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THE EFFECTIVENESS OF SUPERVISORY ROLE OF BANK OF GHANA

BY

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APRIL 2008

DECLARATION

I declare that I have personally, under supervision undertaken the study herein submitted and I am solely responsible for the work.

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I declare that I have supervised the student in undertaking the study submitted herein and I confirm that the student has my permission to present it for assessment.

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DEDICATION

This work is dedicated to my dear wife Constance and lovely kids, Bright, Lordia and Derrick for their immense contribution and supports both financially and spiritually throughout the period of my study.

To my wife I say God richly bless her and replenish whatever she invested by way of sacrifice towards this cause. To my kids my prayer is that they live to continue from where daddy left off.

ACKNOWLEDGEMENTS

There is a widely held opinion that most peoples power of originality begin to decline at an early age due to lack of chances to exploit their capabilities. The individual's creativity is best if he is left to find out for himself and understand how to conduct research. This study has become very necessary as a result of the recent spate of banking fraud which seems to be on the ascendancy and the magnitude of those frauds and their negative effect on banking sector and the economy as a whole. The operations of the banking supervision department with regards to produces and methods by which its supervisory role over the universal banks and the rural banks are carried out and to provide suggestions as to how certain areas with respect to personnel, procedures, and methods could be improved to enhance the effectiveness of its operations.

I therefore acknowledge my sincere thanks first and foremost to the Almighty God for his great care and protection in all these years of my academic career. To God be the glory great things he has done. I further acknowledge my sincere indebtedness to Mr. Gordon Asamoah, my supervisor, for his encouragement. Not forgetting the zeal he used in assessing this work. Thanks to him for his brotherly patience, criticisms and purposeful directions. Friends were those who stood the test of time in aiding me with information. Some did the Yeoman's job of reading through the scripts and making purposeful contributions. To such friends as Mr. Donatus Kwesi Fretas of the banking supervision department of the Bank of Ghana. To him I say God richly bless you.

My special gratitude is also extended to Miss Juliana Awuah of Bo print Ash-Town Kumasi for typing out the scripts neatly for me.

Lastly, I wish to say that I am solely responsible for all misrepresentations that might occur in this study.

Sincere gratitude to all authors whose works and writings were of great asset to this study.

ABSTRACT

The Bank of Ghana is the central Bank of the republic of Ghana is charged with the responsibility of seeing to it that the universal banks conduct themselves within the framework of rules and regulations that govern their activities.

In recent times several banking fraud have been recorded within the banking sector of the country. For example a particular reference can be made of the case regarding "A" life supermarket which led to the collapse and eventual liquidation of two state owned Banks namely, the Bank for Housing and Construction and the Co-operative Bank respectively.

Accusing fingers have been pointed at the Bank of Ghana with respect to the effectiveness of its supervision over the universal Banks.

This project work looked into the activities of the Banking supervision Department of the Bank of Ghana with respect to processes and procedures for its supervision and came out with appropriate recommendation to help curtail future recurrence of these Banking frauds in order to restore the confidence of the public in the Banks.

In this regard the collective effort of the Government, the Bank of Ghana and the other banks will be a key factor towards the fight against this menace.

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CHAPTER ONE

1.0 GENERAL INTRODUCTION

Structure of the financial systems and supervisory resources

A comparison of the size and complexity of the financial systems in WAMZ at end-2002 shows 1,562 licensed financial institutions, of which 125 are commercial banks and the rest are other financial institutions, including some 400 community banks, over 600 foreign exchange bureaus and 167 insurance companies. About 60 percent of all institutions operate in Nigeria.

Commercial banks dominate financial intermediation with 92 percent of total financial assets or the equivalent of USD 22.1 billion at year-end 2002. Nigeria accounted for 87 percent of total commercial banks assets, Ghana had a share of 10 percent, while the three smaller countries combined accounted for about 3 percent.

Relative to the size of each country's economy, as measured by 2002 GDP, the commercial banking systems range in size from 11 percent in Guinea to 41 percent in Nigeria. Outstanding deposits at end-2002 amounted to 19.4 percent of GDP for WAMZ as a whole and, in absolute terms, deposits ranged from the equivalent of USD 21 per inhabitant in Sierra Leone to USD 84 per inhabitant in Nigeria. In WAMZ, nonperforming loans (NPLs) are not a major problem at this time; at end-2002, NPLs averaged 25 percent of total loans but were only 3 percent after loan loss provisions.

Bank ownership is mainly private, both domestic and foreign, except in Sierra Leone, where two state-owned banks still dominate. Foreign owned banks, which must be incorporated as subsidiaries in all the countries, dominate in The Gambia, Ghana and Guinea, while most banks in Nigeria have domestic private owners. There are 11 foreign banks operating in WAMZ, if each bank operating in

more than one country is counted as one. Six banks are active in more than one WAMZ jurisdiction but their small total market shares do not make them systemically important.

Banking supervision in all WAMZ countries is the responsibility of their central banks, which also license and supervise other financial institutions (OFIs). Supervision of insurance companies is the responsibility of the central banks of The Gambia and Guinea and of independent insurance commissions in Ghana, Nigeria and Sierra Leone. The Nigeria Deposit insurance Corporation (NDIC) also supervises banks. There are altogether over 900 financial sector supervisors in the WAMZ. The five central banks have 604 supervisors: 385 for commercial banks, 211 for OFIs and 8 for insurance companies. The insurance commissions of Ghana and Nigeria together employ some 150 supervisors and the NDIC a similar number.

The total cost of financial sector supervision in the WAMZ is estimated at the equivalent of USD 22.4 million. About two thirds of this amount is spent by the central banks and financed out of central bank income/profits. NDIC spends another USD 4.5 million, which is financed from the yield of the deposit insurance fund. The two insurance commissions together spend about SD 3 million, financed largely through a fee on insurance companies' premium income but also budget transfers; Guinea collects a fee on insurance company assets.

CNB **Banking Supervision** defines the prudential framework for **banking** business and checks whether the banks are adhering to that framework.

www.cnb.cz/en/financial_market_**supervision/banking_supervision/**

The bank of Ghana was established as a Central Bank on 4th March 1957 by the Bank of Ghana ordinance (No.34), of 1957, one of the main reasons for its establishment was to surprise and regulate the activities of the universal banks. It started operations in its banking department on 1st August, 1957 and in the issue department about a year later.

It must be emphasised that the bank of Ghana Act had gone through several amendments and the latest Amendment is the Act 612 of 2002. Section 3 sub section 2 of the Act granted the bank autonomy.

In pursuance of the provisions in section 2 of the provisions in section 2 of the Bank of Ghana law ,1992 PNDC Law 291 which states that where necessary, the Bank shall open branches and have agencies in and outside Accra, the currency offices of the Bank in the regions have been upgraded to branches status.

These branches are Kumasi in the Ashanti region, Takoradi in the Western region, Hohoe in the Volta region and Tamale in the Northern region. The upgrading is to enable the branches to carry out additional central banking functions which hither to had been carried out only at the head office.

The functions of the branches are derived from the principal objectives of the central bank.

These are:

a. To issue and redeem bank notes and coins.

b. To administer, regulate and direct the currency system.

c. To regulate and direct the credit in the banking system in accordance with the economic policy of the government and the provisions of the banking law

d. To promote by monetary measures the stabilization of the value of the currency within and out side Ghana.

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e. To promote to government measures which are likely to have a favorable effect on the balance of payment, movement of prices, the state of public finance and general development of the national economy and monetary stability.

f. To ensure effective maintenance and management of Ghana's external reserves.

g. To promote and maintain relations with international banking and financial institutions.

h. To act as banker and financial advisor to the government and to do all such things as are incidental or conducive to the efficient performance of its functions under this and any other enactment.

Specifically, the functions of the branches will include the following,

a. Banker to the government parastatals

b. Banker to the commercial banks

c. Distribution of currency

d. Sales and redemption of government securities

e. Supervision of banks including rural banks

a. Banker to the government/parrastatals:

As banker to government and parrastatals, the bank shall open accounts for governments departments/ parrastals to enable them accept deposits and honour withdrawals.

b. Sales and redemption of government securities:

The branches shall undertake sale, and redemption of securities. These are used to raise money from the public on behalf of the government. The securities include government treasury bills, commodity bills etc.

c. Banker To Commercial Banks:

By law all commercial banks are required to open accounts with the central bank to enable clearing settlement to be effected and also for the bank of Ghana to monitor for the statutory reserve requirements. For this reason, all branches shall be required to maintain accounts for the commercial banks in the country.

d. Administration Of The Akuafo Cheque System:

Under this system cocobod provides funds to the participating banks through the central bank therefore honours the Akuafo cheques purchased from the farmers by the rural banks. In this connection, the branches shall be required to purchase Akuafo cheques in their respective reigons.

e. Supervision of Banks Including Rural Banks:

The bank of Ghana has the responsibility for the effective supervision of bank within the financial system. For this reason it has decentralized its operation to the region and has representations at the regional branches. Section 51 of the bank of Ghana law 1992 provides for the appointment of the head of the banking supervision department of the bank referred to in part iv of the banking law 1989 (PNDCL) 225 who shall, in accordance with the provision of that part or any statutory re-enactment or modification there of, be responsible for the supervision and examination of all banking institution in the country.

1.1 OBJECTIVES OF THE STUDY

In every human institution there are bound to be short falls and problem that hinder the smooth running and operation of the system, with bank of Ghana not being an exceptions cannot be deemed as perfect. This study was therefore aimed at subjecting the operations of the banking supervision

department, which has been legally mandated to supervise and regulate the activities of the commercial banks and the rural banks into microscopic scrutiny to identify the short comings if any and to provide remedial suggestions to those problems for the smooth running of the banking system and to restore the confidence of the general public in the banking system.

1.2 PROBLEM STATEMENT

This study has become very necessary as a result of the recent spate of banking fraud which seems to be on the ascendancy and the magnitude of those frauds and their negative effect on the banking sector and the economy as whole. This study evaluated the operations of the banking supervision department with regards to procedures and methods by which their supervisory role over the commercial banks and the rural banks are carried out and to provide suggestions as to how certain areas with respect to personnel, procedures, methods oould be improved to enhance the effectiveness of their operations.

1.3 METHODOLOGY

The procedure that was employed in caning out with this work was basically interviews and questionnaires.

In the case of interviews, some officials of the Banking Supervision Department of the Bank of Ghana made up of Four (4) Deputy managers, three (3) Assistant managers and some junior members of the department who normally constitute the team for supervisions were interviewed to come out with what they see is an impediment to their work and the way forward.

With respect to the questionnaire administration ten questionnaires made up of twenty four (24) questions were given to all the banks who are represented at the clearing House of bank of Ghana

including ARB Apex Bank who also represented the rural Banks for them to express their opinion regarding the supervision of the bank of Ghana and what in their estimation can be done to improve their work.

1.4 THE PURPOSE

The purpose of this project was to examine the banking supervision department of the bank of Ghana by way of procedures and techniques, subjecting them to critical analysis so as to make them proactive rather than reactive to changes in banking environment.

1.5 JUSTIFICATION:

This project work became very necessary to undertake as a result of recent spate of banking fraud which is on the ascendancy. Despite the stringent procedures and monitoring of the commercial banks by the bank of Ghana. It has therefore become necessary to review the operations of the banking supervision department in order to pluck all the loopholes where necessary. For instance the daily graphic on Friday May 19, 2006 carried a story under the headline "improve skills in bank fraud detection I.G.P." at page 31 of the paper. In this publication the inspector general of police (I.G.P) Mr. Patrick Acheampong made a call on bank officials and the law enforcement community to equip themselves with advance skills in financial fraud investigation and also all the laws relating to bank fraud and money laundering.

1.6 THE SCOPE OF THE WORK

The scope of the project was centered on the operations of the banking supervision department by way of procedures such as "on site and off-site" supervision, legal framework and limitations. These were subjected to in-depth analysis and to provide suggestions and recommendation where appropriate.

1.7 LIMITATION

The methodology of this project which as indicated earlier was based on data collection, interviews and administration of questionnaires, therefore this work was limited by all problems associated with data collection, interviews and questionnaire would be handicapped by the level of objectivity of the respondents on the subject matter, besides these financial institutions did not permit indept research into the subject matter, and finally, difficulty in data collection impeded the progress of the work.

1.8 ORGANIZATION OF THE WORK

This project is divided into five (5) main chapters and other sub-topics coming under each chapter where appropriate.

Chapter one (1) includes introduction, objectives of the study, justification, scope of the work, limitations and the organization of the work.

Chapter two (2): dealt with the literature review, review of banking supervision, objectives of the review of banking supervision, principle features of the new banking supervision framework.

Chapter three (3) Banking supervision – case study Bank of Ghana. How the banking supervision department operates, decentralization as an effective tool for monitoring the commercial banks.

Chapter four (4) basically dealt with analysis of the questionnaire that were administered and the interviews concerns raised by respondents, suggestions on supervision lapses and the way forward.

Chapter five (5) finally dealt with suggestions and recommendations to the problems and lapses that emerged in the discussion and analysis, and conclusion.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

A large body of research suggests that banks matter for human welfare. Most noticeably, banks matter when they fail. Indeed, the fiscal costs of banking crises in developing countries since 1980 have exceeded $1 trillion, and some estimates put the cost of Japan's banking problems alone over this threshold. Recent research also finds that banks matter for economic growth. Banks that mobilise and allocate savings efficiently, allocate capital to endeavors with the highest expected social returns, and exert sound governance over funded firms foster innovation and growth. Banks that instead funnel credit to connected parties and the politically powerful discourage entrepreneurship and impede economic development. Recent work further shows that banks matter for poverty and income distribution. Well-functioning banks that extend credit to those with the best projects, rather than to the wealthy or to those with familial, political, or corrupt connections, exert an equalizing affect on the distribution of income and a disproportionately positive impact on the poor by de-linking good ideas and ability from past accumulation of wealth and associations.

The important relationship between banks and economic welfare has led researchers and international institutions to develop policy recommendations concerning bank regulation and supervision. The International Monetary Fund, World Bank, and other international agencies have developed extensive checklists of "best practice" recommendations that they urge all countries to adopt. Most influentially, the Basel Committee on Bank Supervision recently revised and extended the 1988 Basel Capital Accord. The first pillar of these new recommendations develops more extensive procedures for computing minimum bank capital requirements.

The second pillar focuses on enhancing official supervisory practices and ensuring that supervisory agencies have the power to scrutinise and discipline banks. The third pillar envisions greater market discipline of banks through policies that force banks to disclose accurate, transparent information. Although considerable debate surrounds the validity of these pillars, over 100 countries have already stated that they will eventually adopt Basel II.

Until recently, the absence of data on bank regulation and supervision made it impossible to conduct broad cross-country studies of which regulations and supervisory practices promote sound banking. While analysts used models, country-studies, and the experiences of supervisors to make policy recommendations, there were simply insufficient data with which to conduct extensive international comparisons and to test the validity of Basel II or other proposals for reform. Clearly expert advice and evidence from individual countries should inform banking policies; but just as clearly, cross-country econometric evidence can provide a valuable input.

According to an international database conducted on banking policies by James Barth, Gerard Caprio, The first was conducted in 1998-9 and involved over 100 countries and included information on almost 200 regulations and supervisory practices. The second covered 2003-4 and included 50 more countries and 100 additional questions, many of which were recommended by users of the first survey.

Using these data, they are working with others to assess which banking sector policies promote sound banking around the world. In terms of defining "sound banking," many take for granted that stability is the primary objective of bank regulation. While we study stability, my co-authors and I also examine the impact of banking policies on bank development, efficiency, corruption in lending, and corporate governance of banks. Banks are not simply safe places to stash funds. Banks play pivotal roles in mobilising and allocating resources, monitoring firms, and providing liquidity and risk management services. Thus, bank regulation and supervision should be judged by more criteria than stability alone.

Indeed, general theories of government regulation provide a natural framework for assessing bank supervision. When information costs, transactions costs, and government policies interfere with the incentives and abilities of private agents to monitor banks, strong official supervision of banks can improve the corporate governance of banks (Stigler, 1971).1 This "**supervisory power view**" holds that private agents frequently lack the incentives and capabilities to monitor powerful banks. From this perspective, a powerful supervisory agency that directly monitors and disciplines banks can enhance the corporate governance of banks, reduce corruption in bank lending, and thereby boost the efficiency with which banks intermediate society's savings. The official supervision theory assumes that governments have both the expertise and the incentives to ameliorate market imperfections and improve the governance of banks. An alternative to the supervisory power view also draws on core theories of public policy and regulation. The "**political/regulatory capture view**" argues that politicians and supervisors do not maximize social welfare; they maximize their own private welfare (Hamilton, et al., 1788; Buchanan and Tullock, 1962; Becker, 1983; Shleifer and Vishny, 1998). Thus, if bank supervisory agencies have the power to discipline non-compliant banks, then politicians and supervisors may use this power to induce banks to divert the flow of credit to politically connected firms (Becker and Stigler, 1974; Stigler, 1975; Haber et al., 2003). Under these conditions, banks do not only allocate capital based on risk-return criteria. Rather, when supervisory agencies have the power to influence the distribution of bank loans, then corruption and political ties may shape the allocation of bank credit. This theory suggests that strengthening the power of the supervisory agency may actually reduce the integrity of bank lending with adverse implications on the efficiency of credit allocation. Logical extensions of the political/regulatory capture view imply that powerful supervisory agencies will have less of a tendency to abuse their power for private gain in countries with sound institutions that constrain exploitative behavior by government officials. Finally, the "**private empowerment view**" argues that bank supervisory policies should focus on enhancing the ability and

incentives of private agents to overcome information and transaction costs, so that private investors can exert effective governance over banks. The private empowerment view simultaneously recognizes the potential importance of market failures, which motivate government intervention, and political/regulatory failures, which suggest that supervisory agencies do not necessarily have incentives to ease market failures. Consequently, the private empowerment view seeks to provide supervisors with the responsibility and authority to induce banks to disclose accurate information to the public, so that private agents can more effectively monitor banks (Hay and Shleifer, 1998). This view also holds that many empowered private bank creditors will be less susceptible to capture by politicians and banks than a single supervisory agency. Furthermore, the private empowerment view stresses that transparent information will help private investors exert effective corporate governance over banks only when sound legal institutions operate in the country. Thus, the private empowerment view holds that corruption of bank officials will be less of a constraint on corporate finance in countries that foster public information disclosure and have well-functioning legal institutions than in countries that rely on powerful official supervisors.

This project is further motivated by recent trends in corporate finance and public policy debates. First, an enormous theoretical literature examines the role of banks, along with shareholders and other financiers, in easing financing constraints and exerting corporate governance (Shleifer and Vishny, 1997; Morck, Wolfenzon, and Yeung, 2005). Based on some of these models, empirical research examines how laws concerning shareholders influence corporate finance (Beck and Levine, 2005). Yet, there exists no corresponding work that examines how bank supervision influences corporate finance. This paper is an initial attempt to better understand how different supervisory policies influence the obstacles faced by firms in raising external finance.

Second, influential international institutions, such as the Bank for International Settlements, the International Monetary Fund, and the World Bank, are encouraging countries to strengthen bank supervision. Although these recommendations are frequently discussed in the context of avoiding banking crises, crises cannot be the only criterion because policymakers can essentially eliminate banking crises through a 100 percent reserve requirement. Thus, an important, if often under-stated, objective of bank supervision is to foster efficient capital allocation; i.e., to finance worthy firms based on market – not corrupt -- criteria. To provide information about which types of bank supervisory strategies work best to promote efficient corporate finance, this paper assesses the impact of different bank supervisory policies on the degree to which bank corruption impedes firms from obtaining external finance.

2.2 REVIEW OF BANKING SUPERVISION

In December 1994, the Reserve Bank issued a paper out lining the Bank's policy conclusions with respect to banking supervision. The paper encapsulated the results of more than two years of internal review of the Reserve Bank's banking supervision role. The paper proposed a shift from detailed rules and private monitoring by the supervisor, in favour of enhanced public disclosure of financial information, and a considerable relaxation of supervisory arrangements. features includes:

- a new public disclosure regime for banks;
- removal of some existing prudential regulations;
- Increased emphasis on the role of bank directors.

2.2.1 BACKGROUND

The review of banking supervision was commenced in late 1991 at the Reserved Bank's initiative. At that time, the Bank had been involved in banking supervision for approximately five years. Over that

period, the Bank introduced and operated a relatively orthodox supervision policy. It involved requiring banks to comply with certain prudential requirements, including a minimum capital ratio, based on the BIS Capital Accord, and maximum limits on certain risk positions. Supervision was primarily based on quarterly information provided privately to the Reserve Bank, covering such matters as capital adequacy, the income statement, balance sheet and large exposures. The Bank supplemented this with additional information gleaned from annual consultations with the senior management of banks. The Bank did not conduct on-site examinations of banks; nor did it delegate this role to auditors or others.

Where New Zealand's banking supervision was perhaps a little unorthodox was in the objectives it's sought to meet. From its inception, banking supervision was not intended to protect depositors' interest per se. This reflected the view taken by the Reserve bank, that explicit depositor protection, whether in the form of deposits' interest, saps incentives for creditors to exercise scrutiny over the soundless of their banks. In recognition of these difficulties, and of the important systemic role played by banks, banking supervision in New Zealand was, and continues to be, focused on protecting the financial system resulting from a bank distress or failure situation.

Another important feature of banking supervision in New Zealand is the Reserve Bank's approach to the registration, or licensing, of banks. Unlike the supervisory authorities in many other countries, the Bank does not license the function of banking, or even of deposit taking. Financial institutions may conduct banking business or take in deposits without having to be registered as a bank, although they must comply with disclosure and some other equipments. The only legal benefit conferred by registration as a bank is the ability to use the word "bank" in a business name.

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2.2.2 OBJECTIVES OF THE REVIEW OF BANKING SUPERVISION

The Reserve Bank undertook its review of banking supervision for a number of reasons and with a number of objectives in mind.

a. Compliance costs

The Reserve Bank was concerned that conventional approaches to banking supervision can impose potentially severe compliance cost on banks. Although New Zealand's banking supervision framework is at the "light" end of the international spectrum, the Reserve Bank was concerned that supervision had the potential to impose relatively high costs on banks-not just the direct costs complying with regulatory requirements, but also in constraining banks from meeting customer needs. The Bank wanted to explore ways of reducing such costs, so as to enhance the efficiency of the financial system.

b. Moral hazard

The Bank recognised that any system of registered and supervising banks carries with it a risk of moral hazard i.e. that riskier banking behaviour can actually be encouraged by the presence of a supervisory framework. This can occur where t shareholders, directors and management of banks take the view that government will provide support to a bank in distress. This expectation can be reinforced where a government agency is involved in intensive day-to-day supervision of banks.

An intensive banking supervision regime can also create a risk that a bank's directors and management will focus more attention on meeting regulation and supervisory requirements than on identifying, monitoring and managing their bank's business risks. The Reserve Bank wanted to explore ways of reducing the moral hazard problem.

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c. Market disciplines

The Reserve Bank took the view that conventional approaches to banking supervision can reduce the incentives for creditors and their agents scrutinise the financial soundness and performance of banks. While this problem is likely to be present regardless of the form of banking supervision, it could be expected to be move significant the greater the intensity of supervision and the greater the perception that government underwrites individual banks. The Reserve Bank sought to sharpen market disciplines on banks by increasing the incentives and scope for private sector monitoring.

d. Risk to the taxpayer

The Reserve Bank was aware that conventional approaches to banking supervision carry considerable risks for the taxpayer. These risks tend to be either unpriced or underpriced, even in the presence of an ostensibly fully funded deposit insurance scheme. Any form of bank registration and supervision process will inevitably give rise to pressures for government to provide support to a bank in distress – either to prevent the bank from failing or to insulate its depositors from losses in the event of failure. However, the ability to resist this pressure is dependent in part on the intensity of the supervision process. The greater the intensity of the supervisory process, the harder it tends to be for a government to resist the pressures to support a bank in distress. The Reserve Bank's review sought to find ways to enhancing the ability of government to resist these sorts of pressures.

e. Effectiveness of banking supervision

The Reserve Bank's review of banking supervision arrangement was also undertaken in the relief that banking supervision is not necessarily an effective or efficient means of reducing banking system risks. Much of the information available to banking supervisors tends to be too dated by the time it reaches the supervisor to adopt measures to avoid a bank failure.

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Moreover, it is doubtful that supervisors are any better placed than bank management to recognize early signs of financial distress .Indeed, management could be expected to be better placed to assess the appropriateness of a particular risk position, given that they usually possess more comprehensive and recent information than does the supervisor.

Certainly, the Reserve Bank's recognition of emerging financial distress in the banking system in the late 1980s and early 1990s came too late to avoid the subsequent deteriorations in banks' capital positions. The New Zealand experience in this regard would appear to be fairly typical of the experience of a number of other countries in recent years.

Where supervision can be effective in reducing the propensity for financial distress in the imposition of minimum capital requirements and limit on exposures to individual borrowers, among other measures. These types of measures can reduce the potential for bank failure, and accordingly, can play a useful role in keeping systematic risk to tolerable levels. But there is always a danger that such measures will be seen by banks and the market generally, as "approved" risk positions, thereby discouraging banks from adopting more prudent risk positions. Moreover, regulatory measures imposed with the intention of reducing risk can induce greater risk taking. An example of this is the imposition of limits on exposures to individual borrowers. Such a policy can limit a bank's ability to allocate credit to high quality borrowers, thereby encouraging a migration of credit allocation to less credit-worthy borrowers.

A further difficulty with prudential regulation is that it can be applied with excessive zeal by the banking supervisor. This reflects the likelihood that banking supervisors have strong incentives to minimise the risk of bank failure. If unchecked, this can lead to a policy approach heavily weighted towards risk aversion – at the expense allowing banks to meet their customers needs and to the detriment of financial system efficiency.

f. Change to the structure of the banking system

A further reason for reviewing banking supervision arrangements was that the structure of the banking system has undergone considerable change over recent years. When banking supervision commenced, in 1987 most of the supervised financial institutions were owned locally – four in the majority ownership of the Government. By 1992, following privatisation of the state owned banks, two of the 16 banking groups were owned locally, representing only about 10 percent of the total assets of the banking system.

The change in bank ownership suggested that a re-evaluation of supervisory policy was appropriate. These recognize that a "host" banking supervisor has a limited capacity to influence the risk profile of the banking system. The stability of the banking system is influenced more by the stability of the banking system in which the parent banks are domiciled, than by local considerations. However, this does not suggest that there is no role for the local banking supervisor. Clearly, the local supervisor can play an important role in the creating structures which encourage prudent banking practices and minimise adverse flow-on effect from disturbances in oversea banking systems.

The Reserve bank has recast its role to make it more appropriate to the change structure of the banking system.

2.3 PRINCIPAL FEATURES OF THE NEW BANKING SUPERVISION FRAMEWORK

The Reserve Bank's proposed changes to banking supervision arrangements involve a shift from reliance on private monitoring of banks by the banking supervisor to a greater emphasize on the role of market disciplines in strengthening the financial soundness of banks. This will be facilitated by a new disclosure regime for all banks operating in New Zealand. The disclosure framework will require

disclosure of all significant risk dimensions of a bank and will also place more focus on the responsibility of directors for ensuring the sound management of their bank.

The emphasize which the Reserve Banks seeks to place on market disciplines in reinforced by the proposed reduction in the extent of the prudential regulation of banks. The Reserve Bank's proposals include the removal of limits on the amount banks may lend to individual borrowers, the removal of limits on banks' open foreign exchange positions, the redrawal of the Reserve Bank's guidelines on internal controls and the abolishing of certain conditions of registration relating to internal controls and ownership changes. The Bank considers that the new disclosure regime and the emphasize it places on directors' responsibilities should obviate the need for much of the existing prudential regulation.

a. Objectives of banking supervision of unchanged

The objectives of banking supervision will remain unchanged – i.e. the registration and the supervision of banks will continue to be conducted for the purpose of promoting a sound and efficient financial system. Supervision will not seek to prevent bank followers or to insulate depositors and other creditors from loses should the bank fail. Rather, supervision will seek to ensure that financial system, as a whole continues to function effectively at all times.

b. Registration of banks

The Reserve Bank will continue to have the role of registering new banks. The registration process is design to facilitate competition in the "banking" sector, while also seeking to ensure that only institutions of appropriate standing, with the ability to carry on business in a prudent manner, arc able to use the word "bank" in their name. There is no limit on the number of banks which may be

registered. The only quantitative entry requirement is that, a local incorporated bank must have capital of not less than $15 million. The Reserve Bank is generally prepared to allow bank to operate either as a locally incorporated entity or as a branch of foreign bank, regardless of whether it is a wholesale or retail bank.

c. Reserve Bank's banking supervision role

Under the new arrangements, the Reserve Bank will continue to have responsibility for maintaining the soundness of New Zealand's banking system. It will seek to achieve this by:

- *Setting the disclosure rules and other requirements for registered banks and monitoring compliance with those requirements.* However, under the new arrangements the bank will monitor by using their public disclosure statements, where as under existing arrangements, the Bank monitors banks using private prudential returns.
- *Continuing to hold annual consultations with the senior managements of banks.*
- *Continuing to liaise with the parent bank supervisory authorities, where appropriate.*
- *Maintaining a capacity to respond effectively to an event which threatens the stability of the financial system.* In such circumstances, the Reserve Bank will seek to resolve the situation in a way which minimises disruption to the financial system. In doing so, the Bank will seek to avoid the need for any from of government support for a bank in distress. Integral to the new approach is a policy that may resolution of a bank distress situation should aim to ensure that losses are borne by the shareholders and creditors of the bank in question at no cost to the taxpayer.

d. Capital ratio requirement

The Reserve Bank will retain the existing minimum capital ratio requirements for locally incorporated banks. The requirements are consistent with the BIS Capital Accord and require banks to maintain tier one capital equivalent to at least 4 percent of risk weighed exposures, and total capital equivalent to at least 8 percent. Although the Bank considers that disclosure alone, with that minimum requirement, should provide sufficient incentives for banks to at least adhere to the international norm of 8 percent, it believes that retention of the capital requirement offers benefits in terms of international credibility, at little, if any, marginal cost to banks.

e. Disclosure

A key feature of the new approach to banking supervision is the development of a new disclosure regime. The regime will require all banks to issue public disclosure statements at quarterly intervals. Banks will be required to make their full disclosure statements available on request and to display a one or two page "Key information Summary" in all branches.

The disclosure requirements are intended to be very comprehensive and will include:

- An income statement and balance sheet
- Information on the composition of the board of directors and any conflicts of interest directors may have.
- Detailed information on asset quality on provisioning.
- Information on the number of exposures banks have to individual counter parties, measured in bank relative to the bank's equity (i.e. the number of exposures between 10 percent and 20 percent of a bank's equity: the number between 20 percent and 30 percent: and so on).

- Information on exposures to related parties (i.e. those entities capable of exercising significant influence over a bank).
- Sectoral exposure information.
- Detailed information on the bank's capital adequacy, including its off balance sheet exposures.
- Information on bank's market risk exposures, both as at end of quarter and peak during the quarter.

The disclosure arrangements are intended to serve a number of purposes. First, they are a means of reinforcing the incentives for bank management to adopt *and maintain prudent risk positions. Second, disclosure* provides a basis for creditors to make relatively informed judgments about the financial soundness of a bank and to compare one bank with another. And third, the disclosure regime is expected strengthen a government's ability to resist pressure to rescue a bank in difficulty.

f. External Audit Increased

Banks' disclosure statements will be subject to external audit twice a year, compared to the existing annual audit requirement. However, in recognition that external audits can impose substantial costs on banks, the audit at the half year may be of a "limited review" nature.

g. Credit ratings disclosure

Banks with a credit rating application to long term senior unsecured dept will be required to disclose the rate prominently in their disclosure statements. Where a bank has no such rating, it will be require disclosing prominently that fact. This policy is expected to strengthen market disciplines on banks and provide creditors with a relatively simple means of comparing one bank with another.

h. Abolition of regulatory limits on large exposures and foreign exchange open position

The Reserve Bank intends to remove the existing regulatory limits on banks' exposures to individual counterparties (currently set at 35 percent of total capital) and on open foreign exchange positions (40 percent of capital). The Bank considers that the disclosure regime will provide sufficient incentives for banks to maintain prudent risk positions, making the limits unnecessary. Furthermore, the Reserve Bank doubts that the placing of limits of large exposures is an efficient way of containing banks' concentration risk. There is a danger that a limit will be seen as an officially approved level of exposure, with attendant moral hazard problems. Moreover, if the limit is set as a relatively high level, it is unlikely to be effective in reducing losses attributable to concentration risk. Yet if the limit is pitched at a relatively low level, it can impinge excessively on a bank's ability to meet customer needs. Perversely, a limit on large exposure could also increase the risk profile of a bank's lending book by diverting credit to riskier borrowers.

i. Uniform and transparent regulatory requirements

The Reserve Bank plans to continue its practice of applying a uniform set of regulatory requirements on banks, where practicable. Rather than having different regulatory requirements for each bank – for example, capital ratios – the intention is to have uniform measures across all banks. In addition, banks will be required to disclose their prudential requirements to any person who requests the information. The Bank considers that this approach reduces the potential for regulatory forbearance by the supervisor.

j. Directors' responsibilities

An important feature of the new arrangements is a requirement that the directors of a bank (or their appointed agents) must sign the disclosure statements as being not false or misleading. The

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consequences of producing a disclosure statement which is false or misleading are serious, and include fines and imprisonment. Moreover, if creditors lose money as a result of reliance on a false or misleading disclosure statement, directors face potentially unlimited personal liability.

In addition to signing the disclosure statements, directors must certain attestations in the statements. These attestations include a statement as to whether the directors are satisfied that their bank's risk management systems are adequate for managing the bank's risks, and that the systems are being properly applied. The Reserve Bank considers that this attestation will sharpen the incentives for directors to seek to ensure that their bank has appropriate system in place to identify, monitor and manage its business risks. The attestation also reinforces the Reserve Bank's desire to ensure that responsibility for the management of a bank ultimately rests with the bank's directors.

k. Exposures to related parties

The Reserve Bank will retain a limit on the amount a bank may led to related parties – i.e. any party capable of exercising significant influence on a bank. A limit is considered appropriate, given that a related party could coerce a bank to lend to it on non-commercial terms. Under the new arrangements, the limit will be based on a bank's tier one capital, rather than on total capital, as at present. This recognizes the Reserve Bank's view that tier one capital is the only capital capable of "Keeping a bank's doors open" while absorbing losses.

In addition, to the limit, banks will be required to make public disclosures of their exposures to related parties, and directors will be required to sign attestations asserting that the exposure is not contrary to the interests of the bank.

i. Internal controls guidelines withdrawn

The Reserve Bank has withdrawn its guidelines on banks' internal control systems. The guidelines were issued in 1992 as a means of encouraging banks to maintain adequate risk management systems. They were also intended to provide guidance to external auditors or others when conducting reviews of a bank's internal controls.

The Bank is satisfied that the new disclosure framework and directors' attestation obviate the need for internal controls, guidelines and mandatory external reviews of a bank's control systems. The Bank believes that the new approach will provide strong incentives for banks to ensure that their control systems are adequate. Moreover, the Bank contends that the presence of Reserve Bank guidelines can be problematic, in that they risk being seen as "approved" minimum standards, which in fact they can never be. There is also a danger they will be seen as required minima, thereby causing banks to incur compliance costs, whether the controls are appropriate for their particular type of business or not.

j. Response to breaches of capital requirements.

Another feature of the new approach to banking supervision is the adoption of a more structured approach to a breach of the minimum capital ratio requirements. This is intended to reduce the scope for regulatory forbearance by the banking supervisor and therefore to reduce the risks associated with such forbearance. Where a bank's tier one capital falls below 4 percent of risk weighted exposures or its capital fall below 8 percent, the bank will be required to submit to the Reserve Bank a plan for restoring its capital to at least the minimum required levels. The bank would be expected to disclose the plan in its public disclosure statement at the first practicable opportunity. The plan would be required to include the following elements:

a. No distributions are to be made to the bank's share holders until the minimum capital requirements have been complied with.

b. No increase in the amount of the bank's exposure to a related party from the level which prevailed at the time of the first occurrence of the breach will be permitted. Where a reduction in capital results in a bank being in breach of the limit on related party exposures, the bank would be required to reduce its exposure to related parties to a level which complies with the limit.

c. Where a bank's tier one capital falls below 3 percent of risk weighted exposure, gross credit exposures must not be increased from the level which prevailed at the time of the first occurrence of the breach. The bank's plan for restoring capital to at least the minimum level would be expected to state compliance with this requirement.

In necessary, the Reserve Bank would enforce this policy by giving a direction to the bank, pursuant to the provisions in the Reserve Bank Act.

2.4 REACTIONS TO THE NEW APPROACH

There have been mixed reactions to the Reserve Bank's banking supervision policies. There has been a considerable degree of support, both in New Zealand and overseas, including from consumer lobby groups, academic and business commentators.

Understandably, there has been a somewhat more hesitant reaction from New Zealand's bankers. While most of the banks are supportive of the general direction of the reforms, a number of banks are

uncomfortable at the degree of transparency which the new disclosure regime will bring to the banking system. They are also concerned that the new disclosure regime may impose substantial compliance costs. Some have also raised questions as to whether the Reserve Bank will be adequately place under the new approach to maintain a sound banking system. Against these concerns, the banks have reacted positively to the removal of some of the existing prudential regulation, particularly the abolition of the limit on the amount which banks may lend to individual customers.

According to Mr. Malcolm D Knight, General Manager of the BIS, at the Ninth Annual Risk management convention and Exhibition of the Global Association of Risk Professionals, New York, 26 February 2008. Under the Heading "Now you see it" Now you don't; the nature of Risk and the current financial turmoil". He emphasized that, there is the need for a macro prudential approach for financial regulatory and supervisory frameworks, and that none of these steps could be taken without the co-operation among policy makers, financial regulators and market participants.

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CHAPTER THREE

3.0 BANKING SUPERVISION: CASE STUDY BANK OF GHANA

The supervisory functions of the Bank of Ghana is carried out by the banking supervision department as provide for by section 27 of the bank of Ghana law, which empowers the department to monitor operations, of banks and enforce prudential regulations, policies and practices on continual basis. The objectives of protecting depositors, maintaining stability and promoting competition and efficiency.

3.1 Functions of Supervision

The functions entails the following activities

- Conducting on site examination;
- Collecting and analysing regular reporting returns and other statistical data;
- Providing guidance as to accounting policies and practices to be adopted;
- Liasing with internal and external auditors to ensure that all high risk area are focused;
- Appraising applications for the issuance of banking license for new banks and authorizing the opening closing and re-locating bank branches;
- Meeting with top management of banks to deliberate on general operational matters. The supervisory functions are geared towards achieving the following:
- Ensuring compliance with the provisions of the Banking Law, regulations and directives;
- That banks have sound methods of operations and effective internal control systems to safeguard their assets;
- Prompt recognition of early warning signal and matters of serious prudential concerns and to performance as measured by deposit growth and asset expansion is sound and ensure adequate earnings and
- Provide minimum standards of accounting and auditing for banks.

3.2 Techniques for supervision

The supervisory methodology adopted by the Bank of Ghana is detailed as follows:

a. Off –site Surveillance

This concerned with on-going analysis and review of prescribed prudential returns submitted by banks. The returns are designed to capture all aspects of a bank's operation. These return assets immensely in monitoring a bank's performance and using financial rations to determine early warning signs to form basis for suggesting corrective measures where necessary.

The existing prescribed prudential returns and the frequency of submission follows:

Form	Type	Frequency	Limit
BSD 1	Liquidity Reserve Asset	Weekly	9days
BSD 2	Statement of Assets and liabilities	Monthly	21days
BSD 3	Large Exposures-Advance & Deposits	Monthly	21days
BSD 4	Analysis of loans, overdrafts & other advances	Weekly	21days
BSD 5	Capital Adequacy Return	Quarterly	21days
BSD 6	Maturity Analysis of Assets & liabilities	Quarterly	21days
BSD 7	Current Year Results	Quarterly	21days
BSD 8	Advances subjects to adverse classification quarterly	Quarterly	
BSD 9	Consolidated Balance Sheet	Quarterly	
BSD 10	Capital Expenditure	Half-yearly	
BSD 11	Statutory Return	Half-yearly	
BSD 12	Opening, closure or re-location of Bank Branches and Agencies	As necessary	21days
	Special call Report Forex net open Position Report	Mostly	21days

Even through the prudential returns serve useful supervision tools, they have limitation. For example, a bank could submit wrong and/or incomplete records either deliberately or inadvertently. Secondly, it

is difficult, it is impossible, to do a qualitative analysis of a bank, assets and liabilities based on returns alone. The returns may not contain enough information to enable one to attach risk factors to assets of a bank. Thirdly, returns are prepared as at a point in time and therefore, fail to capture the general pattern of bank's, assets and liabilities. Finally, returns are normally designed for a whole banking system and may fail to register peculiar operational characteristics of a bank. In view of the above short coming, supervisory authorities in addition to receiving returns, do on-site examination of banks.

b. On-Site Examination

An on-site examination enables a supervisor to make a comprehensive and an objective appraisal of a bank's financial position and management competence. It enables the supervisors to have access to primary data and records. It also affords the supervisor/examiner the opportunity to obtain on-the-spot clarification and also holds discussion with management and operational staff without resorting to time-consuming and energy-sapping correspondence.

The Process for Onsite Examination

The onsite examination goes through the following broad processes:

1. Preparation of on-site examination programme
2. Request for indents (specified information)
3. Formation of Examination Teams
4. Conducting on-site examination
5. Drafting of report on the bank examined
6. Discussion of Draft Report with bank management
7. Preparation of Final Report on the bank
8. Issue of Final Report.

Each of the above-mentioned general procedures also involves the following sub-processes.

Preparation of Onsite Examination Programme

1. List the major banks to be examined
2. Determined the periods for the examination
3. Submit memo to Head of Department for approval

Requisition of Examination Teams

1. Prepare list of indents required for the examination
2. Write to the bank to submit the indents
3. Receipt of indent from banks
4. Sort out and distribute the indents to the Examination

Formation of Examination Teams

1. Determine the number of Examiners for the Team
2. Select the appropriate Examiners to form the Team
3. Appoint a Team Leader for the examination
4. Introduce the Team to bank management

Planning, Preparation and conduction of Examination

1. Team Leader receives Team members
2. Team Leader receives indent
3. Team Leader reviews indent to note issue for examination
4. Team Leader plans examination and allocates duties to team members
5. Exam Team reviews correspondence and other off-site returns to note issue for examination
6. Commence the on-site examination

Drafting of Examination Report

1. Each team member submits a Draft Report on are examined to leader
2. review of draft reports by Tema Leader
3. consolidation of draft bank examination report
4. review of draft report by a Senior Examiner
5. review of draft report by B
6. effect corrections to the draft report by team leader
7. preparation of covering memo on draft report to bank
8. dispatch of draft report to bank

Discussion of Draft Report with Bank Management

1. submit the draft report to the bank's top management
2. schedule a date for discussion of the draft report
3. discussion the draft report with bank management
4. take note of bank management's comments
5. carry out follow-up on comments raised by bank management

Finalization of Report

1. amend draft report, if necessary, in accordance with the outcome of the discussion with bank management
2. prepare executive summary of report
3. make copies of the Final Report for distribution
4. submit Final Report to the Head of BSD

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Issue Final Report to Bank Management

1. Prepare memo from the Head of Department to supervising Governor in connection with the report.
2. submit 2 copies of the Final Report and executive summary to supervising Governor
3. Supervising Governor signs the report to the bank's Board of Director and Managing Director
4. Report is returned to BSD for dispatch to bank's Chairman of Board of Director and Managing Director

Areas of Emphasis is Onsite Examination

Onsite examination is divided into two main parts:

* Head office examination

* Branches examination/visit (number of branches that can allow at least 75% advances and 65% deposits coverage)

Head Office Work

Qualitative and qualitative analyses are done for the bank's overall assets and liabilities, shareholders funds, management and staff. The quantities analysis focuses on the growth/decline of the balance sheet, management and staff, any significant growth/decline is subjected to further analytical review in the qualitative analysis. The qualitative analysis assesses the risks factors inherent in same areas (see table)

Four types of risks may exist in a bank's operations:

1. Market risk: the risk arising from fluctuations in the price of an asset or liability
2. Credit risk: the risk that the bank cannot meet payments as they fall due at reasonable cost.
3. Operational risk: the risk of failure by people, systems, processes and external events

Qualitative assessment is risk-focused examination: it sharpens the supervisory focus on:

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i. The greatest risk of safely and soundness

ii. Assessment of management processes to identify, measure, monitors, and control risk.

Assets

The major assets areas to cover include the following (see table):

1. Cash and short-term funds
2. Investments (equity, government paper)
3. Loans and advances
4. Other assets
5. Fixed assets
6. Off-balance sheet (contingent) commitments

Liabilities

The major liabilities areas to cover include the following (see table)

1. deposits
2. borrowings
3. other liabilities

Shareholders funds

The major areas to cover are as follows:

1. paid-up capital
2. statutory capital
3. income surplus
4. capitals surplus

5. share deals account
6. Staff training, remuneration levels staff meetings, job scheduling/rotation, annual leaves.
7. internal audit/inspection
8. computerisation
9. management succession plan
10. disaster recovery plan
11. branch visits by top management
12. frauds
13. manuals
14. corporate plan and budget
15. marketing strategies

Branches examination

The assets and liabilities, management and staff of the branch are subjected to the same quantitative and qualitative assessment.

In the main the following branch management issues are examined:

1. branch visit by top management
2. branch audit/inspection
3. security arrangement
4. cash management/control
5. cheques clearing
6. branch credits management/control
7. branch deposits mobilization/management/controls
8. branch suspense accounts controls

9. branch fixed assets management

10. branch profitability

11. computerisation

12. job scheduling/rotation

13. annual leave administration

14. staff meetings

15. staff development/training/appraisal/promotions

16. staff turnover

Methodology of Onsite Examination

The table below summaries issues involved in quantities and qualitative analysis of the bank's assets and liabilities.

Table

Major areas	Quantitative analysis	Qualitative analysis/risk assessment
Assets	Composition, growth/ trend, fey/icy, reconciliation of figures with mgt. account and BSD Returns	As will be detailed for each of the asset components mentioned below
Cash and short term funds	As stated above	* Long outstanding * Correspondent bank exposures * fey exposure levels (i.e. Net open position not > 30% L/S) * Counterpart exposure levels.

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		* cash insurance * income-generation funds * maturity analysis * determination of unimpaired value
Investment	As stated above	* system/controls * portfolio/institutional risk analysis * Validation profitability (dividends, interest incomes), financial position, etc. *maturity profile * Yield Profit * determination of unimpaired value
Loans and advances	As stated above	* systems/controls * credit files review: (applications, appraisals, approvals, security, compliance with disbursement conditions, monitoring, other systems/controls) * accounts performance review: ('swings', compliance with facility limits, interest/installments due, maturity dates, credit classification/risk provisions determination of level of NPL and the sectors affected) * credit concentration and its quality * insider/connected lending (s. 12
Other Assets	As stated above	BL, 1989

		* determination of unimpaired value * Irregular transaction.
		* long outstanding: follow-up and investigations * mode of clearance of previous long outstanding * determination of unimpaired value
Fixed assets	As stated above	* system/controls assessment * net fixed assets as a % of shareholders fund * unbudgeted acquisitions * unauthorized/non-transparent disposal * determination of unimpaired value * System/control evaluation (e.g. For verification of fixed assets)
Contingent Liabilities	As stated Above (but iro:CLCs, bond and guarantees, etc	* review of applications, appraisals, approvals, security, other conditions and systems/controls * non-cash covered contingents as a % of shareholders funds * long standing: review or investigations * crystallized/likely to crystallize
Liabilities	Composition	Contingents * determination of provisions required * determination of unimpaired contingents As well as be detail for each of the
Deposits	Growing /trend, fcy/lcy,	Liabilities components mentioned below

	As stated above reconciliation of figure with mgt, account and BSD Returns	deposit mix: level of stable funds fcy component (exchange rate risk) * deposit volatility (effective volatile deposits liability ration not>25% of volatile deposits)
		* deposits concentration mgt. iro the 20 largest deposits (not> 15% of total deposits) * maturity profile / matching of deposit liabilities maturing time bands against
Borrowing	As stated Above	Maturing assets * cost structure assessment * market/industry/peer group share (trend analysis) * deposits mobilization strategies/new products review * sources of borrowed funds (review inter-bank on lending institution/persons e.g. money funds laundering considerations, etc) * purpose for borrowing/fund utilization
Share – holders funds	Composition, growth / decline	* methods use to achieve the growth internal funds generation from operations, cash injection/fixed assets brought in for new shares, dept-for-equity transactions, etc.) * causes of decline in any component of shareholders funds

CHAPTER FOUR

a. THE ANALYSIS OF DATA, FINDINGS AND DISCUSSIONS

In pursuit of the objective of trying to unearth some of the lapses in the performance of the duties of the banking supervision department as far as their supervisory role over the universal banks is concerned, questionnaires were administered and the following were made.

b. QUESTION AREAS

All the major banks who are represented at the clearing house of the bank of Ghana were given ten (10) questionnaires which were made up of twenty four (24) questions bordering on areas such as the following:

1. Personal data which involved questions on the academic background, level of education and their current grade, whether senior member or junior member of staff.
2. The experience level of the respondents were also sought the number of years in employment, how long he/she has been on the schedule.
3. The specific schedules of respondents and how often he/she encounters the supervisors of the Bank of Ghana.
4. The level of co-operation of respondents with the supervisors from the bank of Ghana and some of the problems if any he/she has with their style of work.
5. The regularity with which they send their returns to the bank of Ghana. Do they wait for reminders, or they are send on schedule?
6. Issues regarding job rotation and the adherence to a strict leave roasters were also addressed in the questionnaire.
7. The issues of software application in the area of IT. How friendly the supervisors are as far as the software applications are concerned were also addressed by the questionnaire.

8. The human resource development aspects of the respondents were also sought. This involved the training programmes of the respective banks be it internal or external.
9. The reward aspect of the employees were also touched on. This involved their remunerations and promotion.

In all, a total of two hundred (200) questionnaires were administered made up of ten questionnaires to each of the 20 banks represented at the Kumasi office of the bank of Ghana. One hundred and twenty four (124) out of the total were responded and returned representing sixty two percent (62%). The remaining thirty eight percent (38%) were not returned. The analysis is therefore based on the 62% of the questionnaires that were responded and returned to the researcher.

c. FINDINGS

I. On the area of personal data which centered on the academic qualification, current position and marital status. The following statistics came out.

Educational	**Master Degree**	**First Degree**	**Others**
Background	24	61	39
Percent terms	19.4%	49%	31.6%

Marital Status	**Married**	**Single**
	75	49
	60.5%	39.5

The above information is presented in the table 1 and figure 1 below

Table 1

EDUCATIONAL BACKGROUND

MASTERS DEGREE	FIRST DEGREE	OTHERS
24	61	39

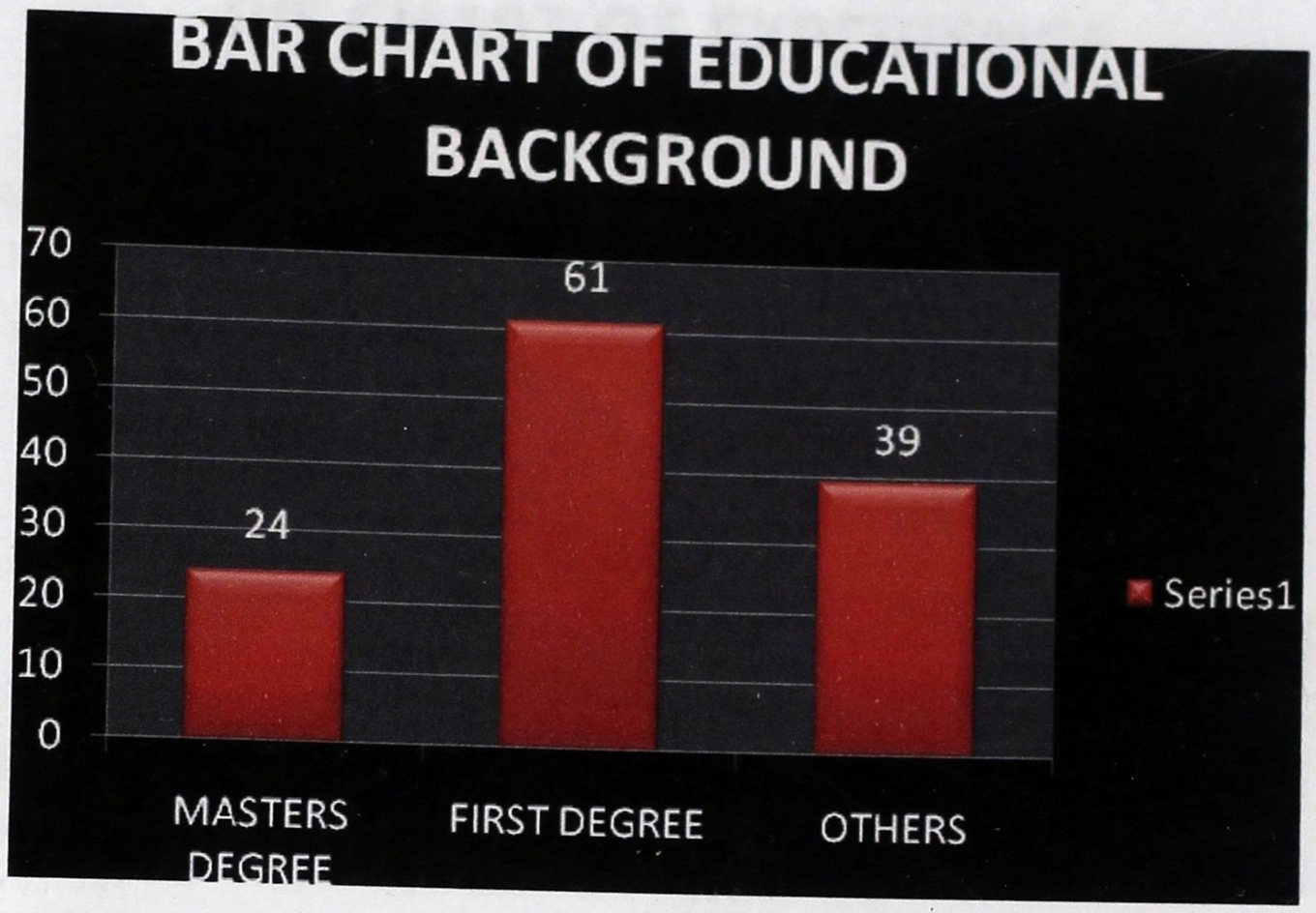

Fig. 1 Bar Chart of educational background.

ii. On the experience level of the respondents, it came out that 78 out of the 124 had been in service of their employers for 5 years representing 63% with the remaining 46 representing 37% being in the service for less than 5 years. This statistics indicates that most of the banks are able to retain their experienced staff which is a positive trend in this analysis.

Table 2 and figure 2 below illustrates these information

Table 2:

EXPERIENCE LEVEL

5 OR MORE YEARS	BELOW 5 YEARS
98	26

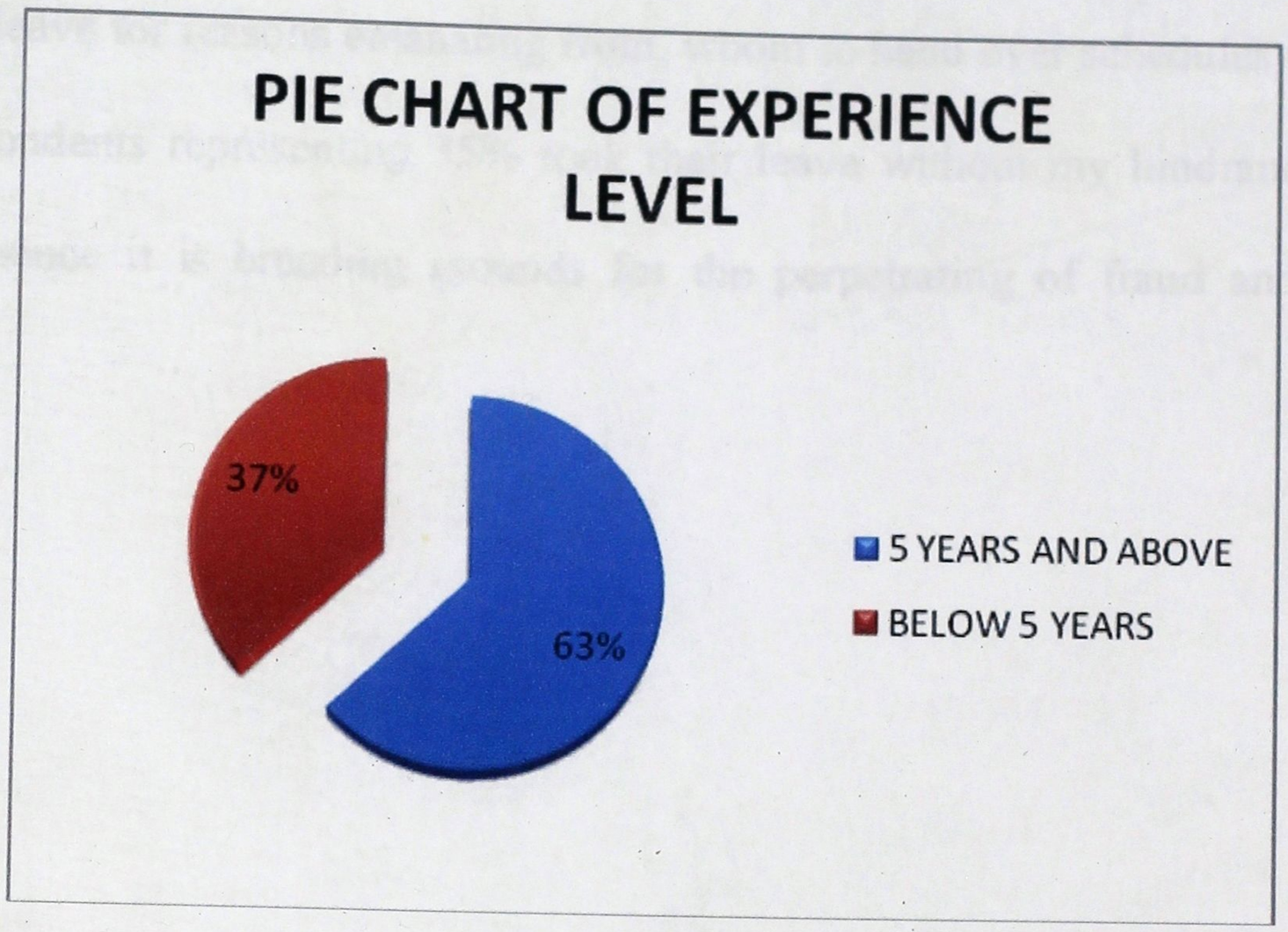

Fig 2: Pie chart of experience level.

iii. The level of co-operation on their specific schedules with the supervisors from the Bank of Ghana, revealed a 100% level of co-operation. This shows that the supervisors are given a free hand to work without any impediments or frustrations.

Iv. On the issue of regularity or promptness with which the respondents send specific returns to the Bank of Ghana for inspection. It came out that, 30 of the respondents representing 24% were on schedules that required them to send returns to the Bank of Ghana and on each location they do so on timely basis without any reminders. The remaining 94 respondents representing 76% had nothing to do

with the Bank of Ghana as far as the sending of returns for off-site supervision is concerned. This is a positive development since it will enable the supervisions to respond to situations on timely basis.

v. Issue regarding job rotation and the adherences to strict leave roaster revealed that 98 respondents representing 79% had been on their specific job schedules for over (5) five years and above whiles the remaining 26 respondents representing 21% had been on their job that on several occasions they have got to defer their leave for reasons emanating from, whom to hand over schedules to and other reason. However 44 respondents representing 35% took their leave without my hindrance. This area needs serious attention since it is breeding grounds for the perpetrating of fraud and other on towards banking practices.

Table 3

REGULARITY AND PROMPTNESS OF RETURNS

PROMPT RETURNS	**30**
NO RETURNS	**94**

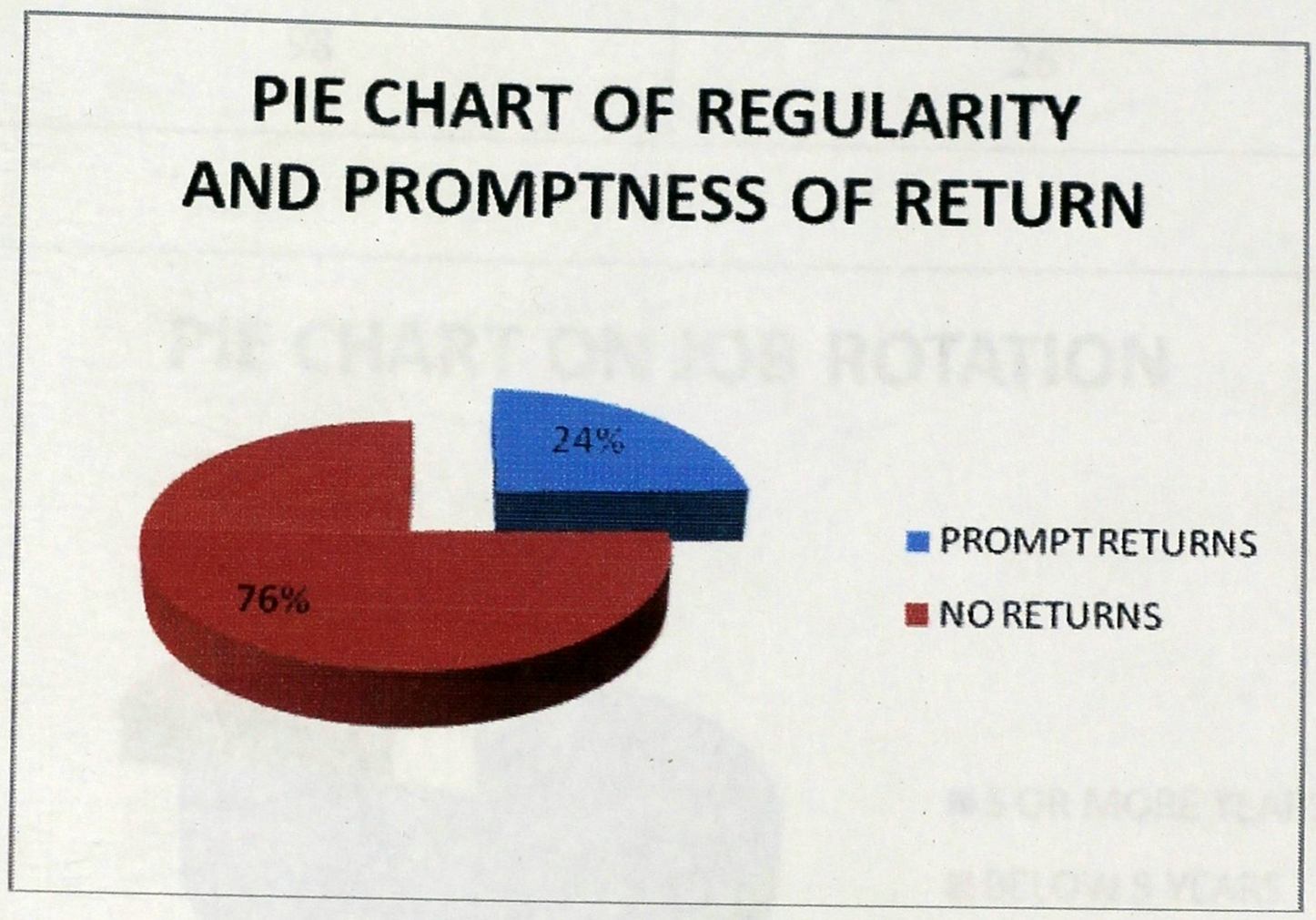

Fig. 3: Pie chart of regularity and promptness to returns.

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Tables 4 a and b and figures 4a and b illustrate this.

Table 4:

JOB ROTATION AND LEAVE

4a

5 OR MORE YEARS	BELOW 5 YEARS
98	26

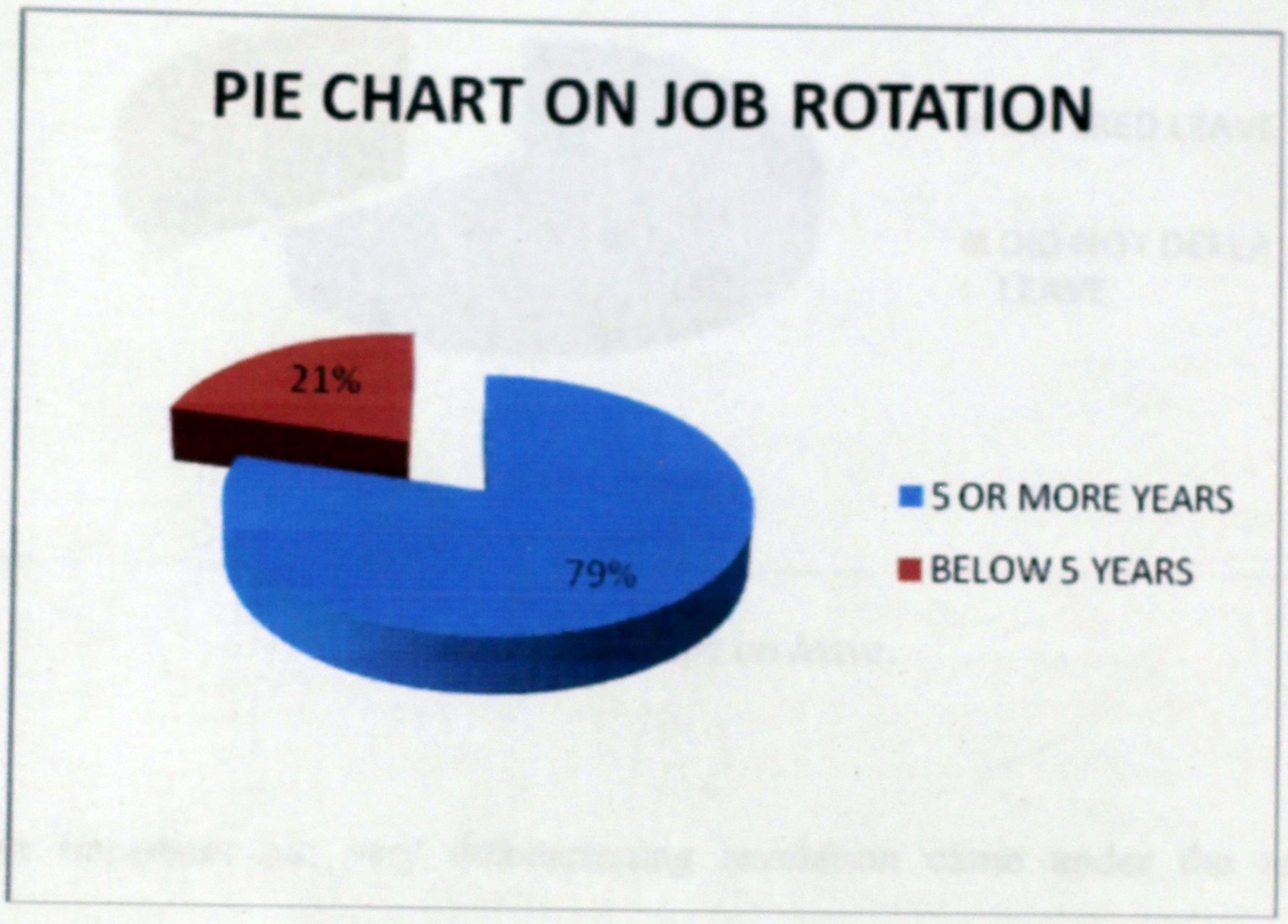

Fig. 4a: Pie chart on job rotation.

4b:

DEFERED LEAVE	DID NOT DEFER LEAVE
80	44

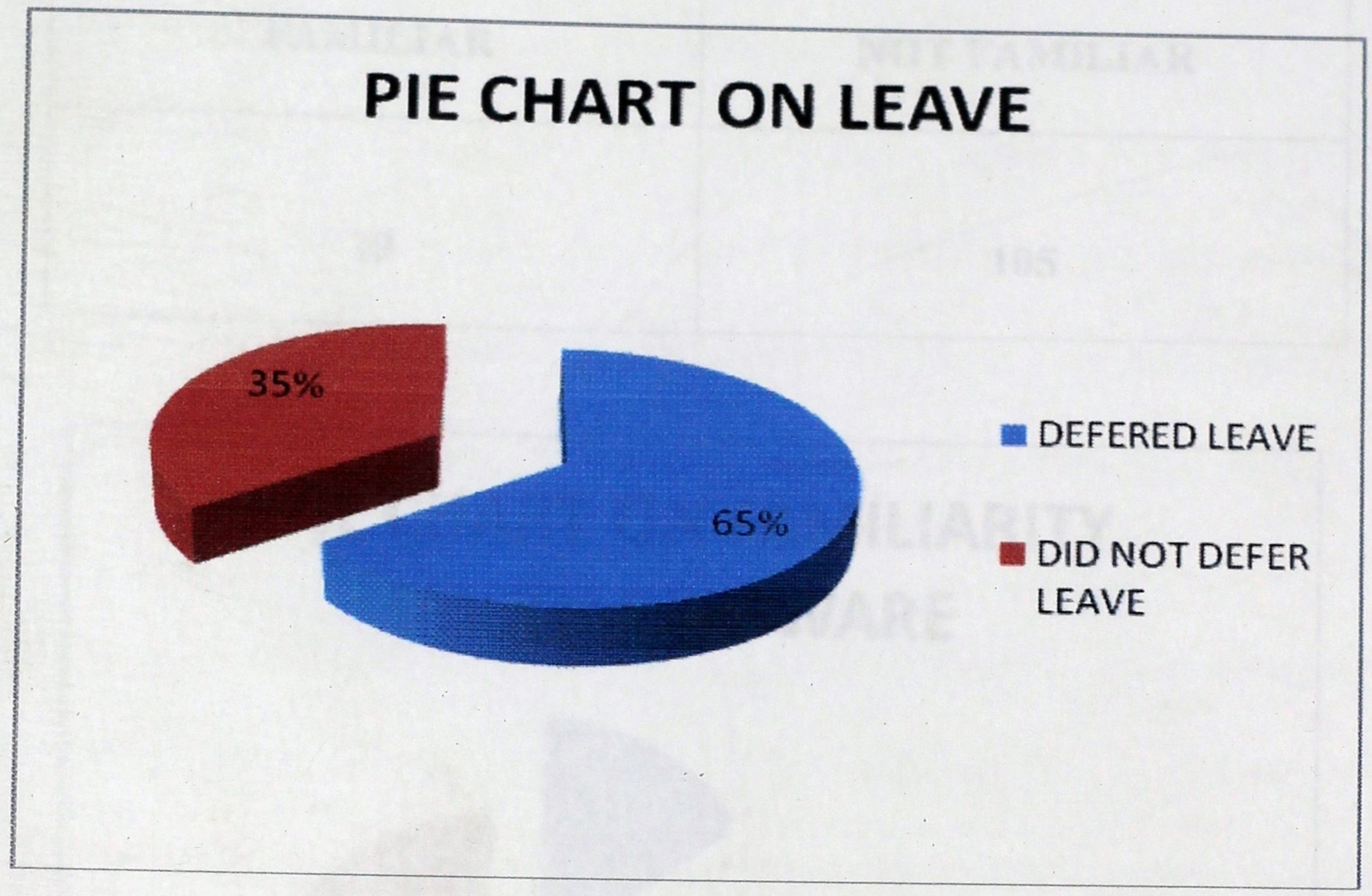

Fig. 4b: Pie chart on leave.

Vi. The most important but very disheartening revelation came under the area of software application. The indications are that, one hundred and five (105) respondents representing 84% were of the opinion that, most of the supervisors are not familiar with the software's being used by the universal banks and for that matter find it very difficult to do effective monitoring of their operations via the computer. A respondent who went further to give detail insight into the seriousness of the situation, recounted how a team leader of the supervisors who were detailed to inspect his branch confided in him to teach him how to assess information on the computer. Given this scenario it

becomes very clear the extent of work such a person can do to unearth wrong doing. Your guess is as good as mine.

Table 5:

FAMILIARITY WITH SOFTWARE (of supervisors)

FAMILIAR	NOT FAMILIAR
19	105

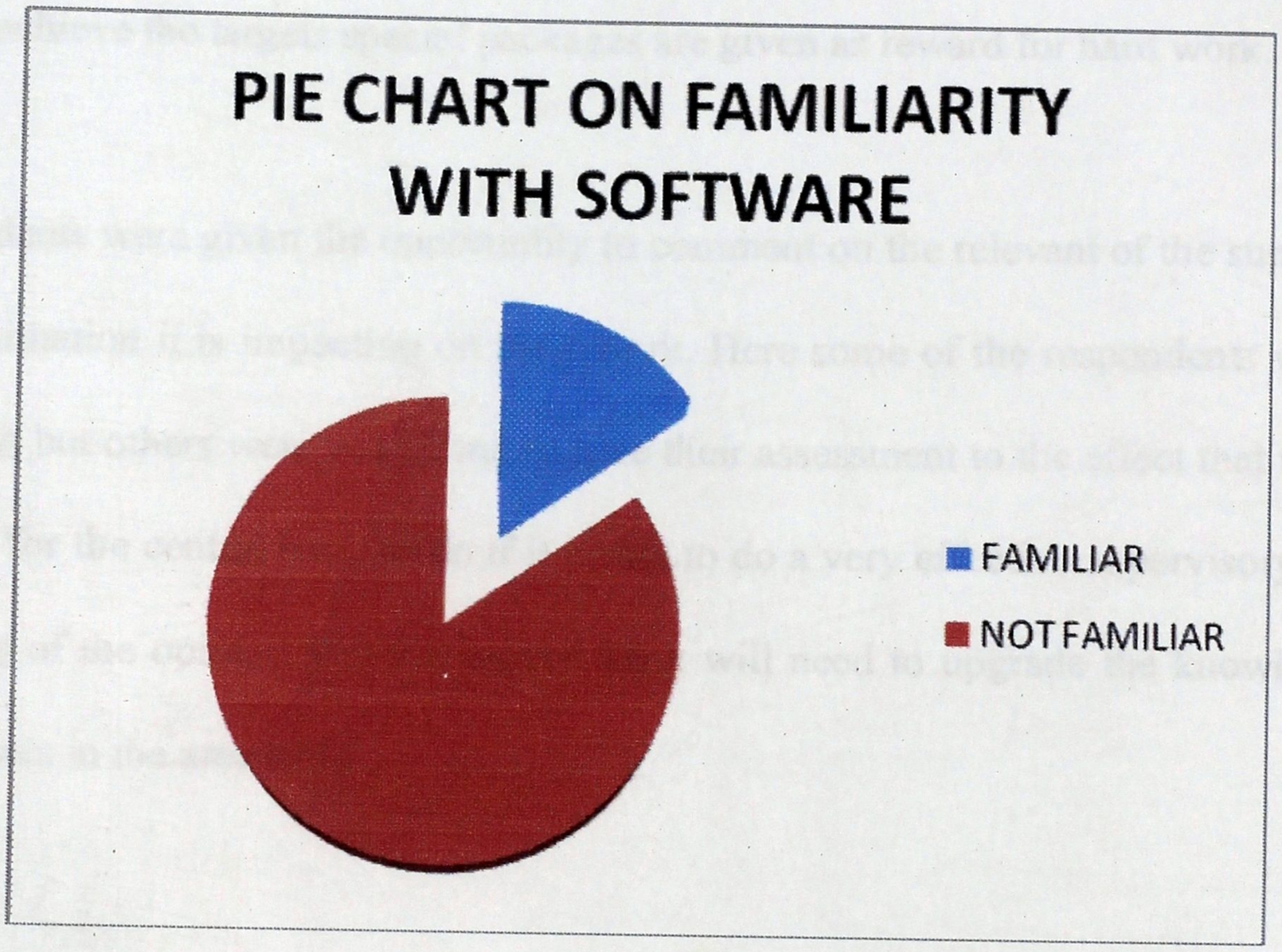

Fig 5: Pie chart on familiarity with software

vii. The human resources development aspect of the banks revealed an almost 100% compliance but the only variations stems from the course content and its relevance to the banking profession and also the number of courses prescribed for them in a year is nothing to write home about, qq some even claim that for over two years now they have not been on any course.

viii. The reward aspect of the employees also indicated that most of the Banks have rewards pack ages in place such as promotion, salary increment, some of them even have best worker award in place which is given to reward outstanding performance at the end of the year. Some of them indicated that their banks have given targets to some of their employees and when one is able to achieve the targets special packages are given as reward for hard work.

ix. Respondents were given the opportunity to comment on the relevant of the supervision, how in their estimation it is impacting on their work. Here some of the respondents were reluctant to come out but others were very frank to give their assessment to the effect that there is still a lot of work for the central bank to do if it wants to do a very effective supervisory work. Some of them are of the opinion that the central bank will need to upgrade the knowledge base of its supervisors in the area of IT.

4.3 OUTCOME OF THE INTERVIEW WITH BANKING SUPERVISION PERSONNEL

Besides the questionnaire that were administered to ascertain the views of the commercial banks regarding the supervisory role of the Bank of Ghana, interviews were also conducted with some of the personnel of the banking supervision department of the Bank of Ghana to find out what in their estimation is affecting their performance as for as the supervision of the commercial bank is concerned.

In this regard Five (5) Deputy Managers, Four (4) Assistant Managers and a host of junior staff. Members of the Banking supervision Department of the Bank of Ghana were interviewed.

The following issues were raised as some of the problems that confront them in the discharge of their duties.

I. INADEQUATE STAFF

The first and foremost problem is inadequate staff. The Bank of Ghana is ill resourced by way of personnel to adequately discharge their supervisory duties. The most disheartening aspect of the situation is the rampant staff turns over as a result of poor conditions of service in recent times.

II. INADEQUATE TRAINING

Further to the problem of staff constraints in the problem of inadequate training both internal and external. Training programmes which are very important components for effective supervision. As one of them put it the market players are always ahead of the supervisors by way of knowledge of the field of operation. This is affecting their work as competent and effective supervisors. The absence or inadequate training programmes which is needed to update the knowledge of the

supervisors has affected the performance of the supervisors to the extent that they remain minnows in their respective fields of operation.

III. LOGISTICAL CONSTRAINTS

The Bank of Ghana is handicapped by way of resources and logistics needed to do their work. These include computers and software's that cuts across to give them an advantage over the market players. Vehicles for onsite examination are not sufficient and some of them even suffer regular break downs. Other things like, printers, photocopies and scanners etc. are not readily available to facilitate their work.

IV. SKEWED JOB DITRIBUTION

As a result of the limited number of staff in a team of supervision, it becomes very difficult for the examiners to do an in depth on-site examination, they therefore limit themselves to some few areas of interest whiles other areas which are equally important may not be examined.

v. POOR REMUNERATION

Poor conditions of service has serve as an unattractive barrier to most potential professionals and the few ones who find themselves in the bank leave after a short stint to other Banks. Therefore, professionals like Accountants, Auditors who could be very useful to the service are in short supply. What is contributing to the high turn over rate is that, by virtue of their work as examiners, they are privy to certain confidential information's relating to salaries and other allowances of the other banks. They knowing these feels cheated at the central bank and they end up seeking greener pastures elsewhere.

These were the observations made at the interviews conducted. The next chapter which happens to be the final will provide recommendations as to the way forward these problems confronting the banking supervision department of the Bank of Ghana.

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CHAPTER FIVE

Banks provide substantial proportion of finance to enterprises around the globe yet there have been little studies regarding banking supervision, the Basel Committee, International Monetary Fund (IMF) and the World Bank promote a development of powerful bank supervisory agencies with the authority to monitor and discipline banks.

As a step further, towards the realization of financial discipline which goes to facilitate efficient corporate finance, this work was carried out. This project was carried out to access the effectiveness of the banking supervision department of the Bank of Ghana and the extent to which corruption and fraud within the banking sector could be curtailed. In pursuance of this objective questionnaires were administered on all the universal banks who are represented at the clearing house of the Bank of Ghana, for the personnel of the banks to express their views on issues regarding procedures and processes for supervision. In addition to this, the main actors i.e. the officials of the banking supervision departments who carried out the supervision of the banks were interviewed to find out from them what really hinder their performance. The findings that were made informed my recommendations and conclusion.

5 RECOMMENDATIONS

By virtue of the law that brought the bank of Ghana into existence, it is not a profit oriented institution. Further to this is the recent amendment to the law which has made the bank of Ghana totally autonomous and as such does not benefit from any government subvention for its operations.

This has in a way placed the bank in a tight position as far as financing of its operations are concerned. The bank has therefore positioned itself towards working towards cost conscious

policies at the expense of policies that could work towards improving the efficiency of its operation.

Therefore instead of implementing policies that would rope in quality personnel such as Accountants, Auditors to augment the banking supervision department, we see the banking retrenchment some of its staff as a way of cutting its cost of operation under a policy code named "Reshape your future". This in addition to poor conditions of service which is driving the few quality personnel out of the system to the other banks.

This is what has led to the problem of inadequate personnel for the banking supervision department for its supervisory duties. To address this problem, the bank will need a policy redirection that will focus on the improvement of the welfare of its employees as a first step towards the minimization of the labour turn over problem of the bank.

Further to this, the bank must take steps to amend portions of the law that makes it non profit oriented so that the bank can benefit from some charges that it will place on some of its services that it renders to the general public and the commercial banks. To suggests a few, the bank can impose charges on services rendered such as the issue of payment orders to its customers which is at present being done free of charge. These charges can augment or improve on the finances of the bank.

The bank has recently stopped the retail or sales of the treasury bills to the general public. The reason that was offered was for the bank to concentrate on its core functions. It is said that "one

does not cut off his nose to spite his face". Furthermore, the Hen that lays the Golden eggs is not slaughtered. By stopping the retail of the treasury bills to the general public, all the proceeds of the rediscount which the bank was enjoying by way of profit has been cut off.

The bank can therefore reintroduce the retail of the treasury bills if it wants to improve upon its finances. Alternatively, the commercial banks which tend to benefits most from the operations of the central bank and for that matter the banking supervision department by way of its supervisory functions should be made to bear some of the cost that goes into the supervision. The bank of Ghana can ensure that part of their profit declared at the end of the year say five (5) percent should be paid to the bank of Ghana which would be used to finance its supervision operations.

Finally, the government should be made to step in where all other avenues have failed. Although this will compromise on the autonomy of the bank, but one does not clinch unto anatonomy at the expense of efficiency. Once the financial position of the bank improves or is made sound such that it could support all its programs and operations, all the problems enumerated at the forth chapter would be relegated to the background.

With sound financial base, the working conditions and conditions of service will improve; attractive salaries could be paid with its attendant benefits. This will make the existing staff happy and ensure their continual stay; an attractive salary would lure those quality personnel out there on board. With sound financial base more training programmes both local and international could be organized to upgrade the knowledge base of its personnel to bring them to the level that will place them ahead of the "market players". This ineffect will make them better placed to conduct a very effective supervisory work on the commercial banks.

With sound financial base, the problem of logistics would be brought under control if not eliminated, the personnel would be better resourced and fully equipped to discharge their duties without any logistical constraints, this will ensure timely delivery of reports for the necessary actions to be taken to curtail any on towards banking practices that may be going on somewhere.

The availability of money to finance its operations, more people could be brought on board; this will not only eliminate the problem of skewed job schedule but also help increase the number of on-site examination of the bank in a year. The bank of Ghana is under obligation to examine every bank at least once in a year. This can be twice or trice with more people on board which will better serve the essence of the supervision.

On the issue of IT, it is recommended that a uniform soft be used by all the banks so as to ensure uniformity in terms of application and control by the Bank of Ghana officials.
Again the other banks could be made to furnish the supervisors of their soft to enable them to prepare well ahead of their onsite examination.

5.1 CONCLUSION

The bank of Ghana has come a long way by way of statutes that has brought about its total independence from the ministry of finance and economic planning. This is a very positive development since it prevents the central bank from knowtowing to the whims and cagrices of the ruling government. This enables them to promote sound banking practices which goes to ensure stability in the finances of the country.

Inflation has been brought under control because of the central banks ability to pursue sound monetary policies. All these can be sustained where the human resource base can be maintained and improved. It therefore behopes on all stake beholders such as the government, the bank of Ghana itself, the universal banks and the employees of the bank to put heads together to develop policies that will impact positively on the economy as a whole, for the improvement of the living standards of all and sundry. A better bank of Ghana – means a better economy which means better conditions for all.

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