



GOVERNANCE AND COMPLIANCE DIGEST

REGULATORY COMPLIANCE IN THE BANKING INDUSTRY

INTRODUCTION

As in many countries of the world, the banking industry is put under serious scrutiny through regulations due to the nature of its activities. The role of banks in the mobilization of funds is considered important to the direction and pace of economic growth and development. Banks not only provide a gateway into the financial system, they also facilitate the movement of funds and the processing of large amounts of personal data. The nature of their business make them a target for a range of crimes from identity theft and money laundering to ransomware attacks and other threats. As a result, banks are subject to strict government oversight and intense regulatory scrutiny.

These numerous and ever-changing laws and regulations are meant to protect consumers, the banks themselves, and the financial system as a whole. Compliance measures are critical for protecting not only banking clients but banking organizations themselves. However, the requirements can sometimes be confusing, or even redundant and the resulting compliance burdens can overwhelm even the most sophisticated institutions.

The banking regulations in Nigeria embodies various legislations and supervisory regulations. The primary legislation that regulates and directs the affairs and operations of banks in Nigeria is the Banks and other Financial Institution Act (BOFIA of the Act). This Act grants the Central Bank of Nigeria the power and authority to supervise and regulate all banks and other financial institutions in Nigeria. Other laws regulating banking activities in Nigeria include the Central Bank of Nigeria Act 2007, the Nigerian Deposit Insurance Corporation Act, Companies and Allied Matters Act 2020, the Foreign Exchange (Monitoring and Miscellaneous Provisions) Act, Nigeria Data protection Act, Nigeria Data Protection Regulation, AML/CFT Compliance Manual.

These banking regulations apply to a range of regulatory compliance in the following industry areas:

- Corporate Governance
- Risk Management
- Anti-money laundering/counter financing of terrorism (AML/CFT)
- Data protection
- Cybersecurity and other applicable areas (all of which would be discussed in our subsequent article)

THE IMPORTANCE OF COMPLIANCE IN THE BANKING SECTOR:

Anti-Money Laundering (AML)

Banks are frequent targets for money laundering. Compliance is essential for detecting suspicious transactions, reporting such activities, and complying with AML regulations. This helps maintain the integrity of the financial system and prevents illicit funds from circulating through it.

Consumer Protection

Compliance regulations also encompass consumer protection. They ensure that customers are treated fairly and that banking practices do not harm them. This helps maintain customer trust in the banking system.

Fraud and Corruption Prevention

Compliance practices include measures to prevent internal fraud and corruption. They help maintain the integrity of banking operations and protect institutions' reputations.

Reputational Risk Management

Compliance involves the identification, assessment, and management of risks. Banks of today are usually subjected to full public announcement of their regulatory non-compliance. Even the slightest suggestion of noncompliance attracts headline news and therefore reputational damage. Regulatory compliance enables banks to take proactive measures to mitigate potential threats.



Avoiding Fines and Sanctions

Non-compliance with regulatory requirements can result in substantial fines and reputational damage. Investing in robust compliance practices helps avert negative consequences. Compliance plays a critical role in maintaining the integrity and trust in the banking sector. Financial institutions should invest in robust compliance programs, including training, monitoring, and regular audits, to fulfill their legal and ethical obligations. In doing so, they play a vital role in safeguarding financial integrity and promoting a safe and healthy banking system.

CONCLUSION

One of the regulatory compliances for Banks is the requirement of S2.8 of the Code of Corporate Governance for Banks and Discount Houses in Nigeria which provides that Board of Directors Annual Evaluation with regards to Boards' structure, composition, responsibilities, processes, and relationships must be conducted by an independent consultant and the report of this evaluation should be presented to shareholders at the AGM and a copy forwarded to the CBN.

At First Fiduciary Limited, the above compliance is within our capacity and competence. It is at the core of our service offerings to help banks and other financial institutions handle all manner of regulatory compliance in the Banking Industry.

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