOA Group), Attijariwafa Bank, BNP Paribas, Atlantic Financial Group (AFG) and United Bank for Africa (UBA).

Their influence extends to almost all countries of the WAMU sub-region and involves 39 credit institutions out of 112 operational. They concentrate 65.3% of total balance sheets, 62.8% of ATMs, employ 61.6% of agents and hold 66.7% of customer accounts.

Ten (10) other groups, of smaller scale (less than 2% of assets each) are also part of the banking landscape: Banque Sahelo-saharienne pour l'Investissement et le Commerce (BSIC), Libyan Foreign Bank (LFB), ISIC , CITI, Banque Régionale de Solidarité (BRS), Islamic Development Bank (IsDB), Financial BC SA, COFIPA, Standard Chartered Bank BV, Access Bank Plc and Alios Finance (SAFCA). Together, they control 31 Credit establishments of the Union, account for 8.8% of assets, holding 9.5% of settlements, 3.4% of customer accounts, and employ 13.1% of the workforce.

In sum, seventeen (17) banking groups operate within the union EU. They control seventy (70) credit institutions with 3 (three) branches, possess 74.0% of market share, 72.3% of establishments, 70.1% of customer accounts and employ 74.7 % of staff

2/ Impact of the international financial crisis

In the WAMU, the direct effects of the crisis on the banking system remained very limited. The WAMU Banking Commission has nevertheless proceeded with a sampling of 43 WAMU banks in a survey during the second quarter of 2009, to assess the impacts identified in particular through their foreign financial relationships, changes in the financing needs of customers, outstanding debts and liquidity.

Some voluntary or involuntary changes in the financial relations with foreign correspondents were observed, in conjunction with the volume of activities with correspondents affected by the crisis. In addition, higher fees and commissions, and an increase in security deposits required by them to cover the transactions were recorded.

Regarding customers, the sector most affected by the crisis was that of international trade, particularly the exportation of basic commodities, and to a lesser extent, the transfers from migrants.

In any event, the crisis was not perceived to generate a shock. Heightened vigilance and anticipation was therefore necessary. The prudent management of assets held abroad, refinement of risk mapping, including that of liquidity and refinancing, and the increasing capital should enable the credit institutions of the Union better protect themselves against the economic woes

3/ Key developments at the institutional, statutory level supervision

3-1/ Situation of the banking system in 2009

Total assets of the banking system increased by 12.4%, to \$ 11 489 000 million CFA francs, following the rise recorded in all Union countries.

Net transactions were consolidated by 10.2% at 8 987 000 million out to CFAF, representing 80%, 12% and 8% respectively between large scale, average and minor institutions. Short-term loans rose by 4.3%, medium-term by 15.3%, long-term financing by 20.2%. The portfolio quality of credit establishments witnessed very little change in 2009, the gross rate

of degradation stood at 17.1% against 18.3% in 2008. The provisioning rate appeared to decrease, from 68% to 61.5% at the end of December 2009 (provisional data), thus resulting in an almost constant net rate of degradation which varied from 7.1 to 7%, 4%.

Overall resources increased, rising from 8 882 000 million to 10 125 000 million CFAF at 31 December 2009, an increase of 14.2%, representing a volume of 1 000 000 million, helped by the contribution of large banks to the tune of 79.9%.

The customer deposits, which represent 83.3%, are made up of 50.8% term deposits and 49.2% net worth, mainly thanks to the decision to raise the capital of credit institutions and financial restructuring, estimated at 997 000 million against 774 000 million a year ago, representing a 28.9% growth, raised to 64% by large institutions. This increase is observed in all countries of the Union. They thereby provide coverage for gross transactions to the tune of 10.2%, against 8.5% in 2008.

The cash generated by the banking system, excess of 1 138 000 million against 714 000 million in 2008, shows a sharp increase from 424 000 million after the dipping observed the previous year. This reconstruction is related to increases observed in all countries except for Guinea-Bissau and Niger. The net external position of credit institutions rose slightly from 204 000 to 223 000 million.

Operating banks remained profitable in 2009 with a provisional net profit of 171 000 million CFA francs, against 17 000 million CFA francs outright in 2008 and a profitability ratio on equity of 14.8%, 12.9 points higher than in 2008.

Under the supervision of the banking system, the Banking Commission conducted through its Secretariat General, thirty-six (36) spot checks in 2009 (23 in all, including 1 holding, 9 impromptu and 4 evaluation missions). These focused on risk management including compensation, implementation of effective corporate governance, efficient internal and external controls, respect of existing regulations and following up recommendations made by the Banking Commission. On June 30, 2010, eleven (11) checks were performed.

In terms of prudential regulations, the overall situation deteriorated significantly. The average ratio of bank credit declined, standing at 11.7% against 11.9% in 2008.

During the year 2009, the Banking Commission held four quarterly sessions. It took the following administrative and disciplinary sanctions:

- sixteen (16) warnings;

- twenty (20) injunctions;
- four (4) blames;
- one (1) withdrawal of authorisation;
- three (3) limitation in the exercise of the profession.

In addition, the Banking Commission, at its session in September 2009, deferred a decision on the application for authorisation tendered by a company awaiting the submission of additional information regarding recent developments in the situation of the mother company

It also, through its Chairman acting within the frame of delegation of authority, expressed positive views for extending the duration of the provisional administration of two (2) credit institutions.

Three (3) approvals for the exercise of banking activity, five (5) views favorable to transfer of capital, one (1) positive view to a merger, one (1) view in favour of a change in the ownership of a structure and legal status and one (1) view in favour of a close monitoring, have been issued.

3-2/ Implementing the institutional reform – Key innovations

The institutional reform of the WAMU and the BCEAO, adopted by the Conference of Heads of State on January 20, 2007, entered into force on 1 April 2010. This reform aim to modernize the institutional framework and strengthen the stability of the banking and financial system, based on international standards.

The adjustments made are intended to strengthen and formalize the achievements of twenty years of running the Banking Commission and bringing solutions to certain practical difficulties encountered by the Commission in fulfilling its mission, given the community character of the mechanism and the existence of a process of shared decision with the Ministers responsible for Finance of the Union. The reform also took into account the 25 principles issued by the Basel Committee for effective banking supervision.

Under the new legislation, the jurisdiction of the Banking Commission has been extended to the Decentralized Financial Systems (DFS), from a certain threshold defined by instructions of the Central Bank. In addition, the Commission has been endowed with the following powers:

- put under temporary administration or liquidation a credit institution or a DFS. Previously, this area was the responsibility of Ministers responsible for Finance, upon proposal of the Commission;
- Impose fines against credit institutions or MFIs;
- Set various prudential standards depending on the individual situation of each institution credit.

In addition, all matters subject to the view of the Banking Commission, the new instruments set a deadline of 30 days for the Minister of Finance, to take the subsequent regulatory action. Beyond this period, the content of the views are notified to interested parties and becomes enforceable.

Regarding the withdrawal of accreditation as a disciplinary measure, as in the past, it only becomes binding once notified by the Minister for Finance. However, the new instruments grant the Minister a deadline of seven days, beyond which, the decision of the Banking Commission becomes enforceable, and notified by the latter to the institution concerned.

Furthermore, withdrawal of approval at the request of the credit institution concerned or when it is determined that the credit institution has no activity for at least a year is now subject to the view the Commission Banking.

Members of the Banking Commission held discussions on 20 and June 21, 2008 at Saly, Portudal, in Senegal, on issues of reform to the banking sector and the challenges facing their body, regarding full implementation. The lengthy discussions led to an updating of the rules, development of a code of ethics applicable to members of the Banking Commission and identification of various avenues for improving the exercise and supervision of credit institutions of the Union. This work was undertaken within a Committee for Proofreading of instruments in the General Secretariat of the Banking Commission, which conducted a review of all circulars and the proposed new circulars, including Corporate Governance, the procedure for hearing executive and provisional administration.

3-3/ Implementing measure in favour of raising the minimum capital

During the ordinary session of September 17, 2007 the Council of Ministers of WAMU decided to raise the minimum capital applicable to banks and financial establishments to 10 000 million CFA francs and 3 000 million CFA francs respectively. In a first step, the minimum share capital was increased to 5 000 million francs CFA for banks and 1 000 million CFA for financial institutions, effective from 1 January 2008.

Credit institutions in activity must comply with these thresholds no later than December 31, 2010. To this end, they are required to notify the Banking Commission of a plan of action together with a timetable indicating the measures to be taken by managers to comply with the decision. In the second phase, the above thresholds will increase to 10 000 million CFA francs and 3 000 million respectively, according a date of application to be determined after the first phase.

Thus, the Banking Commission, at its session of June 24, 2009, instructed its Chair to receive, up to the second half of 2009, executives and / or representatives of shareholders of credit institutions considered as invalid. In this context, forty-one (41) credit institutions have been interviewed by the Secretariat General, on 19 to 29 October 2009 and in the first quarter of 2010, to provide documentary evidence and timing for strengthening the equity and actions taken or envisaged to ensure respect of prudential regulations.

In addition, as part of implementation of the decision to raise the minimum capital the Banking Commission recommended to the Council of Ministers of the WAMU, at its 78th session held on December 14, 2009 in Cotonou, the setting up of a working group to propose concrete measures meant to ensure an orderly restructuring or treatment of the most vulnerable.

3-4/ Tax processing of provisions on outstanding bank credits

In WAMU, recognition of prudential rules as a basis for tax deductibility of provisions on nonperforming loans, has been the focus of a broader consultation that took place during 2007 between the Member States' tax administrations, Representatives of Professional Associations of Banks and Monetary Authorities and control.

This process culminated into the adoption of Directive No. 05/2008/CM/UEMOA recognizing the deductibility of law provisions which would be constituted in accordance with prudential rules laid down by the Central Bank. The requirements of the Directive must be transposed into the tax administrations of the different national taxes in order to be fully effective as of December 31, 2008.

3-5/ Strengthening cooperation

The Banking Commission has the desire to strengthen cooperation and exchange of information with several members of the Committee of Supervisors of West and Central African Banks (CSBAOC), whose framework should facilitate formal and informal contacts.

The interacting financial systems of the sub-region command greater firmness in the supervision of banking groups, in terms of systemic turbulence may cause bankruptcy. In this regard, the current financial crisis is an illustration of the need for close monitoring of border activity. The developments of these incentives to give special importance to cooperation with supervisors, peers, facilitate exchange of information on the plight of various banking groups. In this context, the contacts made with various supervisors should be finalized by the formalization of cooperation agreements. Thus, a cooperation agreement recently signed with Bank Al Maghreb, May 29, 2009 in Rabat. Discussions are underway to conclude similar agreements with other control authorities.

The Secretariat General of the Banking Commission maintains and develops exchanges with its counterparts in Central and West Africa, through reciprocal visits of information and regular meetings. Thus, officials of these institutions made study and information tours respectively from 11 to 15 May 2009 and November 2 to 15, 2009 at the General Secretariat of the WAMU Banking Commission. Finally, the Secretariat General took part on December 10, 2009, at a working session by videoconference, as part of the regional consultation between BCEAO / IMF / World Bank, held from 7 to 11 December 2009 in Dakar.

3-6/ Fighting against money laundering and funding terrorism

The process of transposing WAMU Directive of 2002 in the legal systems of member states came to an end. National Financial Information Processing Units (CENTIF) were created in the eight (8) states of the Union, six (6) of which are operational.

Meanwhile, the Central Bank, released a statement on July 2, 2007, on the fight against money laundering in financial institutions. This statement recalled the obligations of the latter. It also requires credit institutions to set up a unit to combat money laundering and produce an annual report on the implementation of a control to meet regulatory requirements.

In response to the requirements of the inquiry, the credit institutions produced the annual reports on the fight against money laundering in 2008. The information provided show better awareness of the need to fight against money laundering and to allocate appropriate resources. However, the implementation of programs to fight against this phenomenon, suffers from non-functioning of some CENTIF and the inadequacy of the procedures implemented by credit institutions.

As part of the fight against terrorist financing, in addition to the Rules relating to the freezing of funds, the BCEAO continued work to provide member states of WAMU with a specific

legislation to incriminate and suppress the financing of terrorism. As such, a framework law was adopted by the Council of Ministers in March 2008 and is being integrated into the body of law of each Member State.

II – BANKING SUPERVISION OUTLOOK IN WAMU

▪ Plan of actions on findings on the Financial Sector Assessment Programme (FSAP)

An assessment mission of the regional financial sector conducted jointly by the International Monetary Fund (IMF) and the World Bank visited the WAMU zone during the fourth quarter of 2007.

According to the assessment made on the basis of the 30 basic principles reviewed (a basic principle consists of six elements), only 6 out of 30 principles were regarded as consistent with the mission, 10 principles as "substantially consistent" 13 principles "materially non-compliant" and 1 declared a principle "not applicable".

It should be noted that some recommendations of the report on the assessment mission are already taken into account by institutional reform, which came into force in April 2010.

Taking into account the findings of the mission, the Council of Ministers of WAMU, at its meeting in December 2008, decided to establish a Regional Committee in charge of the recommendations. This Committee, in particular, developed an action plan showing the measures selected and the timing for their implementation. The recent assessment conducted in September 2009 showed a satisfactory management of recommendations.

Plan to create a protection system for bank deposits in the Union.

In order to strengthen the financial stability of the area, the proposed establishment of an explicit system of deposit protection in WAMU, has made significant progress. During 2008, the working group established for this purpose formulated policy proposals concerning the amount of individual ceiling for compensation of depositors, the amount targeted by the reserve and the rate of annual contribution to the Fund.

▪ Creation of a Financial Stability Committee within WAMU

Considering the importance of financial stability as a prerequisite for sustained economic growth and sustainable, it has created a Financial Stability Committee (FSC) in WAMU. The aim is to maintain financial stability by promoting practical robust risk management and

healthy development of standards for supervision of the entire financial system. This Committee is responsible for promoting dialogue, cooperation and coordination between different authorities whose actions contribute to financial stability, risk assessment could affect the stability of the financial system as a whole, particularly through the analysis of MPIs defined by mutual agreement, consider the system malfunctions that could eventually lead to cost and affect its resilience to shocks from internal and external, the actions necessary to address identified vulnerabilities and ensure coordination and monitoring and provide advice and recommendations for conduct of actions to ensure the smooth functioning and efficient financial system.

Adapting to international norms (Basel II and IFRS)

Services of the Central Bank outlined the arrangements for a transition to Basel II, by identifying options that can be retained as part of a pillar, as well as actions in the process of internal evaluation of the 'capital adequacy under Pillar 2. The transparency requirements are also reviewed as part of Pillar 3.

WAMU remains committed to adapting to international standards, including Basel II

As such, the Central Bank set up a working group, in January 2009, called "Technical Unit Basel II" which is represented in the Secretariat General of the Banking Commission, whose mission is to conduct the preparatory work implementation of Basel II in WAMU.

▪ Modernising the information system

Modernising the information system is a major concern of WAMU, in view of the growing banking landscape and the need to develop an approach to risk-based supervision. An expert has been committed by the Central Bank to the implementation of IT Development Plan for years to come. In this context, recent exchanges have identified the needs in the medium and long term of the Secretariat General, with regard to resources, both material and computer software. The implementation of this project will provide a platform that can meet the requirements of effective supervision and appropriate financial institutions, whose activities are becoming more complex all the time.

▪ Supervision on consolidated basis

Under the provisions of the WAMU Chart of Accounts, WAMU banking groups operating in the Union must prepare an annual statement on a consolidated basis.

Discussions are underway within the BCEAO for the establishment of a system of reporting on a consolidated basis.

In the meantime, the Banking Commission has the means to learn about the situation of the parent company to ensure that they have an organization and adequate resources in terms of their role vis-à-vis subsidiaries. It requires that bank holding companies should be located within WAMU, thus facilitating their control or in an area subject to a supervisory authority credible on the international scene. For those not located within the Union, the Banking Commission researches the conclusion of a cooperation agreement with the supervising authority concerned for their supervision, conclusion of cooperation agreements with the supervisory authorities concerned.

▪ **Implementing risk-based controls**

Gradually, the methodology of supervision is directed towards identifying the main risks to which the institution is exposed and the assessment of capital needed to cover them. Risk identification and assessment reflected more clearly in the audit reports; the plan was revised after the year 2009. The next steps are greater formalization of monitoring taking into account recommendations of the missions and increased targeting of inspections and the decisions of the Commission depending on the risk profile. Moreover, the outcome of the Institutional Reform provides for the adoption of differentiated financial standards.

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In conclusion, the international financial crisis and its current or possible impacts made it possible to successfully test the effectiveness of risk prevention and soundness of credit institutions within the Union. The planned establishment of a mechanism to guarantee bank deposits, raising the minimum capital, further adapting the Union banking regulations to international standards, and entry into force, since April 1, 2010, of institutional reform instruments should strengthen the stability of the banking system and eventually improve the quality of financial intermediation.

In terms of external relations, as recommended by the Basel Committee and given the increasing interest within the WAMU zone for foreign banking groups, as well as the uncertainties raised by the advent of the global financial crisis, the Banking Commission continues its cooperative efforts with banking institutions counterparts.