RETHINKING RISK GOVERNANCE IN NIGERIAN BANKS*

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[1] Anand S. "Perspective on risk and governance" www.bis.org/review/r/20829 pdf last visited 22/5/2015

[1] ibid

ABSTRACT

The banking business by its nature is a high-risk environment. It is risky in the sense that it is the only business where the proportion of borrowed funds is far higher than the owners' equity. A high level of financial leverage is usually associated with high risk. This can easily be seen in a situation where adverse rumours, whether founded or not would precipitate financial panic and by extension a run on a bank. Few banks are able to withstand a persistent run, even in the presence of a good lender of last resort. As depositors take out their funds, the bank hemorrhages and in the absence of liquidity support, the bank is forced eventually to close its doors. This paper therefore argues that since the success or failure of a bank depends by and large on the effective risk management there is the need for banks board to give greater attention to the risk management function in the management of the bank. The paper further argue that the practice of placing the risk management function under the oversight of the audit committee is untenable having regard to the fact that the risk management committee is a distinct committee of the board and it should be so recognised and empowered to carry out its functions as an independent committee especially so that the risk management function is forward looking in its approach to risk governance whilst the audit function is backward looking in its approach to governance.

INTRODUCTION

Risk is almost God like in qualities. It is omnipresent in that risk is everywhere ranging from simple things such as walking (as one run the risk of tripping and falling) or talking (one run the risk of saying something inappropriate or getting misquoted) to more serious things such as flying airplanes, launching satellites or conducting surgeries.[1] Unmanaged risk can prove disastrous and the recent global crisis is a continuing testimony of this fact.

Risk has a long history, perhaps as long as human history, and so does risk management.[2] Reflecting on risk and risk management as it would have prevailed in the early ages is epitomized by an African quote that says that '*Every day a gazelle wakes up it knows it must run faster than the fastest lion or it will be killed. Every morning a lion wakes up. It knows that it must outrun the slowest gazelle or it will starve to death. It does not matter whether you are a lion or a gazelle. When the sum comes up, you better be running.*'[3] Understanding the risks and learning to manage them has been the mantra for survival in any age or in any realm of life. In fact, managing risk can be said to be one of the critical attributes of human beings, which differentiated them from the others and helped in their survival and development. While risk is prevalent everywhere, the focus here is on the financial world where there have been many attempts to quantify and manage risks in a major way. And there have also been major disasters.[4]

History is replete with instances to prove that poor corporate governance; especially weak risk governance systems have been major causes of financial crises over and over again. The global financial crisis and the attendant lessons from the excessive risk taking by banks, poor board and senior

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[1] Anand S. "Perspective on risk and governance" www.bis.org/review/r/20829 pdf last visited 22/5/2015

[2] ibid

[3] ibid

[4] ibid

management oversight inadequate understanding of the risk build-up and irrational compensation packages have catapulted the corporate and risk governance issues to the forefront.[5]

Perhaps one of the greatest shocks from the financial crisis has been the widespread failure of risk management in what were widely regarded as institutions whose specialty it was to be masters of the issue. The corporate governance aspects of risk management failed in too many instances in financial companies.[6]

Risk management is therefore the identification, assessment, and prioritization of risks followed by the co-ordinated and economic application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events. It introduces the idea that the likelihood of an event happening can be reduced, or its consequences minimized. Risk management according to Stanton[7] refers to the process by which an organization identifies and analyses threats, examines alternatives, and accepts or mitigates those threats even before they begin to impede the activities of the organization. Similarly, Culp[8] opined that risk management is viewed today as one of the key characteristics of successful companies, which enable firms to view all risks facing them through some form of pre-planned activities. Also, risk management can be perceived as a management process that requires a firm's management to identify and assess the collective risks that affect firm value and apply an organizational wide strategy to manage

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[5] ibid

[6] Organisation for Economic Cooperation and Development, Corporate Governance and the Financial Crisis: Key Findings and Main Messages, 31, 2009 cited in Murphy M. E. "Assuring Responsible Risk Management in Banking: The Corporate Governance Dimension" 36 Del. J. Corp. L. 121 2011 available on https://www.heinoline.org accessed 27/04/2017.

[7] Staton, P. S. (2012) "The impact of credit risk management on financial performance of commercial banks in Nepal", *International Journal of Arts and Commerce,* vol. 1(5): 9-15. Cited in Oluwagbemiga O. E. et al "The relationship between the risk management practices and financial performance of the Nigerian listed banks" Accounting and Management Information Systems Vol. 15, No. 3, pp. 565-587, 2016 available online at https://www.researchgate.net/publication/311005079 last visited on 13/01/17.

[8] Culp, A. (2008) "Voluntary financial disclosure by Mexican corporations",*The Accounting Review*, vol. 62 (3): 533-541. Cited in Oluwagbemiga O. E. et al p.3

those risks in order to attain higher level of efficiency.[9]

Risk is an essential part of business because firms cannot operate without taking risk. It is associated with uncertainty as the event may or may mot occur; and a decision to do nothing explicitly avoids the opportunities that exist and leaving the threat unmanaged. Risk is also a pervasive part of organisational strategy, with profound implications for the success or failure of any business undertaking.[10]

The banking business by its nature is a high-risk environment. It is risky in the sense that it is the only business where the proportion of borrowed funds is far higher than the owners' equity. A high level of financial leverage is usually associated with high risk. This can easily be seen in a situation where adverse rumours, whether founded or not would precipitate financial panic and by extension a run on a bank. Few banks are able to withstand a persistent run, even in the presence of a good lender of last resort. As depositors take out their funds, the bank hemorrhages and in the absence of liquidity support, the bank is forced eventually to close its doors.[11] This article therefore discusses the meaning and various risks faced by banks, the convergence between risk management and corporate governance in banks and the roles of audit committee in the effective management of risks in banks and challenges thereof.

MEANING OF RISK

Risk ordinarily mean hazard, possibility of danger, injury or loss, chance of loss or chance of bad consequences or exposure to mischance. It may mean a chance of mishap, unwanted and uncertain

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[9] Meulbroek, L. A (2002) "Senior manager's guide to integrated risk management", *Journal of Applied Corporate Finance*, vol. 14(4): 56-70. Cited in Oluwagbemiga O. E. et al p.3

[10] Anad S. op. cit

[11] Owojori A. A. et.al "The Challenge of risk management in Nigerian Banks Post Consolidation Era" *Journal of Accounting and Taxation Vol. 3(2), pp. 23-31, June 2011* Available online at http://www.academicjournals.org/JATI p.2 last visited on 11/01/17.

event, uncertainty of financial loss. The above descriptions have two things in common-uncertainty and loss. Combining the two features might give the temptation to describe risk as uncertainty of loss. This definitely would remove the probability of the risk not occurring or resulting to gain like in the case of speculative risk in business transactions.[12]

With the foregoing in mind, risk could be defined scientifically as the probability or chance that an event may occur that has or might have adverse consequences or little chance of gain in certain instances. The gain aspect of risk may not be popular but the little degree of the chance resulting to gain in a business venture must be recognized. In general, it is important to indicate that risk would have no meaning without loss being the outcome of concern. Loss in question should be capable of being expressed in an easily measurable economic unit like Naira and Dollar.[13]

If an outcome of an event or activity was common for a period, then no risk exist. The concern is mainly with an unfavourable deviation from expectations, which is called loss. The factors that describe cause and those that contribute to loss are significant in the analysis of risk. These factors are exposure, perils and hazards.[14]

Exposure is the degree to which an object has a potential of loss in a risky situation while perils are the immediate cause of loss. People are surrounded by risk because the environment is filled with perils such as floods, theft, death, sickness, accidents, fires, and lightning. Hazards are the conditions that lie behind the occurrence of losses from particular perils. Hazards can increase the probability of a loss, its

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[12] Okehi D. O "Modelling Risk Management in Banks: examining why banks fail?" www. Waldenu.edu/cgi/viewcontent 27. Last accessed on 1/6/2015.

[13] ibid

[14] ibid

severity or both. Certain conditions that are often referred to, as being hazards could be physical or intangible like moral hazards.[15]

WHY RISK GOVERNANCE IS IMPORTANT IN BANKS

Banks are very special. In their role as intermediaries, they perform a very critical function of risk transformation, which results in warehousing of risks by banks. Further, banks' business model of accepting deposits for lending, leads to significant leverage (a leverage of about 18 times against the leverage of 3 times of non-financial firms). Liquidity risks can be very critical even for well-capitalised banks, a lesson the global crisis has emphatically demonstrated.[16]

The banking business has become far more sophisticated and complex. Risk too, has increased in proportion to this sophistication and complexity. The risk taking behaviour of banks has high potential for contributing to and amplifying systemic risk and consequent contagion. This can have severe repercussions for financial and economic fragility as witnessed during and in the aftermath of the global financial crisis.[17]

Given their unique business model and also the special role played in the financial system, sound internal governance for banks is essential, requiring Boards to focus even more on assessing, managing, and mitigating risk. Banks operate on the foundation of public confidence and any small breach in that confidence can lead to a run on the bank and to an eventual failure. Therefore, banking must strike a trade-off between the threat and opportunities posed by risks taking.[18]

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[15] ibid

[16] Ajibo K. I. " Risk-based regulation: the future of Nigerian banking industry" *International Journal of Law and Management, Vol 57 issue 3 pp. 8-9* www.emeraldinsight.com accessed 27-03-2015.

[17] ibid

[18] ibid

The persistent bank failures, corporate scandals and frauds in Nigerian banks are among the reasons why banks should implement robust risk management programs. These bank failures are mainly caused by poor risk management and corporate governance issues. Thus, corporate governance and risk management are interrelated and interdependent. The stability and improvement of any bank's performance are highly dependent on the effective role of both components. If corporate governance is defined as the method by which an organisation is held together in pursuit of its objective then risk management provides its resilience.[19] The danger of capital misallocation and imprudent risk taking has become the leading source of problem in the banking industry, this has crippled many banks, thus, there is need to identify, measure, monitor and control all inherent risk in their day to day business transactions. [20] Risk governance therefore, involves identification, measurement, monitoring and controlling risks to ensure that:

(i) The individuals who take or manage risks clearly understand it.

(ii)The organization's risk exposure is within the limits established by Board of Directors

(iii) Risk taking decisions are in line with the business strategy and objectives, set by Board of Directors.

(iv)The expected pay offs compensate for the risks taken.

(v) Risk taking decisions are explicit and clear.

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[19] ibid

[20] Olamide O et al "The Effect of Risk Management on Bank's Financial Performance in Nigeria" *Journal of Accounting and Auditing: Research & Practice* http://www.ibimapublishing.com/journals/JAARP/jaarp.html p.3 last visited 13/01/17

(vi) Sufficient capital as a buffer is available to take risk.[21]

RISK MANAGEMENT SYSTEM IN BANKS

Banks in the process of financial intermediation are confronted with various kinds of financial and non-financial risks viz., credit, interest rate, foreign exchange rate, liquidity, equity price, commodity price, legal, regulatory, reputational, and operational. These risks are highly interdependent as events that affect one area of risk can have implications for a range of other risk categories. This is why it is important for bank management to pay particular attention to process of risk identification, measurement, monitoring and control undertaken by a bank.[22]

The basic parameters of risk management function cover the organizational structure of the bank, the entire risk measurement approach, approved risk management policy of the board, prudential limits structure, strong platform for reporting, monitoring and controlling risks, effective risk control framework, robust risk management framework with responsibilities to staff involved in risk management process, and periodical review and evaluation of the process.

Banks in general are involved in the process of risk management and risk reengineering and therefore develop high techniques in carrying out the tasks. The fundamental components of risk management system include risk identification, risk assessment to appreciate their magnitude, risk mitigation and reserving capital for possible losses. According to the Central Bank of Nigeria (CBN) the key elements of an effective risk management process should encompass the following:

a. Risk Management Structure with Board and Senior Management Oversight as an integral

[21] Ayodele T. D. and Alabi R. O "Risk Management In Nigeria Banking Industry" *Research Journal of Finance and Accounting Vol.5, No.2, 2014* available online at www.iiste.org last visited on 13/01/17

[22] Liebenberg, A. and Hoyt, R. " The Determinants of Enterprise Risk Management: Evidence from the Appointment of Chief Risk Officers" *(2009) Risk Management and Insurance Review, 6 (1): 37-56.*

element;

b. Systems and procedures for risk identification, measurement, monitoring and control; and

c. Risk Management Framework Review Mechanism.[23]

RISK MANAGEMENT STRUCTURE

A sound Risk management structure is important to ensure that the bank's risk exposures are within the parameters set by the Board. Such structure should be commensurate with the size, complexity and diversity of the bank's activities. The risk management structure should facilitate effective board and senior management oversight and proper execution of risk management and control processes.[24]

It is the management's responsibility to choose between centralized and decentralized structure of risk management. The global trend favours the centralization of risk management in banks with integrated treasury management function which support or flow with information on aggregate exposure, natural netting of exposures, economies of scale and easier reporting to top management.[25] It is the board's responsibility to formulate the bank risk management policies, which clearly states the risk appetite of the bank, and to ensure that the risks are adequately managed. The board sets risk limits by determining the bank's risk bearing capacity. It is expected that at the organizational level, the total risk the bank is exposed to, needs to be assigned to an independent risk management committee, which reports to the

[23] https://www.cbn.gov.ng/out/bsd Guidelines for Developing Risk Management Framework for Individual Risk Elements in Banks section 3.1 last visited on 12/01/17

[24] https://www.cbn.gov.ng/out/bsd Guidelines for Developing Risk Management Framework for Individual Risk Elements in Banks section 4 last visited on 12/01/17

[25] Okehi D. O. op cit p.32

board.[26] The essence of the committee is to empower a group of executive members of the management with the responsibility of evaluating overall risks faced by the bank and the appropriate level of the risk to be taken by the bank. The committee would always hold the line managers accountable for the risk under their control and the eventual performance of the bank in that area. The main function of the risk management committee is to identify, monitor and measure the risk profile of the bank. They also develop policies and procedures; verify the models that are used in pricing complex products, reviewing the risk models in compliance with market changes in addition to identifying new risks.[27]

The risk policies are expected to detail the quantitative prudential limits on various segments of banks operations. The trend internationally, is prone to assigning risk in terms of portfolio standards for credit risks, and Earnings at Risk and Value at Risk for market risk. The committee usually designs stress scenarios to measure the impact of issued market condition and monitor variance between actual volatility of portfolio value and the prediction by the risk measures. The committee also is expected to monitor compliance of various risk management rules set by the operating departments.[28]

The nature of banking operation leaves banks with fiduciary responsibility towards their depositor beyond their duties to their shareholders like other organisations. The banks owe responsibility to all depositors and investors and finally to taxpayers who bear the cost of bailout in case they become illiquid. This is why it is necessary for bank management to ensure that very high standard of risk management and control, which is an important component for banking supervision, is set up to guarantee the survival of banks. The emphasis for a robust control environment has been strengthened

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[26] International framework for operational risk measurement, standards and monitoring. Paper presented by Bank of International Settlement (BIS) consultative document. www.bis.org/pub/bcbs165 last accessed on 2/6/2015.

[27] ibid

[28] Okehi D. O. op cit p.33

by many other governmental initiatives in USA like the Sarbanes-Oxley Act and other anti-money laundering rules for internal governance of banks by many governments all over the world.

In view of the differences in the profile of companies' balance sheets, it may not be possible adopting a uniform framework for risk management in Nigeria banks. The outlook and design of risk management function usually follow bank specifics, which will depend on size, how complex the functions are and its technical expertise. Broad parameters are usually provided and each bank may determine its own approach, which is compatible to its risk management view.[29]

ENTERPRISE RISK MANAGEMENT IN THE BANKING INDUSTRY

Enterprise Risk Management has become an inevitable requirement for the prevention and sustenance of financial stability of both national and international banking institutions. Many banking institutions before now have been engaged in a one on one management of the risks, which by all standards never gave the expected results. The present perspective, which is the enterprise risk management concept, which is the approach where all the risks are evaluated and managed holistically in line with the targets of the bank.

Enterprise Risk Management is defined by the Committee of Sponsoring Organizations (COSO) as a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objective.[30] It is further defined as an organized, reliable and consistent process across the whole entity for identifying, evaluating, manipulating and reporting on opportunities and threats that impact on

[29] Okehi D. O. op cit. p. 34

[30] www. coso.org/documents/internal control integrated (COSO, 2004, p. 215) last accessed 2/6/2015.

the attainment of organization's objective.[31]

It can be seen from the definitions that the management of the inherent risks is seen as means of achieving organizational goal. This makes it necessary for banks to foresee, measure, evaluate and manage risks effectively in a proactive way in order to achieve the expected goal of the bank. This is why the enterprise risk management (ERM) culture should be adopted into the corporate culture of all banks. It is interesting to note that many banks in Nigeria are now towing that route as they are now appointing top management staff/directors to be in charge of risk management operations as the Chief Risk Officer (CRO) creating a culture that flows from up to down of bank structure/hierarchy.[32]

The main objective of risk management remains the maximization of shareholder's value. Risk management has gone through a narrow view that evaluates risk from a Silo to a holistic all-encompassing view. Adopting the basic enterprise risk management and managing each risk class in a separate silo creates inefficiencies, as the process would not be properly coordinated between the various risk management sections.[33] Enterprise risk management on the other hand makes room for integrated decisions making across various risk classes, avoiding duplication of expenditures relating to risk management by exploiting natural hedges.

The main objective of enterprise risk management remains to increase shareholders value as earlier indicated. To be able to achieve this, it first improves capital efficiency by providing effectively for the allocation of corporate resources. Secondly, the enterprise risk management supports decision-making

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[31] Lam, J., "Enterprise-wide risk management and the role of the chief risk officer." White Paper, Erisk.

Com, March, 25. cited in Dabari I. J. and Saidin S. Z. "Determinants Influencing the Implementation of Enterprise Risk Management in the Nigerian Banking Sector" International Journal of Asian Social Science, 2015, 5(12): 740-754 available online onhttp://www.aessweb.com/journals/5007 last visited on 13/01/17

[32] ibid

[33] ibid

by exposing areas of high risk and suggesting risk base advocacy. Thirdly, it helps to build investor confidence by establishing stability in financial results and demonstrating to all stakeholders that the bank practices sound risk stewardship.

It has been suggested that the application of an ERM framework, particularly in the initial stage of implementation requires substantial financial support and The ERM implementation has an impact on the internal audit functions. The new internal auditor's standards have switched the rule from a control based internal auditing to a risk based internal auditing.[34]

It has been established that enterprise risk management has positive correlation with bank size and ownership. It is however important to note that the relationship between enterprise risk management and performance is dependent on five major variables: environmental ambiguity, company size, and complexity of the company, industrial competition and board of directors. With these variables in a well-structured bank it can be said that the relationship between enterprise risk management and bank performance should be positively correlated. Generally, however, the correlation between them depends on appropriate matching of the five variables.

RISK MANAGEMENT AND CORPORATE GOVERNANCE

Risk management in financial institutions is necessarily linked to corporate governance, which conditioned past failures and may fortify defences against future crises.[35]

There is a close relation between corporate governance and risk management in banking operation. A common factor responsible for previous corporate failures has been linked to ineffective control by

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[34] Beasley, M.S. et al 2006. The impact of enterprise risk management on the internal audit function. Digital Commons@ Kennesaw State University. Cited in Dabari I. J. and Saidin S. Z. op cit p.2

[35] Murphy M. E. "Assuring Responsible Risk Management in Banking: The Corporate Governance Dimension" 36 Del. J. Corp. L. 121 2011 available on https://www.heinoline.org accessed 27/04/2017.

banks' board of directors of banks activities and lack of effective risk management. The obvious thing in most cases is that a good intentioned board may be failing in carrying out its oversight functions appropriately. Amongst the duties expected from Directors of banks is to ensure that an effective system of risk management is in place, that is, that the operators are aware of the risks the bank is facing and that a system for monitoring and controlling them is in place.[36] Based on this, it could be seen that risk management is a part of corporate governance in banking operation. By 2006, most central banks in both developed and developing countries of the world have commenced the implementation of good corporate governance rules and risk management control of their operations in line with the Basel Committee on Banking Supervision (BCBS) rules. These actions indicate that the Central Bank of these countries have been concerned about the importance of relationship between corporate governance, risk management, regulation and bank performance. Banks which better implement the risk management may have some advantages: (i) It is in line with obedience function toward the rule; (ii) It increases their reputation and opportunity to attract more wide customers in building their portfolio of fund resources; (iii) It increases their efficiency and profitability.[37] Cebenoyan and Strahan[38] find evidence that banks which have advanced in risk management have greater credit availability, rather than reduced risk in the banking system. The greater credit availability leads to the opportunity to increase the productive assets and bank's profit.

BANK FAILURES AND SYSTEMIC RISK

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[36] Okehi D. O. op cit p.69

[37] Adeusi, S. O. et al op.cit p. 4

[38] Cebenoyan , A. S., and Strahan, P. E. (2004). Risk Management, Capital Structure and Lending at Banks, *Journal of Banking and Finance 28, 19-43*

A systemic risk in bank is the situation where the failure of a major bank affects the entire banking industry. This is possible as banks are linked to each other by the interbank operation, which allows banks to borrow from themselves when a systemic risk occurs in banking system.

In order to design policies that prevent systemic risk in banks where the failure of one bank is transmitted to others leading to the disruption of the entire banking system, it is important to closely analyse the possible causes of each bank failure that could lead to systemic risk. The causes of systemic problem in the financial system are usually traced to individual bank failures that could have a ripple effect. Systemic risk occurs as a result of the interconnectivity of banks. It is through this chain like interconnectivity that financial shocks are transmitted from one bank to the other.

Until the world financial crises in 2008, the issue of systemic risk or contagious effects resulting from bank failures had almost disappeared in developed countries.

This is why the reintroduction of government regulations to protect the fragility of banks becomes necessary. The Central Banks interventions by bailing out banks means that the government or taxpayers' capital replaces the shareholders bearing in mind the protection of depositors funds. This situation introduced severe principal-agent problem in the banking sector. The Federal Reserve in United States of America or any other Central Bank offsetting the impact of loss from the banking system creates additional problems in trying to save the banking system from systemic risks. The replacement of existing shareholders with public (taxpayers) fund in a failing bank is seen as injustice to the existing shareholders who never contributed to the bank's failure. This becomes a new poser to the Agency Theory as the management and Directors of banks as agents unjustifiably denies the principals (shareholders) of their rights of ownership of the bank once the Central Bank takes over the bank.

RISKS MANAGEMENT PRACTICES

As pointed out previously, the banking business by its nature is a high-risk environment. It is risky in the sense that it is one of the businesses where the proportion of borrowed funds is far higher than the owners' equity. A high level of financial leverage is usually associated with high risk. This can easily be seen in a situation where adverse rumours, whether founded or unfounded could trigger financial panic and by extension a run on a bank. Few banks are able to withstand a persistent run, even in the presence of a good lender of last resort. For instance, as depositors take out their funds, the bank suffers and in the absence of a good liquidity support, the bank is forced eventually to close its business. Thus, the risks faced by banks are endogenous which is associated with the nature of banking business itself, while others are exogenous to the banking system.[39]

Although, there has been noticeable improvement in risk management practices in few Nigerian banks following the intervention of the Central Bank of Nigeria to avert massive bank failures in 2009-2010 and the subsequent reform measures, however, risk management practice in the nation's financial services industry is still at the rudimentary stage and is facing a number of challenges. Chief among these challenges is the acute dearth of knowledgeable and skilled risk professionals. Most of the available risk experts appear to be concentrated in certain banks, yet even in these institutions, those with risk experience may not be fully involved in the major strategic decisions.[40] This situation is further exacerbated by the poor knowledge of risk management by the members of the board of many banks as revealed by the result of the diagnostic study commissioned by the CBN in the wake of the banking sector crisis in 2009. In the hindsight, it was apparent that the senior management and many directors did not clearly appreciate the nexus between their banks' business strategies and risk appetite and the

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[39] Fadun, O. S. " Risk management and risk management failure: Lessons from Business Enterprises" *International Journal of Academic Research in Business and Social Sciences, Vol. 3 No2, p.3.*

[40] ibid

implications for risk management within organisation. Some factors may have accounted for this less than satisfactory state of affairs in the industry. First, the absence of the formal training institutions offering risk management courses and industry-recognised risk management practitioners with formal qualifications and technical depth to foster the development of professional talent in the different areas of risk management such as credit, operational, liquidity, and market risks is an issue. Second, the absence of holistic, well-structured and well-co-ordinated framework to support capacity development in these banks particularly in the area of risk management and corporate governance for members of the board and management is a challenge.[41]

Furthermore, evidence from the liquidated banks clearly showed that inability to collect loans and advances extended to customers and directors or companies related to directors/managers and their associates were the major cause of the distress of liquidated banks. In a collaborative study by the CBN and Nigerian Deposit Insurance Corporation (NDIC), operators of the financial institutions confirmed that bad loans and advances contributed most to the banking distress. In their assessment of factors responsible for the distress, the operators ranked excessive risk taking such as bad loans (un-serviced loans) and advances first with contribution of 60%.[42] This development quite negate the extant laws regulating the administration of loans and advances by the banks. In Nigeria, banks are expected to have credit policies, which should guide them in credit administration. Section 18 (1) (b) of BOFIA 1991, (as amended) forbids a bank from granting any advance, loan or credit facility to any person, unless it is authorised in accordance with the extant rules and regulations of banks. This section also directs a bank to obtain adequate securities for advances, loans, or credit facilities. In addition, section 18 (1) (a) of the

[41] Fadun, O. S. op cit. p.4

[42] Owojori, A. A. etal op cit p. 25.

same Act prohibits a manager or any officer of a bank from having personal interests in any advance, loan, or credit facility, and if they do, such should be declared.

In practice, evidence has shown that most of the liquidated banks' officers flouted these provisions with impunity and many of them currently in operation do not obey these provisions. Failed banks granted loans without collateral and loan disbursements in many instances, were known to have been effected even before conditions precedent to draw down were met. These banks were (and some are still) reckless in disbursing facilities before loan applications and /or acceptance letter were received. One wonders how these customers could be made to repay the facilities if the simple but important contract documents that are in tandem with the extant laws were not executed at the onset of the credit relationships.[43] Similarly, section 20 (1) (a) of BOFIA 1991, (as amended) further seeks to limit the credit exposure of banks to single obligor limit as a means of avoiding undue credit concentration, which has the potential to mitigate credit risk. However, practice in the industry showed that most of these failed banks flagrantly violated 20% of shareholders' funds unimpaired by losses limit. Although, the CBN guidelines for banking have raised the limit to 35% recently, some banks are known to have been exceeding the limit without seeking approval from the CBN as required by law.[44] It is argued that such practices hardly reflect and indicate that the affected banks in particular and the industry at large have learned any worthy lessons in this regard from the experiences of the failed banks. This is because by wantonly exceeding the limit without approval, such banks have consciously (unconsciously) laid foundations for distress, in addition to being labelled as non-compliant.

Furthermore, directors of banks are also not allowed to have outstanding unsecure loans, advances or unsecure credit facilities in their names and/or in the name of associated companies without prior

[43] ibid

[44] ibid

approval in writing of the banks' apex regulator. Similarly, the code of conduct for directors of licensed banks issued by the CBN and endorsed by every bank director warns that a director shall be disqualified if any of his loans in a bank is classified lost by the Bank Examiners of the Regulatory Authorities. The provision of the Act and those of the Codes of conduct are intended to keep directors and managers above board in their banks' credit administration.[45] The Chartered Institute of Bankers of Nigeria (CIBN) enjoins directors and managers to be the leading example in this important aspect of banking operations.

Nevertheless, evidence is to the contrary and suggests otherwise given that most of the loans in these banks are insider-related and are easily extended to directors and managers in contravention of the laws.[46] These loans remained un-serviced and piled up for years and most times are written off by the supposedly debtors (board members and senior officers) and necessary actions or punitive measures are not taken by the appropriate authorities against these defaulting bank directors and managers.

In practice, to the extent that these loans were not performing, it would have been surprising for these banks to survive. Given the importance of credit allocation in a bank and the potential risks associated with credit, few of these banks have what appeared to be credit committees with the board having highest level, but short of the banks' single obligors limit. Consequently, in many of these banks, the board credit committees had been presided over by the board chairmen until the CBN put a stop to it recently. That notwithstanding, it is argued that such an arrangement amounted to the board chairmen reporting to themselves which is bad for practice and to a great extent, it effectively compromised the

[45] See sections 12&17, CBN Act, 2007.

[46] See sections 17,18, 20 & 21 BOFIA; sections 15 &16 CIBN Act, 2007.

independent appraisal that the committees would have given the board.[47] In spite of the major reason of speed of credit approval adduced to justify the practice, it could not have been in the best overall interest of the banks that had the practice. It is submitted that senior management oversight of lending function, involving regular and periodic loan review, done independently of the lending officers, is a good credit risk management. Such credit periodic review can actually or potentially reveal weaknesses inherent in outstanding facilities and could allow for quick intervention or remedial measures to prevent loan or at worse, minimize such losses. Although, many of these banks purport to have credit review committees, in a real sense, it is merely a sham and symbolic as nothing concrete arguably is known to have been done to enforce the committees' recommendations. As a matter of fact, rather than make provisions for loan losses as prescribed by the committees, these banks are known to have abandoned such recommendations in favour of year-end profits.

In order to further strengthen the good risk management practices in banks in Nigeria, it is necessary that the board of directors and managers imbibe and adhere to the Code of Corporate Governance standards with respect to risk administration. The main principle of the Code with regard to risk management is that, the board of directors must identify key risk areas and key performance indicators of the business enterprises and monitor these factors. The board has the responsibility to first understand and fully appreciate the business risk issues and the key performance indicators affecting the ability of the institutions to achieve its purpose.[48]

Furthermore, this would require that the business risks and key performance indicators should be benchmarked against industry's norms and code of practice, so that the institutional performance could

[47] Akinpelu, O. Corporate Governance Framework in Nigeria: An International Review. (2011 iUniverse Inc. Bloomington, Idiana.) P.32.

[48] See principle 8.3, 8.4 & 8.5 of Code of Corporate Governance for Banks 2006.

be further evaluated.[49] It is important that all banks in Nigeria should set up risk management committees to provide oversight of management activities in managing credit, market, liquidity, operational, legal and other risks of the institutions. In addition, there is required that directors and senior management should be trained to enable them understand the institution's business, nature of the risks, the consequences of risks being inadequately managed and an appreciation of the techniques of managing the risks effectively. It is a good practice that the institution's risk management be subjected to periodic review and the results should be reported to the board. In turn, the board ought to satisfy itself that the institution's material business risk are being effectively identified, quantified, monitored, controlled and that the systems in place to achieve this are operating effectively at all times.

In line with the global best practice of effective risk management and control system, the CBN has implemented a risk-based technique in the supervision of the institutions under its purview, commensurate with the scope of their operations in line with New Capital Accord (Basel II). A major feature of the new strategy is the precondition that financial institutions should strongly manage the risks that confront them. Banks are anticipated to put measures in place to identify and control those risks, while the CBN has provided the best-practice guidance in the form of the Guidelines for Developing Risk Management Frameworks. This is to enable banks to develop their respective strategy for evolving efficient risk management system. The Risk-Based Supervision represents a shift away from the rigid rules, of the transaction and compliance based rules to a more risk-sensitive framework, which seeks to encourage deposit money banks (DMBs) to continuously update their internal risk management system commensurate with scope of their operations.[50] The CBN also followed up these reforms with the establishment of the Asset Management Corporation of Nigeria (AMCON), following the promulgation

[49] See Sections 15 &16 of CIBN Act 2007.

[50] Audu I. op cit p.19

of its enabling Act by the National Assembly in 2010. AMCON is a broad resolution strategy aimed at addressing the problem of non-performing loans, including capital adequacy and liquidity of the banks. In line with its mandate, AMCON has acquired the non-performing risk assets of some banks worth more than N1.4 trillion, to boost liquidity as well as enhance the safety and soundness of the banks. With the intervention of AMCON, banks' ratio of non-performing loans to total credit has dropped significantly to less than 5.0 per cent at the end-August, 2014 from 34.4 per cent in end-November, 2010. The ratio is expected to further drop against the backdrop of the continuous intervention of AMCON in the loan recovery efforts of banks.[51]

Furthermore, in order to address increasing non-performing loans in DMBs it became imperative for the financial system to create a central data base, which consolidates credit information on borrowers. The CBN Credit Risk Management System (CRMS) or Credit Bureau was therefore, established to enhance credit risk management system and given legal backing by the CBN Act No. 24 of 1991. The enabling legislation empowered the CBN to obtain credit information from banks for compilation and disseminating status report to any interested party (i.e. operators or regulators). The database provided avenue for identifying predatory debtors, whose techniques involved abandoning debt obligations in some banks, and proceeding to contract new debts in another bank.[52]

The CBN also embarked on the transformation of its internal structure and processes in order to deliver on its core mandate. For instance, the bank recognized and streamline its structure by creating new departments namely: Banking and Payments System (B & PS), Reserve Management (REM) and Financial Market Risk Management (RM) Departments. To achieve the highest standard of risk

[51] ibid

[52] ibid

management, the Bank also ensures the establishment of internal risk management specialist function to develop Nigerian Capital Adequacy and Enterprises Risk Assessment Process Guidelines. All these reforms are intended to ensure and enhance the capacity of the Bank to supervise and monitor the financial service industry efficiently for enhanced delivery.[53]

CHIEF RISK OFFICER OR EQUIVALENT

The Code of Corporate governance for banks in Nigeria post consolidation requires banks to put in place a risk management framework including a risk management unit that should be headed by a Senior Executive, in line with the directive of the Board Risk Management Committee.[54] In line with global best practice the head of the risk management unit must not only be a senior executive he should also be independent with distinct responsibility for the risk management function and the institution's comprehensive risk management framework across the entire organisation. This executive is commonly referred to as the Chief Risk Officer (CRO). Since some banks may have an officer who fulfils the function of a CRO but has a different title, whatever the nomenclature the role of the CRO is expected to be distinct from other executive functions and business line responsibilities, and the role should not be combined with that of the chief operating officer, Chief Financial Officer, chief auditor or other senior management positions.

Formal reporting lines may vary across banks, but regardless of these reporting lines, the independence of the CRO is paramount. While the CRO may report to the CEO or other senior management, the CRO should also report and have direct access to the board and its risk committee without impediment. It is also important that the CRO should have direct access to the chairman of the risk committee in the event

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[53] ibid

[54] See Article 7.1.2 of the Code of Corporate Governance for Banks in Nigeria post consolidation of CBN.

of need. In an empirical research conducted by Aebi V. et al[55] it was established that banks, in which the CRO reports directly to the board of directors, perform significantly better in the financial crisis while banks in which the CRO reports to the CEO perform significantly worse than other banks in the sample. This result supports the initial hypothesis that risk governance in general and the reporting line of the CRO in particular are important to the banks" crisis performance as the CEO and CRO may have conflicting interests and if the CRO reports to the CEO, the risk agenda may not receive the appropriate attention.

Also the CRO should not have any management or financial responsibility in respect of any operational business lines or revenue-generating functions. Interaction between the CRO and the board should occur regularly and be documented adequately. Non-executive board members should have the right to meet regularly in the absence of senior management with the CRO.

The CRO should have sufficient stature, authority and seniority within the organisation. This will typically be reflected in the ability of the CRO to influence decisions that affect the bank's exposure to risk. Beyond periodic reporting, the CRO should thus have the ability to engage with the board and other senior management on key risk issues and to access such information as the CRO deems necessary to form his or her judgment. Such interactions should not compromise the CRO's independence. To enhance the effectiveness of the CRO there is need for periodic review and evaluation annually of his qualifications and performance as the Chief Risk Officer.

[55] Aebi V. et al "Risk Management, Corporate Governance, and Bank Performance in the Financial Crisis." https://ssrn.com/abstract/id=1942896. pp.33-34 last visited on 13/11/16.

If the CRO is removed from his or her position for any reason, this should be done with the prior approval of the board and generally should be disclosed publicly. The bank should also discuss the reasons for such removal with its supervisor.[56]

SCOPE OF RESPONSIBILITIES, STATURE AND INDEPENDENCE OF THE RISK MANAGEMENT FUNCTION.

As earlier stated the risk management function is responsible for identifying, measuring, monitoring, controlling or mitigating, and reporting on risk exposures. This should encompass all risks to the bank, on-and off-balance sheet and at a group –wide, portfolio and business-like level, and should take into account the extent to which risks overlap (e.g. lines between market and credit risk and between credit and operational risk are increasingly blurred). This should include a reconciliation of the aggregate level of risk in the bank to the board-established risk tolerance/appetite.

The risk management function- both firm wide and within subsidiaries and business lines- under the direction of the CRO, should have sufficient stature within the bank such that issues raised by risk managers receive the necessary attention from the board, senior management and business lines. Business decisions by the bank typically are a product of many considerations. By properly positioning and supporting its risk management function, a bank helps ensure that the views of risk managers will be an important part of those considerations.

While it is not uncommon for risk managers to work closely with individual business units and, in some cases, to have dual reporting lines, the risk management function should be sufficiently independent of the business units whose activities and exposures it reviews.

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[56] See principle 6 of principles for enhancing corporate governance of Basel Committee on Banking Supervision (BCBS) www.bis.org/publ/bcbs122.htm accessed 27-6-15.

While such independence is an essential component of an effective risk management function, it is also important that risk managers are not so isolated from business lines-geographically or otherwise-that they cannot understand the business or access necessary information. Moreover, the risk management function should have access to all business lines that have the potential to generate material risk to the bank. Regardless of any responsibilities that the risk management function may have to business lines and the senior management, its ultimate responsibility should be to the board.

A bank should ensure through its planning and budgeting processes that the risk management function has adequate resources (in both number and quality) necessary to assess risk, including personnel, access to information technology systems and systems development resources, and support and access to internal information. The risk management personnel should possess sufficient experience and qualifications, including market and product knowledge as well as mastery of risk disciplines. The staff should have the ability and willingness to challenge business lines regarding all aspects of risk arising from the bank's activities.[57]

In Nigeria, it is common for bankers to overlook some risks and even ignore regulatory guidelines meant to mitigate such risks. A good number of banks have failed and some are distressed, because of management's poor attitude towards risk, particularly credit default risk. Bankers have a responsibility to identify their key risks, their source and then map out strategies towards their mitigation. The risk management structure and culture should be well understood and imbibed by all, starting from the board of directors. It is, of course, not enough to have a structure in place but there must be enough courage and will to implement the structure efficiently and effectively. The result might not be mega profits but the survival of the banking institution in an increasingly competitive industry.

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[57] See principle 6 of principles for enhancing corporate governance of Basel Committee on Banking Supervision (BCBS) www.bis.org/publ/bcbs122.htm accessed 27-6-15.

POST CRISIS REGULATORY REFORMS IN CORPORATE GOVERNANCE AND RISK MANAGEMENT IN UK AND EU.

Researches have shown that there is a correlation between a lack of meaningful leadership in banks and poor quality risk management.[58] Hau and Thum[59] empirical study finds correlations between the lack of financial expertise and experience on the part of supervisory boards in Germany financial institutions and larger losses suffered by those institutions in the global financial crisis. Draghi's empirical study[60] also showed that banks that have hired senior management teams with trading experience or management of financial market risks have generally fared better in the global financial crisis.

The UK Walker Review is now explicit on the requirement that the chairman and non-executive directors (NEDs) should have adequate knowledge and skills to enable effective leadership of the business, along with a greater time commitment.[61] EU legislation now requires all directors of banks to possess sufficient knowledge, skills and experience for the business although the range of diverse skills and competencies should still be looked at collectively, especially in relation to understanding the risks of the business.[62]

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[58] Mehran H. et al "Corporate Governance and Banks: What have we learned from Financial Crisis? (June 2011) Federal Reserve Bank of New York Staff Report No 502, available on line at: https://ssrn.com.abstract=1880009.

[59] Hau H. and Thum M. P. "Subprime crisis and Board (in-) competence: Private vs. Public Banks in Germany" *(2009) 24 Economic Policy 701*.

[60] Draghi M. " Observation on risk management practices during the recent market turbulence" in Turley M. R. (ed) *Reforming Risk in Financial Markets* (NovaScience Publishers, 2009) p.131 cited in Chiu I. H-Y " Corporate Governance and Risk Management in Banks and Financial Institutions" in Chiu I. H-Y (ed) *The Law on Corporate Governance in Banks* (Cheltenham, UK Edward Elgar Publishing, 2015) pp.175-176

[61] Chiu I. H-Y. ibid p.176

[62] ibid

It has been suggested that the boards of failed banks, such as Bear Stearns and Lehman Brothers in US and Northern Rock and HBOS in the UK, were not well-informed of risky profiles and operations and hence could not provide leadership in considering the strategic impact of risk management.[63] The lack of meaningful monitoring or challenge by boards whether due to weak board or a dominant Chief Executive Officer (CEO) was a crucial distinguishing corporate governance feature between banks which were in jeopardy and those that remained viable.[64] The weaknesses and lack of independence of risk management in failed banks are correlated with the autonomy of risk taking and aggressive CEOs, driving banks towards excessive risk taking and ultimate failure in the global financial crisis. Poorer quality risk management is also indicated by narrow conceptions of risk management according to business lines. Such narrow conceptions could also result in a silo departmental approach to risk management, where the objectives are often not clearly articulated or reviewed. Banks that failed in the crisis, risk management was largely undertaken on a silo-based approach, that is, each department separately managed their distinct risks according to their lines of business. Such narrow-minded approaches do not encourage a holistic appreciation of risks and may have contributed to the lack of discernment and communication. Further, due to prevailing regulatory concern for accounting integrity many boards also see risk management as confined to the audit committee's remit and as generally distinct from business strategy.[65] Some firms may view risk management as being narrowly confined to legal compliance. Risk management in many banks have also suffered from having uncertain identity. Firms treat risk management as being pro-business and hence play down its independent capacity to act as a check and monitor.

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[63] Kirkpatrick G. "The Corporate governance Lessons from Financial Crisis" *(2009) 96 OECD Financial Market Trends* 1 cited in Chiu I. H-Y op cit p.172

[64] ibid

[65] Brown I. et al " Risk Management in Corporate Governance: A Review and Proposal *(2009) 17 Corporate Governance 546.*

Post-crisis, the kind of risk management that policymakers and regulators wish to encourage is closer to the enterprise-wide risk management model where risk management is led at the strategic level by the board, rolls out into all aspects of business and operations and is considered holistically. Further, risk management should be an independent function, not compromised by conflicts of business interest and should have sufficiently high profile, perhaps led by a chief risk officer or an independent risk management committee on the board. Many of these reforms have been put in place in post-crisis regulatory framework in EU and UK.

RISK MANAGEMENT COMMITTEE

It may seem uncontroversial and obvious to insist that bank boards treat risk management as a core responsibility. Quite apart from regulatory policy, this duty could be implied from generally accepted corporate governance principles.[66] As noted by Murphy, a 2007 study of U.S. corporations found that two-thirds delegated risk oversight to the auditing committee," and among bank holding companies, the practice of creating a board committee to oversee risk has only recently gained general acceptance. And of the twenty-five banks surveyed, only nineteen had a separate board risk committee.

The rationale for creating a risk committee separate from the audit committee is that risk management has a prospective as well as a retrospective dimension. The audit committee plays a vital and essential role in risk management, but its primary focus is necessarily retrospective. In approving strategy and business plans, the board must also consider risk issues with an essentially prospective focus, such as risk appetite and tolerance, techniques of risk measurement, emerging risks, direction of risk exposure,

[66] Murphy M. E. op cit p. 12

and the risk exposure of alternative planning scenarios.[67]

The charters of risk committees generally describe a sphere of responsibilities quite outside the normal activities of an audit committee. For example The Committee's purpose is to provide oversight of the corporation's enterprise-wide risk structure and the processes established to identify, measure, monitor, and manage the Corporation's credit risk, market risk (including liquidity risk), and operating risk (including technology, operational, compliance, and fiduciary risk). The Committee shall periodically review management's strategies and policies for managing these risks.[68]

These responsibilities are likely to be neglected if an overburdened audit committee is expected to take them on. The audit committee must deal with a daunting flow of data, quarterly deadlines in financial reporting, and heavy responsibilities in overseeing internal controls." It may be better able to carry out these functions if relieved of its responsibility over risk methodology and strategic planning, which can be better handled by the risk committee.[69]

The idea of overloading committee members with too many responsibilities can have three adverse impacts: (i) committee effort and energy may be dissipated in so many directions that the committee becomes ever more busy but ever less effective; (ii) good directors may decline to take on the burden of audit committee service; and (iii) based on some unfortunate case law developments, those who do serve may face increased risk of personal liability.[70]

The ideas of board responsibility for risk oversight and separate risk committees have encountered

[67] ibid

[68] ibid

[69] ibid p.13

[70] Olson J. F. "How to Really Make Audit Committees More Effective" *54 Bus. Law 1095 1998-1999 p.7* available on HeinOnline.org accessed 01/05/2017.

increasing acceptance as corporate governance practices, but the issue of assuring the independence of the risk management function is more problematic. As a matter of principle, it is incontrovertible that risk monitoring and control should be independent of the activities generating risk.[71]

This standard practice of risk management seems to have gained traction in Nigeria. According to the Security and Exchange Commission (SEC) Code (2011) The Board of any organization may form a Risk Management Committee to assist it in its oversight of the risk function or profile, risk management framework and the risk-reward system to be determined by the Board of Directors.[72] This is also one of the mandatory Board committee to be established by banks as required by the CBN code.[73] It is important but not mandatory for firm to have one going by the wording of the SEC Code. The National Code (now suspended) made it a mandatory committee to be established by company operating in Nigeria. This may be appropriate having regard to the fact that risk is a day-to-day activity of any business entity. Scholars postulate that organizational performance could be enhanced if there is good management committee in place. Performance of company largely depends on the risk management mechanism.[74] A business failure is also as a result of risk management mechanism.[75]

The risk management committee is according to the CBN code be composed by at least 2 non-executive directors and the executive Director in charge of risk management but the committee is to be chaired by

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[71] ibid

[72] Section 10.1 of the Code

[73] Section 2.5.1 of the Code

[74] Akindele, R. I. (2012). Risk management and corporate governance performance—Empirical evidence from the Nigerian banking sector.. *IFE Psychologia: An International Journal, 20(1), 103–120*. Cited in Edogbanya A. and Karmardin H. “The Relationship between Audit and Risk Management Committees on Financial Performance of Non-financial Companies in Nigeria: A Conceptual Review” *Mediterranean Journal of Social Sciences Vol. 6 No 3 MCSER Publishing, Rome, Italy May 2015.*

[75] Davies, B. (2013). “How do boards address risk management and oversight?” *Journal of Risk Management in Financial Institution, 6(4), 352–365.* Cited in Edogbanya A. and Karmardin H. ibid p.3

a non-executive director.[76] The provisions of the CBN code seems to be at variance with the provision of the guidelines for developing risk management framework for individual risk element in bank which provides that membership of the Board Risk Management Committee shall include at least two (2) non-executive directors, one of whom should be an independent director. One of the non- executive directors shall serve as Chairman.[77]

It does not appear that the SEC code made specific provision for the composition of the committee. It seems to have left the composition of the committee to the discretion of the board of directors. But the National Code (now suspended) made provision for the composition of the risk management committee. According to the code the committee should be composed of majority of non-executive directors one of the non-executive directors to be independent and who may invariably be the chairman of the committee to be appointed by the board.[78]

The risk management committee is to perform the following duties to:

(a) Assist the board in its oversight of the risk profile, risk management framework and the risk strategy as may be determined by the board.

(b) Review the adequacy and effectiveness of risk management and controls in the company.

(c) Exercise oversight over management process for the identification of significant risks across the company and the adequacy of prevention, detection and reporting mechanisms.

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[76]See section 6.1.8 of the code

[77] See section 4.3.3 of the guidelines

[78] See sections 8.15.1 and 8.15.2 of the code

(d) Undertake the review of the company's compliance level with applicable laws and regulatory requirements which may impact the company's risk profile.

(e) Undertake periodic review of changes in the economic and business environment, including emerging trends and other factors relevant to the company's risk profile and make recommendations to the board as appropriate.

(f) Review and recommend for approval of the board risk management procedures and controls for new products and services.

(g) Ensure that Information Technology assets are managed effectively.

(h) Review the company's Information Technology governance framework at least annually[79]

It is submitted that in view of the strategic role (s) to be played by the Risk Management Committee the provisions of the codes especially the SEC and CBN codes with relation to the composition of the members of the committee is highly unsatisfactory. Firstly, there is a conflict between the provision by the CBN code and that of the guideline on the issue of membership of the risk management committee. Whilst the CBN code provides that the membership of the committee should be composed of two non-executive directors and the director in charge of risk management, the guidelines provide that the membership of the committee should be composed of at least two non-executive directors with one of the non-executive directors being an independent director. Secondly, the provision of the CBN code with respect to the non-executive directors on the committee fall short of the mark. A better deal would be having the non-executive members replaced by independent directors on the board in view of the

[79] see Section 8.15.4 of the National Code (now suspended). Section 10.2 of SEC Code made similar provisions excepting that of ensuring information technology and review of information technology framework annually.

crucial role the committee is to play for the survival of the bank. Having independent director as chairman and member of the committee will enhance the status of the committee and command the needed attention of the board as well as the CEO and be in the position to be able to deal with the various challenges that are associated with risk management in the bank. The SEC code's silence on the composition of membership of the committee is unhealthy as this may give room for management to handpick 'yes' men in the board as member of the risk management committee and this may spell doom for the bank as such committee member may compromise on the risk function of the board in order to satisfy the demand of the management.

The provision of the National Code (now suspended) appeared to be forward looking and almost in tandem with international best practice but the idea of one independent director on the committee need to be reconsidered. A rejig of the provision to include at least two independent directors having regard to our socio-economic milieu will enhance the status and function of the risk management committee in management of risks in Nigerian banks.

CONCLUSION

The business of banking is risk laden. Successful are the banks that have mastered the act of risk management such as risk appetite and tolerance, techniques of risk measurement, emerging risks, direction of risk exposure, and the risk exposure of alternative planning scenarios. To achieve this an independent risk management is required. The chief risk officer must be seen to be independent in terms of stature and functions and his position need to be appraised annually.

These may not happen in a rubber stamp board; they will have meaning only to the extent that board has an independent capacity to provide guidance on risk management policy.