# NIGERIA DEPOSIT INSURANCE CORPORATION: ORIGIN, EVOLUTION AND CONTRIBUTION TO FINANCIAL SECTOR STABILITY

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# PRESENTATION OUTLINE

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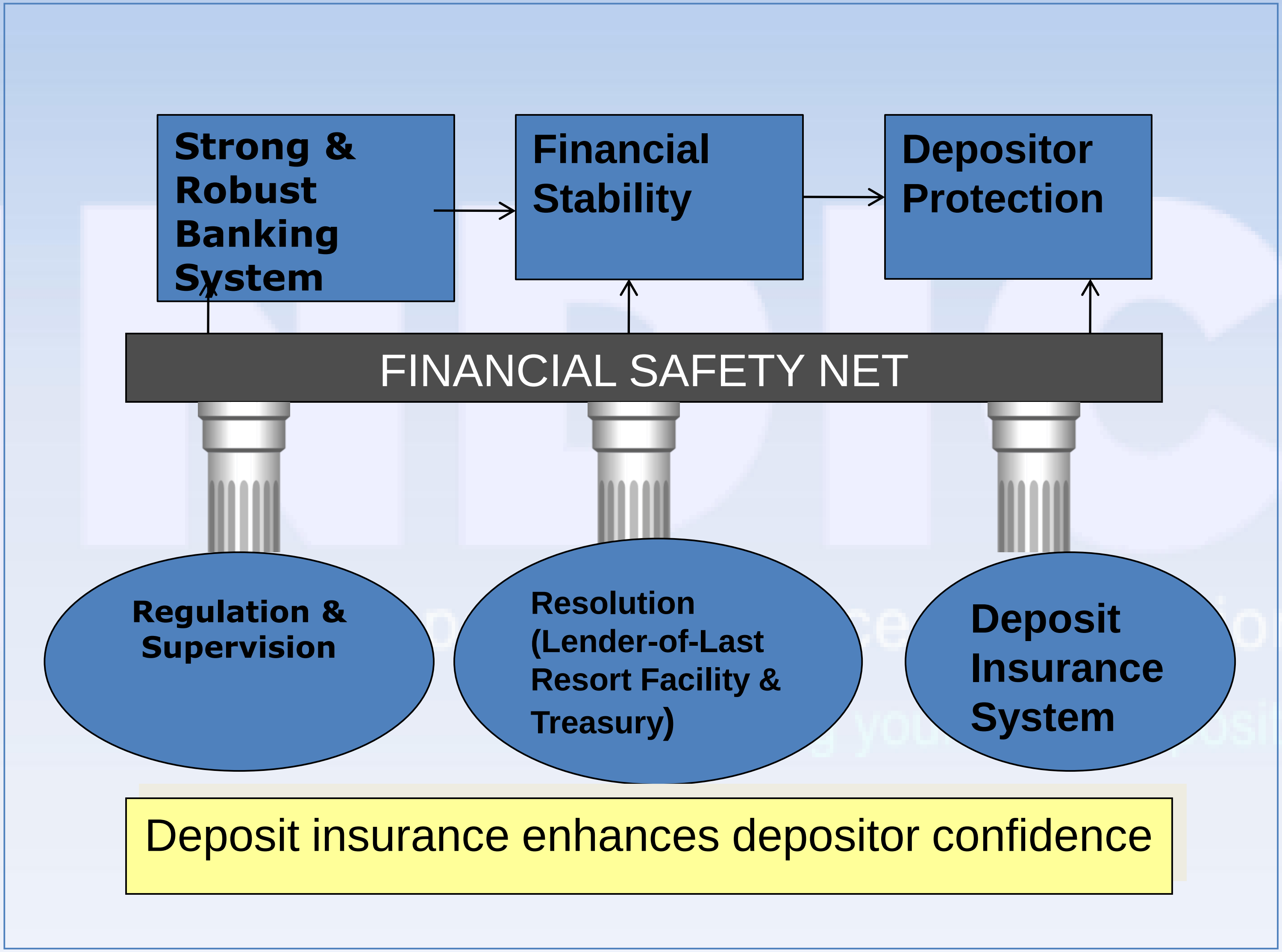
# Introduction

- A stable banking system is important to an economy and various initiatives have been implemented over time to foster financial system stability
- One of such initiatives was the establishment of a Deposit Insurance System (DIS), to curtail economic disruptions that typically follow bank failures. The history of Nigeria shows that economic crises tend to follow financial crisis
- **Deposit Insurance** is a system established to protect depositors against the loss of their insured deposits in the event that a bank is unable to meet its obligations to the depositors. It provides a financial guarantee which ensures that depositors do not loose all their funds in the event of a bank failure

# Regulation and Supervision Nigerian Perspective



# Rationale for Deposit Insurance System in Nigeria

- The history of Nigeria Deposit Insurance Corporation (NDIC) has its origin in the report of a committee set up in 1983 by the Board of Central Bank of Nigeria (CBN), to examine the operations of the banking system in Nigeria
- The Committee in its Report recommended the establishment of a Depositors Protection Fund. Consequently, the Nigeria Deposit Insurance Corporation was established through the promulgation of Decree No. 22 of 15th June 1988. NDIC commenced operations in March 1989
- This was part of the **Economic Reforms in the 1980s** taken by the then government, to strengthen the safety net for the banking sector following it’s liberalization policy and the introduction of the 1986 Structural Adjustment Programme (SAP) in Nigeria

# Rationale for Deposit Insurance System in Nigeria (contd.)

- In 1986 the CBN introduced a **Structural Adjustment Programme (SAP)**
- Deregulation under SAP involved liberalization of banking licensing process with a significant increase in number of banks. The number of banks increased from 42 in 1986, to 107 in 1990, and 120 in 1992
- The increase in number of banks as a result of liberalization of banking licensing brought fierce **Competition and Excessive Risk Taking** among banks
- A DIS with supervisory powers over banks was considered necessary to complement CBN's efforts
- Establishment of a DIS was to protect depositors, especially small savers against loss of their deposits and implement failure resolution options for badly managed banks

# Ownership, Structure and Functions of NDIC

- The NDIC was created through the NDIC Decree No. 22 of 1988 (now repealed and replaced with NDIC Act No. 16 of 2006)
- The **NDIC** is an autonomous agency of government established to administer deposit insurance scheme in Nigeria
- NDIC is wholly owned by Government through the Central Bank of Nigeria (60%) and Federal Ministry of Finance (40%)
- It commenced operation in March 1989 as a Risk Minimizer DIS
- The DIS in Nigeria is the explicit type backed by an enabling law

# Ownership, Structure and Functions of NDIC (contd.)

- Section 2 of NDIC Act 2006, stipulated the following functions:
  - insuring all deposit liabilities of licensed banks and such other deposit-taking financial institutions operating in Nigeria to engender confidence in the banking system;
  - giving assistance in the interest of depositors and also avoiding damage to public confidence in the banking system;
  - guaranteeing payments to depositors, in case of imminent or actual suspension of payments by insured financial institution up to a maximum insured amount;
  - assisting monetary authorities in the formulation & implementation of banking policies to ensure sound banking practice and fair competition among banks operating in the country; and
  - pursuing any other measures necessary to achieve NDIC functions provided such actions are not repugnant to its objectives

# Ownership, Structure and Functions of NDIC (contd.)

- **Membership:**
    - Participation in the Scheme is compulsory for all licensed banks and other deposit taking financial institutions in Nigeria such as MFBs, PMBs & NIBs, and subscribers of mobile money
- **Coverage:**
    - DMBs/Non-Interest Banks/PMBs – ₦500,000
    - MFBs - ₦200,000

# Ownership, Structure and Functions of NDIC (contd.)

- **Funding Sources:**
  - Initial Capitalization
  - Assessed Premiums paid by participating institutions
  - Income from the investments of the Corporation
  - Monies borrowed from any source with the approval of the Board

# Ownership, Structure and Functions of NDIC (contd.)

- **Funding (contd.)**
  - **Ex-Ante**
    - Typically comprises initial capital subscription and premium contribution by member institutions
    - Ensures availability of funds to meet an insurer's obligations
  - **Ex-Post**
    - This does not guarantee adequate funding
    - Imposes greater social cost on the economy as a failed institution does not contribute to cost of failure resolution
    - It is less efficient compared to ex-ante funding
- **Premium Payable**
  - Licensed Deposit Money Banks & PMBs (DPAS)
  - MFBs - Flat Rate

# NDIC's Mandate as a Risk Minimizer

- **Deposit Protection**
  - An **Implicit** DIS has no formal system in place. There is neither a formal means of funding nor government commitments to compensate depositors when failure occurs. It also does not have any administrative structure to support its implementation
  - An **Explicit** DIS is established by legislation which spells out mandates, powers and governance structure. There are rules and regulations guiding participation by insured institutions, funding arrangements, coverage and compensation limits, failure resolution, reimbursement of depositor' claims amongst other features

# NDIC's Mandate as a Risk Minimizer (contd.)

- A **Pay Box mandate** is limited to the role of collecting premiums, managing insurance funds and reimbursing insured depositors. A pay-box system requires appropriate authority, as well as access to deposit information and adequate funding, for the timely and efficient reimbursement of depositors when banks fail.
- In **Pay-box Plus mandate**, the deposit insurer has additional responsibilities such as **certain resolution** functions (e.g. financial support and liquidation)

# NDIC's Mandate as a Risk Minimizer (contd.)

- **Loss Minimizer** has all the duties of Pay-Box Plus and much more resolution options. It determines resolution and receivership strategies as well as manages claims and optimizes recoveries. In most cases do not have supervisory powers
- **Risk-minimizer Mandate** has the powers of a Pay-Box Plus with added responsibility of supervision, enforcement and prompt corrective actions
- It has a full suite of early intervention and resolution powers as well as prudential oversight responsibilities
- It has powers to set regulations and undertake their enforcement through supervision and failure-resolution activities

# NDIC's Mandate as a Risk Minimizer (contd.)

## Banking Supervision

- NDIC supervises banks to protect depositors, ensure monetary stability, promote an effective payments system, and promote competition & innovation in the system
- Supervision is undertaken to minimize the risk of failure of the insured institution and to ensure that unsafe and unsound practices are curtailed
- Supervision
  - On-Site Examination
  - Off-Site Surveillance
- Adoption of Risk-Based Supervision in collaboration with CBN
- Adoption of a policy of zero tolerance for unethical practices in insured institutions

# NDIC's Mandate as a Risk Minimizer (contd.)

## Distress Resolution

- NDIC is empowered to provide financial and technical assistance to failing insured institutions, in the interest of depositors
- Financial assistance could be in form of loans, guarantees, or accommodation bills. Technical assistance may be assumption of control and management, assisted merger with another viable institution
- NDIC and CBN handle distress resolution jointly
- Various resolution options have been adopted over the years to manage distress
  - Open Bank Assistance
  - Purchase & Assumption
  - Bridge Bank

# NDIC's Mandate as a Risk Minimizer (contd.)

## Liquidation

- Section 28 (1) of the NDIC Act 16, 2006, as amended, states that the Corporation shall be appointed as the liquidator of a failed insured institution
- Bank liquidation is always adopted by the Corporation and the CBN as a last option after all other resolution options have failed
- The liquidation process commences with an orderly and efficient closure of failed institutions to ensure that there is little or no disruption to the banking system, cost-effective realisation of assets and settlement of claims of uninsured depositors, creditors and where possible, shareholders
- Payments to depositors are given priority over all other creditors in the liquidation process

# Inter-Agency Collaboration

- There are three (3) components of the Safety-Net: arrangement, viz, Deposit Insurance, Supervision and Lender of Last Resort
- While NDIC is responsible for Deposit Insurance, the CBN is responsible for Lender of Last Resort, and Supervision is done jointly by CBN/NDIC
- Both institutions co-operate through Off-site Supervision, joint on-site Examination, or exchange of Bank Examination Reports where these are separately conducted
- The two institutions jointly developed the web-enabled Financial Analysis and Surveillance System (eFASS) to enhance receipt of timely and reliable call Reports and their subsequent analysis

# Inter-Agency Collaboration (contd.)

- The CBN/NDIC are jointly developing Integrated Regulatory Solution (IRS) that will replace eFASS application
- Both Institutions collaborate on several bilateral Committees
- NDIC had since its establishment participated actively in, and organized, several international exchange activities among other deposit insurance systems
- The Corporation also participates actively in the activities of the Financial Services Regulation Coordinating Committee (FSRCC), a body made up of all specific sector Regulators in the financial services industry

# Inter-Agency Collaboration (contd.)

- NDIC is a Member of:-
  - ❖ International Association of Deposit Insurers (IADI)
  - ❖ Africa Regional Committee (ARC) of IADI
  - ❖ Islamic Financial Services Board (IFSB)
  - ❖ Committee of African Bank Supervisors (CABS)
  - ❖ Financial Services Regulation Coordinating Committee (FSRCC)
  - ❖ Bankers' Committee
  - ❖ National Association of Microfinance Banks (MFBs) in Nigeria
  - ❖ Committee of Mortgage Institutions in Nigeria

# Contributions to Financial System Stability

## DEPOSIT GUARANTEE

- All depositors' funds in licensed deposit-taking financial institutions in Nigeria are guaranteed by the NDIC in the event of bank failure up to a maximum amount allowed by law
- Increased Deposit Insurance Coverage
  - Commenced operations in 1989 with coverage level of ₦50,000, increased to ₦200,000 in 2006 and to ₦500,000 in 2011 per Depositor per Deposit Money Bank/Non Interest Banks (NIBs)
  - For MFBs and PMBs, it commenced in 2006 with ₦100,000 and in 2011 increased to ₦200,000; PMBs was later increased to ₦500,000 in 2016
  - The maximum coverage limit for MFBs remains ₦200,000 per depositor per MFB
  - Deposit coverage up to ₦500,000 for subscribers of Mobile Money Operators (MMOs)

# Contributions to Financial System Stability (contd.)

## BANK SUPERVISION

- Supervision is undertaken to minimize the risk of failure of the insured institution and threat to the DIF
- Adoption of Risk-Based Supervision in collaboration with CBN
- The joint development of a new regulatory application tagged **Integrated Regulatory System (IRS)** for DMBs to render statutory returns electronically
- Development of a uniform application for MFBs – National Association of MicroFinance Banks Unified IT Platform (NAMBUIT) to quicken the pace of digital financial services among MFBs

# Contributions to Financial System Stability (contd.)

## DISTRESS RESOLUTION

- Imposition of Holding Actions on distressed banks to restrict operations and encourage self-restructuring

## OPEN BANK ASSISTANCE

- NDIC accommodation bill (₦2.3 Billion) was used to resolve liquidity crisis in the banking system in 1989
- 7 distressed banks were acquired, restructured and sold to new investors in 1999 and 2000
- Take-over of 28 banks banks between 1991 and 1996 to safeguard their assets
- Change of Management

# Contributions to Financial System Stability (contd.)

## PURCHASE & ASSUMPTION (P&A)

- P & A was introduced as a novelty in 2006
- Resolution of 11 out of 13 banks that failed post consolidation
- Payment of over ₦3.9 billion insured deposit and ₦48.8 billion uninsured deposit of 11 out of 13 failed post-consolidation

## BRIDGE BANK

- Pursuant to the provisions of the NDIC Act Part VII Section 39, Bridge Bank was introduced in 2011 in the interest of depositors and to prevent liquidation, After due consultation with the CBN and Federal Ministry of Finance, the Corporation resolved the problems of three banks namely (Afribank Plc., Bank PHB Plc. and Spring Bank Plc. through the Bridge Bank Mechanism
- The Bridge Bank option was a veritable tool of enhancing depositor protection and promoting confidence by ensuring seamless continuity of banking operations

# Contributions to Financial System Stability (contd.)

## BANK LIQUIDATION

- Successfully closed 49 deposit money banks whose licenses were revoked without any adverse effect on the stability and confidence in the banking system
- Successfully closed 340 MFBs and 50 PMBs
- Declaration of over ₦12 billion dividend in favour of uninsured depositors of 34 banks that failed before consolidation
- Realized substantial risk and physical assets of failed banks
- 100% full payment of deposits to depositors of 17 banks in-liquidation
- Payment of dividend to shareholders of three liquidated banks: Alpha Merchant Bank, Pan African Bank and Nigeria Merchant Bank

# Contributions to Financial System Stability (contd.)

## OTHER CONTRIBUTIONS

- In promoting Financial Literacy, apart from being a member of the Financial Literacy Steering Committee (FLSC) and Financial Literacy Implementation Committee (FLIC), the Corporation also undertook following;
  - A stand alone curriculum for financial education for Nigerian Schools was developed by the Corporation
  - A draft teacher's guide for the teaching of financial education in Nigerian Schools was developed
  - Organization of Financial Literacy Training of Trainers (TOT) workshops

# Challenges of NDIC

The effectiveness of the Corporation's efforts in failure resolution had been impaired by a number of challenges. They include the following:

- **Legal Challenge:** Since inception, the Corporation faced numerous legal challenges in the course of performing its statutory functions. In an attempt to address some of the challenges, the Corporation pushed for a repeal of the 1988 Act and the passage of the NDIC Act 2006
- While the 2006 Act addressed some of the legal challenges, there were still some lingering ones which prompted further review of the NDIC Act
- Efforts are on to get the NDIC Act 2006 repealed and re-enacted. It is currently at the National Assembly

# Challenges of NDIC (contd.)

- Weak corporate governance in banks which manifested in insider abuse and mismanagement, and inadequate legal powers for the NDIC for failure resolution
- The various challenges encountered by the Corporation included legal impediment, Assets Stripping, Problems with Computer Hardware & software of Closed Banks, Avoidance of Risk Assets by Assuming Banks, Escalation in Bank Closing and Related Costs etc.
- Cumbersome and slow judicial process - Inability to recover liquidated banks' loans through the courts

# Challenges of NDIC (contd.)

- Delays in Granting Approvals for the Revocation of the Licenses of Terminally Distressed Banking Institutions
- Depositor Apathy and Ignorance. Too many unclaimed small balances
- Delayed Depositor Reimbursement presently at 90 days (proposed amendment to the Act is 30 days but best practice according to IADI is 7 working days)
- Ineffective Mechanism for Debt Recovery. Refusal of recalcitrant debtors to repay their loans
- Disposal of Physical Assets

# Challenges of NDIC (contd.)

- Inability of some banks to send complete and reliable returns
- Poor asset quality
- Inadequate risk management practices
- Poor rendition of returns by MFBs

# Challenges of NDIC (contd.)

- **Public Awareness Issues**
  - The challenge of inadequate awareness about DIS by banks, depositors and public continued to confront the Corporation
  - Misconception about DIS benefits
  - Lack of appreciation of the difference between the Corporation’s role of insurer and liquidator on one hand and between a DIS and conventional insurance on the other hand

# CONCLUSION

- The capacity of a DIS to contribute to financial system stability depends on the design features such as mandate, powers, funding, coverage, oversight, intervention and resolution of the DIS
- A broad mandate, supported with operational independence, enhances DIS ability to contribute effectively to financial System Stability
- Similarly, adequate funding and flexibility to access or to call upon a wide range of stabilization tools such as authority to increase level of coverage and expand its scope would enable Deposit Insurers to react quickly to rapidly changing circumstances which are capable of threatening the stability of the financial system

# CONCLUSION (contd.)

- NDIC has put in place various measures to protect the economy from the risk of deposit runs and thus contributing to the stability of the financial system
- Apart from insuring the deposit liabilities of all licensed banks, the establishment of NDIC has no doubt, generated the required stability and confidence through its activities in the Nigerian Financial System
- The importance of Inter-agency collaboration and cooperation cannot be over emphasized in the achievement of Financial System Stability

# Thank You For Your Attention