ARC

AFRICA REGIONAL COMMITTEE

EVOLUTION, PRACTICE AND EXPERIENCE OF DEPOSIT INSURANCE SYSTEM IN AFRICA

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ACRONYMS USED IN THIS BOOK

S/N	ACRONYM	FULL MEANING
1	ABSA	Amalgamated Banks of South Africa
2	ADBI	Asian Development Bank Institute
3	AFC	Agricultural Finance Corporation
4	AFI	Alliance for Financial Inclusion
5	AGM	Annual General Meeting
6	AIT	African Independent Television
7	AMCON	Asset Management Corporation of Nigeria
8	AMF	Arab Monetary Fund
9	AMF-UMOA	UMOA Capital Market Authority
10	AMV	Asset Management Vehicle
11	APEC	Asia Pacific Economic Cooperation
12	ARC	African Regional Committee
13	ASBA	Association of Supervisors of Banks of the Americas
14	ATM	Automated Teller Machine
15	BCBS	Basel Committee on Banking Supervision
16	BCEAO	The Central Bank of West African States
17	BGF Poland	Bank Guarantee Fund Poland
18	BIS	Bank for International Settlements
19	BOA	Bank of Agriculture
20	BOFIA	Banks and Other Financial Institutions
21	BoG	Bank of Ghana
22	BOI	Bank of Industry
23	BoU	Bank of Uganda
24	BRVM	The Regional Stock Exchange of Securities

S/N	ACRONYM	FULL MEANING
25	BSD	Banking Supervision Department
26	CAATs	Computer Assisted Audit Techniques
27	CAC	Corporate Affairs Commission
28	CAMA	Company and Allied Matters Act
29	CBA	Commercial Bank of Africa
30	CBK	Central Bank of Kenya
31	CBN	Central Bank of Nigeria
32	CBZ	Commercial Bank of Zimbabwe
33	CBZN	Commercial Bank of Zimbabwe Nominees Limited
34	CDIC	Canada Deposit Insurance Corporation
35	CDSC	Central Depository and Settlement Corporation
36	CGAP	Consultative Group to Assist the Poor (CGAP)
37	CGC	Credit Guarantee Company
38	CGFS	Committee on the Global Financial System
39	CIBN	Chartered Institute of Bankers of Nigeria
40	CIMA	Conference on International Markets
41	CIPRES	Inter-African Conference on Social Welfare
42	CMA	Capital Markets Authority
43	CMC	Crisis Management Committee
44	CPD	Continious Professional Development
45	CPMI	Committee on Payments and Market Infrastructures
46	CRF	Consolidated Revenue Fund

S/N	ACRONYM	FULL MEANING
47	CSC	Cold Storage Company
48	CSR	Corporate Social Responsibility
49	DBN	Development Bank of Nigeria
50	DFIs	Development Financial Institutions
51	DGF AC	Deposit Guarantee Fund Advisory Committee
52	DGF IC	Deposit Guarantee Fund Investment Committee
53	DGF Rwanda	Deposit Guarantee Fund of Rwanda
54	DI	Deposit Insurer
55	DIA	Deposit Insurance Agency of the Russian Federation
56	DIAs	Deposit Insurance Agencies
57	DICJ	Deposit Insurance Corporation of Japan
58	DIF	Deposit Insurance Fund
59	DIS	Deposit Insurance System
60	DMBs	Deposit Money Banks
61	DPAS	DIfferential Premium Assessment System
62	DPB	Deposit Protection Board
63	DPC	Deposit Protection Corporation of Zimbabwe
64	DPF	Deposit Protection Fund of Uganda
65	DPFB	Deposit Protection Fund Board
66	DPIC	Deposit Protection Implementation Committee
67	DPS	Differential Premium System
68	DSIBs	Domestic Systemically Important Banks
69	DTMFIs	Deposit-Taking Microfinance Institutions

S/N	ACRONYM	FULL MEANING
70	EAC	East African Community
71	EADB	East African Development Bank
72	EBRD	European Bank of Reconstruction and Development
73	EC	European Commission
74	ECS	Electronic Clearing System
75	EEC	European Economic Commission
76	EFDI	European Forum of Deposit Insurers
77	EFT	Electronic Funds Transfer
78	ELA	Emergency Liquidity Assistance
79	ELF	Emergency Liquidity Facility
80	ESAP	Economic Structural Adjustment Programme
81	EXCO	Executive Council
82	FBN	First Bank of Nigeria
83	FCMB	First City Monument Bank
84	FDIC	Federal Deposit Insurance Corporation
85	FGDR-UMOA	Fonds De Garantie Des Depots Et De Resolution Dans L'umoa
86	FICAN	Financial Coreespondants Association of Nigeria
87	FINSSP	Financial Sector Strategic Plan
88	FINTECH	Financial Technology
89	FIRS	Federal Inland Revenue Services
90	FMA	Fund Managers Association
91	FMBN	Federal Mortgage Bank of Nigeria
92	FMF	Federal Ministry of Finance
93	FNBS	First National Building Society

S/N	ACRONYM	FULL MEANING
94	FOLTF	Failing Or is Likely To Fail
95	FOREX	Foreign Exchange
96	FRA	Fiscal Responsibility Act
97	FRCN	Federal Radio Corporation of Nigeria
98	FRSCC	Financial Services Regulation Coordinating Committee
99	FRW	Rwandan franc
100	FSB	Financial Stability Board
101	FSC	Financial Stability Council
102	FSCC	Financial Sector Coordination Committee
103	FSF	Financial Stability Forum
104	FSI	Financial Stability Institute
105	FSSF	Financial Sector Stability Forum
106	GAMC	Ghana Association of Microfinance Companies
107	GDP	Gross Domestic Product
108	GDPC	Ghana Deposit Insurance Corporation
109	GoG	Government of Ghana
110	GoZ	Government of Zimbabwe
111	GTB	Guaranty Trust Bank
112	HoldCo	Holding Company
113	IADI	International Association of Deposit Insurers
114	IAIS	International Association of Insurance Supervisors
115	ICAN	Institute of Chartered Accountants of Nigeria
116	ICT	Information Communication Technology

S/N	ACRONYM	FULL MEANING
117	**IDB**	Inter-American Development Bank
118	**IDC**	Industrial Development Bank
119	**IFC**	Irving Fisher Committee
120	**IFEJ**	Institute of Financial and Economic Journalists
121	**IFI**	Insured Financial Institutions
122	**IFSB**	Islamic Financial Services Board
123	**ILF**	Intraday Liquidity Faculty
124	**IMF**	International Monetary Fund
125	**IPEC**	Insurance and Pensions Commission
126	**JBA**	Journalists for Business Advocacy
127	**JWG**	Joint Working Group
128	**KASIB**	Kenya Association of Stockbrokers and Investment Banks
129	**KDI**	Kenya Deposit Insurance the act
130	**KDIC**	Kenya Deposit Insurance Corporation
131	**KfW**	A germen government state-owned development bank in Ghana
132	**KSMS**	Kenya School of Monetary Studies
133	**LCR**	Liquidity Coverage Ratio
134	**MCC**	Management Consultative Committee
135	**MDIC**	Malaysia Deposit Insurance Corporation
136	**MFBs**	Microfinance Banks
137	**MFIs**	Microfinance Institutions
138	**MFSD**	Microfinance Supervision Department
139	**MINECOFIN**	Ministry of Finance and Economic Planning
140	**MMOs**	Mobile Money Operators

S/N	ACRONYM	FULL MEANING
141	MNOs	Mobile Network Operators
142	MoF	Ministry of Finance
143	MoU	Memorandum of Understanding
144	NAICOM	National Insurance Commission
145	NAPGEP	National Peer Group Educator Programme
146	NBFIs	Non-Bank Financial Institutions
147	NBR	National Bank of Rwanda
148	NDIC	Nigeria Deposit Insurance Corporation
149	NES	Nigeria Economic Society
150	NEXIM	Nigeria Export Import Bank
151	NIBs	Non-Interest Banks
152	NIC	National Insurance Commission
153	NIDIF	Non-Interest Deposit Insurance Fund
154	NIM	National Institute of Management
155	NIRA	National Identification Registration Authority
156	NPLs	Non-Performing Loans
157	NPRA	National Pensions Regulatory Authority
158	NSE	Nairobi Securities Exchange
159	NTSA	National Transport and Safety Authority
160	OBA	Open Bank Assistance
161	OECD	Organization for Economic Co-operation and Development
162	P&A	Purchase and Assumption
163	PEA	Project Execution Agency
164	PENCOM	National Pension Commission
165	PFAs	Pension Fund Administrators

S/N	ACRONYM	FULL MEANING
166	**PFCs**	Pension Fund Custodians
167	**PFIs**	Participating Financial Institutions
168	**PMBs**	Primary Mortgage Banks
169	**POSB**	Post Office Savings Banks
170	**PPOs**	Public Policy Objectives
171	**PSBs**	Payment Service Banks
172	**PTAD**	Pension Transitional Arrangement Directorate
173	**RBA**	Retirement Benefits Authority
174	**RBZ**	Reserve Bank of Zimbabwe
175	**RDFIs**	Retail Development Financial Institutions
176	**RRPs**	Recovery and Resolution Plans
177	**RTGS**	Real Time Gross Settlement
178	**SACCO**	Savings and Credit Cooperative
179	**SACCO**	Savings and Credit Cooperative Organizations
180	**SAP**	Structural Adjustment Program
181	**SASRA**	SACCO Societies Regulatory Authority
182	**SATAP**	Self-Assessment Technical Assistance Program
183	**SCV**	Single Customer View
184	**SDFIs**	Specialised Development Financial Institutions
185	**SEC**	Securities and Exchange Commission
186	**SECZIM**	Securities and Exchange Commission of Zimbabwe
187	**SEDCO**	Small Enterprises Development Company
188	**SIIF**	Special Insured Institutions Fund

S/N	ACRONYM	FULL MEANING
189	**SLF**	Standard Liquidity Facility
190	**SRR**	Special Resolution Regime
191	**SWIFT**	Society for Worldwide Interbank Financial Telecommunications
192	**UAB**	Union of Arab Banks
193	**UB**	Universal Bank
194	**UBA**	Uganda Bankers Association
195	**UCB**	Uganda Commercial Bank
196	**UDB**	Uganda Development Bank
197	**UMB**	United Merchant Bank
198	**UNIBANK**	Universal Merchant Bank
199	**US OTA**	US Treasury Department Office of Technical Assistance
200	**WAMU**	West African Monetary Union
201	**WB**	World Bank
202	**WDFIs**	Wholesale Development Financial Institutions
203	**ZDB**	Zimbabwe Development Bank
204	**ZIMPREST**	Zimbabwe Programme of Economic and Social Transformation
205	**ZML**	Zimbabwean Dollar

FOREWORD

A deposit insurance system (DIS) is a critical component of the financial safety-net arrangement. It provides the foundation for building trust and confidence in the banking system by reducing the incentive for bank runs, thereby entrenching financial system stability. A good DIS engenders a safe, stable, and competitive banking system that underlies national development.

The evolution of DIS dates back to the early 1900s when the first nation-wide deposit insurance was first adopted in the USA with the establishment of the Federal Deposit Insurance Corporation (FDIC) through the Banking Act of 1933. Since then, many jurisdictions have established DISs to drive financial system stability, depositor/consumer protection and bank failure resolution. In Africa, Kenya was the first country to establish a formal DIS in 1985, followed by Nigeria in 1988 bringing the total of jurisdictions that have adopted DIS in Africa to 21. Thus, the growing role of DIS in Africa and globally is reflected in the increase in the number of countries with explicit DIS, which has grown from 12 in 1974 to 145 in 2021. The growth partly facilitated the establishment of the International Association of Deposit Insurers (IADI) in 2002 to enhance the effectiveness of DIS by promoting guidance and international cooperation among members. Since its inception, IADI membership has grown from 25 founding members to 110 as of September 2021, comprising 86 Members, 8 Associates, and 16 Partners.

To reflect regional interests and common issues through the sharing and exchanging of information and ideas, IADI formed Regional Committees, including the Africa Regional Committee (ARC). In its 9th meeting in September 2020, the ARC decided to produce this book titled '***Evolution, Practice and Experience of Deposit Insurance System in Africa'*** to document its members' activities, successes, and challenges.

It will also serve as an educational tool for global partners and nations intending to establish a DIS in the future.

The publication of this book would not have been possible without the efforts of the contributors across the ARC jurisdictions despite the challenges posed by the COVID-19 pandemic. It is, therefore, my honour and privilege to present this book, ***‘EVOLUTION, PRACTICE AND EXPERIENCE OF DEPOSIT INSURANCE SYSTEM IN AFRICA,’*** for your reading pleasure. I guarantee it will be a worthwhile experience.

IADI Secretary General

PREFACE

The Deposit Insurance System (DIS) is usually established to protect depositors against the loss of their deposits in the event of failure of a deposit-taking financial institution. The 2008-2009 global financial crisis that impacted negatively on most economies emphasized the role of DIS in contributing to financial system stability and brought renewed attention to the practice of deposit insurance by regulators around the world. Since then, most DIS-practicing jurisdictions across the globe have further improved on the features of DIS adopted, expanded their mandates, and adopted measures geared towards strengthening their operational efficiencies, thereby improving public confidence and enhancing financial system stability. The COVID-19 pandemic has further reemphasized the importance of DIS and other safety-net participants in ensuring the financial system resilience.

The dearth of literature on deposit insurance practices in Africa largely informed the need for this book. It is in this regard the book titled **"Evolution, Practice and Experience of Deposit Insurance System in Africa"** was developed by the members of the Africa Regional Committee (ARC) of the International Association of Deposit Insurers (IADI). Notwithstanding the importance of Deposit Insurance in African economies, it has not been properly documented. This book is to bridge the knowledge gap in that field as well as serve as an archive that will benefit the future development of DIS and aid its continuing support for financial system stability.

The book is structured into nine (9) Chapters, covering concepts, practices, and experiences in DIS of some IADI-ARC members. Other issues covered included the Structure and Evolution of the Financial System, Overview of the Banking System, Deposit Insurance System Practices, Institutional Reforms, Capacity Building, Public Awareness, Corporate Social Responsibility, Compliance with Core Principles for

Effective Deposit Insurance Systems as well as Achievements and Challenges.

This publication aims to deepen knowledge of DIS Practices, Experiences, and Challenges in Africa. The book would be relevant to government institutions, educational institutions, researchers, professional associations, mass media, and students in tertiary institutions. It will also be a guide for peer review amongst IADI-ARC members.

At this juncture, we acknowledge the efforts of the Deposit Insurance Agencies who provided inputs to this publication. The contributions of Nigeria Deposit Insurance Corporation (NDIC), Ghana Deposit Protection Corporation (GDPC), Kenya Deposit Insurance Corporation (KDIC), Deposit Guarantee Fund (DGF) -Rwanda, Fonds De Garantie Des Depots Et De Resolution Dans L'umoa (FGDR-UMOA), Deposit Protection Fund (DPF) of Uganda, and Deposit Protection Corporation (DPC) of Zimbabwe are most recognized. The support of the Chief Executive Officers of the IADI-ARC members for this book is highly appreciated. We sincerely thank the MD/CEO of NDIC, Mr. Bello Hassan, for providing the necessary support, including financial resources that facilitated this book's compilation.

It is also important to recognize the efforts and commitments of the NDIC team who reviewed and compiled the book, namely: Dr. Sunday Oluyemi, Dr. Kabir S. Katata, Dr. Abdulrasheed Abdulraheem, Dr. Frank I. Ogbeide, Dr. Ibrahim S. Alley, Mr. Dahiru M. Yakubu, Che-che U. B. Nnanna among other staff of the Research Department. The useful inputs of Dr. Jacob Ade Afolabi, Mr. Kingsley Nwaigwe, and Mohammed K. Ibrahim (former NDIC staff) are also profoundly appreciated.

Finally, I wish to appreciate Mr. Umaru Ibrahim (Former MD/CEO of NDIC), Mr. Vusi Vuma (former ARC Vice Chairperson and MD/CEO of DPC, Zimbabwe), Ms. Julia Oyet (ARC Secretary General and MD/CEO of DPF, Uganda) and Mr. Bello Hassan (ARC Publicity Secretary and MD/CEO of NDIC) for championing this novel idea of producing an ARC book which documents the DIS practices, experiences, and challenges in the African region.

Mr. Mohamud A. Mohamud,
ARC Chairperson
MD/CEO of KDIC

CHAPTER ONE

INTRODUCTION AND BACKGROUND

1.0 INTRODUCTION

The financial system plays a key role in funding economic growth and development of countries. It is an arrangement that allows the exchange of resources amongst participants in an economy. A key participant in the financial system is the banking system, as banking institutions play a critical role in funding a country's economic growth and development. In addition, banks play a central role in a country's payment and settlement systems and can be a critical element in the conduct of monetary policy. However, banks incur risks while performing these intermediation roles, making them susceptible to failure with great consequences. Given these roles and inherent risks, financial safety-net is designed to ensure financial stability.

Financial safety-nets are a set of institutions, laws, and procedures put in place to strengthen a financial system to withstand widespread bank runs and other systemic disturbances. The basic objectives of the safety-net amongst others, are to ensure financial system stability and integrity by protecting the critical financial intermediation roles of banks and their role in the national payment system; promote competitive efficiency of the system; protect the consumers and depositors, and ensure orderly failure resolution of failing and failed financial institutions. Financial safety-net consists of: a deposit insurance system; lender of last resort; and prudential supervisory and regulatory framework and effective resolution mechanisms (IADI, 2006; Financial Stability Forum, 2001). However, during a period of systemic crisis, the guarantor of the lender of last resort, the fiscal authority, becomes another essential element.

A deposit insurance system (DIS), as a component of the financial safety-net, is a system established to protect depositors against the loss of their funds in deposit-taking financial institutions (NDIC, 2019). Although deposit insurance began as a measure to mitigate bank runs, protect depositors' funds and prevent bank crises, it has expanded in scope to become a measure of protection for even non-banking entities within the financial system. Based on the benefits of deposit insurance, many countries have come to embrace and adopt it to suit their specific jurisdiction peculiarities.

These varying characteristics in its design and administration sum up to produce a set of tools, objectives, and attributes consequently becoming a system, hence the term DIS. Therefore, a DIS is a financial guarantee to depositors in the event of a bank failure. It is a depositor protection system usually supported by insured institutions themselves and administered either through a government-controlled agency, privately owned or jointly owned. In other words, it is a set of specific functions (whether performed by a dedicated legal entity or not) inherent in protecting bank depositors, and their relationship with other financial system safety-net participants to support financial stability (Financial Stability Board, 2012).

1.1 HISTORICAL BACKGROUND AND EVOLUTION

The history of deposit insurance started with the establishment of the New York Safety Fund in 1829 which covered only the state of New York. The objective of the insurance scheme was to protect deposits and to circulate notes in the event of a bank failure. However, the scheme was unsuccessful and became insolvent in 1842. Subsequently, eight (8) state insurance schemes were introduced in the early 1920s and these schemes also failed due to limited funding and insufficient monitoring, largely due to the economic depression (Calomiris, 1990).

The first National deposit insurance system in the world was the Federal Deposit Insurance Corporation (FDIC), introduced in the United States of America in 1934 through the Banking Act of 1933. In contrast to the state-sponsored schemes, the FDIC was established through capital provided by the Treasury and the Federal Reserve Bank. The FDIC provided limited deposits guarantee to mitigate losses and restore depositors' confidence.

In Western Europe, deposit insurance started between the late 1970s and the early 1980s. For instance, the failure of banks such as the Bankhaus Herstatt in Germany in 1974, resulted in the adoption of the deposit insurance system in some countries like Belgium, Austria and France in 1974, 1979 and 1980, respectively. In addition, in 1994, most European countries had an explicit deposit insurance system in place to comply with the European Union's Directive on Deposit Insurance.

India adopted deposit insurance in 1962 becoming the first country in Asia to do so. That was followed closely by the Philippines and Japan in 1963 and 1971, respectively. Other countries in Asia like Malaysia and Indonesia introduced a formal deposit insurance system in 2004/2005 in response to the Asian financial crisis of 1998/1999.

In Africa, DIS was first adopted by Kenya in 1985 and followed by Nigeria in 1988. Tanzania and Uganda also established DIS in their jurisdictions in 1991 and 1994, respectively. The West African Monetary Union Deposit Guarantee and Resolution Fund was set up in 2014 and insures deposits in all eight countries of the West African Monetary Union (Benin, Burkina Faso, Guinea-Bissau, Ivory Coast, Mali, Niger, Senegal, and Togo), (IADI, 2019).

Similarly, the Central African Deposit Guarantee Fund, created in 2009 but became operational in 2011, insures deposits in six countries (Cameroon, Central African Republic, Chad, Equatorial Guinea, Gabon, and Republic of the Congo) of the Economic and Monetary Community of Central Africa (IMF, 2016). In 2016, the Ghana Deposit Protection Corporation (GDPC) was also established. Due to the entrenchment of financial system stability and efficient management of banking crises in the countries that have adopted the system, DIS has continued to expand across the continent.

1.2 TYPES OF DIS

There are two (2) types of DIS: Implicit and Explicit.

1.2.1 Implicit DIS

Implicit deposit insurance exists when there is an expectation implied from the government's verbal promises and/or past actions to protect depositors in the event of a bank failure. Hence, this type of DIS is not specified by any legislation or legal instrument; has no rule or formal communication about the amount; or type of deposits covered, and has no prearranged sources of funding (Kyei, 1995; Abubakar et al., 2016; NDIC, 2019). Under the implicit DIS, the government cannot legally be held accountable for failing to deliver deposit assurance to banks' depositors. This type of DIS has the advantage of promoting market discipline and addressing the problem of moral hazard.

1.2.2 Explicit DIS

This is a creation of DIS by law, through legislation, legal agreements, or other legal instruments, with specific rules or design features regarding the deposit coverage level, the forms of deposits covered, the computation method for premium assessment, the funding arrangements for the scheme in terms of sources/types and/or coinsurance (Schich, 2008).

In this system, the funding method could be ex-ante funding which requires prior accumulation and maintenance of a fund to cover deposit insurance claims and related expenses in the event of a bank failure or ex-post funding, where members contribute funds only when an institution has failed or hybrid funding combining both features of ex-ante and ex-post. Also, the premium assessment is either based on a flat-rate premium system where all banks pay a fixed rate of premium or Differential Premium Assessment System (DPAS), where premium payment depends on an individual bank's risk profile. According to IADI Core Principles for Effective Deposit Insurance Systems, the Explicit DIS is the preferred choice for any jurisdiction intending to establish a DIS (IADI, 2014).

1.3 RATIONALE FOR DIS

The rationale for the establishment of DIS may vary from one country to another depending on each country's peculiarities. However, DIS is being adopted in many jurisdictions for several reasons, as indicated below.

1.3.1 Financial System Stability: Deposit insurance eliminates the incentive for bank runs by engendering depositors' confidence through the guarantee of the payment of the insured deposits in the event of failure. The enhancement of depositors' trust and confidence is critical in encouraging the banking public to save their funds as bank deposits and deepening the banking sector by deposit size (Chernykh & Cole, 2011).

1.3.2 Consumer Protection: Consumer protection is one of the principal reasons for adopting Deposit insurance. Deposit Insurance eliminates or reduces the risk that small and unsophisticated depositors would suffer losses in the event of bank liquidation. It protects deposits, representing life savings of individuals, households and small/medium enterprises supporting the economy. It shortens the time between the bank's failure and reimbursement of insured funds to depositors.

1.3.3 Shift the Cost of Deposit Insurance to the Banks Rather than Public Treasury: The adoption of deposit insurance ensures the transfer of burden or cost of depositors' protection to the banks who pay premiums to deposit insurer as opposed to government using tax payers' money to reimburse depositors of a failed bank.

1.3.4 Resolution of failing insured banks: Deposit insurer with risk minimization powers preserves access to insured deposits and other banking services as an alternative to pay-out by adopting measures such as purchase & assumption, transfer of deposits, bridge bank, liquidity support, assisted merger and others. By these measures, banking services central to the functioning of an economy are preserved (Baudino et al., 2019).

1.3.5 Fair Competition: The DIS promotes fair competition amongst all banks, irrespective of their size. In the absence of deposit guarantee, depositors would prefer to place their funds with large banks which might receive government bail-outs because of their "too big or too important to fail" status. With explicit deposit insurance, small banks could attract deposits, thus enabling a level playing ground to compete with large banks (Khundadze, 2009; Demirguc-Kunt & Anginer, 2018).

1.4 MORAL HAZARD

In spite of the many benefits of Deposit insurance, it has been argued that it tends to induce moral hazard by promoting excessive and imprudent risk-taking on the part of banks and reducing the incentives for depositors to monitor bank's risk-taking behaviour (Ume, Oleka, and Obasikene, 2017; Demirguc-Kunt & Anginer, 2018).

Moral hazard has been defined as a situation where an insured financial institution's appetite for risk-taking increases because another party, the deposit insurer, would bear the consequence of such risky actions. Hence, the insured bank utilizes lower-priced insured deposits to create higher-risk credit facilities, projects, or actions while depositors ignore such risky behaviour by their bank on the belief that they are protected from losses or the bank would be considered too-big-to-fail, or supported with bail-out fund from tax payers' money (IADI, 2013). It is also described as the motivation for excessive or uncontrolled risk-taking by insured financial institutions or beneficiaries of deposit insurance protection (FSF, 2001). Moral hazards could be addressed with the provision of alternative incentives that limits excessive risk-taking by banks, such as Risk-based premium assessment, limited coverage, promoting sound corporate governance practices and timely intervention and resolution, demonstrating a willingness to take legal action against directors, managers and other key officials of banks for unsound banking practices.

1.5 PRE-CONDITIONS FOR EFFECTIVE DIS

The effectiveness of a DIS is influenced not only by its design features but also by the environment within which it operates. The operating environment includes macroeconomic conditions, the financial system structure, prudential regulation and supervision, the legal and judicial framework, and the accounting and disclosure system. The operating environment is mainly outside the scope of authority of the deposit insurer. However, it influences the deposit insurer's ability to fulfill its mandate and determines, in part, its effectiveness in protecting depositors and contributing to a jurisdiction's financial system stability.

1.5.1 Macroeconomic Conditions

Macroeconomic conditions influence the effectiveness of markets, the financial system's ability to intermediate resources, and economic growth. Persistent instability hampers the functioning of markets, and such conditions affect the ability of financial institutions to absorb and manage their risks. In periods of economic instability, market volatility can lead to destabilising creditor runs (including depositor runs). Moreover, uncertainties about future movements in relative prices, including asset prices and exchange rates, can make it difficult to determine the medium-term viability of an institution.

In the face of persistent macroeconomic instability, a DIS will need to reinforce in order to provide robust support to depositors. The system may require a variety of enhancements, including larger-than-usual reserves, stronger emergency funding options, and close coordination and participation with other safety-net participants in reinforcing financial system stability. The introduction of a DIS under these conditions, however, will have to be carefully considered as the new system, if it is not supported by the necessary institutional reforms, could be discredited and fail to bolster depositor confidence.

Evaluations of the macroeconomic conditions in a jurisdiction are found in the jurisdiction reports of international organisations such as the International Monetary Fund (IMF), the World Bank and the Organisation for Economic Co-operation and Development (OECD). These reports often include an analysis of recent conditions and projections of the likely path for macroeconomic variables.

1.5.2 Financial System Structure

The soundness of a financial system influences the appropriate design features of a DIS. Before establishing a DIS, consideration should be given to the health and structure of the financial sector and the range of possible demands on the deposit insurer. Elements for consideration include:

i. Information on the structure of the financial system in terms of the number, type, and characteristics of banks, and types of deposits and depositors will also be useful. This information has implications for the assessment of the strength and effectiveness of the deposit insurer. The extent of interconnectedness, competition, and concentration within the system will all influence the possibilities for contagion and systemic shocks. The presence of poorly supervised banks can lead to unidentified risks to the financial system that materialise unexpectedly. The

DIS should be designed to take account of these risks.

ii. An assessment of the health of banks based on an evaluation of capital adequacy, liquidity, and credit quality of the financial system. Also, the currency composition of deposits, and related coverage and reimbursement rules, will influence how resources are maintained by the insurer.

1.5.3 Sound and Effective Legal Regime

A DIS cannot be effective if relevant laws do not exist or if the legal regime is characterised by inconsistencies. The judicial system should be efficient, and creditors', as well as other stakeholders' redress mechanisms, should be effective. Additional conditions that should exist in this regard include: the ability of a legal regime to support early intervention and prompt corrective action, the ability to close troubled banks promptly, and provisions for a clear and orderly liquidation of assets and resolution of creditors' claims.

1.5.4 Strong Prudential Regulation and Supervision

The strength of prudential regulation and supervision will have implications for the effectiveness of a DIS. Strong prudential regulation and supervision should allow only viable banks to operate. Banks should be well capitalised with sound and prudent risk management, governance, and other business practices. Other characteristics include an effective licensing or chartering regime as well as a regular and effective examination of individual banks

1.5.5 Sound Accounting and Financial Reporting Regime

Sound accounting and financial reporting regime are necessary for an effective DIS. Accurate, reliable, and timely information reported by participating institutions can be used by management, depositors, and the market. Such reliable information enables authorities to make decisions regarding the risk profile of such institutions, thereby increasing market regulatory and supervisory discipline.

Attributes of a sound accounting regime include accurate and meaningful assessments of information in areas such as asset quality and valuation, credit exposures, loan-loss provisioning, and non-performing loans, off-balance-sheet exposures, capital adequacy, earnings, and profitability. In many countries, increased market discipline has been fostered by the adoption of sound and prudent accounting principles and practices and methods to ensure compliance with agreed accounting conventions.

1.5.6 Comprehensive Disclosure Regime

A comprehensive disclosure regime also enhances the effectiveness of a DIS. This can be accomplished by requiring banks to disclose timely, detailed, and useful financial information so the market can assess their performance.

1.6 FEATURES OF AN EFFECTIVE DIS

The desirable features of a DIS are best captured by the IADI Core Principles for Effective Deposit Insurance Systems issued in 2009 and revised in 2014. The 16 Core Principles summarize the requisite features that an effective DIS should consider.

1.6.1 Public Policy Objectives

The Public policy objectives (PPOs) show the objectives that the DIS is set to achieve. PPOs should be formally specified through legislation and publicly disclosed. The two main PPOs for DIS are:

i. Protecting depositors; and

ii. Contributing to the stability of the financial system.

1.6.2 Mandate and Powers

A deposit insurer's mandate and powers should support the PPOs and be clearly defined and formally specified in legislation. A deposit insurer should have all powers necessary to fulfill its mandate. Some of these powers include the ability to:

i. assess & collect premiums; transfer deposits to another bank; reimbursing insured depositors;
ii. information sharing with other safety-net members;
iii. entering into contracts; and
iv. access timely and accurate information to ensure that it can meet its obligations to depositors, etc.

1.6.3 Governance

The deposit insurer should be operationally independent, transparent, accountable, and insulated from undue political and industry influence (external interference) and should be well-governed.

1.6.4 Relationships with Other Safety-net Participants

The deposit insurer and other financial system safety-net participants must have a framework for close coordination and information sharing on a routine basis. In particular, the deposit insurer must have accurate and timely information regarding problem banks, while information-sharing and coordination arrangements should be formalized.

1.6.5 Cross-border issues

All relevant information should be exchanged between deposit insurers in different jurisdictions and between deposit insurers and other foreign safety-net participants when appropriate. It is essential where there are foreign banks in a jurisdiction.

1.6.6 Deposit Insurer's role in Contingency Planning and Crisis Management

There should be in place effective contingency planning and crisis management policies and procedures to ensure prompt response to the risk of and actual bank failures and other events. Also, the development of system-wide crisis preparedness strategies and management policies should be the joint responsibility of all safety-net participants. The DI should be a member of any institutional framework related to system-wide crisis preparedness and management.

1.6.7 Membership

In order to avoid adverse selection, membership in the deposit insurance DIS should be compulsory for all deposit-taking financial institutions.

1.6.8 Coverage

Deposit Coverage has two components, namely: Scope and Level. Both the Scope and Level should be clearly defined and reviewed periodically. With respect to Scope, insurable deposits must be clearly defined in law, prudential regulations, or by-laws. The level of coverage should be limited but credible and capable of being quickly determined. The deposit insurer applies the level and scope of coverage equally to all its members.

1.6.9 Sources and Uses of Fund

A DIS should have all necessary funding available to ensure the prompt reimbursement of depositors' claims. Funding arrangements should be clearly defined and established in law/regulations. Member banks must pay for deposit insurance since they and their clients directly benefit from having an effective DIS. Funding for the DIS should be on an ex-ante basis. The DI has responsibility for the sound investment and management of its funds aimed at ensuring the preservation of fund capital and maintenance of liquidity. The DI should also have adequate risk management policy and procedures, internal control, disclosure, and reporting system.

1.6.10 Public Awareness

An effective DIS should keep the public informed about all aspects (i.e., benefits and limitations) of the DIS. Deposit insurers should promote public awareness about the DIS on an ongoing basis to maintain and strengthen public confidence. Public awareness programs should be clearly defined and consistent with the public policy objectives and mandate of the DI.

1.6.11 Legal Protection

The deposit insurer's board members and employees should be protected against lawsuits for their decisions and actions taken in "good faith" and in the normal course of their duties. In turn, board members and employees must abide by proper codes of conduct (e.g., conflict of interest) to ensure they remain accountable. Legal protection should be specified in legislation.

1.6.12 Dealing with Parties at Fault in a Bank Failure

A deposit insurer, or other relevant authority, should have the power to seek legal redress, criminal and civil, against those parties at fault in a bank failure. Legal redress can be sought from such parties as officers, directors, managers, auditors, and related parties of the failing/failed bank. The culpable parties should be subject to sanctions and or redress.

1.6.13 Early Detection and Timely Intervention

The deposit insurer should be part of a framework within the financial safety-net that provides for early detection, timely intervention, and resolution of troubled banks. The identification of problem banks should be made early and on the basis of well-defined criteria by safety-net participants with the operational independence and power to act before the bank becomes non-viable to protect depositors and contribute to financial stability.

1.6.14 Failure Resolution

An effective failure-resolution process should facilitate the deposit insurer's ability for prompt reimbursement to insured depositors, minimize resolution costs and disruption to markets, and maximize recoveries on assets. There must be flexible mechanisms to help preserve critical banking functions by facilitating the transfer of a failed bank's assets and liabilities (P&A transactions). The DI should have operational independence and sufficient resources to exercise its resolution powers consistent with its mandate.

1.6.15 Reimbursing Depositors

The DIS should give depositors prompt access to their insured funds within seven (7) working days. The deposit insurer (DI) must be involved early in the problem bank process and be provided with depositor information in advance in order to adequately prepare for prompt reimbursement. Where the DI does not have the authority to act as a liquidator, the liquidator is obliged by law to cooperate with the DI to facilitate the reimbursement process.

1.6.16 Recoveries

The deposit insurer should have, by law, the right to recover its claims in accordance with the statutory creditor hierarchy. The deposit insurer should share in the proceeds of recoveries from the estate of the failed bank. Failed bank asset management and disposition should be guided by commercial considerations and their merits. Those providing resolution services should not be allowed to purchase assets from the liquidation.

1.7 HISTORY AND EVOLUTION OF IADI

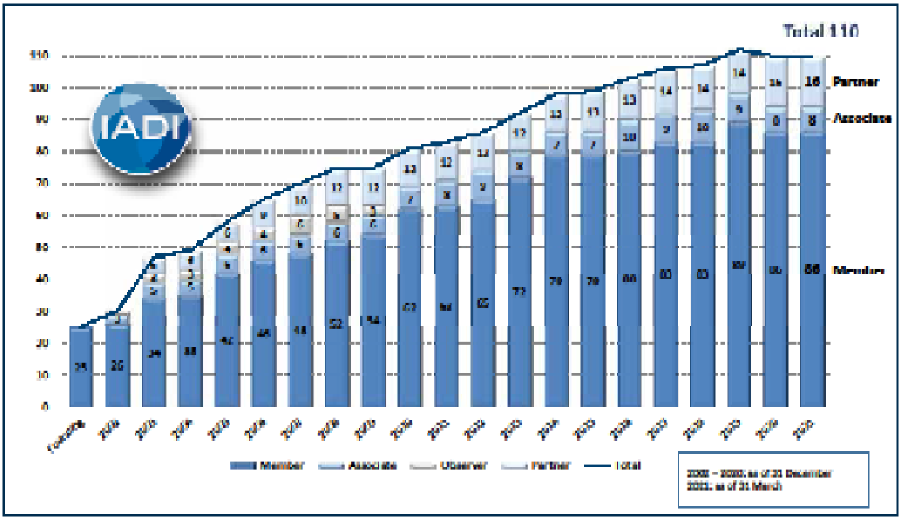
In recognition of the growing importance of the role of DIS in enhancing financial system stability, the International Association of Deposit Insurers (IADI) was founded in 2002. It serves as the global standard-setting body for deposit insurance systems. The ultimate objective is to contribute to the enhancement of deposit insurance effectiveness by promoting guidance and international cooperation.

Prior to its establishment, the idea to create an international association for deposit insurers was initially muted in 1998 at the conference hosted by FDIC. The idea became popular in April 2000 with the Financial Stability Forum (now Financial Stability Board) of BIS establishing a Working Group on Deposit Insurance. On submission of the Working group's report, a decision was made among participating deposit insurers to form an international association for deposit insurers.

1.7.1 MEMBERSHIP

The association started with 25 founding members and has grown to 111 organizations, comprising 86 Members, 9 Associates, and 16 Partners as at 31 September 2021 (IADI, 2021). As of January 2022, the number of jurisdictions with explicit DIS stood at 146.

Figure 1.1 IADI's Membership Growth



Source: IADI 2021

1.7.2 ROLE AND SIGNIFICANCE

IADI has significantly contributed to the growth of the deposit insurance system around the World. As a forum for deposit insurers worldwide, IADI helps gather and share DIS's knowledge and expertise with its members, which also benefits interested parties and stakeholders. IADI also provides training and educational programs and produces research and guidance on matters related to deposit insurance.

The Association, in its commitment to improving the DIS system across the world, functions through four Council Committees (Audit & Risk Council Committee, Core Principles & Research Council Committee, Member Relations Council Committee, and Training & Technical Assistance Council Committee), as well as eight Regional Committees, each for Africa, Asia-Pacific, the Caribbean, Eurasia, Europe, Latin

America, the Middle East, and North Africa, and North America. These councils serve as separate forums for sharing information and ideas while providing a voice to the common interests and issues affecting members in those regions.

IADI is committed to enhancing the stability of financial systems by promoting international cooperation in deposit insurance and providing guidance for establishing new and enhancing existing deposit insurance systems. It demonstrates this commitment by encouraging deposit insurers and other interested parties widely share contact with each other.

IADI has been able to actualize its vision of sharing deposit insurance expertise with the world, as well as its mission of contributing to the enhancement of deposit insurance effectiveness by promoting guidance and international cooperation by delivering its main functions:

i. Develops principles, standards, and guidance to enhance the effectiveness of deposit insurance systems - considering different circumstances, settings, and structures;
ii. Encourages consideration and voluntary application of its principles, standards, and guidelines;
iii. Develops methodologies for the assessment of compliance with its principles, standards, and guidelines and facilitates assessment processes;
iv. Enhances the understanding of common interests and issues related to deposit insurance;
v. Facilitates the sharing and exchange of expertise and information on deposit insurance issues through training, development, and educational programs and provides advice on the establishment or enhancement of effective deposit insurance systems;
vi. Undertakes research on issues relating to deposit insurance;

vii. Co-operates with other international organisations, particularly those involved in issues related to financial markets and promotion of financial growth, stability and integrity; and

viii. Creates awareness among supervisors and regulators of financial institutions concerning the key role of deposit insurance systems in maintaining financial stability.

1.7.3 RELATIONSHIP WITH OTHER STANDARD-SETTERS

The achievement of IADI has benefited immensely from its international relationship with several stakeholders. In addition to the members and associates, it has a strong relationship with partners across the world, the majority of which are multilateral institutions and standard setters. Some of these include:

i. International Monetary Fund (IMF)

ii. World Bank

iii. European Bank for Reconstruction and Development (EBRD)

iv. European Forum of Deposit Insurers (EFDI)

v. Association of Supervisors of Banks of the Americas (ASBA)

vi. Eurasian Economic Commission

vii. Asian Development Bank Institute (ADBI)

viii. Alliance for Financial Inclusion (AFI)

ix. Inter-American Development Bank (IDB)

x. Consultative Group to Assist the Poor (CGAP)

xi. Union of Arab Banks (UAB)

xii. Arab Monetary Fund (AMF)

The relationship between IADI and many other standard setters has yielded many beneficial results, some of which are summarized below:

i. **The Basel Committee on Banking Supervision (BCBS)**

The BCBS and IADI, on 18th June 2009, published "Core Principles for Effective Deposit Insurance Systems" adaptable to a broad range of jurisdictions.

ii. **The Joint Working Group (JWG) with European Commission (EC), Financial Stability Board (FSB), International Monetary Fund (IMF), and The World Bank**

IADI set up a Joint Working Group (JWG) - with representations from the (BCBS), EC, European Forum of Deposit Insurers (EFDI), FSB, IMF, World Bank, and IADI – to make input on "Revised Core Principles for Effective Deposit Insurance Systems (November 2014)" prior to its final approval by IADI's Executive Council. Also, IADI Core Principles have been included within the FSB's Compendium of Key International Standards of Financial Stability.

iii. **The Asia Pacific Economic Cooperation (APEC)**

The IADI collaborates with the APEC in areas of information sharing. In 2005, IADI adopted as its guidance the key official conclusions arising from the February 2004 APEC Policy Dialogue on Deposit Insurance.

iv. **The Islamic Financial Services Board (IFSB)**

The IADI and IFSB partner, through a signed Memorandum of Understanding (MoU) on 6 August 2018, jointly develop and implement Core Principles for Effective Islamic Deposit Insurance Systems.

v. **Basel Process Group**

IADI is part of "Basel Process" with BIS's role in hosting and supporting the works of other international standard setters and committees in maintaining financial system stability. Such standard setters and Committees included BCBS, the Committee on the Global Financial System (CGFS), the Committee on Payments and Market Infrastructures (CPMI), the Markets Committee, the Central Bank Governance Forum, the Irving Fisher Committee on Central Bank Statistics (IFC), the Financial Stability Board (FSB), IADI, and the International Association of Insurance Supervisors (IAIS).

1.7.4 BRIEFS ON PAST IADI PRESIDENTS AND CHAIR OF THE EXECUTIVE COUNCIL

The leadership in IADI has benefitted from the experience and expertise of top executives in DIS institutions worldwide. From its inception, IADI has had six different Presidents and Chairs of the Executive Council (EXCO) from five (5) different countries, as shown in Table 1.1.

Table 1.1: List of IADI Presidents and Chairs of EXCO, Country/ Organization, and Tenure

S/N	NAME	ORGANIZATION/COUNTRY	YEAR
1	Jean Pierre Sabourin	Canada Deposit Insurance Corporation	2002-2007
2	Mr. Martin J. Gruenberg	Federal Deposit Insurance Corporation, USA	2007-2012
3	Jerzy Pruski	Bank Guarantee Fund, Poland	2012-2015
4	Thomas M. Hoenig	Federal Deposit Insurance Corporation, USA	2015-2017
5	Katsunori Mikuniya	Deposit Insurance Corporation of Japan	2017-2020
6	Yury Isaev	Deposit Insurance Agency of the Russian Federation	2020- 2022
7	Alejandro Lopez	Seguro de Depositos Sociedad Anonima, Argentina	2022- Till date

The Presidents and Chairs of IADI EXCO have been effective in leading the Association to achieve its objectives and realize its vision and mission. It is instructive to note that membership of IADI has immensely grown under their leadership.

1.8 HISTORY AND EVOLUTION OF ARC

Following the founding of the International Association of Deposit Insurers (IADI) in Basel, Switzerland in May 2002, IADI created regional committees in 2002 in order to reflect regional interests and common issues across the globe through the sharing and exchange of information and ideas. As of 2021, there were eight (8) regional committees of IADI. Membership in IADI is a precondition to membership in a regional committee.

The IADI-ARC is one of the eight (8) regional committees created with the main purpose of reflecting regional interests and common issues in Africa through sharing and exchanging of information and ideas. The ARC performs such other functions to further the IADI objects and acts in its best interests. The main objectives of ARC are to promote awareness of DIS in Africa, embark on a membership drive, embark on capacity building for DIS in the region, and enhance prompt information-sharing amongst its members.

1.8.1 MEMBERSHIP

The IADI-ARC Membership is open to all Deposit Insurance Agencies (DIAs) in the Africa region that are members of IADI only. As of 2021, there were eleven (11) members of the ARC, as listed below.

- Kenya Deposit Insurance Corporation - Kenya
- Nigeria Deposit Insurance Corporation - Nigeria
- Deposit Protection Fund - Uganda
- Deposit Protection Corporation - Zimbabwe

- Deposit Guarantee Fund - Rwanda
- Ghana Deposit Protection Corporation - Ghana
- Fundo de Garantia de Depósitos - Angola
- Moroccan Deposit Insurance Corporation - Morocco
- Deposit Insurance Board - Tanzania
- Banking Deposits Guarantee Fund - Tunisia
- Fonds De Garantie Des Depots - Senegal
  Et De Resolution Dans L'umoa (FGDR-UMOA)

1.8.2 ARC LEADERSHIP

The IADI-ARC Chairperson is elected by members of the regional committee and saddled with the responsibility for recommending or proposing action to the IADI Executive Council (EXCO), communicating plans and activities, and reporting on activities of the Committee at each meeting of the Executive Council.

The pioneer ARC Chairperson was Mr. G. A. Ogunleye, OFR, the MD/CEO of NDIC. He served as the Chair from 2002 to 2010. Mr. John M. Chikura, the CEO of the DPC of Zimbabwe, succeeded Mr. Ogunleye and served from 2010 to 2018. Mr. Umaru Ibrahim, MD/CEO of NDIC, became the third Chairperson between 2018 and 2020 and was later succeeded in March 2021 by the current ARC Chairperson, Mr. Mohamud A. Mohamud, the MD/CEO of KDIC.

1.8.3 GENERAL MEETINGS AND ELECTORAL PROCESSES

i. ARC ANNUAL GENERAL MEETING

IADI requires that each regional committee holds its Annual General Meeting yearly. In this regard, the ARC has been holding its annual general meetings since the inception of IADI in 2002. The four most recent IADI-ARC Annual General Meetings

(AGM) include:

i. IADI-ARC Annual General Meeting and Technical Assistance Workshop hosted by the NDIC in Lagos, Nigeria, from 25 – 28 September 2018;

ii. IADI-ARC Annual General Meeting and Conference hosted by the Deposit Protection Fund of Uganda in Kampala, Uganda, from 15 – 19 September 2019;

iii. IADI-ARC AGM was held online on 24 November 2020 due to restrictions as a result of the Covid-19 pandemic; and

iv. The IADI-ARC AGM was held virtually on 10 September 2021 as a result of the Covid-19 pandemic.

ii. EXECUTIVE POSITIONS AND ELECTORAL PROCESSES

According to Article 11 of Governing Rules of the ARC 'Election, Appointment and Term of Office of the Office Bearers', the ARC shall elect amongst themselves the following office holders:

i. Chairperson

ii. Vice Chairperson

iii. General Secretary

iv. Deputy General Secretary

v. Publicity Secretary

vi. Research and Training Coordinator

The rules guiding the election are stated below:

i. The office holders shall be elected when there are vacancies, during Ordinary Quarterly Meetings, or at the Annual General Meeting;

ii. All office holders should give the General Secretary a notice of at least three (3) months if, for any reason, they are not able to continue serving the ARC in the capacity for which they were appointed;

iii. The General Secretary shall, within 30 days of receiving the notice, invite Members to express interest in filling the vacancy;

iv. Interested Designated Representatives shall express interest in the advertised positions and provide their Curriculum Vitae;

v. Members shall then cast their votes during a General Meeting, and the applicant with the highest number of votes will assume the office;

vi. For the avoidance of doubt, voting may be done through any of the acceptable means, including a show of hands at a meeting, a secret ballot, or through email;

vii. A person to be elected to an office within ARC shall hold office for a period of two years and may be re-elected for one further term. New office bearers shall assume their responsibilities at least one (1) month before the end of the term of their respective predecessors; and

viii. While electing office bearers, rules of equity and fair representation shall be adhered to. Special attention shall be given to Regional and Gender balance.

1.8.4 RELATIONSHIP WITH IADI AND OTHER REGIONAL COMMITTEES

The IADI-ARC collaborates and cooperates with the IADI Secretariat and other regional committees. Through these collaborative efforts, ARC members participate in the development of standards, guidance, and assessment methodologies to enhance the effectiveness of deposit insurance systems; share expertise and information on deposit insurance and bank resolution issues through training, development, and educational programs; and engage in technical assistance workshops and the unique Self-Assessment Technical Assistance Program (SATAP).

Furthermore, IADI assists with financial and technical support whenever any member of the ARC organises an IADI programme, such as Technical Assistance Workshop, Conference, and Webinar, among others. IADI also participates in ARC organised programmes and, in return, invites ARC members to participate in its programmes and nominates/selects staff of members to serve in various capacities in IADI Working groups and sub-committees. Similarly, ARC members are also eligible to serve as IADI EXCO and Council Committee members.

In addition, through their collaborative efforts with IADI, members of ARC execute a Memorandum of Understanding with other regional committees on issues of common interest, such as capacity building and information sharing, as well as attend virtual meetings of other regional committees.

1.9 CONCLUSION

A stable, safe, and competitive banking system is essentially the core policy role of the financial safety-net in the furtherance of economic growth and development of a country. Deposit insurance as a key component of a financial safety-net is not an exception.

The challenges of the banking crisis experienced in different decades with its attendant economic costs, including depositors losing their funds to bank failure, led to many countries acknowledging the importance and need for the establishment of DIS to protect depositors and promote financial stability. The experience from the global financial crisis has served to further accelerate the pace of adoption of DIS in several jurisdictions.

In spite of the overwhelming benefits of DIS, it is often a recipe for moral hazard if not carefully designed, implemented, and supported with measures such as limited coverage, risk-adjusted premium assessment systems, exclusion of insiders' deposits from coverage, prudential regulation, and supervision, amongst others.

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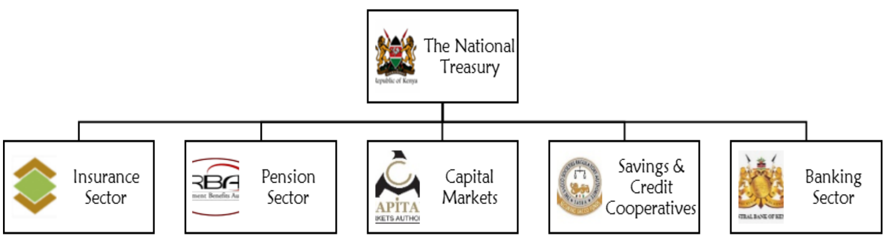
CHAPTER TWO

KENYA

2.0 STRUCTURE AND EVOLUTION OF THE FINANCIAL SYSTEM IN KENYA

The Kenyan financial system comprises market operators as well as regulatory and supervisory authorities, as depicted in Figure 2.1. Financial market operators in Kenya include Commercial Banks, Microfinance Banks, Insurance Companies, Building Societies, Co-operatives, Hire Purchase Companies, Post Office Savings Bank, Agricultural Finance Co-operatives, and Pensions. Commercial Banks dominate the financial system as they account for the majority of all deposits from the public.

Figure 2.1: The Kenyan Financial System



The regulatory and supervisory authorities which oversee the affairs of the Kenyan financial system comprise the National Treasury and the Central Bank of Kenya and other specific regulators charged with the supervision and regulation of their respective sub-sectors.

The Banking System is regulated and supervised by the Central Bank of Kenya, which is also responsible for formulating monetary policy to achieve and maintain price stability, as well as issuing currency. The National Treasury manages the economic policy, prepares the government's annual budget, and manages the government's public finances. The National Treasury in Kenya derives its mandate from the Constitution of Kenya 2010 (Article 225), the Public Finance Management Act 2012 (section 12), and Executive Order No. 2 of 2013.

The Insurance Industry plays an important role in the financial system by indemnifying financial risk in the economy. The sector players also serve as institutional investors for both capital and money market instruments. The Insurance Regulatory Authority, a statutory government agency established under the Insurance Act (Amendment) 2006, CAP 487 of the Laws of Kenya, regulates, supervises, and develops the insurance industry.

The Pension Industry in Kenya has undergone major changes in the last few years that have led to a coverage of about 20 percent of the current working population and the creation of the Retirement Benefits Authority (RBA) to oversee and regulate the industry's management while developing and promoting the Retirement Benefits sector.

Kenya's capital market began in 1987, with Kenya Commercial Bank being the first company to be listed on the stock exchange in 1988. Since then, Kenya's capital market has experienced robust growth. To ensure the proper functioning of the markets, the Capital Markets Authority (CMA) of Kenya was established through an Act of Parliament (CAP 485A, Laws of Kenya) in December 1989 and mandated to license, supervise and monitor the activities of financial market intermediaries and all other players licensed under the Capital Markets Act. The players in the capital markets include the Nairobi Securities Exchange (NSE), the Central Depository and Settlement Corporation (CDSC), the Fund Managers Association (FMA), the Kenya Association of Stockbrokers and Investment Banks (KASIB), as well as the East African Venture Capital Association.

Another market participant in the Kenyan financial system is the

Savings and Credit Cooperative (SACCO). SACCO is an association of like-minded individuals registered under the Ministry of Cooperative Development & Marketing in Kenya and authorized to take deposits from and lend to its members. It is governed by the SACCO bylaws and is regulated by the SACCO Societies Regulatory Authority (SASRA), a semi-autonomous Government Agency under the Ministry of Industrialization and Enterprise Development.

2.1 SAFETY-NET PLAYERS

As portrayed in Figure 2.2, the financial safety net in Kenya is composed of the National Treasury, which is responsible for financial sector policy development; the Central Bank of Kenya (CBK), responsible for Regulation/Supervision and serving as the lender of last resort, and Kenya Deposit Insurance Corporation, which serves as the deposit insurance and resolution body. To foster financial stability, KDIC works closely with the National Treasury, CBK, licensed commercial banks, and micro-finance banks to deepen cooperation and coordination so as to mitigate bank failures in the country.

The CBK and KDIC are the front runners of the Financial Sector Crisis Management Committee, whose role is to design policies and guidelines concerning crisis preparedness and management in the Financial Sector.

Figure 2.2: Composition of Financial Safety-Net in Kenya

2.2 EVOLUTION OF KENYA'S BANKING SECTOR

The Kenyan banking sector has undergone significant transformation from a colonially administered sector into a vibrant and independent industry. The pre-independence period was characterized by a small banking sector predominated by foreign-owned banks, which largely focused on profit maximization. The post-independence era, from 1963 to 2000, had three phases that reflect the growing challenges of a newly independent nation.

The first phase, 'Harambee,' spanned from 1963 to 1980, during which the government-owned banks were created. The second phase, 'Nyayo', was characterized by a large increase in the number of local banks, several of which had strong political connections and Non-Bank Financial Institutions (NBFIs). The third phase, 'Liberalization', covered the period between 1990 and 1999 that featured an explosion in the growth of banks undermined by instability associated with a large number of bank failures.

Some of the positive effects of banking sector liberalization in Kenya, such as an increase in the levels of deposits, were, however marred by disappointments like shallow depth and instability of the financial sector. From 2000, the banking industry has been in a fourth transformative phase, characterized by changes in the regulatory environment. Among these key changes were an increase in minimum capital requirements, the reinforcement of single borrower limits, and restricted lending to insiders.

The CBK classifies commercial banks into three peer groups using a weighted composite index comprising net assets, customer deposits, capital and reserves, number of deposit accounts, and number of loan accounts. A bank with a weighted composite index of 5 percent and above is classified as a large bank. A medium bank has a weighted composite index between 1 percent and 5 percent, while a small bank has a weighted composite index that is less than 1 percent. For the year ended December 31, 2019, there were nine large banks with a combined market share of 74.68 percent, nine medium banks with a combined market share of 17.10 percent, and 21 small banks with a combined market share of 8.22 percent.

The total net assets in the banking sector stood at Ksh.4.8 trillion as of December 31, 2019. Twenty local private commercial banks and two (2) local public, commercial banks accounted for 63.7 percent and 0.6 percent of total net assets, respectively. A total of seventeen foreign-owned commercial banks accounted for 35.7 percent of the sector's assets. The number of bank branches stood at 1,490 in 2019, supported by the adoption of alternative delivery channels such as mobile phone banking, internet banking and agency banking.

As of February 2021, the banking system has a total of 41 Commercial Banks and one (1) Mortgage Finance Company. Out of the 41 commercial banks, 39 are privately-owned, with the remaining two (2) institutions largely owned by the Kenya Government. Among the privately-owned banks, 22 are locally owned (and controlled by Kenyan shareholders), while 17 are foreign-owned. The 22 locally owned institutions comprise 21 commercial banks and one (1) mortgage finance company. Out of the 17 foreign-owned commercial banks, 14 are local subsidiaries, while three (3) are branches of foreign banks.

The Microfinance Banks (MFBs) sub-sector is classified into three peer groups, namely large, medium, and small, on the basis of the weighted composite index as well, comprising assets, deposits, capital, and a number of active deposit and loan accounts. An MFB is classified as large if it has a market share of 5 percent and above; medium if it has a market share of between 1 percent and 5 percent; and small if its market share is less than 1 percent.

As at December 31, 2019, the Total Assets of the MFB sub-sector stood at KES 76.4 billion. The growth in advances is driven by increased demand for credit by various economic sectors and the usage of technology as a lending platform. Moreover, the increase in deposits is attributed to deposit mobilization through agency banking and mobile phone platforms, as well as the expansion of branch networks across the country. As at December 31, 2019, there were three (3) large MFBs with an aggregate market share of 84.6 percent, five (5) medium MFBs with a combined market share of 13.8 percent, and five (5) small MFBs with an aggregate market share of 1.6 percent.

2.3 MOBILE MONEY

Kenya had 66.6 million registered mobile money accounts over the period from March 2007 - January 2021. Mobile money has served as a bridge to the formal sector for some groups of people who previously relied entirely on informal institutions for their economic and financial needs. These groups, largely the urban poor, rural populations, women, and less educated populations, now have access to formal banking services driven both by mobile money usage and formal banking products aided by M-PESA[1].

Following the launch of M-Shwari[2] in 2012, a partnership between Safaricom and the Commercial Bank of Africa (CBA), over 10 million adults have opened formal savings accounts with M-Shwari, out of which about 50,000 have had access to loans each day. This development has created a replicative, perhaps positive, effect in the market as KCB M-PESA[3] and Equitel[4] have now emerged in the new mobile banking space.

2.4 EVOLUTION OF DEPOSIT INSURANCE IN KENYA

In Kenya, Deposit Insurance originated as a government response to several bank failures in the 1983-1989 period. The catastrophic collapse of 12 banks, out of which nine (9) were taken over by the government to form the Consolidated Bank, called for the need to regulate the operations of commercial banks and financial institutions and safeguard depositor confidence. The Government of Kenya established the Deposit Protection Fund (DPF) in 1985, as a department in CBK, under the Banking Act, Cap 488.

In 1986, the Deposit Protection Fund Board (DPFB) was established and assumed responsibility for liquidating failed banks (Nasibi, 1992). To facilitate this, the National Treasury seeded an initial capital of KES 300 million to enable DPFB deliver on its mandate. The main objective of the Board was to provide deposit protection to members and restore confidence and stability in the banking sector. A total of 25 banks went into liquidation between 1993 and 2017.

[1] https://www.safaricom.co.ke/personal/m-pesa

[2] https://www.cgap.org/blog/top-10-things-know-about-m-shwari

[3] https://www.safaricom.co.ke/faqs/faq/782

[4] https://equitel.com/

The DPFB had the mandate of a pay-box plus and was to provide deposit guarantee and bank liquidation functions only. Arising from emanating gaps, the CBK appointed a taskforce in March 2006 to review the legislation governing DPFB operations and recommend a legal framework aimed at expanding the mandate of DPFB, providing for its autonomy, and enhancing its corporate governance structure. Consequently, the Kenya Deposit Insurance (KDI) Act was enacted in 2012, leading to the transition of DPFB to Kenya Deposit Insurance Corporation (KDIC). The Act enlarged the operational scope and mandate of KDIC from being a pay-box plus to a risk minimizer with the power of resolution authority, thus aligning its operations to those of international best practices.

Furthermore, the law established the KDIC with its mandate, powers, and obligations that enable it to operate independently of the CBK. That has enabled the Corporation to deal effectively with current and emerging challenges in the financial sector.

2.5 OPERATIONAL STRUCTURE AND LEGAL FRAMEWORK OF THE KDIC

The DIS membership in Kenya is mandatory for all deposit-taking institutions licensed by the CBK under the Banking Act, Building Societies Act, and the Microfinance Act (Banking Act 38(1), KDIC Act 24(1). During the early years of the establishment of DPFB, membership dwindled due to a directive by CBK requiring non-bank financial institutions to maintain cash reserves with Central Bank, among other factors. The directive, therefore, inevitably orchestrated mergers and acquisitions over the years.

The DIS is an integral component of an effective financial safety-net that protects small, vulnerable, and unsophisticated depositors. This consequently enhances consumer protection and hence public confidence in the Kenyan financial system. Currently, about 99 percent of small, vulnerable deposit holders are fully covered, up to KES 500,000.

2.6 FAILURE RESOLUTION

The responsibilities of the bank resolution process in Kenya lie with the CBK and KDIC, the latter being the main resolution authority. The KDIC Act 2012 empowers it to undertake early intervention and prompt corrective actions, close troubled banks promptly, orderly liquidate assets, and resolve creditors' claims. As the sole and exclusive receiver, KDIC advises the CBK on the most viable resolution mechanism.

The choice of the resolution methods and tools in Figure 2.3 for resolving failing financial institutions in Kenya depends on whether the circumstances pose systemic risk. If circumstances do not pose systemic risk, KDIC must take the least costly resolution method. However, if circumstances pose systemic risk, suitable resolution mechanisms are deployed. These include Statutory Incubation; Open Bank Assistance; Mergers and Acquisition; Transfer and Exclusion (Purchase and Assumption); and Bridge Bank. Currently, one institution, Charter House Bank, is under statutory management as a result of malpractice. Also, over the years, the KDIC has undertaken a number of mergers and acquisitions.

2.7 BANK LIQUIDATION

Section 35 of the Banking Act of Kenya mandated the CBK to appoint DPFB as the sole liquidator of an institution that became insolvent. The first appointment of KDIC (then DPFB) as a liquidator was made in 1993 when ten banks were closed. Thereafter, KDIC was appointed to liquidate 14 other institutions between 1996 and 2005, bringing the total number of banks and financial institutions placed under liquidation by KDIC to 24. Since November 2007, the liquidation process for 7 of the institutions has been successfully concluded.

The KDIC may draw from its Fund to facilitate a bank resolution process under the least cost rule or adopt various resolution mechanisms as may be prescribed with the assistance of the CBK and the government. As at February 2021, a total of 25 banks had been placed under liquidation since the year 1993.

The KDIC liquidation process begins with a press release that announces its appointment as liquidator of the institution and prompt commencement of payment of the protected deposits. The complete process, as described in Figure 2.3, includes the takeover of the failed institution; facilitation of payment of insured deposits; tracing and preservation of assets; debt recovery; asset realization; payment of liquidation dividends; and winding up (dissolution of institutions).

Figure 2.3: The Liquidation Process

KDIC as the liquidator of failed financial institutions employs different debt recovery methods such as negotiated settlements; sale by private treaty; out of court settlements; arbitration; use of a debt collector; sale of security through public auction; sale of a security by private treaty as official liquidator; litigation; petition for the debtor to be wound up; and compulsory or adjudicated bankruptcy.

In addition to normal commercial procedures in collecting debts, other measures often applied when deemed appropriate include: listing the debtor with a Credit Reference Bureau and obtaining post-dated cheques. The cumulative recovery of debt and realization of assets of all institutions placed in liquidation totalled KES 6,836.35 million as of June 2012, representing an increase of KES 2,502.68 million when compared to the total cumulative asset realization of KES 4,333.67 million as of 2003. This represented a 57.74 percent increase in debt recovery in ten years.

Winding up is the last process of liquidation. At that point, there is no more recovery, and liquidation is deemed complete. The process is guided by Section 60 of the KDIC Act 2012. KDIC then applies to the High Court for an order to terminate the liquidation and wind up the institution.

2.8 PREMIUM ASSESSMENT

The member institutions of the DIS in Kenya are required to make annual contributions to the Deposit Insurance Fund (DIF) in the form of premiums. The Corporation reviews the premium assessment rate and methodology periodically to align with the best practice and prevailing banking environment.

The KDIC has been charging premium ex-ante using a flat rate system. This funding system requires the accumulation and maintenance of a Fund to cover deposit insurance claims and related expenses prior to a bank failure. The primary responsibility of paying the cost of deposit insurance lies with the banks. The minimum contribution by a member is KES 300,000, following the increase from KES 100,000 in 1994.

Additionally, the maximum contribution by a member must not be more than 0.4 percent of the average of members' deposit liabilities in a 12-month period prior to assessment in July of each year. The Corporation computes 12 monthly average for the total monthly deposit liabilities, from 1st July – 30 June, to ascertain the amount of deposit liability eligible for premium assessment. The annual premium is calculated by multiplying the average total deposits liability for the last 12 months by the applicable premium rate, which is 0.15 percent, and subject to a maximum of 0.4 percent of deposits held and a minimum of KES 300,000.

As of the end of December 2020, the sum of premiums collected by the KDIC was KES 5.2 billion (USD 47,274,000). Member institutions mandatorily remit premiums within 21 days from the date of receipt of the assessment notice from KDIC. Late payments are subject to penalties of 0.5 percent per day for outstanding premiums. However, during the financial year 2020-2021, member institutions were given a six-month moratorium to alleviate financial pressures occasioned by the COVID-19 Pandemic.

The KDIC considered replacing the flat-rate system with a risk-based contribution model to ensure equity and fairness in premium assessment. The Differential Premium System (DPS) method of assessing premiums considers the risk profile of the member institutions. The model also uses the CAMEL ratings to determine a bank's risk factor. The DPS model is also designed to offer incentives for sound risk management by member institutions. The KDIC successfully implemented the Differential Premium System in July 2021, and banks paid the risk-based premium charged.

2.9 KDIC FUNDING AND FUND MANAGEMENT

The KDIC Act 2012 and KDIC Regulations 2015 established the DIF, vested in and managed by the KDIC. The DIF is devoted to insuring customers' deposits up to the established coverage limit of KES 500,000 and for reimbursement of their deposit in case of failure of any insured financial institution.

The main sources of the Fund include capital contribution by the shareholders of KDIC; premiums and other charges (any interest or penalties) paid by member institutions; borrowings from the CBK or any other person; funds appropriated to the Fund by the parliament for resolution purposes as provided under KDIC Act, 2012 (20(4)); income that accrues from investments; monies received as subventions; grants or donations to the Fund; and all other monies or assets which may in any manner become lawfully payable to, received by, or vested in the KDIC relating to any matter incidental to its powers, duties, and functions under the Act.

The growth of the Fund is mainly through annual premium contributions by member institutions, together with any penalties levied in respect of such contributions, as well as income earned through investments of the Fund. The Fund increased from KES 47 billion in June 2014 to KES 122 billion as at June 2020.

The Fund is placed in an account with the Central Bank, and is invested in Treasury Bills, Treasury Bonds, or other securities issued by the government. Investment of funds is restricted to government securities for preservation of capital, safe custody and liquidity.

The DIF is supported by the ‘Back-up funding’, which refers to additional funding arrangements to supplement the DIF in situations where accumulated funds are insufficient to meet the needs of intervention and failure resolution. The KDIC Act 2012 provides that the Kenyan Parliament can appropriate funds as may be required. The KDIC can also receive funds from the National Treasury, and its board can authorize borrowing from the CBK for the purpose of the fund.

2.10 PUBLIC AWARENESS

The KDIC strategically engages in public awareness and CSR programmes with the aim of publicising its mandate and the commitment of the Government of Kenya to protecting the most vulnerable depositors.

The public awareness activities of KDIC are being guided by KDIC Act and implementation of its Public Awareness Strategy as stipulated in its strategic plan as well as the IADI core principles.

A noteworthy milestone in the public awareness journey of KDIC was achieved in 2017 when KDIC contracted SBO Research to measure the levels of deposit insurance awareness among the public. The findings revealed that awareness of the deposit insurance concept among members of the general public was at 12 percent, with only 9 percent of the general public aware of the existence of KDIC as an organization. The main media for the public awareness campaign for DIS in Kenya were TV, the internet, and newspapers. Other media included University community sensitization, trainings, and related sensitization, and stakeholders' briefings, among others. The Corporation has continued to design and implement public awareness programs and especially media campaigns to increase the level of public awareness in Deposit Insurance.

2.10.1 University Community Sensitization

KDIC visited some institutions of higher learning, including but not limited to Strathmore University, Jomo Kenyatta University of Agriculture & Technology, and the University of Nairobi, with the aim of building partnerships for enhancing the financial literacy among students and exploring avenues for entrenching the DIS subject in the university curriculum. These event-based engagements were promoted by radio and social media campaigns. The culmination would involve an edutainment session with members of the arts fraternity popularizing KDIC's brand and mandate.

2.10.2 Trainings and Sensitizations

KDIC engages its members in sensitization exercises on diverse topics, including a risk-based premium assessment model, industry response to COVID-19, data sharing sensitization, and the launch of the increased deposit coverage limit.

2.10.3 Stakeholder Briefings

The KDIC organises various stakeholder fora, including conferences with the Judiciary, the Lands Ministry, National Transport and Safety Authority (NTSA), to discuss various themes of interest and established a partnership with relevant stakeholders on educating the public on various deposit insurance activities such as debt collection, asset tracing, and recovery.

2.11 COLLABORATION WITH INTERNATIONAL STAKEHOLDERS

The KDIC (formerly DPFB) is a founding member of the International Association of Deposit Insurers (IADI), established in May 2002, and has remained an active player. The KDIC has continued to use IADI-led researches and guidance notes to improve its operations while benefiting from members of IADI through knowledge-sharing sessions and participation in various fora, such as international conferences and technical working groups.

2.12 CAPACITY BUILDING

The KDIC recognises its staff as its most important asset and accordingly places a premium on capacity building. In its strategic plan of 2018 to 2023, the KDIC identified organizational capacity as one of the key thematic areas. In light of the above, the KDIC continuously enhances the technical skills and capacity of its personnel through various exchange programmes as a means of effectively delivering on its mandate.

The KDIC facilitates the training of staff through various relevant institutions, including, but not limited to:

i. Financial Analysis (London Corporate Training);
ii. Crisis Preparedness, Bank Examination and Fraud (Toronto Centre); and
iii. Forgeries Prevention from the Kenya School of Monetary Studies (KSMS).

The staff is also trained in Basic Course in Deposit Insurance in partnership with the Korea Deposit Insurance Corporation (KDIC) and the Federal Deposit Insurance Corporation (FDIC).

2.13 ACHIEVEMENTS AND CHALLENGES

2.13.1 Achievements

The KDIC's ICT Strategy, which includes an Electronic Data Warehouse, Business Analytics, Electronic Data and Records Management System, and Single Customer View Systems, aims to ensure KDIC's resilience and preparedness against challenges posed by the dynamic financial system.

KDIC is also focussed on developing capacities in risk minimization, including continuous improvement of the Differential Premium System and proactive monitoring of bank risk profiles for early detection of problems and prompt resolution.

2.13.2 Challenges

In the discharge of its mandate, the KDIC has encountered many challenges, some of which include the following:

i. **Inadequate Public Awareness:** Despite numerous efforts and several activities of the KDIC, there is still a large gap in terms of financial literacy as well as brand awareness of KDIC and its mandate. Notwithstanding, the KDIC continues to invest heavily in comprehensive public education and advertising initiatives to improve the awareness index. These efforts entail partnerships with member institutions and media and meeting with members of the public.

ii. **Cross Border Issues:** the information sharing arrangement among supervisors and regulators in neighbouring countries is still underdeveloped. However, the East Africa Community, through the Monetary Affairs Committee, is working towards ensuring cooperation between supervisors and deposit insurers within the region.

iii. **Information Asymmetry:** There remains information asymmetry on depositors, which is, however, being addressed through the single customer view to achieving prompt resolution process.

iv. **Social Media:** The spread of unverified news through social media and its negative effect on depositors' confidence still remains a challenge. To curb this challenge, KDIC maintains a digital presence through its website through which it acts as a reference point for access to information.

v. **Cyber-crime:** Cyber-crime remains an inherent threat to the KDIC's business processes, considering the amount of data held and shared with member institutions. KDIC has put in place a number of preventive measures, which include the installation of firewalls and an update of antivirus. The KDIC is also geared towards ISO/IEC 27001 Information Security Management Certification.

2.14 CONCLUSION

The financial system in Kenya is relatively mature, having been in existence for several decades. It has undergone several transformations from the pre-colonial era and has witnessed evolution through many phases. The system comprises the banking sector, the insurance sector, the pension sector, the capital market, and savings and credit cooperatives, among others.

The banking sector, as an integral part of the financial system, has developed over time but has also suffered myriads of challenges that culminated in a series of bank failures in the 1980s. The DIS in Kenya was established in response to those challenges. The DPF, which evolved into the KDIC, was established in 1985 to resolve bank failures and strengthen the banking sector. The Fund had a pay-box plus mandate with the sole role of deposit guarantee and bank liquidation. The evolution of the banking system and the complexity of the development trajectories motivated the broadening of the DPF's mandate from the pay-box to that of risk minimisation, and this occasioned transition of DPF to become the KDIC in 2012.

The KDIC is mandated to provide a deposit insurance protection for customers of member institutions, as an incentive for sound risk management and to generally promote financial system stability and prompt resolution of failing/failed insured institutions. Furthermore, the KDIC protects depositors against the loss of their deposits or bank balance in the unlikely event of a bank failure.

To this end, the KDIC provides payments of insured deposits, thereby enhancing the confidence of depositors, thus inspiring them to keep their savings within the banking system. As an integral part of the financial safety-nets in Kenya, the KDIC has lived up to its mandate of administering deposit insurance in Kenya. It has enhanced risk minimization in the banking system through the implementation of a differential premium system and proactive monitoring of bank risk profiles for early detection of the problem and prompt resolution.

Notwithstanding the challenges confronting it in the areas of public awareness, cross-border issues, information asymmetry, social media, and cyber-crime, the KDIC remains resolute and poised to continue to support the banking system. It remains committed to the promotion of public confidence in the country's financial system through deposit insurance, risk management, and timely resolution of failing/failed insured financial institutions.

CHAPTER THREE

NIGERIA

3.0 STRUCTURE AND EVOLUTION OF THE NIGERIAN FINANCIAL SYSTEM

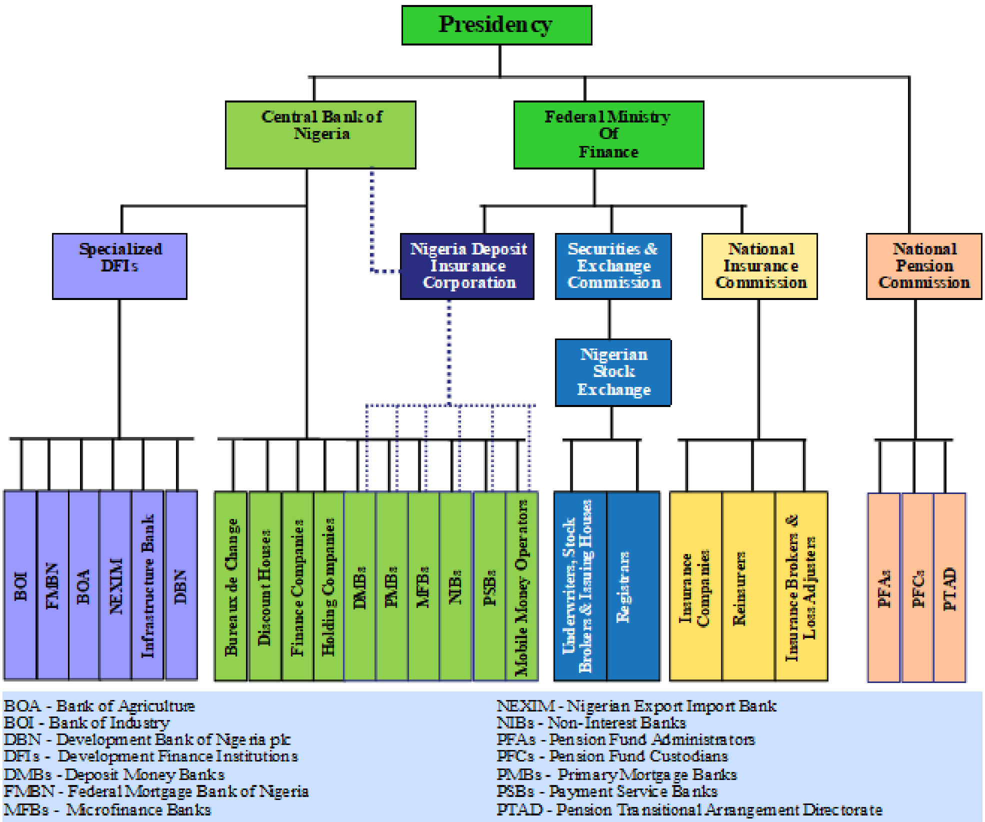
3.1 STRUCTURE OF THE NIGERIAN FINANCIAL SYSTEM

The Nigerian financial system comprises financial institutions, financial markets, financial instruments, and the regulation of financial services. It facilitates the efficient allocation of resources within the Nigerian economy (CBN, 2017; Nwude, 2004). According to the extant literature, the financial system plays a very significant role in a nation's economic growth and development (Levine, 1996, 2004) through capital formation and management of the payment system.

Financial institutions in Nigeria are composed of Deposit Money Banks (commercial banks & merchant banks); other Deposit-Taking Financial Institutions (Primary Mortgage Banks, Microfinance Banks, Non-Interest Banks, Payment Service Banks, and Mobile Money Operators); and Development Financial Institutions (DFIs) including Bank of Agriculture, Bank of Industry, Federal Mortgage Bank of Nigeria, Nigerian Export Import Bank, Infrastructure Bank and Development Bank of Nigeria Plc. Others are Insurance Companies, Issuing Houses, Pension Fund Administrators & Custodians, etc.

The regulatory/supervisory agencies include the Central Bank of Nigeria (CBN), Nigeria Deposit Insurance Corporation (NDIC), Securities and Exchange Commission (SEC), National Insurance Commission (NAICOM), and National Pension Commission (PENCOM). Figure 3.1 depicts the institutional structure of the Nigerian Financial System.

Figure 3.1: Overview of the Nigerian Financial System



Source: CBN Publication

Other elements of the system include financial markets, which provide for credit, custodianship, and exchange of financial instruments (financial assets and liabilities). Some of the traded/offered financial instruments in the Nigerian financial markets (money, capital, and forex) are treasury bills, bonds, equities, deposits, foreign currencies, and many others (CBN, 2004; CBN, 2019). There is also an informal sector in the form of savings and loans associations, local money lenders, cooperative societies, etc.

3.2 EVOLUTION OF THE NIGERIAN FINANCIAL SYSTEM

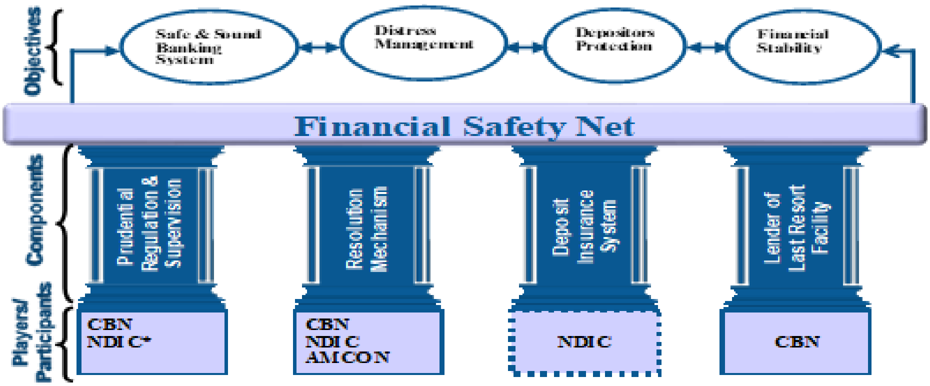
The Nigerian financial system has undergone tremendous development since the late 1950s. The establishment of the Central Bank of Nigeria (CBN) in 1959 marked the evolution of the formal money market in Nigeria, with the first issue of treasury bills in April 1960. The Nigeria Stock Exchange was established and commenced trading shares in 1961. In 1962, Capital Issue Committee was established, which transformed into the Nigeria Securities and Exchange Commission in 1979, to regulate the activities in the capital markets.

With the implementation of the Structural Adjustment Programme in 1986 and the liberalization of banking license in 1987, it was envisaged that there would be bank failure with grave consequences for depositors. Thus, the NDIC was established in 1988 and began operations in 1989 to provide protection to depositors, ensure the orderly resolution of distressed banks and collaborate with the CBN in the supervision of insured institutions. During the period 1960-2020, the Nigerian Financial System witnessed rapid growth with the introduction of various financial instruments, an increase in number/models of banks, development of financial institutions and other financial institutions/regulators in insurance, pension and mortgage sub-sectors of the financial services industry (CBN, 2004; NDIC, 2019).

3.3 FINANCIAL SAFETY-NET

The Financial Safety-Net in Nigeria comprises Prudential Regulation & Supervision, Resolution, Deposit Insurance, and Lender of Last Resort. The safety-net in place is intended to promote financial system stability at all times as well as address systemic crisis (IADI, 2006). Figure 3.2 shows the financial safety-net arrangement in Nigeria.

Figure 3.2: Financial Safety-Net in Nigeria



Source: NDIC Publication

The NDIC shares supervisory/prudential oversight powers to monitor (on/off-site) banks' compliance with prudential regulations and safe-banking practices with the CBN. The administration of the resolution mechanisms for failing banks is a joint responsibility of the CBN, NDIC, Federal Ministry of Finance (FMF), and Asset Management Corporation of Nigeria (AMCON), using resolution options such as open bank assistance, purchase & assumption, assisted merger, bridge bank, asset purchase, and liquidation, amongst others.

While the CBN performs the functions of the lender of last resort to address short-term liquidity problems, the Federal Ministry of Finance serves as the guarantor of the lender of last resort in the event of a systemic crisis. The NDIC has the sole responsibility of providing deposit insurance. The effectiveness of the Nigerian financial safety-net is achieved through close coordination and cooperation amongst the participants in the areas of information sharing, joint supervision, and intervention within the framework of the Financial Services Regulation Coordinating Committee (FSRCC) (Ogunleye, 2010; NDIC, 2019).

3.3.1 Overview of the Nigerian Banking System

The Nigerian banking system dates back to the 19th century when the African Banking Corporation (ABC) started operation in 1892. The bank was then taken over in 1894 by the Bank of British West Africa, which later became Standard Bank and now FBN Holdings Plc. The indigenous banking boom of the 1930s and 1940s heralded the emergence of Nigerian-owned banks and the interests of local entrepreneurs in bank ownership, though several of them failed in the late 1940s and 1950s. The mass failure of indigenous banks informed the enactment of the first banking ordinance of 1952 by the colonial administration.

Prior to that period, banking regulation in Nigeria was non-existent. The early 1950s also witnessed the initial moves by the nationalists for the establishment of a Central Bank in Nigeria. These moves culminated in the enactment of the Central Bank of Nigeria Act of 1958, which established the CBN and it began operations in July 1959. This period witnessed an encouraging climate as more commercial banks were established from 12 in 1960 to 17 by 1962 (Soyibo & Adekanye, 1992).

The banking industry has been among the fastest growing sub-sectors of the Nigerian economy since the adoption of the Structural Adjustment Programme (SAP) in 1986. The Nigerian banking system has experienced significant changes in relation to the number of institutions, ownership structure, as well as complexity, and extensiveness of operations. Those changes have been influenced largely by challenges posed by the deregulation of the financial sector, globalization of operations, technological innovations, and the adoption of regulatory requirements that conform to international standards. The Banks and Other Financial Institutions Act (BOFIA) of 1991 is now repealed and re-enacted as BOFIA 2020 to address those specific challenges.

The other complementary institutions that were established following the

1987 liberalization measures, were also guided by enabling legislations, including the NDIC Act of 1988 and the Community Banks Act of 1992. The NDIC Act established the NDIC as an insurer of banks' deposit liabilities.

Other reforms introduced post-1993 included the increase in mandatory minimum capital requirement from ₦50 million to ₦500 million, interest rate deregulation in 1997, relaxation of entry restriction in 1999, and the adoption of the Universal Banking (UB) model in 2001. The UBs were allowed to undertake various financial services encompassing money, capital market businesses and insurance. The adoption of UB in Nigeria made it imperative for the CBN to take measures toward strengthening the regulatory and supervisory framework. Thus, the minimum capital requirement was increased to ₦2 billion in 2002, while the risk-weighted capital adequacy ratio was raised from 8 to 10 percent (CBN, 2013).

It is worthy of note that with the liberalization of the financial markets in the 1980s, the number of merchant banks grew steadily from 12 in 1986 to 54 in 1992. However, the number of merchant banks dropped to 38 during the period 1994 to 1998 due to the transformation of some merchant banks to commercial banks. Furthermore, the adoption of the Universal Banking (UB) model in 2001 led to the discontinuation of the Merchant banking business. However, the Merchant Banking business was re-introduced in 2010 by the CBN with the issue of guidelines for the licensing, regulations, and operations of merchant banks.

The Community Banking model was introduced in 1990. The Community banks were owned and managed by Community Development Associations, Town Unions, etc. This banking model was abolished in 2005 and replaced with the Microfinance Banking (MFB) model by the CBN. The MFB policy guidelines were revised in 2012, enabling the creation of National, States, and Unit MFBs.

The Mortgage Institutions Decree No. 53 of 1989 provided the regulatory framework for the establishment of primary mortgage institutions to enhance private sector participation in housing delivery. Following the licensing and regulation of the mortgage sector by the CBN, guidelines for PMBs were issued in 2003 and revised in 2011.

Another major reform in the banking industry was the increase in the capital base of banks from ₦2 billion to ₦25 billion in July 2004, with a deadline of December 2005 by the CBN. That development made many banks opt for mergers and acquisitions, reducing the number of banks from 89 to 25. The reforms brought about a new mind-set to the industry as banks saw the need to put in place best practices in the areas of corporate governance and risk management.

The global financial crisis of 2007/2009 also gave rise to another banking reform in Nigeria. In 2010 regulations on the Scope of Banking Activities and Ancillary Matters, No 3, were issued. The guidelines classified types of banking models into three (3): commercial banks, merchant banks, and specialised banks, including non-interest banks, micro-finance banks, development banks, and mortgage banks (CBN, 2010).

Under the commercial banking model, banks may operate with regional, national, or international licenses. The minimum authorized capital for regional, national, and international banks was stipulated as ₦10 billion, ₦25 billion, and ₦50 billion, respectively. The regional banks were permitted to operate in a minimum of six (6) and a maximum of 12 states of the federation. As of December 2020, there were three (3) commercial banks with regional authorization. The national bank licence permits banks to operate in every state of the federation, and there were 11 commercial banks with national authorisation as at December 2020. Lastly, international authorisation allows banks to operate in all federating states in Nigeria as well as abroad, and there were eight commercial banks in this category as at December 2020.

However, in the case of the Merchant Banking model, banks can only obtain a national banking license with a capital threshold of ₦15 billion. As at December 2020, there were six (6) merchant banks with national authorization in operation.

In addition to the regular deposit money banks, the financial system also contains, as a very important component, specialised development finance institutions (SDFIs). SDFIs are institutions established to achieve the developmental objectives of the government. There are six SDFIs as at December 2020. These include the Bank of Industry, the Bank of Agriculture, the Nigeria Export Import Bank, the Federal Mortgage Bank, the Development Bank of Nigeria, and the Infrastructure Bank. These institutions do not receive a deposit from individuals; rather, they are established with the specific mandate to develop and promote key sectors of the economy considered to be of strategic importance to the overall socio-economic development objectives of the country (CBN, 2015).

The guidelines also provided for the licensing of the following categories of specialised banks:

i. **Non-Interest Banks (NIBs):** Operating banking licences issued by the CBN can either be regional or national. The minimum paid-up capital for Regional and National NIBs is ₦5 billion and ₦10 billion, respectively. As at December 2020, there was one NIB operating as a regional bank and another as national bank.

ii. **Microfinance Banks (MFBs):** Institutions under this category are licensed by the CBN to provide financial services to the economically active poor in Nigeria. MFBs can be licensed as a Unit, State, or National MFB. Unit MFBs are further classified into Tier 1, which requires a capital threshold of ₦200 million to operate in urban areas, and Tier 2, with a capital threshold of ₦50 million, can only operate in rural areas. State MFBs operate in one State and the Federal Capital Territory (FCT) with a minimum capital of ₦1 billion. The National MFBs operate in all the States of the Federation, including the FCT with a capital threshold of ₦5 billion.

iii. **Primary Mortgage Banks (PMBs):** The CBN issues two (2) operational licences: regional with ₦2.5 billion minimum capital and national with minimum capital requirements of ₦5 billion.

The capital requirement for SDFI depends on whether it is a wholesale development finance institution (WDFI) or retail development finance institutions (RDFI). CBN (2015) defines a WDFI as a development finance institution devoted principally to providing wholesale funds to Participating Financial Institutions (PFIs) for on-lending to enterprises in identified sectors; while an RDFI is conceptualized as a development finance institution devoted principally to lending directly to enterprises/ organisations in identified sectors. A PFI is a financial institution licensed and/or regulated by the CBN and is involved in lending directly to end user clients in identified sectors. The capital requirements for a WDFI and RDFI are N100 billion and N10 billion, respectively.

As part of its drive to deepen financial inclusion, the CBN, in collaboration with other safety-net participants, issued the guidelines for the licensing and regulation of Payment Service Banks (PSBs) in Nigeria in October 2018 and revised same in August 2020. The PSBs are envisioned to facilitate high-volume low-value transactions in remittances, micro-savings, and withdrawal services in a secured, technology-driven environment. Four (4) PSBs, namely Hope PSB, MoneyMaster PSB, 9PSB, and MoMo PSB, were granted operating licences and are expected to operate with a minimum capital of ₦5 billion.

3.3.2 The Size of the Banking Industry

The Nigerian banking industry has experienced phenomenal growth in terms of the number of banks, branches, total assets, and total deposits.

Table 3.1 presents data on the number of banks, branch network, total deposits and total assets of DMBs from 2010-2021. The number of banks was 24 in 2010 but had increased to 33 by 2021. Table 3.1 and figure 3.3 depict a significant increase in total assets from N18.66 trillion in 2010 to N59.24 trillion in 2021. In the same vein, total deposits recorded significant growth from N 10.84 trillion in 2010 to N38.42 trillion in 2021.

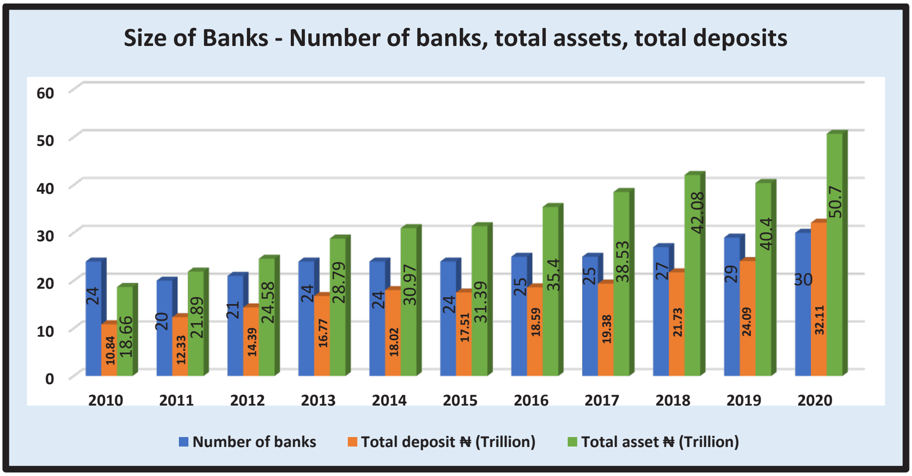
Comparing the number of bank branches over the years, the branch network showed a steady decline from 5,574 in 2010 to 4,728 in 2021 primarily due to the evolution of financial technology (FinTech) in the form of mobile money, internet banking, Automated Teller Machines (ATMs), Point of Sale (PoS), etc.

Table 3.1: Number, Branches, Total Deposit and Assets of DMBs in Nigeria, 2010-2021

Years	Number of banks	Number of bank branches	Total deposit ₦ (Trillion)	Total asset ₦ (Trillion)
2010	24	5574	10.84	18.66
2011	20	5763	12.33	21.89
2012	21	5225	14.39	24.58
2013	24	5255	16.77	28.79
2014	24	5349	18.02	30.97
2015	24	5251	17.51	31.39
2016	25	5061	18.59	35.40
2017	25	5181	19.38	38.53
2018	27	5136	21.73	42.08
2019	29	5037	24.09	40.40
2020	30	4,889	32.11	50.70
2021	33	4,728	38.42	59.24

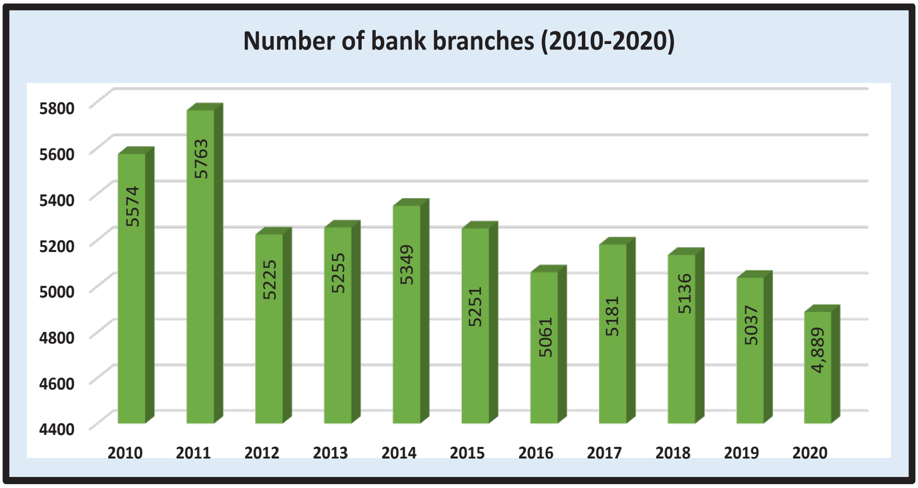
Source: NDIC Annual Reports (2010-2020)

Figure 3.3: Size of Banks



Source: NDIC Annual Reports (2010-2021)

Figure 3.4: Number of bank branches



Source: NDIC Annual Reports (2010-2020)

3.4 DEPOSIT INSURANCE SYSTEM

The establishment of the NDIC has its origin in the report of a committee set up in 1983 by the Board of 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 NDIC was established through the promulgation of Decree No. 22 of 15 June 1988 which was repealed and re-enacted as NDIC Act No. 16 of 2006.

The establishment of DIS in Nigeria was part of the economic reform measures taken by the then government to strengthen the safety-net for the banking sector following its liberalization policy and the introduction of the SAP in 1986. The creation of NDIC was part of the deliberate change in government support policy from protecting all banks' stakeholders to that of protecting depositors. The purpose was to avoid the repeat of bitter experiences of bank failures in the 1940s to early 1950s when there was no formal mechanism for protecting depositors.

The NDIC was established to independently administer the explicit DIS in Nigeria to protect depositors and promote public confidence in the financial system. The agency is empowered with a comprehensive risk minimization mandate/power of Deposit Guarantee, Bank Supervision, Bank Resolution, and Liquidation. The membership of DIS in Nigeria is compulsory for all deposit-taking financial institutions licenced by the CBN. The NDIC operates an ex-ante funding structure to accumulate funds against deposit insurance claims and related expenses prior to a bank failure. It also employs a risk-adjusted differential premium system in its premium assessment of banks and currently maintains three (3) independent deposit insurance funds in line with the categories of banks covered.

The public policy objectives of the NDIC are to protect depositors by providing an orderly means of reimbursement in the case of imminent or actual failure of an insured financial institution; contribute to financial system stability by making the incidence of bank runs less likely, and enhance public confidence by providing a framework for orderly resolution and exit of failing and failed insured institutions.

To achieve those objectives, the main functions of the NDIC, as contained in Section 2 of NDIC Act No.16 of 2006, are:

i. Insuring all deposit liabilities of licensed banks and such other deposit-staking financial institutions operating in Nigeria;
ii. Giving assistance to insured institutions in the interest of depositors, in case of imminent or actual financial difficulties particularly where suspension of payments is threatened;
iii. Guaranteeing payments to depositors, in case of imminent or actual suspension of payments by insured institutions up to a maximum amount specified in the enabling statute; and
iv. Assisting monetary authorities in the formulation and implementation of banking policy.

3.4.1 Operational Structure and Legal Framework

The NDIC was established as an agency of government with ownership shared between the CBN and the FMF in the ratio of 60:40 capital contribution, respectively. The contribution ratio between the shareholders has remained unchanged.

The NDIC Act of 2006, stipulates a 12-member Board comprised of a Chairman, six (6) non-executive directors representing the six (6) geopolitical zones of the Federation; the Executive Management of the NDIC made up of the MD/CEO, and two (2) Executive Directors. Other members of the Board include a representative from the FMF and CBN. Section 7 of the NDIC Act 2006 empowers the Board of Directors to formulate policies and superintend over the activities of the NDIC.

The NDIC is structured into three (3) broad Divisions, namely: Managing Director, Operations and Corporate Services. Various departments and independent units were created to take care of the expanding roles and responsibilities of the NDIC. The Departments and Units report to their respective Divisions headed by MD/CEO and the two (2) Executive Directors. Also, in a bid to bring deposit insurance awareness to the grassroots and make its services more accessible to stakeholders, as well as facilitate its operational activities, the NDIC established offices in all the geopolitical zones of the country. The Management Consultative Committee (MCC), chaired by the MD/CEO and comprising all heads of department/independent units, was established to ensure proper coordination of the activities within the NDIC.

Aside from the NDIC's enabling Act, there are other legislations such as the CBN Act 2007, BOFIA 2020, Company and Allied Matters Act (CAMA) 2020, and the Failed Banks Act 1994 that had also supported the effective operations of the DIS in Nigeria. However, the obligation imposed by the Fiscal Responsibility Act (FRA) 2007 erodes the NDIC's ability to build up its General Reserve Fund as only one-fifth would be available for its use after it had made a contribution to the Consolidated Revenue Fund (CRF) of the Federal Government.

3.4.2 Mandate

The NDIC has the following mandate:

i. **Deposit Guarantee**

Deposit Guarantee is the primary responsibility of the NDIC. The NDIC guarantees payment to depositors of all participating institutions up to a maximum limit in accordance with the provisions of its enabling Act. At inception, the coverage level was set at ₦50,000 per depositor per bank. The coverage level was for both commercial and merchant banks. However, in 2006, the coverage level was increased to N200,000 for DMBs, and deposit insurance coverage was extended to MFBs and PMBs at ₦100,000.

In 2010, the coverage level for DMBs was increased to N500,000, while that of MFBs and PMBs was increased to N200,000. In 2016, the coverage level for PMBs was harmonized with that of DMBs, based on the similarity of their deposit structures. The NDIC also extended deposit insurance protection to Non-Interest Banks (NIBs), subscribers of Mobile Money, and Payment Service Banks (PSBs), all at N500,000 per depositor per institution. As at December 2021, the NDIC provided deposit insurance coverage to 33 DMBs, 3 NIBs, 866 MFBs, 34 PMBs, 3 PSBs and 29 MMOs.

ii. **Bank Supervision**

The NDIC, in collaboration with the CBN, monitors the financial condition of insured deposit-taking financial institutions through both on-site examination and off-site surveillance to ensure that the banking system operates in a safe and sound manner, thereby promoting financial system stability. At inception, the NDIC adopted the compliance-based approach to supervision but later migrated to a more forward-looking risk-based approach.

With the introduction of the Holding Company (HoldCo) banking model, the NDIC, in collaboration with the members of the FSRCC, began the conduct of a Consolidated Risk-Based Examination of the HoldCos. As at December 2021, there were six (6) HoldCos, namely: FBN Holdings Plc, FSDH Holding Company, FCMB Group Plc, GTB HoldCo, Stanbic IBTC Holdings Plc, and Access Holdings Plc.

iii. **Distress Resolution**

Bank failure resolution is a joint responsibility of the CBN, NDIC, FMF and AMCON. Section 34 of BOFIA 2020 specifies the conditions for intervention in failing banks as where a bank informs CBN that it is unable to meet its obligation, about to suspend payment or is insolvent, or where, after an on-site examination, the CBN/NDIC is satisfied that the bank is in a grave situation.

The two conditions stated above empower regulators to intervene in a failing institution. The resolution authorities' enabling laws empower them to adopt various remedial actions to address the distressed conditions of the banks using Open Bank Assistance (OBA), Purchase and Assumption (P&A), Assisted Mergers, Bridge Banks, and Asset Purchase.

iv. **Bank Liquidation**

Over the years, the NDIC has been the sole bank liquidation authority in Nigeria. Section 40 of the NDIC Act 2006 and Section 35 of BOFIA 2020 empower the NDIC to apply to the Federal High Court upon the revocation of a banking license by the CBN for the winding-up order of the affairs of the failed bank.

Bank liquidation mandate of the NDIC is discharged through the orderly closure of failed insured institutions, prompt reimbursement to depositors, and payment to creditors and shareholders of banks in liquidation. As at December 2021, the NDIC liquidation activities covered a total of 467 insured financial institutions comprising 49 DMBs, 367 MFBs, and 51 PMBs.

3.4.3 Funding and Funds Management

A well-designed DIS should have in place the mechanisms necessary to ensure that adequate funds are available to reimburse depositors promptly in the event of an insured institution's failure and to cover the operating expenses of the system. It is in the realization of the foregoing that IADI made funding one of the Core Principles for Effective Deposit Insurance Systems.

In Nigeria, the explicit DIS being administered by the NDIC, necessitated the adoption of an ex-ante funding arrangement as recommended by IADI Core Principle 9 to enable it discharge its mandate as well as sustain its operations effectively.

Section 10 (1) of the NDIC Act 2006 identifies four sources of funds for the DIS as follows: capital contributions and periodic recapitalization provided by the government through the CBN and the Federal Ministry of Finance; premium contribution by participating institutions; borrowing from the CBN (back-up funding arrangement); and special levies by the participating institutions. It is instructive to note that premium contribution remains the major source of funding for the NDIC.

At inception, the authorized capital was ₦100 million, out of which ₦50 million was paid up. In 1992, the authorized capital was increased to ₦1 billion, out of which ₦500 million was paid up. In 1996, the authorized capital was further increased to ₦2.3 billion, and ₦1 billion was fully paid. In 2006, the NDIC Act 2006 increased the authorized capital to ₦5 billion out of which ₦2.3 billion had been paid up. The increase in capital was informed by the rising capital expenditure requirements of the NDIC.

The NDIC is empowered to borrow from the CBN in times of need, as clearly specified in its Act, where the DIF is insufficient to meet its obligations. However, the NDIC has not had cause to utilise this source of funding.

3.5 DEPOSIT INSURANCE FUND

Deposit Insurance Fund is the summation of the premium contributed by all insured financial institutions. Premium collectible from an insured institution is a product of assessment base and rate. The assessment base for determining the premium payable by a licensed bank is the total deposit liabilities standing in its books as at 31st December of the preceding year. By the provisions of Section 20 of the NDIC Act, all deposits of a licensed bank or any other deposit-taking financial institution are expected to be insured with the NDIC, except the following:

i. insider deposits, that is, deposits of staff, including directors of the licensed bank or financial institution;
ii. counter claims from a person who maintains both deposit and loan accounts, with the former serving as collateral for the loan;
iii. inter-bank deposits; and
iv. such other deposits as may be specified by the Board.

At inception, the NDIC adopted the flat-rate approach for its premium assessment. In this approach, the premium charged was uniform across all banks irrespective of their sizes and the level of risk posed to the insurance fund. The adoption of this approach was informed by its relative simplicity of application and the need to rapidly build up the DIF (NDIC, 1997). The NDIC migrated to the Differential Premium Assessment System (DPAS) in 2008 to create an incentive for better risk management in banks and ensure fairness in premium assessment. The DPAS adopted by the NDIC considered both quantitative and qualitative factors and had two stages:

i. The determination of a base premium Rate (Ro) for all the banks; and
ii. The determination of add-ons is based on the individual bank's risk profile using both quantitative and qualitative factors.

The NDIC maintains three (3) separate Funds, namely: Deposit Insurance Fund (DIF), Special Insured Institutions Fund (SIIF), and Non-Interest Deposit Insurance Fund (NIDIF). The DIF is for DMBs and PSBs, and the SIIF is for MFBs and PMBs, while NIDIF is for NIBs.

The decision to separate the funds was informed by the need to avoid undue subsidy of one category of a bank by another. The maintenance of separate account for NIBs was to make NIDIF sharia compliant. Consequently, in the event of failure, only monies meant for a category of insured institutions and drawn from its own Fund would be used to resolve the institution.

3.5.1 Fund Adequacy

The methodology used by the NDIC in its assessment of the DIF adequacy is in line with IADI-recommended methodologies for setting the Target Fund Ratio. An enhanced Target Fund Ratio Framework was established using the credit risk approaches advocated by IADI. The adequacy of the DIF adopted using credit risk techniques enables utilisation of different scenarios and assumptions as well as stress testing the Fund using different parameters and metrics. The NDIC has developed a methodology for the assessment of the adequacy of its insurance fund based on global best practices as recommended by IADI. The World Bank provided technical assistance in the Target Fund Ratio Framework.

3.5.2 Fund Management

The objective of the DIF investment policy in NDIC is to maximize returns without compromising safety and liquidity. In accordance with this objective, the NDIC Act 2006 stipulated that the Insurance Funds should only be invested in Federal Government securities. For the effective management of the Funds, the NDIC developed an Investment Management Policy Framework. The Framework contains guidelines dealing with portfolio composition, investment limits, target rates, investment performance review, and evaluation of risks, policy review and disclosures.

3.5.3 Management of General Reserve Funds

Section 12 (1) of the NDIC Act 2006 provides for the establishment of a General Reserve Fund which was established in 1989. The General Reserve Fund is derived from the operating surplus of the NDIC at the end of each financial year. It also forms part of the funds not only available for use but also for investment by the NDIC.

However, in 2007, the Federal Government enacted the FRA which requires the NDIC to remit 80 percent of its operating surplus at the end of each financial year to the Federation Account.

Section 12 (2) of the NDIC Act 2006 provides as follows: “Where the reserve fund is more than ten times the authorized capital at the end of the year, 75 per cent of the net operating surplus before tax shall be transferred to the reserve fund, 50 per cent of the remaining amount after tax shall be applied to reduce the annual premium payable by the insured institutions while the remaining 50 per cent shall be paid to the shareholders.”

3.6 COLLABORATION WITH STAKEHOLDERS

To further strengthen its operations and performance through partnership, information, and experience sharing, the NDIC collaborates with various local and international organizations. Accordingly, the NDIC participates in various meetings, conferences, seminars, and workshops organized by the IADI secretariat and other deposit insurance agencies around the world, either as participants or facilitators. Furthermore, the NDIC collaborates with the IMF, World Bank, FDIC, US Treasury Department Office of Technical Assistance, and IFSB, among others.

The NDIC also collaborates with other subsector regulators in the Nigerian financial services industry through the FSRCC, whose membership includes FMF, CBN, SEC, NAICOM, CAC, FIRS, PENCOM, NSE, and FRCN, amongst others. In addition, the NDIC collaborates with National Assembly with respect to its annual budget, and Act amendment and provides feedback on pertinent issues on request. The NDIC also partners with professional bodies such as the Chartered Institute of Bankers of Nigeria (CIBN), Institute of Chartered Accountants of Nigeria (ICAN), Nigeria Economic Society (NES), National Institute of Management (NIM), Association of National Accountants (ANAN), Risk Management Association of Nigeria (RIMAN), among others.

3.7 CAPACITY BUILDING INITIATIVES

Human capital development is accorded serious importance in the NDIC. Consequently, the NDIC invests massively on capacity building by ensuring that staff acquires the requisite skills required to discharge and perform their duties diligently and efficiently. The capacity building initiatives include in-house knowledge-sharing, local training, overseas training, and mandatory continuing professional education. Members of staff of the NDIC are also encouraged to embark on self-development initiatives regularly.

To further underscore the importance the NDIC places on capacity building, it established a Training Centre (NDIC Academy) as an institute for professional development, which was assessed and accredited by the CIBN as a training centre of excellence in deposit insurance.

3.8 PUBLIC AWARENESS INITIATIVES

Public awareness of a DIS plays a vital role in engendering confidence among the stakeholders, thereby promoting the financial system stability. In this regard, public awareness is one of the strategic themes of the NDIC. In light of this, the NDIC has undertaken various initiatives to create and sustain effective public awareness of its activities. Some of these initiatives include the following:

3.8.1 Development of the Media & Communication Policy

The maiden Media & Communication Policy for the NDIC was approved by Management and personally issued by the MD/CEO on 17 September 2018. The policy formulation was informed by the critical nature of effective public awareness and astute management of internal and external communication flows to the success of the DIS and management of the reputation and image of NDIC. The policy provided the context for a seamless and well-coordinated management of information in the face of a rapidly evolving information technology space. The major thrusts of the policy are as follows:

3.8.2 Collaboration/Engagement with Stakeholders

The NDIC has instituted various fora to constructively engage with key stakeholders, including collaborative efforts with other safety-net players. These platforms inspired collaboration, enhanced public awareness, and promoted the visibility of the NDIC brand. They include briefings/meetings with the Senate Committee on Banking, Insurance, and Other Financial Institutions; Annual NDIC Workshop for Financial Correspondents Association of Nigeria (FICAN); Annual Editors Forum; Participation in Major International Trade Fairs; NDIC Stakeholders Town-Hall Meeting; Sensitization Seminars for Judges and Lawyers; NDIC hosting of educational visits/excursion by students, Annual Depositor Protection Awareness Week, NDIC Round Table on Mobile Payment Services in Nigeria, Nationwide Sensitization Seminar for Operators in the Microfinance Subsector, Sensitization Seminar for Corporate Affairs Managers of deposit money banks (DMBs) and Front Desk Officers of MFBs/PMBs and 24-Hour Enterprise Help-Desk System Unit. Other initiatives are participation in financial inclusion drive programmes like the ‘Training of Trainers Programme’ for the

National Peer Group Educator Programme (NAPGEP) on Financial Inclusion at NYSC Orientation Camps, World Savings Day programme, and Account Opening Week, among others.

3.8.3 Rebranding of the NDIC

Rebranding was a key step towards repositioning the NDIC to enhance service delivery and enhance the perception of the public about the NDIC's operations and activities. As part of its rebranding initiative, the NDIC launched a redesigned website to further enhance its visibility, image, and access to its corporate profile, programmes, and activities. The website was highly user friendly, attractive, robust and highly interactive, with the incorporation of major social media platforms.

3.8.4 NDIC Publications

The NDIC has produced a variety of publications to inform its stakeholders of issues regarding DIS with the aim of ensuring its effectiveness in Nigeria. Those publications are as follows: NDIC Annual Report, 30 Years of Deposit Insurance in Nigeria, other book projects include the ten years and 20 years of Deposit insurance in Nigeria, Case Studies on Bank Failures in Nigeria, Financial Literacy for Children and Youth using Story Books, NDIC Handbills, and NDIC Quarterly Journal, among others.

3.8.5 Introduction of Deposit Insurance Courses in Nigerian Universities and Other Tertiary Institutions

As part of efforts to improve public awareness of DIS and deepen financial literacy in Nigeria, the Management of the NDIC approved the introduction of DIS curriculum in tertiary institutions across the country. The program commenced in 2015 and it operates two courses, Fundamentals of DIS (theory of DIS) and Practice of DIS (DI as practiced by the NDIC), which are currently being taught in ten Nigerian universities..

3.8.6 Advertisement in Electronic, Print Media and Mass Media

The NDIC adopted TV/radio appearances as an initiative to enhance public awareness of its mandate and activities. In this regard, the MD/CEO, Executive Directors and Directors of operational departments had participated severally in strategic television and radio public enlightenment programmes. Such programmes included ‘Money Show’ on Africa Independent Television (AIT), ‘Sunrise Daily’ on Channels Television, ‘Tuesday Live’ on NTA Network Service, ‘Radio Link’ and ‘Eagle Square’ on the Radio Nigeria Network Service, ‘Economic Matters’ on Vision FM, Abuja, ‘Ombudsman’ on Love FM Abuja and the popular live audience participatory programme; ‘Brekete Family’ on Human Rights Radio & Television, Abuja as well as telecast of NDIC CALLING documentaries, amongst others.

In addition, the NDIC employed radio and television jingles on depositor protection and awareness, including audio, live action, animation and infomercial, to enlighten the public on the activities of the NDIC. The NDIC sponsored special reports and supplements on its mandate and activities in major national dailies, news magazines and other periodic/professional publications to enhance awareness of DIS. Other media campaign include press conference, press release, Electronic and Print media special reports (Supplements, Advertorials, sponsored opinion articles/editorials, TV and radio commentaries) and advertisements (TV, Radio and Newspaper/News Magazines).

3.8.7 Help Desk/Customer Protection

In 2010, the NDIC Help Desk was established as a 24-hour toll-free line to educate and enlighten depositors as well as attend to enquiries.

3.8.8 Outdoor Advertising Campaigns

The NDIC adopted the use of outdoor advertising campaigns as a public awareness and brand management tool. The outdoor advertising campaigns include outdoor motion/video advert, outdoor billboards and mobile advert campaigns nationwide.

3.8.9 Periodic Public Survey on NDIC Activities

The NDIC periodically engages independent consultants to carry out public awareness surveys on the activities of the NDIC. This is imperative to gauge the effectiveness of the tools of public awareness employed by the NDIC and make appropriate recommendations. The first in this series of assessments were conducted in 2010 and subsequently in 2013 and 2020.

3.9 CORPORATE SOCIAL RESPONSIBILITY AND PUBLIC RESPONSIVENESS

The key objective of an organization is to maximize stakeholder value. In light of this, the NDIC, since its inception, has been actively involved in voluntary Corporate Social Responsibility (CSR) activities geared towards positively impacting various stakeholders of the NDIC. These activities are essentially executed outside the statutory mandate across the six (6) geopolitical zones of Nigeria, in recognition of its ethical obligation to the society beyond what its mandate entails. They reflected the NDIC's recognition of the role of societal support in actualizing its mandate in the long run.

Since its establishment, the NDIC has impacted its stakeholders through the robust implementation of multiple CSR projects and programmes in academic and non-academic institutions in order to enhance academic and economic development in the country. Specifically, the NDIC had spent over ₦1,693,600,000.00 (One Billion, Six Hundred and Ninety-Three Million, Six Hundred Thousand Naira only) on its Corporate Social Responsibilities projects.

3.10 COMPLIANCE WITH CORE PRINCIPLES FOR EFFECTIVE DEPOSIT INSURANCE SYSTEMS

The Core Principles for Effective DIS was jointly developed by the Basel Committee on Banking Supervision (BCBS) and the International Association of Deposit Insurers (IADI) to enhance the effectiveness of DISs worldwide by providing benchmarks for assessing the quality/effectiveness of existing systems, identification of gaps and measures to address them as well as providing guidance for setting up new systems in countries desiring to establish a DIS.

In December 2011, the NDIC voluntarily agreed to subject itself to Peer review assessment with regards to its compliance with the Core Principles for Effective DIS by IADI. Accordingly, IADI constituted a Team of Assessors for the evaluation of the level of NDIC's compliance with the Core Principles.

The evaluation process examined each of the eighteen (18) items comprised in the Core Principles, then in existence before the revision to 16, evaluated the extent of compliance before arriving at a verdict on each of the parameters of assessment. There were four possible verdicts prescribed by IADI for each Core principle assessed depending on the level of compliance. These include Compliant, Largely compliant, Materially Non-compliant and Non-compliant.

Based on the IADI Assessment Report of 2011, the NDIC was rated compliant in 7 core principles, largely compliant in 8 principles, materially non-compliant in 2, and 1 principle was not applicable to NDIC, i.e., principle 10: Transitioning from Blanket Guarantee. The principles in which the NDIC was rated complaint were Principle 2 (Mitigating Moral Hazards), Principle 6 (Relationship with Other Safety-Net Participants), Principle 7 (Cross Border Issues), Principle 8 (Compulsory Membership), Principle 9 (Coverage) Principle 13 (Legal Protection) and Principle 14 (Dealing with Parties at Fault).

Those in which it was rated largely compliant were Principle 1 (Public Policy Objective) Principle 3 (Mandate), Principle 5 (Governance), Principle 11 (Funding) Principle 12 (Public Awareness), Principle 15 (Early Detection and Timely Intervention and Resolution), Principle 17 (Reimbursing Depositors), and Principle 18 (Recoveries). The principles in which it was rated materially non-compliant were Principle 4 (Powers) and Principle 16 (Effective Resolution Process).

3.11 ACHIEVEMENTS AND CHALLENGES

3.11.1 Achievements

The NDIC has achieved significant milestones in its three decades of protecting depositors, engendering confidence and ensuring the stability of the Nigerian financial system. The NDIC has been able to accomplish these achievements through its cooperation with other financial safety-net participants in the system. Some of the achievements are presented below according to the mandate of the NDIC.

i. **Deposit Guarantee**

   a. **The review of deposit insurance coverage:** In accordance with the IADI Core Principles, which states that the level and scope of coverage should be reviewed periodically (at least every five years) to ensure that it meets the public policy objectives of the deposit insurance system, studies were conducted in 2010, 2015 and 2020 to assess the adequacy of the coverage level. The coverage level for the DMBs, NIBs and PMBs currently stands at ₦500, 000. Also, subscribers of MMOs are covered up to a maximum coverage limit of ₦500, 000 per depositor per bank, while that of the MFBs has been set as ₦200, 000 per depositor per bank.

b. **Introduction of pass-through deposit insurance**: In 2015, the NDIC released the framework for pass-through deposit insurance for subscribers of mobile money operators (MMOs).

c. **Extension of DIS to 4 PSBs:** In 2019, the NDIC extended DIS coverage to four (4) PSBs, and a corresponding coverage level was established at ₦500,000 per depositor per PSB, similar to the Pass-Through deposit insurance extended to subscribers of MMOs.

d. **Payment of Insured Deposits:** Cumulatively, the NDIC has paid ₦8.268 billion to 443,946 insured depositors of 49 DMBs and ₦100.83 billion to uninsured depositors of 49 DMBs in-liquidation as at 31 December 2021. The cumulative insured amount paid to 1,277 depositors of 51 PMBs as at 31 December 2020 was ₦99.75 million while ₦6.309 million was paid to the uninsured depositors of the PMBs in-liquidation. The NDIC has cumulatively paid ₦3.375 billion to 90,291 insured depositors of 325 PMBs and ₦1.218 million to the uninsured depositors in this category.

e. **Deposit Insurance Premium:** Prior to 2012, The NDIC employed a flat rate premium assessment methodology in the computation of premium payable by insured member institutions. However, from 2012, the Risk-Based Premium Assessment Method was adopted in calculating the premium payable by DMBs and Non-Interest Banks (NIBs) while it used the flat rate for MFBs and PMBs up to the 2016 year of assessment. The risk-based assessment method, which is also known as differential premium assessment system (DPAS), ensures that banks pay premiums that are commensurate with their level of risk.

DPAS also ensures fair pricing of DIS premiums.

f. **NDIC's Insurance Fund:** The cumulative balance of DMBs' Deposit Insurance Fund segment rose, as shown in Table 3.2, by ₦758.69 billion from ₦614.16 billion in 2014 to ₦1,372.85 billion in 2020, representing a growth rate of 123.53 percent in 6 years. The Special Insured Institutions Fund (SIIF) for MFBs and PMBs increased by ₦44.09 billion from ₦71.21 billion in 2014 to ₦115.30 billion in 2020, representing a growth rate of 61.92 percent. Also, the cumulative balance of Non-Interest Deposit Insurance Fund for NIBs rose by ₦6.62 billion from ₦0.118 billion in 2014 to ₦6.74 billion in 2020, representing a growth rate of 5,611 percent in 6 years.

Table 3.2. Cumulative Insurance Fund (2014-2020)

S/N	Particulars	2014 ₦ Billion	2015 ₦ Billion	2016 ₦ Billion	2017 ₦ Billion	2018 ₦ Billion	2019 ₦ Billion	2020 ₦ Billion
1	Deposit Insurance Fund (DIF)	**614.16**	725.58	827.89	955.18	1,095.23	1,201.34	1,372.85
2	Special Insured Institutions Fund (SIIF)	**71.21**	77.49	91.59	99.24	109.88	111.02	115.30
3	Non-Interest Deposit Insurance Fund (NIDIF)	**0.118**	0.24	0.43	0.69	0.99	1.50	6.74

Source: NDIC

i. **Bank Supervision**

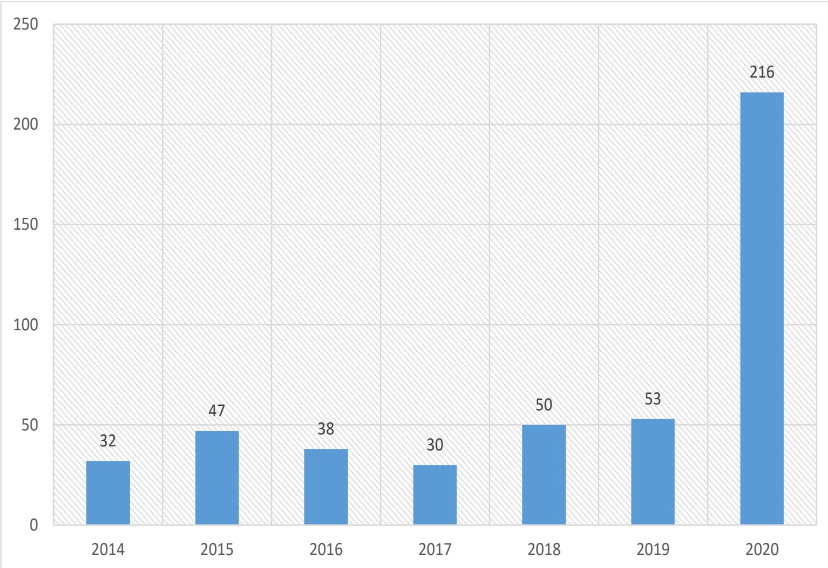
a. **Framework for Regulation and Supervision of Domestic Systemically Important Banks:**

In line with global trends and as part of reform efforts to foster financial stability, the NDIC and CBN developed the Framework for the Regulation and Supervision of Domestic Systemically Important Banks (DSIBs) in Nigeria in 2014. The Framework detailed the methodology for classifying banks as D-SIBs and established requirements for corporate governance, risk management, internal control, higher loss absorbency, and stress testing, among others. It also required D-SIBs to submit Recovery and Resolution Plans (RRPs) to the CBN and the NDIC by the 1st of January every year. Accordingly, more supervisory attention is given to such banks classified as being significantly important in the financial system.

b. **Supervision of Mobile Money Operators (MMOs):** All MMOs are regularly examined by the NDIC, including the rendition of their returns to the NDIC. There were Twenty-nine (29) licensed MMOs as at March 31, 2020**.** Twelve (12) of the MMOs were bank-led, while Seventeen (17) were non-bank-led.

c. **Special Investigations:** The NDIC conducted 466 special investigations arising from petitions and complaints from stakeholders, as shown in Figure 3.5. Investigations were in response to allegations and complaints mainly in respect of excessive interest charges, breach of trust, unlawful conversion of deposits, un-credited lodgements, arbitrary closure of customers' accounts, insider abuse and ATM frauds.

Figure 3.5: Special Investigations/Verifications of DMBs



Source: NDIC Annual Report

c. **Supervision of DMBs:** The NDIC and CBN jointly conduct Risk Assets Examination and Risk-Based Examination of DMBs to ascertain their true financial condition and take prompt corrective action where necessary. From 2014 – 2020, the CBN/NDIC conducted 161 routine Risk-Based Supervision of DMBs and 176 Risk Assets Assessments examination, as shown in Table 3.3.

Table 3.3: DMBs Examined in the Period 2014 – 2020

Year	Joint CBN/ NDIC Routine/ RBS of DMBs (Including NIBs)	Joint FSRCC Consolidated RBS Examination of Financial Holding Companies	Joint CBN/ NDIC Maiden Exam.	Joint CBN/ NDIC Risk Assets Assessment	Special Investigations/ Verifications
2020	13	2	1	26	**216**
2019	26	3	-	27	**53**
2018	26	3	1	26	**50**
2017	25	3	-	26	**30**
2016	23	3	1	23	**38**
2015	24	1	-	24	**47**
2014	24	0	3	24	**32**
Total	161	15	6	176	**466**

Source: NDIC Annual Reports

d. **Capacity Building for Operators:** In 2018 and 2019, the NDIC offered technical assistance to CIBN and the Mortgage Bankers Association of Nigeria in curriculum development for Mortgage Bankers. The NDIC conducted sensitization workshops for 450 MFBs operators in 2018 and 263 MFBs Operators in 2019 on "Movable Collaterals" in Enugu, Akwa-Ibom, Lagos, and Abuja. The workshops aimed at enhancing the capacity of these banks to lend to Micro, Small, and Medium Enterprises. It also conducted training on Differential Premium Assessment System (DPAS) for forty (40) MFBs comprising twenty (20) National MFBs and twenty (20) large State MFBs. Since

2017, the NDIC annually organizes training for the staff of the Economic and Financial Crimes Commission to expose them to bank examination approaches and techniques as well as Foreign Exchange (FOREX) Operations.

e. **Supervision of Special Insured Financial Institutions:** In line with its mandate, the NDIC conducts on-site examination and off-site surveillance of insured MFBs and PMBs in collaboration with CBN. Consequently, during the period under review, the NDIC conducted 1,593 risk-based examinations of MFBs and 56 of PMBs as shown in Table 3.4.

Table 3.4: MFBs and PMBs Examined by NDIC

Year	MFBs Examined	PMBs Examined	Total
2020	195	10	205
2019	249	10	259
2018	294	10	304
2017	300	10	310
2016	350	10	360
2015	205	6	211
Total	**1593**	**56**	**1649**

Source: NDIC Annual Reports

f. **Early Warning System:** The NDIC conducts offsite analysis of the financial health of all the Insured DMBs to determine their viability, safety, soundness and financial capability. This provides an early indication of an individual bank's potential problems for prompt corrective action.

g. **Capacity Building for Supervisors:** As part of the strategic initiatives to enhance the capacity of Examiners, the Management approved the training of Examiners in Computer Assisted Audit Techniques (CAATs). The training, anchored by Akintola Williams Deloitte, involved three months of intensive classroom and on-field exposure in ACL, SQL, and Advanced Microsoft Excel. So far, 60 NDIC Examiners have benefitted from the program. The NDIC also trained its supervisors on risk management, International Financial Reporting Standards 9, and the Basel frameworks.

h. Introduction of Uniform Application IT for MFBs

In 2016, the CBN Committee of Governors granted approval for the development of a Uniform Application IT for MFBs (NAMBUIT). The project was funded by the CBN, NDIC, and international development partners for MFBs. The objective of the project was to facilitate the pace of digital financial services adoption in Nigeria. In 2018, the NAMBUIT platform went into the deployment phase, and MFBs were enrolled in the platform.

i. Help Desk/Customer Protection: In 2010, the NDIC Help Desk was established as a 24-hour toll-free line to educate and enlighten depositors as well as attend to inquiries. The summary of the calls received is presented in Table 3.5.

Table 3.5: Summary of Calls Received at the Helpdesk

S/N	BANKS	2014	2015	2016	2017	2018	2019	2020
1	DMBs	75	93	94	66	83	123	146
2	Closed DMBs	72	91	95	35	40	37	24
3	AMCON Acquired Banks	1	2	2	8	4	3	1
4	PMBs	7	68	80	53	6	9	16
5	MFBs	31	9	9	32	24	34	19
6	Closed MFBs	159	197	193	57	90	208	90
7	General	89	117	122	58	65	107	86
TOTAL		**434**	**577**	**595**	**309**	**312**	**521**	**382**

Source: NDIC

Furthermore, a total of 5,060 and 2,493 e-mails which centred on complaints and petitions against DMBs, PMBs and MFBs, were received by the Help Desk during 2019 and 2020, respectively. All the complaints were forwarded to the appropriate departments for investigation and resolution.

j. **Establishment of Fintech and Innovations Unit:** The NDIC responded to technological innovations and applications in financial services with the establishment of a new "Fintech and Innovations Unit" in January 2020 to align with contemporary trends in advanced economies. The new Unit engages and collaborates with innovators in the financial and non-financial sectors of the economy to identify, develop and promote technology-driven solutions that would protect depositors and improve the safety and soundness of insured institutions.

ii. **Bank Failure Resolution**

The resolution of failed or failing banks is a shared responsibility between the NDIC, CBN, and other financial sector sub-regulators. Several resolution approaches have been adopted by NDIC including, open bank assistance (OBA). The NDIC offered financial accommodation to provide temporary liquidity to 10 banks. In addition to removing, in collaboration with CBN, the board/management of mismanaged banks, NDIC also provides technical assistance to qualified distressed banks. In 2006, the NDIC used Purchase and Assumption to resolve the 13 banks that failed to meet the required deadline of CBN.

a. **Adoption of Bridge Banks resolution mechanism:** In 2011, the NDIC employed the bridge bank option to resolve the problems of the defunct Afribank Plc, Bank PHB Plc and Spring Bank Plc by creating bridge bank, namely, Mainstreet Bank Limited, Keystone Bank Limited and Enterprise Bank Limited, respectively to assume the asset and liabilities of the three failed banks. In 2014, Mainstreet Bank Limited and Enterprise Bank Limited were successfully repackaged and acquired by Skye Bank Plc and Heritage Bank Plc, respectively. In 2017, the last bridge bank, Keystone Bank Limited, was acquired by Sigma Golf-River Bank Consortium.

Furthermore, in September 2018, the NDIC, in collaboration with the CBN, utilised the bridge bank mechanism to resolve the distressed Skye Bank. The new bank, Polaris Bank Ltd, which acquired the assets and assumed the liability of defunct Skye Bank, was subsequently acquired by AMCON pending sale to credible third-party acquirers.

b. **Contribution to Financial Stability Fund:** As part of its contribution to the establishment of Financial Stability Fund, the NDIC reviewed downwards the premium payable by banks by reducing the assessment Base Rate.

iii. **Bank Liquidation**

The NDIC continued with the liquidation activities of 49 DMBs, 367 MFBs and 51 PMBs as at December 31, 2020. A cumulative amount of ₦30.19 billion was recovered from debtors of DMBs in-liquidation, ₦151.60 million was realized from debtors of MFBs in-liquidation and ₦351.62 million was realised from debtors of PMBs in-liquidation. Also, as at December 31, 2020, a cumulative sum of ₦21.92 billion was realised from the disposal of physical assets of closed DMBs, while the cumulative sum of N555.57 million and ₦81.59 million was realised from the disposal of the physical assets of MFBs and PMBs.

The NDIC had so far realised the investments in forty-eight (48) banks and three (3) MFBs in-liquidation. The cumulative investments realised from the affected banks stood at ₦4.75 billion as at 31 December 2020. Table 3.6 shows the asset realized by the NDIC over the years. The cumulative asset realized for Banks in Liquidation from 1994 to March 2020 was ₦57,314.43 million.

Table 3.6: Recoveries in the Period 1994 - 2020

YEAR	RISK ASSETS	PHYSICAL ASSETS	INVESTMENTS	TOTAL
1994-2013	25,365.11	19,969.13	3,910.48	49,244.73
2014	1,515.75	1,200.50	422.4	3,138.65
2015	698.31	407.49	93.5	1,199.30
2016	899.48	104.71	4.25	1,008.44
2017	368.42	207.48	0.07	575.97
2018	578.27	6.21	192.57	777.05
2019	916.03	341.2	-	1,257.23
2020	353.77	354.38	123.03	831.18
TOTAL	30,695.14	22,591.1	4,746.3	58,032.55

Source: NDIC Annual Reports

3.12 CONCLUSION

The Nigerian financial system is comprised of money and capital markets. The financial system has been instrumental in providing the enabling environment for economic growth, capital formation and management of the payment system.

The banking sector has evolved through several phases to become one of the most developed in Africa. The positive development witnessed in the sector drew its strengths from the numerous challenges experienced over the years, coupled with the series of reforms and effective regulation/supervision by the authorities.

Despite several economic, financial, and banking reforms before and after 1980, the banking system was still vulnerable to challenges that were of systemic significance. In response to the need to strengthen the financial system by promoting the banking system resilience, the deposit insurance system was introduced as one of the financial safety-nets to complement prudential regulations, lender of the last resort function of the CBN.

The NDIC was established in 1988 under its enabling law to administer DIS in Nigeria. The NDIC commenced operation in March 1989 with a risk minimization mandate. The NDIC is mandated to guarantee deposits, supervise banks, resolve their distresses and undertake bank liquidation functions.

Over the years, the NDIC has been successful in delivering its mandate in spite of numerous challenges. It has contributed immensely in depositors' protection, financial system stability, and public confidence in the banking system. The ambit of protection offered by the NDIC has expanded over the years. Besides scaling up deposit insurance coverage over the years to ensure effective protection, the NDIC has extended deposit protection to Payment Service Banks (PSBs) and mobile money subscribers through the Pass-Through Deposit Insurance Model. The NDIC has ensured that the banking sector remains resilient to vulnerabilities posed by banking distress through effective deployment of appropriate resolution mechanisms.

The NDIC has continued to focus on delivering its mandate by putting in place measures to manage the challenges facing its activities. Also, it has put in place plans and actions for the amendment of the NDIC Act 2006, as one of its measures in handling operational challenges. In spite of the existing challenges, the outlook of deposit insurance in Nigeria remains promising as the NDIC continues to leverage its past experience to further support the financial system through the effective discharge of its mandate, collaboration with other safety net participants, and promotion of financial system stability in Nigeria.

CHAPTER FOUR

UGANDA

4.0 STRUCTURE AND EVOLUTION OF THE FINANCIAL SYSTEM IN UGANDA

4.1 INTRODUCTION AND BACKGROUND

The financial system in Uganda is composed of formal, semi-formal and informal institutions. Formal institutions include the Central Bank (as the regulatory and supervisory authority), Commercial Banks, Microfinance Deposit-taking Institutions, Credit Institutions, Insurance companies, Development Banks, Pension Funds and Capital Markets. The semi-formal institutions include Savings and Credit Cooperative Organizations (SACCO) and other Microfinance Institutions; whereas, the informal ones are mostly village savings and loans associations. Formal institutions are less prominent in rural areas than in urban areas and they serve 14 percent of the rural population. Informal institutions play an important role in the provision of services to the rural sector and serve approximately 12 percent of the rural population.

Commercial banks dominate the financial system, accounting for over 82 percent of financial assets, and traditional bank deposits which constitutes the major forms of financial savings. The banking sector has a total of twenty-six commercial banks, four Credit Institutions and four Microfinance Deposit-taking Institutions. There also exist Forex Bureaux, Money Remitters, Pension funds, Insurance companies and other non-bank financial intermediaries. In terms of distribution, about 38 percent of the commercial bank branches are in Kampala with the distribution relatively spread across the Central, Eastern and Western parts of the country. The Northern part of the country has only 11 percent of commercial bank branches, largely because of several years of conflict that severely affected economic activities in the region. Typical rural areas are still substantially underserved. While this is changing over time, it is taking place very slowly.

With respect to ownership, about 87 percent of the existing banks are foreign owned, and their participation is mainly through direct investment in equity holdings. They are subsidiaries of their parent banks in the countries of origin but registered in Uganda as legal entities. During the pre-reform period and before completion of the privatization process, Uganda Commercial Bank (UCB) and Cooperative Bank Ltd., which were locally owned, dominated the sector. UCB was later sold to Stanbic Bank while Cooperative Bank was closed in the late 1990s. The foreign banks are more capitalized and more profitable than their local counterparts, partly because of their superior management expertise especially in the management of risks in liberalized markets.

4.2 EVOLUTION OF THE BANKING SECTOR

4.2.1 Pre-Independence Period (1962)

Before attaining independence from Britain in 1962, the financial sector in Uganda was primarily dominated by private banks, the first being the Bank of India in 1906, followed by Standard Bank in 1912 and Barclays Bank of London in 1927. Later, the Bank of Netherlands opened for business in 1954. The main clientele of these banks were English and Indian nationals as opposed to the locals whose participation in the financial sector was still very low. To absorb locals into the sector, the Uganda Credit and Investment Funds Society was established in 1950 with branches spread in major towns including Mbale, Jinja, Gulu, Masaka, Soroti, Fort Portal, and Arua. The financial sector and hence the economy were predominated by foreign participants and shareholders.

4.2.2 Post-independence

The post-independence era of Uganda can be categorized into four major periods associated with the different government regimes. These are 1962-70, 1971-79, 1980-85, and 1986 to date. The banking sector went through different transformations and challenges characteristic of each regime. A spirit of nationalism, an economic boom, and general growth of the economy as a whole characterized the first period of 1962-70e. For instance, Uganda's GDP at the time was comparable to that of Singapore. This progress was, however, overturned in the following period of 1971-79, during which overall economic development took a downward turn occasioned by Government policies such as the expulsion of Asians and widespread insecurity. The period 1980-85 presented an opportunity for recovery but was not harnessed due to sustained mal-administration, political instability, and civil strife in some regions of the country. It was from 1986 to date that real and tangible transformation in the banking sector, and the economy as a whole, started to manifest as a result of deliberate and sound government policies and programs buttressed by support from agencies such as the World Bank and IMF.

4.2.3 The Banking Sector during the Different Regimes

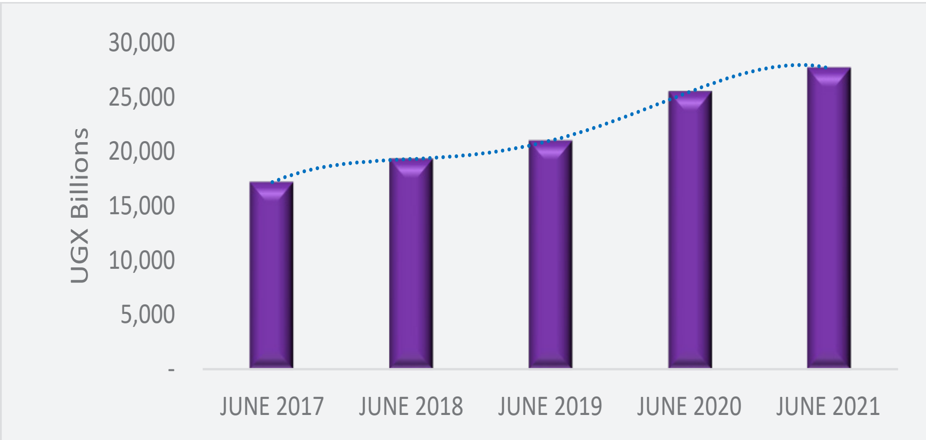
The first post-independence Government led by President Apollo Milton Obote was characterised by a wave of nationalism sweeping across the country and the huge desire for both political and economic independence. The dominance of the financial sector by foreigners soon became untenable. The first regime of Obote Government (1962-71) consciously set out a strategic path to break the foreign dominance in the financial sector to enable Ugandans to participate in the sector and access financial services. It is these deliberate actions of the Government that led to the establishment of the country's Central Bank and opening of the commercial banking sector to attract and accommodate more local players.

During President Idi Amin Dada's era (1971-79), the banking sector experienced a downward turn as a result of a series of detrimental financial and monetary decisions of the government. The major turning point was the decision by the then Government to expel Asians from the country, and their businesses were arbitrarily distributed to cronies of the Government, many of whom did not have the expertise and technical know-how to run the businesses effectively. The result of this was that the nation's Gross Domestic Product dwindled remarkably, leading to a near collapse of the economy.

After the ousting of the Idi Amin's regime by a combined force of Tanzanian and exiled Ugandan forces, the new government under President Milton Obote's second reign (1981-85) embarked on a recovery path in an effort to revamp the ailing financial sector that had been battered by years of maladministration. Those efforts were, however, soon hampered by inordinate Government consumption and the prevailing political instability that resulted from a protracted civil war against the regime. These financial and political challenges notwithstanding, some private sector players in the financial sector were able to begin business. For instance, the Catholic Church commenced the process of establishing a bank (present day Centenary Bank) in 1983 while another private bank, Sembule Business Bank, opened for operations in 1984.

President Yoweri Kaguta Museveni (1986 to date) took over from President Obote, following a five-year rebellion which was triggered by the contestation of the results of the 1980 general elections. The new regime embarked on a series of programmes/reforms which were contained in a document named the "Ten-Point Program." Among the key interventions was the need to restore peace and revamp the ailing economy. To this end, a number of interventions were introduced in the economy with the support of the International Monetary Fund (IMF). The Financial Recuperation Program of 1987 was introduced with the aim of revamping the ailing economy. Numerous other regulatory controls and regulations were instituted all of which helped to steer the financial sector and the economy on a recovery path.

Figure 4.1: Growth in commercial bank deposits



Source: DPF

Although the banking sector is generally safe and sound today, it did go through a period of instability. There were isolated cases of some financial institutions failing to weather the storm, leading to their ultimate collapse or a merger with other institutions. Particularly, the instability in the sector took a turn for the worse in terms of impact on the sector when three (3) key banks (International Credit Bank -ICB, Cooperative Bank, and Greenland Bank) were closed within a relatively short period of time (Martin Brownbridge 2002). These banks were closed for various reasons, but the ultimate intention was to restore stability in the sector and safeguard depositors' interests. The closure of these banks rattled the banking sector and led Government, through the Central Bank, to take deliberate actions to stabilize the sector. In addition to other monetary and fiscal policy actions, the Government embarked on a review of the regulatory framework for the sector, which culminated in the strengthening and enactment of appropriate laws and regulations. For instance, the Financial Institutions Statute of 1993 was replaced with the Financial Institutions Act, 2004.

Following the reforms, the sector invariably remained resilient in the face of the harsh global financial crisis of 2007/8, which triggered the collapse of large global corporate organizations in many countries. In spite of surviving this storm, the banking sector had to deal with yet another challenge of the COVID-19 pandemic, which placed some strain on the sector, prompting the Bank of Uganda to exercise regulatory forbearance, especially with respect to asset quality and liquidity. That measure has, to a large extent, helped the financial sector and the economy at large to cope with the adverse effects of the pandemic.

4.2.4 Digitization in the Banking Sector

The infrastructure as a platform for the digitization of the financial sector of Uganda began to develop during the period 2000-2010, with the prevalence of ATMs, internet banking, mobile banking, payment cards, and innovations in the payment system such as Electronic Funds Transfer (EFT), Society for Worldwide Interbank Financial Telecommunications (SWIFT), Electronic Clearing Services (ECS) and Real Time Gross Settlement (RTGS) (Katangaza Rubatsimbira 2020). These innovations supported further revolutions in the financial sector, which included the expansion of ATM services to mobile phone airtime vendor machines, wider usage of telephone banking, and acceptance of credit cards and mobile banking. In 2009, a paradigm shift occurred when Mobile Network Operators (MNOs) partnered with financial institutions to offer mobile payment services such as mobile money. This innovation leveraged the high number of mobile phone subscribers in the country, which stood at about eight million at that time relative to four million account holders in commercial banks.

The second phase of digitalization took place from 2011 to 2020, with the introduction of customer-focused products, instruments, and service processes that leveraged technology to broaden the market and manage risks. Financial institutions which embraced these innovations in their operations carved a niche for themselves in terms of revenue growth and market share. According to a Finscope study carried out in 2013, the introduction of mobile money resulted in a significant drop in the number of financially excluded Ugandans from 30 percent in 2009 to 15 percent in 2013 (Bank of Uganda, 2014). In 2016, MTN, which was one of the giant telecoms, worked with the Bank of Africa to roll out a product called "MoKash". This was a first innovation in the sector which enabled customers to access small advances of up to UGX 1,000,000 or USD300.

4.3 FINANCIAL SAFETY-NET PLAYERS

In Uganda, the key members of the financial safety-net arrangement are the Bank of Uganda (which is the Central Bank) and the Ministry of Finance, Planning, and Economic Development. In the execution of its mandate, the Deposit Protection Fund (DPF) of Uganda works closely with these entities and other financial sub-sector regulators. This relationship is formalised through the Memorandum of Understanding with the Bank of Uganda and regular meetings with the Minister of Finance, Planning, and Economic Development.

4.3.1 The Bank of Uganda

The financial and banking sector was initially organized and managed by the East African Currency Board under the East African Community treaty, which brought together Kenya, Tanzania, and Uganda under one economic block. Major monetary and financial policy decisions were determined at the regional level and cascaded to the respective countries. However, given the fast pace of economic growth in each of the East African Community countries, it became imperative for each of the nations to develop the domestic financial sector. This was bolstered by the wave of nationalism echoing across the region soon after independence. Subsequently, a series of legislations were passed, culminating in the 'Bank of Uganda Act' passed in 1966, which created the Bank of Uganda – the country's Central Bank. The Act strengthened the supervisory role of the Central bank and mandated it to monitor and supervise commercial banks, serve as the government bank, and to issue the national currency, amongst others. The Act guaranteed the independence of the Central Bank to enable it to perform its functions effectively (Magaji, 2020).

With the establishment of the Uganda Commercial Bank (UCB) in 1969 and Uganda Development Bank (UDB) in 1972, the government-owned banks took over the dominance of the banking industry. UDB received all foreign loans and channelled them to the local companies for development while UCB on the other hand, with the biggest number of branches (67 in number) mainly served local customers while the East African Development Bank (established in 1967) catered for the East African Community (EAC).

4.3.2 The Deposit Protection Fund

The DPF of Uganda was established as a legal entity following the enactment of the Financial Institutions (Amendment) Act, 2016. The mandate of the Fund is to pay customers their insured deposits in the event that their financial institution is liquidated or closed by the Bank of Uganda. The Fund can also be appointed as a liquidator by the Central Bank, and as such, it operates as PayBox Plus.

Prior to 2016, the Deposit Insurance Fund (DIF) was operated as an account in the Central Bank, into which insured financial institutions paid their premiums. The account was created in July 1994 following the enactment of the Financial Institutions Statute 1993 that trailed the disastrous collapse of Teefe Bank in February 1993 and the engendered appropriation of taxpayer's money by the government to reimburse depositors. The creation of the Fund was, therefore, mainly intended to ensure that future pay-outs were financed by the financial institutions rather than the Government.

DPF became an autonomous institution that is independent of the Bank of Uganda following its establishment in 2016. The process of operationalizing the Fund commenced in April 2017 with the inauguration of the Board of Directors by the Honourable Minister of Finance, Planning, and Economic Development. In June 2017, the Bank of Uganda (BoU) seconded an interim team of officials to operationalize the DPF. The Fund is financed from premiums levied on all deposit-taking institutions which are licensed and regulated by BoU. Premiums collected are invested in Government of Uganda treasury instruments to ensure safety and liquidity.

In exercising its duties, the DPF and its staff are required by relevant regulations to maintain confidentiality in respect of information provided to the Fund by a person or participating institution. In the event of liquidation of a member institution, the DPF acts as the liquidator if appointed by the BoU.

The law places a duty upon DPF to foster public awareness by providing member institutions with materials bearing the Fund logo and requiring them to permanently exhibit these materials on their premises for public consumption, as well as acknowledge DPF's protective role in the financial system stability through radio/TV advertisements. In the event that an insured institution fails to comply, it becomes liable, with the penalties set out under the same regulation.

DPF has an obligation to submit its audited annual report within four (4) months after a financial year ends and also its annual report of the operations to the Minister and all insured institutions.

Following DPF's comprehensive review of the current legal framework under which it is established, the need to strengthen the framework for deposit insurance and expand the mandate of the Fund to engage in resolution funding became manifest. It is against this background that the DPF commenced the process of developing a stand-alone law and is engaging with various key stakeholders.

4.3.3 Financial Sector Stability Forum

The Financial Sector Stability Forum (FSSF) brings together all the players in the financial sector, namely: the Ministry of Finance, Planning and Economic Development, BoU, DPF, the Capital Markets Authority, the Insurance Regulatory Authority of Uganda, Uganda Retirement Benefits Regulatory Authority and the Uganda Microfinance Regulatory Authority. The Forum, chaired by the Governor of the Central Bank, meets on a semi-annual basis. The Forum comprises Technical Sub-Committees and Working Groups.

The DPF is part of the Crisis Management Working Group, which handles matters relating to deposit insurance and problem bank resolution. The Working Groups meet at least once every month, and these meetings enable the FSSF to find solutions to impending threats to financial sector stability. During the engagements, issues relating to the regulation of the sector, information sharing, licensing and supervisory/enforcement actions, joint public awareness campaigns, analysis of joint systemic risks and crisis management are discussed.

4.4 OPERATIONAL STRUCTURE AND LEGAL FRAMEWORK

The DPF Board of Directors is composed of seven Non-Executive Directors who are appointed by the Minister of Finance, Planning, and

Economic Development. The Board is charged with the responsibility of providing strategic oversight of the operations of the Fund to ensure its long-term success. The Board works with a 7-member top management team and a staff strength of forty-seven permanent staff, all of whom are well qualified in relevant fields.

DPF Board of Directors: *Standing L-R: Mr. Wilbrod Owor, Mr. John Byaruhanga, Mr. Emmanuel Kalema, Mr. Solomon Oketcho. Sitting left to right: Dr. Andrew Obara, Ms. Roy Nambogo, Mr. Patrick Kagoro (Board Chairman)*

DPF Executive Committee: *Standing L-R: Mr. Alan N. Lwetabe – Head Investments, Mr. Balaam Sempaala – Head IT, Mr. Moses Apel Odongo – Head HR & Admin., Dr. Michael M. Lugemwa – Head Finance & Business Operations, Mr. Patrick O. Ezaga – Head Communications. Seated L-R: Ms. Angela K. Kiryabwire, Mrs. Julia Clare Olima Oyet (CEO)*

The Financial Institutions Instrument Regulations of 2019 provides for the extent to which deposits of customers in insured financial institutions shall be protected by DPF. The Regulations provide that deposits in insured institutions shall be protected for an amount of up to ten million Uganda Shillings (approximately to USD 2,815 as at June 2020 exchange rates) per customer. This amount is determined by the Minister of Finance, Planning and Economic Development and, as such, may be changed in accordance with the Instrument. It further provides that the computation and payment of protected deposits shall be in accordance with the Financial Institutions (Amendment) Act of 2016 and the Financial Institutions (Deposit Protection Fund) Regulations of 2019.

According to the Regulations, in the event of the closure of an insured financial institution, the DPF shall make payment to each protected depositor with all associated costs internalised. The law provides for the payment of depositors to be completed within 90 days of failure of an insured institution. In doing so, the Fund shall review the records of the affected institution and determine depositor's entitlements to an amount being claimed. It is important to note that DPF is not liable to pay any interest upon protected deposits. The Regulations require that each depositor must present a claim to DPF for appraisal and subsequent reimbursement once the claim is genuine. The depositor is required to present his claims within ten years of the closure of insured institutions. In assessing a claim, DPF may require a claimant to present such documentary proof as it deems necessary. The DPF is, however empowered to deny any claims made by individuals who are believed to be incidental to the failure of the insured institution. Similarly, DPF reserves the right to decline payment to a former director, member of senior management, or substantial shareholder within the year that precedes the institution's closure. Where an account has been blocked or suspended, DPF may only make payment to the account owner when a competent authority has lifted the suspension. The Regulations also empower the Fund to appoint an agent in the execution of any of its functions. The DPF is also empowered to recover from a failed insured institution premium owed and any other obligations outstanding after its closure and resolution.

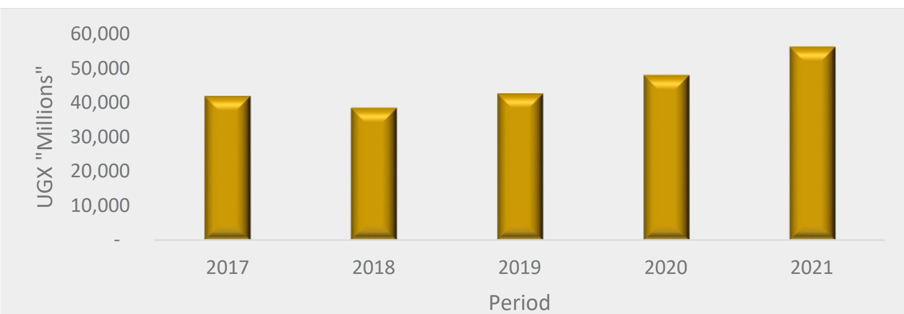
4.5 FUNDING AND FUND MANAGEMENT

4.5.1 Premium and Investment income

The DPF receives funding from insured financial institutions regulated by the Bank of Uganda, as prescribed in the Financial Institutions (Amendment) Act, 2016. The funds that accrue to DPF, according to Section 111B (1) of the Act, constitute the annual premium which is 0.2 percent of the average weighted deposit liabilities of the financial institution in its previous financial year.

A financial institution whose overall performance shows an unsatisfactory or marginal rating by the BoU shall be charged a risk-adjusted premium on a quarterly basis. Insured financial institutions whose performance is rated marginal incur an additional charge of 0.1 percent of the average weighted deposit liabilities. This is in addition to the annual premium contribution. Those whose performance rating is unsatisfactory incur an additional charge of 0.2 percent of the average weighted deposit liabilities, in addition to the said annual premium. An insured institution which, for any reason, does not pay the required premium to the Fund within the period specified in the law, is liable to pay to the Fund a civil penalty interest charge of 0.5 percent of the unpaid premium amount for each day in default. Investment income from Treasury Bills and Bonds of Government of Uganda to which DPF funds are allocated is another important source of funding for the DPF. In the event that the Fund needs additional funding, it can borrow money or obtain grants.

Figure 4.2: Trend of Deposit Premiums



Source: DPF

4.5.2 Financial Performance of the Fund

The financial performance of the Fund has continued to improve. Trend analysis revealed that the fund size had nearly doubled since 2017 when the operationalization process began. Total assets have grown from UGX 500 billion (USD 138 million) as of June 2017 to UGX 824 billion (USD 228 million) as of June 2020. Likewise, investments in Government of Uganda Treasury Bills and Bonds have shot up from UGX 475 billion (USD 131 million) to UGX 811 billion (USD 225 million) in June 2017 and June 2020, respectively. It is anticipated that the fund size will grow further following the decision by the Government to exempt DPF investment income from withholding tax, leading to potential savings of about UGX 20 billion annual withholding tax that DFP used to pay prior to the exemption.

4.5.3 Fund Management

The Investments Department within the Fund is responsible for the management and growth of the DPF's portfolio. This portfolio is built from the annual and risk-adjusted premiums collected from insured financial institutions, as provided for under Section 111 of the Financial Institutions Act 2004 (as amended).

The DIF has been growing over the last six years due to growth in investment income and increased annual premiums from insured financial institutions. Likewise, investment income has grown in line with the overall growth in the portfolio. The DIF is currently being managed by two external fund managers, namely: Sanlam Investments East Africa Ltd and Britam Ltd, who report on portfolio performance to DPF on a quarterly basis. It is anticipated that the entire investment portfolio will be managed internally within the next few years.

The Investments Department internally manages a portfolio of about UGX 24 billion (USD 6 million) financed with unclaimed Government Funds in 3 closed banks liquidated in 1999.

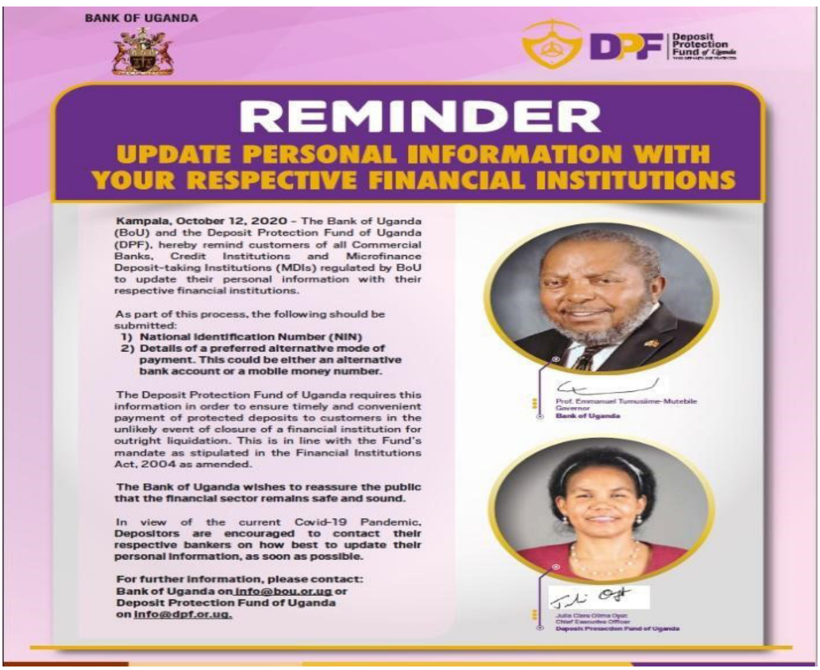
4.6 PUBLIC AWARENESS

The DPF is mandated to furnish the public with information regarding the benefits and limitations of the DIS in line with the IADI Core Principle 10. The DPF takes this principle seriously and has put in place a public awareness policy and strategy to serve as guidelines for stakeholder engagement and information dissemination.

The strategy is aimed at achieving the following objectives:

i. To educate stakeholders on the mandate, roles, and responsibilities of the DPF to enhance public confidence in the financial sector; and

ii. To ensure that accurate information is disseminated to various stakeholders in the most appropriate manner.



Mrs. Julia Oyet during a radio talk show

Some of the public awareness initiatives include:

i. **Sensitization Meetings with Insured Financial Institutions (IFIs):** The DPF conducts a series of sensitization meetings that targets members of IFIs and BoU staff at Regional Currency Branches. The main objective of the meetings is to engage and share public awareness materials with IFIs at the regional level and BoU staff. The participants obtain knowledge of the mandate and other activities of the DPF.

ii. **Participation of DPF in the World Savings Day Celebrations:** The DPF, in partnership with the BoU participates in World Savings Day activities on an annual basis. It offers a great opportunity for the DPF to interact and engage with numerous stakeholders, in addition to sharing public awareness materials on its mandate. The DPF uses the platform to sensitize the public on the need to up-date their customer records with their respective banks and save with a regulated financial institution.

iii. **Mass Media Outreach Programs on the Single Customer View Project:**

The DPF conducted an aggressive mass media campaign that targeted all stakeholders, using radio, TV, and print media channels on the Single Customer View project (SCV). The project was aimed at developing an IT system that recognizes depositors using a National ID number as a unique identifier and obtaining their preferred mode of payment in case their bank is closed. This will speed up the depositor verification process and reimbursement through the use of either their alternative bank account numbers or mobile money numbers. It cannot be over emphasized that the fast payment of depositors is critical in maintaining confidence in the financial sector during bank closures.

iv. **Public Awareness Baseline Survey:** The DPF had the plan to undertake a comprehensive public awareness baseline survey in the fiscal year 2021/22 to pave the way for the development of a comprehensive Communications Strategy. The survey was intended to establish, among other things, the level of appreciation of deposit insurance, bottlenecks inhibiting the fast pace of appreciation of the concept, the most appropriate channels through which to engage the public, and mechanisms for monitoring the progress of public awareness campaigns.

4.7 CAPACITY BUILDING

The DPF provides the Board and staff with opportunities for personal and professional growth through learning and development activities. Since its inception, the Board and employees have been able to attend a number of capacity-building programmes. The capacity development drives, however, suffered some setbacks in 2020, as several learning and development activities were suspended due to the COVID-19 pandemic. Some of the key capacity development activities of the DPF since its inception are subsequently highlighted.

4.7.1 Meetings and Conferences

On the basis of IADI membership, many Board members and staff of DPF have benefited from IADI training and research platforms that provide expert knowledge of DIS to its members. The DPF has thus been able to leverage these opportunities to build the capacity of its staff in deposit insurance and streamline its processes to align with International Best Practice.

4.7.2 Technical Assistance Workshops

Technical Assistance workshops enable participants to keep abreast with current developments in deposit Insurance. To this end, the DPF has been sending its staff to programmes including, but not limited to:

i). IADI Africa Regional Committee (ARC) Technical Assistance Workshops; and

ii). PIDM Open House Forum on Deposit Insurance for the African Region held in Malaysia and hosted by the Malaysia Deposit Insurance Corporation (MDIC).

4.7.3 Study Visits and Inter-Agency Cooperation

Study visits and inter-agency cooperation enable deposit insurance institutions to benchmark and obtain a better appreciation of the operations of other deposit insurers, both within and outside their region. Staff is able to take part in study visits hosted by sister Deposit Insurance Institutions. The visits were intended to equip participants with the requisite skills and knowledge in DIS.

4.7.4 Professional Development Programmes

The DPF staff have attended a range of specialized training programmes intended to improve their knowledge, competencies, skills, and effectiveness in their specific professional fields. To this end, many of DPF's staff have been trained in financial reporting, investment management, legislative drafting, IT and records management, amongst others. In addition, staff are mandated to attend training and professional programmes as part of their Continuous Professional Development (CPD) requirements. Senior managers are also encouraged to attend training programmes in Executive leadership and Management.

4.7.5 Corporate Governance

As part of professional development in Corporate Governance, Board members are expected to attend conferences and programmes on Corporate Governance, intended to equip them with an understanding of the new frontiers in corporate governance.

4.7.6 FSI On-line Training on Deposit Insurance

Many staff members of DPF have been enrolled to undertake various deposit insurance related online programmes provided by the Financial Stability Institute (FSI). The e-learning platform on banking and deposit insurance is provided by the FSI of the Bank for International Settlements (BIS) which works closely with key global standard-setting bodies, such as the Basel Committee on Banking Supervision (BCBS) and the IADI. The on-line platform has particularly assisted in filling the knowledge gap during the period of COVID-19 restrictions on in-person training programmes.

4.8 CORPORATE SOCIAL RESPONSIBILITY

In recognition of the importance of Corporate Social Responsibility (CSR) in enabling organizations to contribute positively to the wellbeing of the society above and beyond its mission and legal obligations, the DPF Board formulated and approved a CSR policy that lays down the guidelines and mechanisms for undertaking socially relevant programmes for sustainable development of the community at large. The guidelines apply to all CSR initiatives and activities for the benefit of different segments of the society, with special focus on the deprived, under privileged and people with special needs. Other areas of CSR espoused by the DPF include providing support for educational and skills development; financial sector and professional institutions; health and environment sector, as well as water and sanitation, among others.

The overall objectives of the CRS policy are to:

- i Stipulate the guidelines for the Fund in undertaking its CSR projects;
- ii Define the DPF's priorities and boundaries for engaging in proactive CSR;
- iii Set out administrative, monitoring, and implementation mechanisms with respect to CSR activities; and
- iv Prescribe resource allocation norms for CSR.

One of the notable CSR initiatives of the DPF is its donation towards the fight against the COVID-19 Pandemic. In response to the national call to support the fight against the COVID-19 pandemic, the DPF, in conjunction with the Uganda Bankers Association (UBA), contributed UGX 440 million (USD 122,000) to the Ministry of Health, used for various interventions, including:

- i Procurement of Personal Protective Equipment for Health Workers under the Ministry of Health at the frontline of the war against COVID-19 at the cost of UGX 240 million (USD 66,000);
- ii Provision of UGX 200 million (USD 55,000) in financial support to Makerere University's Department of Immunology and Molecular Biology, College of Health Sciences, which was in the advanced stages of producing rapid test kits for COVID-19; and

iii In July 2021, the DPF made a donation of about UGX 46 million to M/s Mildmay Hospital. The funds were utilized to purchase beds and oxygen cylinders in order to help the hospital cope with the surging number of COVID-19 patients.

DPF Board Chairman Mr Patrick Kagoro (second left) hands over a dummy cheque to the management of Mildmay Hospital. Looking on is Mrs. Julia Oyet (left), DPF CEO

4.9 ACHIEVEMENTS AND CHALLENGES

4.9.1 Achievements

Since its establishment, the DPF has recorded the following key achievements:

i. Increase in deposit insurance coverage from UGX 3 million (USD 850) to UGX 10 million (USD 2,857) with effect from September 9, 2019, after the gazetting of the Statutory Instrument.

ii. Finalisation of Financial Institutions (Deposit Protection Fund) Regulations of 2019, which became effective in November 2019 after its publication in the Uganda Gazette.

iii. Enhancement of DPF Human resource capacity through the recruitment of permanent staff, leading to a staff strength of forty-seven (47).

DPF Staff at the official commissioning of the DPF Office.

iv. The co-hosting of the first ever IADI Conference in Uganda by the DPF and BoU. The Conference themed "Why Deposit Insurance?" drew participants from more than 15 African countries.

v. Board's approval for the Principles Paper, which forms a key tenet for the drafting of the DPF Bill. The paper provided for the mandate of the Fund, tax exemptions, applicable premiums, and exemptions from the long and protracted procurement processes, among others.

vi. The signing of the Memorandum of Understanding with the Kenya Deposit Insurance Corporation (KDIC), the Nigeria Deposit Insurance Corporation (NDIC), and the Bank of Uganda (BoU). The MoUs provide for information sharing and knowledge transfer between the partner institutions.

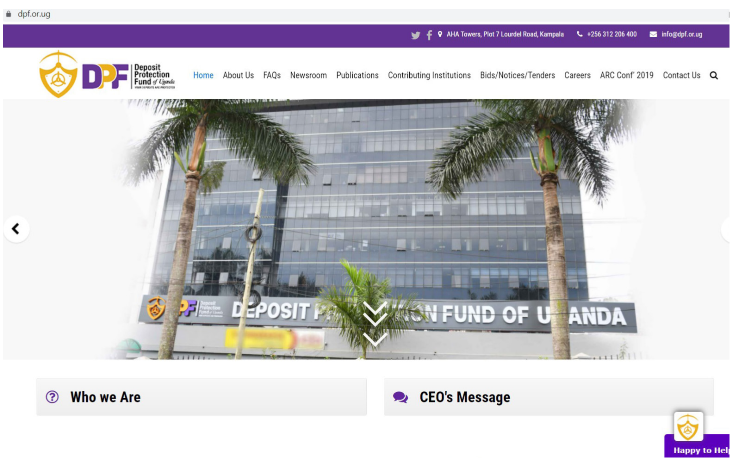
MOU signing virtual ceremony with the Nigeria Deposit Insurance Corporation

vii. Extensive public awareness campaigns embarked upon to further deepen and broaden the public's knowledge about the DPF, were all intended to contribute to building public confidence and trust in the financial sector. Channels used included sensitization meetings, radio & TV talk shows, newspaper publications, and press conferences. Educational materials such as posters, stickers, and brochures were produced and displayed in banking halls and ATM booths of insured institutions.

viii. The Board approval of key IT and Human Resource related policies, namely: the Media Relations Policy, Corporate Social Responsibility Policy, Enterprise Risk Management Policy, the Fund's Brand Manual, and IFRS 9.

ix. Rolling out and implementation of a number of IT systems to improve operational efficiency. The Fund embarked on developing an IT pay-out system to enable the generation of a Single Customer View. The project was to be completed by December 2021.

x. The revamping of the DPF website into a robust, interactive platform that facilitates real-time sharing of current information and developments in the sector with all stakeholders.



4.9.2 Challenges

i. The Fund has not been able to put in place a back-up funding arrangement with the Government of Uganda. This exposes the DPF to the risk of inadequate funding to reimburse depositors for their insured deposits should a very large financial institution fail. To address this, a Task Force comprising staff of the Ministry of Finance, Planning and Economic Development and DPF was constituted to draft a framework for the borrowing arrangement. The framework provides that DPF would borrow at a reasonable rate and meet its obligations to pay back Government.

ii. Public awareness about the concept of Deposit Protection is still very low. This is, however, being addressed by rolling out and implementing the approved public awareness and related policies. The DPF also had a plan to conduct a baseline survey to gauge the level of appreciation by the public of the deposit protection concept. The outcome of the study would be expected to inform the DPF’s targeted interventions in public awareness.

iii. There are challenges relating to the availability, use, and verification of national identity cards for some depositors. This makes instantaneous verifications difficult. The Fund is engaging the National Identification Registration Authority (NIRA) with a view to resolving the challenge. Depositors are also requested to update their records with their respective financial institutions.

iv. The existing regulatory framework is still limited in many aspects that touch on the smooth operation of Deposit Protection in the country. The current legal framework, for instance, does not provide for adequate protection of staff and the Board in conducting deposit insurance business, and neither does it allow for prepayment of premiums by the sector in special times. In addition, the current mandate limits the use of the funds for pay-out and does not allow their use for resolution funding. These aspects are being addressed in the proposal for a stand-alone DPF law.

v. The East African Protocol, which was put in place prohibits Central Banks from lending to Government Agencies including deposit insurance entities. This could have an impact on the stability of the financial markets, in the event that the Fund has to liquidate large volumes of Treasury Bills and bonds at short notice. The Africa Regional Committee of IADI has initiated steps to have further discussions with relevant parties on the matter.

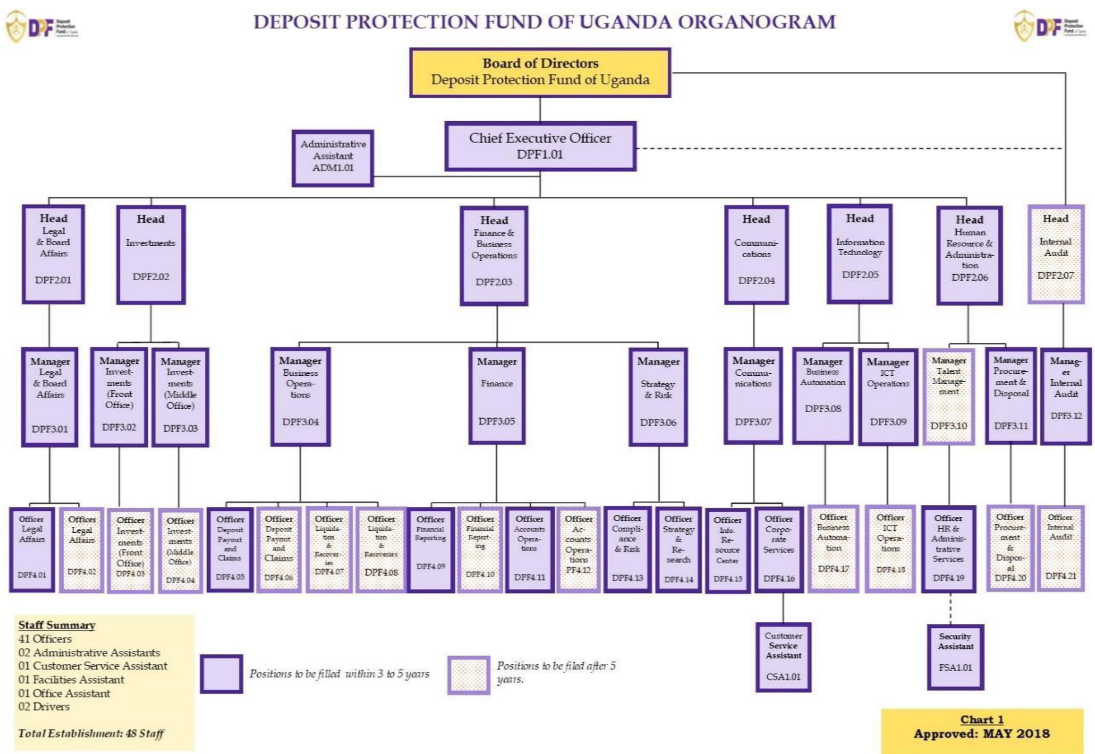
4.10 CONCLUSION

The structure, operations, and legal frameworks of the financial sector in Uganda have evolved and waxed stronger over decades of evolution characterized by a dynamic change in governments. The financial sector in Uganda is multi-dimensional in structure, comprising formal, semi-formal, and informal institutions.

The banking sector predominates in the financial system. It experienced several challenges that necessitated a number of reforms that have contributed to promoting the progress of the banking sector. One such reform is the digitization of the banking sector in recent times. Following this development, the Ugandan banking sector stakeholders have had the opportunity to enjoy the prevalence of ATMs, internet banking, mobile banking, payment cards, and the innovations in the payment system such as Electronic Funds Transfer (EFT), Society for Worldwide Interbank Financial Telecommunications (SWIFT), Electronic Clearing Services (ECS) and Real Time Gross Settlement (RTGS).

The Deposit Protection Fund (DPF) of Uganda was established in 2016 as a financial safety-net to complement the Bank of Uganda's effort to foster the development of the banking sector in particular and that of the financial system at large. The DPF has, in reflection of the complexity of the banking system and existing challenges, a pay-box mandate with the main function of providing deposit guarantees and liquidating failed banks.

Notwithstanding its age, DPF has encountered numerous challenges ranging from the absence of back-up funding, limited public awareness, data sufficiency problem, and limitation in its legal framework, among others. In spite of these challenges, the DPF has made notable achievements in the line of promoting public confidence by effectively protecting depositors, thereby contributing immensely to engendering financial system stability in Uganda.



CHAPTER FIVE

ZIMBABWE

5.0 STRUCTURE AND EVOLUTION OF THE FINANCIAL SYSTEM

At independence in 1980, Zimbabwe had a stable and oligopolistic financial sector with heterogeneous financial institutions and instruments. The sector was, however, subjected to financial repression via strict non-market controls over foreign currency allocations, interest rates as well as high reserve requirements. While the Government of Zimbabwe (GoZ) allowed existing commercial banks to maintain 100 percent foreign ownership status, new entrants were required to have a minimum of 30 percent local shareholding. The Reserve Bank of Zimbabwe (RBZ) had been in existence for 24 years before independence in 1980.

Prior to the 1990 reforms, there were 20 banking institutions in Zimbabwe, comprising five commercial banks, four merchant banks, three building societies, two discount houses, five finance houses, and the Post Office Savings Bank (POSB). The financial sector also had specialist strategic institutions, namely: the Agricultural Finance Corporation (AFC), Zimbabwe Development Bank (ZDB), Industrial Development Corporation (IDC), Credit Guarantee Company (CGC), and the Small Enterprises Development Company (SEDCO). Apart from banking institutions, insurance companies, and pension funds also play a critical role in the Zimbabwe financial sector.

In 1991, GoZ embarked on an IMF-prescribed Economic Structural Adjustment Programme (ESAP) over the period 1991-95, which comprised, in part, financial sector reforms through liberalization and deregulation. ESAP was followed by the Zimbabwe Programme of Economic and Social Transformation (ZIMPREST) of 1996-2000, which also relied on market forces to set the speed and course of economic activities. The objectives of the financial sector liberalisation were, among others, to transform the oligopolistic structures of the sector, establish positive real interest rates, liberalise the bank licencing regime, enhance financial intermediation in support of private sector development and ultimately liberalise Zimbabwe's economy for equitable growth and development. Liberalisation of Zimbabwe's financial sector facilitated the entry into the banking sector by indigenous entrepreneurs who had acquired ample banking experience, regionally and internationally, leading to a significant increase in the number of financial institutions in Zimbabwe. For instance, the number of banking institutions increased from 23 in 1993 to 41 in 2003.

Table 5.1: Evolution of the Banking Sector 1992 - 2020

Type of Institutions	1992	2002	2003	2004	2008	2010	2015	2020
Reserve Bank	1	1	1	1	1	1	1	1
Commercial Banks	5	15	17	16	15	15	13	13
Merchant Banks	4	6	6	6	6	5	1	1
Finance Houses	4	7	7	5	3	0	0	0
Discount Houses	3	7	8	9	0	0	0	0
Building Societies	3	5	5	5	4	4	4	5
Savings Bank	1	1	1	1	1	1	1	1
Development Bank	1	1	1	1	1	1	1	1
Deposit-Taking Micro-Finance Institutions [DTMFIs]							3	8
Sub Total	**23**	**44**	**47**	**45**	**32**	**28**	**25**	**31**
SEDCO	1	1	1	1	1	1	1	1
Asset Management Companies					17	17	17	18
Microfinance Institutions			1700		75	114	155	209
Total	**24**	**45**	**1748**	**46**	**125**	**160**	**198**	**259**

Sources: Mambondiani (2011:72); Makina (2009:4) and Reserve Bank of Zimbabwe (various)

Associated with the rapid proliferation of banks in the period 1995 to 2004 was a series of bank failures involving mostly indigenous banks, which led to a decrease in the number of financial institutions. However, some of the decreases in a class of financial institutions were compensated by an increase in another. For instance, the number of discount houses, finance houses, and merchant banks progressively decreased as some of them converted to commercial banks to benefit from access to cheap retail deposits. The dynamics of the banking sector evolution in Zimbabwe between 1992 and 2020 are presented in Table 5.1.

The Commercial banks dominated the banking sector, controlling 89.0 percent of total assets, 87.1 percent of total deposits, and 89.0 percent of total loans and advances. Total banking sector assets were ZWL368 billion (USD4.5 billion) as of December 31, 2020. Other financial institutions sharing the remaining 11 percent of the total assets of the banking industry are building societies, savings banks, and infrastructure banks, with a respective share of 9.1 percent, 0.8 percent, and 0.9 percent. Compared to commercial banks, the Deposit-taking Microfinance Institutions (DTMFI) sub-sectors contribution in terms of assets, deposits, and loans was negligible. The DTMFI sector's aggregate assets were ZWL1.6 billion (USD19.6 million) as of December 2020, with deposits at ZWL3.3 billion (USD36.7 million). The composition of the total assets of the banking sector is shown in Table 5.2.

Table 5.2: Distribution of Banking Sector Assets as of December 31, 2020

Item	Amount ZWL billion (USD billion) 2019	Amount ZWL billion (USD billion) 2020	Percentage Increase (%)
Other Assets	18.6 (1.1)	151.6 (1.9)	715.1
Loans & Advances (Gross)	12.7 (0.8)	82.8 (1.0)	552.0
Balances with Foreign Banks	7.4 (0.4)	44.4 (0.5)	500.0
Balances with the Central Bank	9.3 (0.6)	59.3 (0.7)	537.6
Claims on Central Government	6 (0.4)	29.9 (0.4)	398.3
Total Assets	**54 (3.1)**	**368 (4.50)**	**581.5**

Source: Reserve Bank of Zimbabwe

Currently, the banking sector employs diversified business models, which entail retail and interbank lending, borrowing from the wholesale market through market-interbank funding as well as sourcing retail and corporate deposits. In terms of delivering value, the emergence of disruptive financial technologies has affected the banking sector. The emergence of digital technology has forced banking institutions to review their business models resulting in new delivery channels and synergistic partnerships with other financial technology companies and money transfer companies. The transactional banking model has thus replaced the traditional banking model of financial intermediation and payment system. That has had several implications on the banker-customer relationship and made insured institutions resort to promoting the use of digital and virtual platforms, leading to downsizing of the brick-and-mortar branches. The institutions' response to the COVID-19 pandemic, which affected the world economies in 2020, has also accelerated the migration to digital platforms.

Banking sector supervision, according to the 2000 Banking Act, is solely the responsibility of the RBZ. Although the RBZ has the authority to license banks, it lacks the authority to withdraw banks' operating license as that was vested with the Ministry of Finance.

In December 2003, a new Governor was appointed for RBZ. In January 2004, RBZ became both the licensing and ultimate regulatory and supervisory authority as the powers of the Registrar of Banks were transferred to it from the Ministry of Finance to enhance the safety and soundness of the banking system. The RBZ enhanced its banking supervision and surveillance regime with a compendium of new guidelines on risk-focused supervision, consolidated supervision, corporate governance, internal audit, as well as minimum capital requirements. Its supervisory authority was extended to include asset management companies. The objectives of the regulatory changes were to ensure rigorous appraisal of new applications for a banking license to forestall entry of weak banks. In addition, the changes enhanced RBZ's ability to take corrective actions and enforce compliance with prudential requirements.

5.1 THE FINANCIAL SAFETY-NET

The financial safety-net in Zimbabwe is composed of four agencies, namely: the Reserve Bank; Insurance & Pensions Commission (IPEC); the Securities & Exchange Commission of Zimbabwe (SECZIM), and the Deposit Protection Corporation (DPC). The responsibilities of the financial safety-net players include lender-of-last-resort, prudential regulation and supervision, deposit protection, and bank resolution.

The interconnection between components of the financial system and the real economy, as well as the dynamic evolution of financial markets, necessitated the need to close inherent regulatory gaps. Accordingly, regulatory and supervisory authorities constituting the financial safety-net arrangement formed a Multi-Disciplinary Financial Stability Committee. The Committee, which held its inaugural meeting on April 24, 2012, is chaired on a quarterly rotational basis by the four financial safety-net agencies. The RBZ provides Secretariat Services to the Committee which meets on a quarterly basis to discuss potential risks to financial stability and provide appropriate risk mitigants.

As the registrar, primary regulator, and supervisor of banking institutions the RBZ conducts both on-site examinations and off-site supervision of the insured institutions. The DPC, on the other hand, undertakes oversight responsibilities through only off-site surveillance of insured institutions with the focus on monitoring exposure to the Deposit Protection Fund (DPF). The DIS thus complements the efforts of the RBZ, in the surveillance of the insured financial institutions. In June 2017, DPC and RBZ signed a Memorandum of Understanding (MOU) that would enhance the ability of the two institutions to perform their respective mandates effectively through consultations and sharing of information.

5.2 DEPOSIT PROTECTION SCHEME

5.2.1 Origin and Evolution of Deposit Protection Scheme

During the late 1990s, the Zimbabwean economy grappled with harsh economic conditions characterised by hyperinflation, currency instability, high unemployment and reduced industrial production. After 1995, the banking sector started exhibiting distress signals as three deposit-taking institutions, namely: Commercial Bank of Zimbabwe, Zimbank, and Zimbabwe Building Society became insolvent and were bailed out by the Government and RBZ.

In May 1995, the Commercial Bank of Zimbabwe (CBZ) created a separate entity, Commercial Bank of Zimbabwe Nominees Limited (CBZN), to warehouse non-performing loans (NPLs) to turnaround the institution. By 1997, GoZ sold its shareholding to facilitate adequate capitalisation and diversification of the bank. The Amalgamated Banks of South Africa (ABSA) acquired 25 percent shareholding and became CBZ's technical partner. The International Finance Corporation got 15 percent of equity. In 1998, 55 percent of CBZ shares were issued to the public upon privatisation and listing on the Zimbabwe Stock Exchange. In 1996, the RBZ established Climax (Pvt) Limited to warehouse and clear up non-performing loans of "financial institutions" especially ZIMBANK. ZIMBANK was also the subject of a parliamentary investigation into Lorac loans fraud in 1991/2.

Following the financial sector liberalization in Zimbabwe, several new financial institutions failed shortly after they were licensed. A few examples are the United Merchant Bank-UMB (1995-1998); Universal Merchant Bank, UniBank (1995 -1998); First National Building Society - FNBS (1996 - 2003); Zimbabwe Building Society (1992-2003) subsequently acquired by FBC in 2005; Intermarket Discount House Ltd (1991-2004), National Discount House (1997-c2010), Rapid Discount House (1997- 2004), Trust Bank (1996–2004 / 2010- 2013), Royal Bank (2002 -2004 / 2010-2012), Barbican Bank (2002-2004), Prudential Discount House (1998), Time Bank of Zimbabwe Limited (1997-2004); Sunpol/Sagit Finance (2003-2006); Highveld Financial Services (2005-2009), among others.

The failure of UMB and the domino-effect of the collapse of UniBank triggered widespread panic in the banking sector and raised fears of a national debt crisis. UMB's failure began when it fraudulently raised $71 million via high-rate short term bills in the name of the state-owned Cold Storage Company (CSC) which had no capacity to honour the extra $52 million above the authorised $19 million. With the bank's imprudent debt origination and collection methods, it piled up a heavy volume of non-performing loans especially to politically exposed persons and intragroup entities, thus complicating its liquidity challenges. Regulatory investigation of the bank and its principal stakeholders yielded little results, with no reasonable compensation paid to depositors.

The UMB was liquidated over a two-year period from 1998 in line with the Companies Act (Chapter 24:03). The process proved cumbersome, time-consuming, and did not accord depositors priority in claims settlement. Most depositors were greatly prejudiced because of the inordinate delays in the liquidation process. Also, the First National Building Society (FNBS) was placed under curatorship in February 2003. Efforts to turnaround the fortunes of the institution were hampered by legal wrangles between the shareholders and the curator, leading to its drifting into liquidation that was not finalized until the end of 2007. In other words, depositors of the FNBS could not access their funds for almost five years.

Until July 1, 2003, there was no explicit deposit protection scheme for depositors but an implicit acknowledgment by the government to bail-out depositors in the event of a financial crisis. The Deposit Protection

Corporation (DPC), formerly known as Deposit Protection Board (DPB), was established on July 1, 2003, following the setup of an Execution Committee by the Reserve Bank of Zimbabwe (RBZ) to facilitate the implementation of an explicit Deposit Protection Scheme (DPS). The Banking Act, and the Banking (Deposit Protection) Regulations, Statutory Instrument 29 of 2003 underlie the creation of DPC. The DPC assumed the new name which came into effect on March 16, 2012, in line with the Deposit Protection Corporation Act Chapter 24:29.

The decision by the GoZ to establish a DPS in 2003 was informed by several bank failures in the late 1990s and early 2000s in the wake of financial sector liberalisation. The RBZ conducted a feasibility study on the introduction of a DPS in 2001 with the help of the International Monetary Fund (IMF). The IMF mission at the time did not support the establishment of a DPS as the requisite economic stability preconditions were not met.

5.2.2 Implementation Programme for the DPS

The GoZ added deposit insurance to its financial safety-net arrangements to reduce the effects of bank failures on depositors, the financial system, and the economy. The implementation programme of the DPS was divided into two phases:

i. **Phase One (2003 – 2012)**

The DPC had a mandate of a “pay-box” deposit insurer. The board was chaired by the Reserve Bank Governor. Its public policy objectives (PPOs) were to protect small and unsophisticated depositors, as well as enhance financial system stability and orderly payment system by minimising the likelihood of bank runs. The introduction of a DPS also enhanced competition among deposit-taking institutions via mitigation of some of the competitive barriers.

In pursuit of its PPOs, the DPC had the authority to set, assess and collect premiums from member institutions; publicise the roles, responsibilities, and modalities of the Scheme; assess risk to the DPF based on information furnished by supervisory and regulatory authorities and other sources; and communicate its concerns over 'problem' financial institutions to the Ministry of Finance and Economic Development (the Ministry) and the RBZ. Therefore, the DPC had no mandate regarding resolving failing or failed member institutions, curatorship, as well as the setting of conditions and standards for the provision of deposit protection. In addition, the DPC had no power to decide which banking institutions could become members of the Scheme.

Throughout the Phase One of the scheme was wholly funded by member institutions and no seed money was provided by government as a shareholder.

ii. **Phase Two (2012 – to Date)**

The second phase commenced on March 16, 2012, in accordance with the Deposit Protection Corporation Act Chapter 24:29 and was in conformity with its PPOs as well as international best practice. The Act made the DPC an independent entity, separate from the Reserve Bank, with a risk minimization mandate.

The powers and the responsibilities in the enhanced 'Phase-Two' mandate were expanded to include the supervision of insured institutions, resolution of failing or failed deposit-taking institutions, setting conditions and standards governing the terms on which deposit protection is provided; and flexibility in determining which financial institution should participate in the DIS. The expanded mandate sought to enhance credibility of the DPS as well as to minimise risk to the Deposit Protection Fund (DPF).

The Reserve Bank, however, considered DPC's expanded mandate a duplication of responsibilities, and an encroachment into its prudential supervision turf. In contrast, DPC regarded the enhanced roles as complementary to those of RBZ as they served the same objective of contributing to financial stability. Three years down the line, the DPC's mandate was reduced from being a Risk Minimizer to that of a Pay-box Plus mandate through the enactment of the Banking Amendment Act of 2015 that came into operation on the May 13, 2016.

The 2015 amendments curtailed DPC's powers to independently undertake special on-site examinations which previously enabled it to verify depositors' records and left prudential supervisory responsibilities squarely in the hands of the RBZ. Furthermore, the RBZ may choose another entity besides DPC to act as Curator of closed deposit-taking institutions. The 2015 amendments also repealed the Troubled Financial Institutions (Resolution) Act (Chapter 24:28) Act 31/2004 which came into force on January 14, 2005, and was never used due to its inherent weaknesses. The powers to formulate a resolution plan were accorded solely to the RBZ, according to section 52A of the Banking Act.

As specified in the current law, the principal objectives of the DPC's statutory responsibilities are to: protect depositors; contribute to the stability and public confidence in the financial system; participate in problem bank resolution; and protect the Fund against loss. DPC is also required to monitor and assess the risk of members based on off-site surveillance and carry out liquidations following an appointment by the RBZ.

5.2.3 Legal Framework

Section 5 of the DPC Act states that its functions and objectives include: administering the deposit insurance fund; levying contributions on insured institutions; reimbursing depositors in the event of the insolvency of a member institution; and monitoring the business and activities of the insured institutions to minimise exposure of the Fund to insurance risks. The Act also empowers the DPC to assist the Minister and the Reserve Bank in formulating and implementing the fiscal and monetary policy to ensure sound banking practices and fair competition among banks in Zimbabwe. Furthermore, the DPC is also responsible for keeping the public informed of its role in contributing to financial system stability, the rights of depositors in the event of an insured institution becoming insolvent (Section 61) and exercising any other function conferred or imposed on it in line with the enabling Act.

Its mandate and powers were clearly stated in sections 5 and 8 of the DPC Act. During Phase One, the DPC had a "pay-box" mandate. In the early years of Phase Two, it had a "risk minimizer" mandate. When the Banking Amendment of 2015 was promulgated the DPC's examination powers were withdrawn, thus returning its mandate to "pay-box plus."

A key legal development in 2018 was the promulgation of a new Insolvency Act Chapter 6:07. That was an important development in the establishment of a Special Resolution Regime (SRR) for the banks, separate from the general corporate insolvency laws. An SRR was needed so that the resolution authorities could act in a timely manner, limit contagion and maintain financial system stability. Such a regime would allow the resolution authority to timely deal with the issues of financial contracts, unsettled payments, securities transactions, and financial collateral, and to appoint an administrator and/or liquidator. Moreover, a special insolvency law would allow the DPC to exercise its right of subrogation. The DPC had commenced the process of amending its Act to provide for a separate insolvency regime for banking institutions in compliance with IADI Core Principles for Effective DIS.

5.2.4 Membership

Membership of the scheme is compulsory for all deposit-taking institutions as part of efforts to promote and enhance depositor confidence and trust in the financial system. In addition, compulsory membership prevents the problem of adverse selection, a situation where financially weak or risk-prone banking institutions choose to join the DPS; while financially strong ones opt out, leaving depositors without credible protection. According to Sections 23 and 24 of the Deposit Protection Corporation Act (Chapter 24:29), financial institutions automatically become members upon registration by the Registrar of Banks and Microfinance Institutions, i.e., the RBZ. As at December 31, 2020, there were 27 financial institutions in the deposit insurance scheme comprising commercial banks, building societies, savings bank, infrastructure development bank, a merchant bank, and deposit-taking microfinance institutions as shown in Table 5.3.

Table 5.3: Structure of the Insured Contributory Institutions as at December 31, 2020

Type of Institution	Number
Commercial Banks	13
Building Societies	5
*Merchant Banks	1
Savings Bank	1
Infrastructure Development Bank	1
Deposit-Taking Micro-Finance Institutions [**DTMFIs]**	6
Total	**27**

**Not operating and is not taking deposits*

Source: DPC

5.2.5 Coverage

During the multicurrency system in Zimbabwe, the DPS was denominated in the United States Dollar (USD). Following the reintroduction of the local currency, the Zimbabwean Dollar (ZWL), the USD denominated deposits constituted half of the total deposits. Accordingly, the DPC consulted with relevant stakeholders regarding the need to extend explicit deposit protection to foreign currency deposits and other modalities that should be put in place.

At the occurrence of a compensation event, the coverage level determines the maximum insured amount payable out of the DPF. The coverage level determines not only the potential liabilities of the scheme but also the depositors' level of confidence in the banking system. While the deposit insurance coverage is limited to minimize moral hazard, it was set at levels that engender confidence in the banking system. Based on the need to engender confidence in the system and contribute to financial system stability, the insurable coverage limits are, therefore, constantly reviewed in consideration of changing macroeconomic conditions as well as the fundamentals and size of the Fund. Table 5.4 shows the evolution of coverage levels in Zimbabwe.

Table 5.4: Evolution of Coverage Levels (2004 – 2022)

Period	Insured Banking Institutions		Microfinance Institutions
	Currency	Coverage Level	Coverage Level
2004-2008	**ZW$**	150.00	-
2009-2012	**USD**	150.00	-
2013-June 2016	**USD**	500.00	-
July 2016- 2019	**USD**	1,000.00	250.00
2020 - February 2022	**ZWL**	10,000.00	500.00
2022	**ZWL**	120,000.00	5,000.00
2022	**USD**	1,000.00	500.00

Source: DPC

The new USD maximum insurable limits which became effective on 1 January 2022 are USD 1,000 per depositor per bank for insured banking institutions and USD 500 per depositor per Deposit-taking Microfinance Institution (DTMFI). New ZWL limits effective on January February 17, 2022 are ZWL 120,000 (US$ 995) per depositor per bank for insured banking institutions and ZWL 5,000 (US$41) per depositor per Deposit-taking Microfinance Institution (DTMFI). The Fund size is however below the ideal Target Fund size of 2 percent of total deposits.

5.2.6 Funding and Premium Assessment

The DPC maintains two (2) Funds: one for the banking institutions and another for the DTMFIs. The separation of the two Deposit Funds takes cognizance of the differences in capital requirements, risk profile as well as the range of services offered by these two classes of deposit-taking institutions.

The two (2) Funds administered by DPC are ex-ante funded. The ex-ante approach enables insured banks to better estimate future funding requirements by knowing the magnitude of the premium to be paid. Section 14 of the DPC Act (Chapter 24:29) provides for funding sources that include: premiums, borrowings, supplementary contributions from members, and income from investments. Premiums from members of the two classes of insured institutions are the main sources of funding for the DPC. Until the recent injection of ZWL 10 million in Treasury Bills by GoZ, the DPC was wholly funded by the contributory member institutions as no seed capital had been provided by the shareholder.

A flat-rate premium system is used to assess premiums payable by each member institution. Premiums are paid quarterly based on a member's eligible quarterly average deposits. The assessment base is made up of gross deposits minus interbank and central government deposits.

The premium rate was set at 0.3 percent per annum effective January 1, 2021, from 0.2 percent that had been in use since January 1, 2014. The DPC is currently assessing the feasibility of implementing a risk-based premium assessment system. While the DPC acknowledges the advantages of risk-adjusted premiums, it also takes cognizance of the sophistication and complexity associated with such a system, hence the need for ongoing consultations with stakeholders.

There is a need for DPC to maintain an adequate level of liquidity to enable it to readily reimburse insured depositors should an institution fail. Options include investing in government securities (bonds, treasury bills, etc.) for liquidity. The decisions on fund management require clear oversight over the funding process and investment policy by the Governing Board. In times of large-scale financial crisis, a DIS by itself cannot alone contend with the challenges. Sometimes even in a non-systemic crisis, a DIS may face a funding risk; that is, it may not have adequate funds to settle its obligations to depositors. The gap in funding can be covered through additional or backup financing, either from the government or from the market.

There is a legislative provision in Zimbabwe to address funding gaps should the DIS face funding risk. Section 31 of DPC Act 24:29 empowers it to levy supplementary contributions on all surviving institutions; access funds appropriated for that purpose by Act of Parliament in the form of a grant or advance to DPC; access funds advanced by the RBZ; and access borrowings from the private sector.

5.2.7 Bank Resolution

During bank closures in Zimbabwe, the DPC works closely with the RBZ to ensure an orderly and efficient resolution of the failed institution with minimum disruption to the banking system. In the event that various resolution tools fail to restore an entity's going-concern status, and there are no systemic considerations, the institution is closed and liquidated. According to Section 57, subsection 6 of the Banking Amendment Act, 2015, the DPC shall be appointed as the Liquidator of a failed insured institution. After its appointment as liquidator, the DPC is responsible for securing, taking the inventory of the failed banks' assets and preparing a final set of financial statements. Depositors are reimbursed and liquidation claims of relevant stakeholders are settled on a pro-rata basis from the proceeds of liquidation of the failed bank's assets, recoveries from debtors, and pursuit of parties at fault. This process helps to minimize asset stripping and preserve the value of the bank.

5.2.8 Public Awareness

During the formative stages of the DIS in Zimbabwe, public awareness was less structured and uncoordinated largely due to the economic situation and size of the Fund. The failure of several financial institutions in the early 2000s and banking instability that ensued brought to the fore the importance of public awareness about the existence and operations of the DPS. Unfortunately, public awareness initiatives could not yield much traction due to several reasons such as low coverage levels, hyperinflation, price instability, and general economic challenges.

The adoption of the multicurrency system in 2009 ushered in a period of economic stability and restoration of purchasing power. The availability of deposit protection became more important and relevant. The expanded mandate of the DPC from being a pay-box to a risk minimizer offered opportunities and the need for increased public awareness of the Scheme. To maximize these opportunities, the DPC adopted an aggressive public awareness drive that resulted in the creation of a fully-fledged Public Relations Department. The department's responsibility was to fulfill the requirements of the amended DPC Act to ensure that the public was informed of their rights as depositors in the event of the failure of a member institution.

In line with the DPC's Five-Year Strategic Plan and IADI's public awareness guidelines, the DPC designed a public awareness plan aimed to effectively reach out to the public at the least cost by using cost-efficient media options that adopt integrated marketing communication tools and takes cognizance of differences in social levels, geographical locations, culture, financial and educational backgrounds.

DPC's key messages focus on the benefits and limitations of the DPS, limits and scope of coverage, reimbursement processes, claims procedures, membership, the basic contact information of DPC, as well as the corporate profile of DPC and its mandate.

To meet its public awareness objectives, the DPC adopted the following strategies:

i. **Traditional Advertising**

   Despite their high cost, mass media channels such as newspapers, radio, and television aid the DPC with much-needed geographical reach, considering that a large number of small depositors reside in remote areas and can easily access radio and television messages. Display of newspaper advertisements and sponsored articles in national and regional newspapers greatly assists the DPC in raising awareness and deepening knowledge about the Corporation's brand and its operations.

ii. **Events Marketing**

The DPC also participates in several national and regional exhibitions that offer publicity at a lower cost. Exhibitions foster close interactions with the public and opportunities to deepen knowledge of the Deposit Protection Scheme. Brands get exposure through exhibition stands, newspapers, editorials, radio coverage, meetings with media practitioners, braille's for the visually impaired, and branded corporate gifts to the public. Key stakeholders such as legislators and community leaders assist in the dissemination of information in their respective constituencies. Roadshows across the country also prove a huge success in disseminating awareness of the DPS.

Zimbabwe International Trade Fair Exhibition, 2017

Mashonaland Region Awareness Workshop, 2017

Zimbabwe Agricultural Show 2018

Zimbabwe International Trade Fair Exhibition, 2021

iii. **Strategic Partnerships**

The DPC collaborates with other stakeholders in its quest to enhance brand visibility and knowledge transfer. The success of the DPC's public awareness strategy is also derived from strategic partnerships with member institutions, the country's largest postal service provider, media practitioners, and other safety-net players. Some of these include:

a. Informal engagements and visits to media houses help to strengthen relationships with journalists, and in turn help the Corporation receive free publicity.

b. Partnership with postal service providers offers a convenient access channel for depositors of closed banks, especially those residing in remote parts of the country to conveniently submit claim forms at no cost.

c. Member institutions are also required by law to advertise membership to DPC in all their advertisements as well as display membership certificates and stickers in and outside their branches. This is greatly assisting in driving DPC's brand visibility.

d. Collaborations with national universities and other learning institutions through the provision of a deposit insurance module in school curricula offer awareness and increased knowledge around the subject of deposit insurance.

e. Joint awareness campaigns with other safety-net players and member institutions have helped in driving financial literacy and inclusion.

To gauge the effectiveness of public awareness campaigns, the DPC conducted independent surveys to ascertain the awareness level. The surveys revealed that the public awareness index level increased from 20 percent in 2016 to 28 percent in 2020.

5.3 ACHIEVEMENTS AND CHALLENGES

5.3.1 Achievements

The following highlights the achievements of the DPC:

i. The DPC has consistently produced audited financial reports since its inception in 2003;

ii. It became a member of IADI in November 2003;

iii. In 2015, DPC got the most improved deposit insurance entity award from IADI;

iv. Tetrad, a financial institution, was successfully resolved, including writing down existing shareholding & handing it over to its new shareholders;

v. MicroKing, a former subsidiary of the now-closed AfrAsia bank was successfully disposed of, with no disruption to operations and is now being owned by a French investment company;

vi. DPC boasts of a significant asset base and fund balance; and

vii. DPC achieved an awareness index of 286 percent in 2020 from 20 percent in 20165.

5.3.2 Challenges

i. **Fund Management**

Compared to most deposit insurers, DPC operates in a unique environment characterized by:

a. Hyperinflation;

b. Limited interbank/money market and investment options;

c. Limited use of lender-of-last-resort facilities; and

d. Inadequate funding options.

ii. **Bank Liquidation**

Zimbabwe currently has no separate, let alone specific, insolvency regime for banking institutions. Liquidation of banking institutions through the corporate insolvency regime has proven to be protracted, costly and inconclusive. The DPC has proposed a separate insolvency regime for banking institutions to ensure that matters are conclusively dealt with speed, and to curtail adverse repercussions in the real economy and the financial system.

The claims procedure in the corporate insolvency regime proved to be very cumbersome for bank liquidations. Depositors had to submit their claims to the Master of the High Court and further attend a creditors' meeting physically or via a proxy to prove their claims in the big cities of Harare and Bulawayo. There is no economic rationale for depositors to prove their claims in situations where the cost of travelling several hundreds of kilometres is greater than the envisaged benefit. The procedure is not very useful in bank liquidation if the claim is not subject to a dispute by the bank or any of its creditors. In the proposed bank insolvency law, a depositor will only be required to appear before the Master of the High Court if they wish to query a balance in the deposit register.

Protracted legal processes hampered the pursuit of parties-at-fault and loan recovery processes. For instance, no alleged parties-at-fault have been successfully prosecuted for their roles in UMB failures since 1998 when the investigation started. Liquidity challenges and adverse macro-economic conditions delayed the timely realisation of some assets.

Lack of on-site access to bank records prior to failure of a banking institution has slowed down reimbursements, resolution initiatives and ultimate coverage. DPC is strongly advocating for mandatory reconfiguration of member banking institutions' Information and Communication Technologies (ICT) system based on a Single Customer View (SCV) perspective. Implementation and operationalisation of an SCV will help DPC to effect compensation within seven days from the occurrence of a compensation event as required by IADI best practice. The SCV will go a long way in addressing time value of money concerns.

5.4 CONCLUSION

At independence in 1980, Zimbabwe had a stable and oligopolistic financial sector with heterogeneous financial institutions and instruments. The evolution has however been characterised by financial repression via strict non-market controls over foreign currency allocations, interest rates as well as high reserve requirements.

Several reforms were undertaken to resolve the inherent challenges facing the banking sector. While the number of operating banks has enlarged, the persistence of inherent problems engendered the incidence of widespread bank failures. In response, DIS was introduced to manage many of the problems.

The Deposit Protection Board (DPB) was established in July 2003 to administer the DIS in Zimbabwe. With the nature of continuing banking sector evolution in Zimbabwe, DPB metamorphosed in 2012 into the Deposit Insurance Corporation (DPC) and complements other safety-net participants - the Reserve Bank; Insurance & Pensions Commission (IPEC); the Securities & Exchange Commission of Zimbabwe (SECZIM) – to jointly strengthen the financial system. Prior to 2012, the deposit insurance mandate was that of a pay-box, which was later broadened to risk minimizer with the enactment of the Deposit Protection Corporation Act.

The DPC operations were however besieged with a host of challenges, many of which predated its establishment. These include, but are not limited to, macroeconomic instability characterized by hyperinflation, shallow money market limited by liquidity constraints, limited use of lender-of-the-last-resort, and inadequate funding, among others.

These challenges notwithstanding, the DPC has been successful in delivering its mandate, and as such made notable achievements. DPC has been able to significantly increase its asset base and fund balance. With this funding capability, the DPC is thus poised to deliver its deposit insurance functions. Its performance in DIS administration was acknowledged with a deposit insurance entity award from IADI in 2015. By remaining on this performance track, the DPC's prospects to continue effective delivery of its mandate is promising.

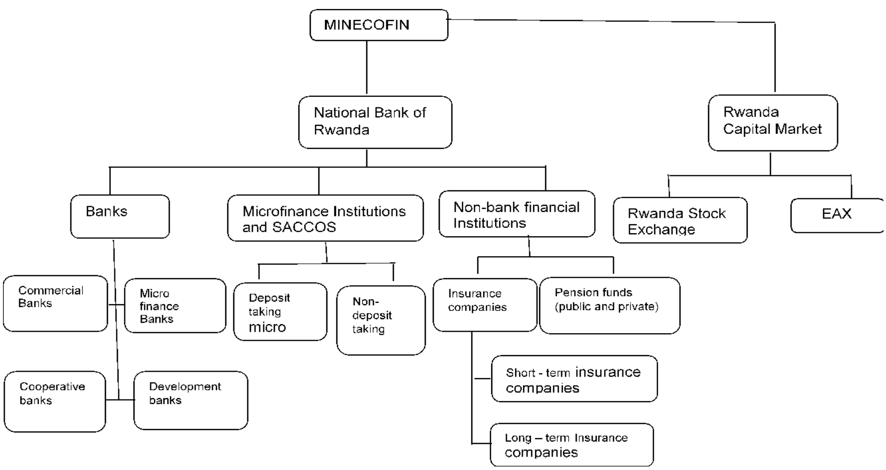
CHAPTER SIX

RWANDA

6.0 STRUCTURE AND EVOLUTION OF THE FINANCIAL SYSTEM

The Rwandan financial system comprises the regulatory and supervisory authorities as well as operators of banking, pension and insurance sectors, capital market and fund management. The responsibility of financial sector supervision and regulation is the mandate of the Ministry of Finance and Economic Planning (MINECOFIN) and the National Bank of Rwanda (NBR). The structure of the financial system is depicted in Figure 6.1.

Figure 6.1: Structure of Rwanda's Financial System



The banking sector comprises 11 commercial banks, three (3) microfinance banks, one (1) development bank and one (1) cooperative bank. The microfinance sub-sector is composed of 457 deposit-taking microfinance institutions of which 19 are public limited companies, 416 Savings and Credit Cooperatives (SACCOs) and seven (7) non-deposit-taking microfinance institutions. In addition, the non-bank financial institutions are comprised of 12 private insurers, two (2) public medical insurers and one (1) micro insurance.

Significant progress has been recorded by the government and regulatory/supervisory authorities in the area of financial system reforms. The structure, stability and efficiency have been improved through financial sector legislation and infrastructure. The banking system has recovered from a period of restructuring in 2007 and 2008, making banks well-capitalized, with adequate provision and liquidity.

The financial sector is shaped by a number of national aspirations and international goals embodied in policy declarations and plans. These include Rwanda's Vision 2020, Vision 2050 and Seven-Year Government Programme/National Strategy for Transformation (2017-2024). There are also regional commitments made as part of Rwanda's membership of the East African Community (EAC) and other regional and international organizations.

6.1 OVERVIEW OF THE BANKING SYSTEM

The NBR is the regulator and supervisor of the Banking System. The soundness and stability of the banking system are primarily achieved through the regulation and supervision of licensed financial institutions, ensuring the continued reliability of major payment and settlement systems, and actively contributing to the development of efficient financial markets. These are implemented in consonance with international principles and standards as reviewed by competent bodies such as International Monetary Fund (IMF), Bank for International Settlements (BIS) and the Financial Stability Institute (FSI).

The banking system is highly concentrated but increasingly competitive as foreign banks progressively aim to enter the country. Around 76 percent of all bank assets are held by five of the largest commercial banks (Bank of Kigali, BPR Atlas Mara, I&M Bank, Cogebanque, and Equity Bank). The largest, partially state-owned Bank of Kigali (BK) holds more than 30 percent of all assets. Currently, the banking sector is stable and well-capitalized.

6.2 OVERVIEW OF DEPOSIT GUARANTEE FUND

6.2.1 Mission and Objectives

The Deposit Guarantee Fund (DGF) of Rwanda was established by law no 31/2015 of 2015, which determines the organization and functioning of DGF for banks and microfinance institutions through NBR. The DGF is responsible for policy formulation, management and control of the collected premium and started operations in November 2016 as a pay-box with the main objective of providing protection to small depositors against risks of losing their deposits arising from the failure of banks and microfinance institutions and thereby maintaining public confidence in the banking and financial system.

The main functions of the DGF are to:

i. assess and collect premiums from banks and microfinance institutions;
ii. manage and invest the premiums and other Funds collected;
iii. reimburse depositors their insured deposits in case of a bank or financial institution failure; and
iv. coordinate and manage crises, and participate in the resolution processes.

6.2.2 Sources of Fund

The sources of funds of the DGF include:

i. Premiums paid to the Fund by contributing banks and microfinance institutions;
ii. Income from Deposit Insurance Fund invested in accordance with the standards of the NBR;
iii. Default interest on payment of premiums from contributing banks and microfinance institutions;
iv. Grants and donations approved by the NBR; and
v. Charges on participating or member institutions for the late rendition of returns to the DGF.

6.2.3 Scope of Coverage

The DGF covers all types of individuals' and entities' deposits received at any bank or microfinance institution (MFI) but does not cover the investments even when they are purchased at an insured bank or microfinance institution.

However, the Fund shall not cover the deposits of:

i. Banks and MFIs;
ii. Insurance companies, pension funds, and collective investment schemes;
iii. Government and public agency; and
iv. Persons holding shares of more than 5 percent of voting rights in a member bank and MFI.

6.2.4 Level of Coverage

The maximum amount of deposit covered by the Fund shall be five hundred thousand Rwanda Francs (FRW500,000/$515) per insured depositor in aggregate with all eligible deposit accounts held in the same right or capacity, including interests accrued until the date of the declaration of liquidation.

The declaration of liquidation of any insured institution by the NBR shall cause the depositors to be reimbursed their insured deposit to the coverage limit within 60 working days from the declaration date. The amount due to each insured depositor shall be transferred to another insured institution or through any other payment method that the NBR may determine.

In the event of liquidation, the Fund shall not compensate members of the Management of the failed institution and any other person responsible for its insolvency.

6.2.5 Premium Assessment

As part of the legal requirements, participating banks/MFIs are required to pay a certain amount as a premium on their eligible deposits held at the end of each quarter of the year. The annual premium on insured deposits is equivalent to 0.1 percent of the total amount of eligible deposits in the insured bank. Therefore, the quarterly premium due is 0.025 percent of the total amount of eligible deposits. The first annual premium by a new member institution shall be calculated based on the eligible deposits registered along with the deposit generated in the first three months of operation. The assessment of the deposits registered for the newly licensed Bank/MFI during the first three months shall be conducted by the NBR Supervision Department and DGF.

The payment of the annual premium shall be settled in FRW currency to the account of the DGF held at the NBR, in four instalments, paid respectively not later than the 20th day of the following quarter of the current year. To the effect of the assessment of the annual premium amount, the foreign currency deposits shall be exchanged into FRW at the official exchange rate determined by the NBR on the assessment date.

6.2.6 Rendition of Returns

The member institutions shall submit to the DGF the following reports:

i. Quarterly report on total deposits, excluded deposits and eligible deposits; and
ii. Quarterly report on guaranteed deposits.

The insured financial institutions shall make available to the DGF the data and information in hard copy and/or electronic format in the course of the process of verification and as often as it is deemed necessary. Member institutions shall submit the quarterly report no later than the 10th day of the following quarter in the format provided by the DGF.

6.3 RESOLUTION AND PAYOUT PROCESS

6.3.1 Resolution Framework

The mission of NBR is to ensure price stability and a sound financial system. The Bank pursues this by regulating and supervising financial institutions and the financial market infrastructure. Experience from the global financial crisis demonstrated that disorderly failure resolution of systemic financial institutions might disrupt the entire financial sector and the economy at large. Therefore, in pursuit of its financial stability mission, the NBR has the implicit mandate of managing failing financial institutions.

The framework sets out the NBR's approach to resolution. In developing the resolution framework, the NBR adapted from the recommendations of the Financial Stability Board's (FSB) Key Attributes of Effective Resolution, the structure and the local context of financial institutions in proposing the key elements of the framework. The scope of the resolution framework covers deposit-taking financial institutions and subsidiaries of foreign firms incorporated in Rwanda.

6.3.2 Objectives of the Resolution Framework

The overarching objective of the resolution regime is to ensure that a deposit-taking financial institution can be resolved swiftly with minimal risk to financial stability. This goal is expected to be achieved without a significant negative impact on the real economy and without the need to spend taxpayers' money.

Resolution objectives are much broader than the objectives of regular insolvency proceedings, which commonly focus on the interests of creditors and maximizing the value of the insolvency estate. In other words, the spirit of resolution is to act before a bank/MFI is insolvent to minimise the disruptive effects of its failure on financial system stability.

Specific resolution objectives of the NBR shall include:

i. Ensuring the continuity of banking/MFI services and critical functions;

ii. Protecting and promoting the stability of the financial system;

iii. Enhancing public confidence in the financial system;

iv. Protecting public funds by minimising reliance on extraordinary public financial support; and

v. Protecting insured depositors.

6.3.3 Conditions for Taking Resolution Action (Resolution Triggers)

The NBR shall take resolution action in relation to a failing institution only if it considers that all the following conditions are met:

a. **The determination that the institution is Failing Or is Likely To Fail (FOLTF)** has been made by Supervision Department (BSD/MFSD), assessed by the Crisis Management Committee (CMC), and approved by NBR Management. The assessment report showing corrective actions/interventions done by, NBR to secure the solvency of the failing institution is transmitted to the Financial Sector Coordination Committee (FSCC) for further action. The role of FSCC will be, therefore to assess and approve resolution actions proposed by the NBR to secure the public interest in case of crisis.

Indicators of Failing Or Likely To Fail (FOLTF) financial institution.

The NBR shall consider the institution failing or likely to fail, if the institution infringes or there are objective elements to support a determination that the institution will, in the near future, infringe the requirements for continuing authorisation in a way that would justify the withdrawal of the authorisation. Below are specific indicators NBR will use to determine if the institution is failing or likely to fail (FOLTF):

i. If the capital position of an institution is insufficient or likely to be so under any of the following conditions:
   - Financial Institution is critically undercapitalized (Core CAR is less than 6 percent (6%) of total risk-weighted assets);
   - Financial institution's assets are less than its liabilities (an extreme case of inadequate capital position);
   - The results of the asset quality review indicate significant decrease in asset value which would significantly lead to infringement of core capital requirement;
   - Threats to the institution's capital position and viability stemming from non-temporary increase in the cost of funding of that institution to an unsustainable level; and
   - Significant deterioration of market perception of an institution.

ii. The liquidity position of the institution is insufficient or likely to be so, if:

- The liquidity position of the institution is significantly insufficient (LCR and NSFR below 80 percent);
- In the near future it will be unable to pay its debts and liabilities as they fall due;
- A non-temporary increase in the cost of funding of the institution to an unsustainable level, especially reflected by the increase of risk premium;
- A significant adverse evolution of the institution's current and future obligations (exceptional collateral requirements, expected and exceptional cash outflows, potential bank runs;
- The position of the institution in the payment, clearing and settlement system (Is it facing constant difficulties); and
- Significant deterioration in the market perception of an institution.

iii. The institution demonstrates serious weaknesses in governance such as:

- Inadequate strategic planning and formalisation of risk tolerance;
- Significant misstatements in the regulatory reporting or financial statements;
- A prolonged deadlock in the institution's management body leads to its inability to make critical decisions;
- Inadequate internal control mechanism; and
- Major reputational issues.

iv. The institution demonstrates significant operational incapacity to provide regulated activities.

v. If the institution has activated the recovery plan and there is no progress.

vi. If all other early intervention measures enforced by NBR under different stages have failed to improve the performance of the financial institution.

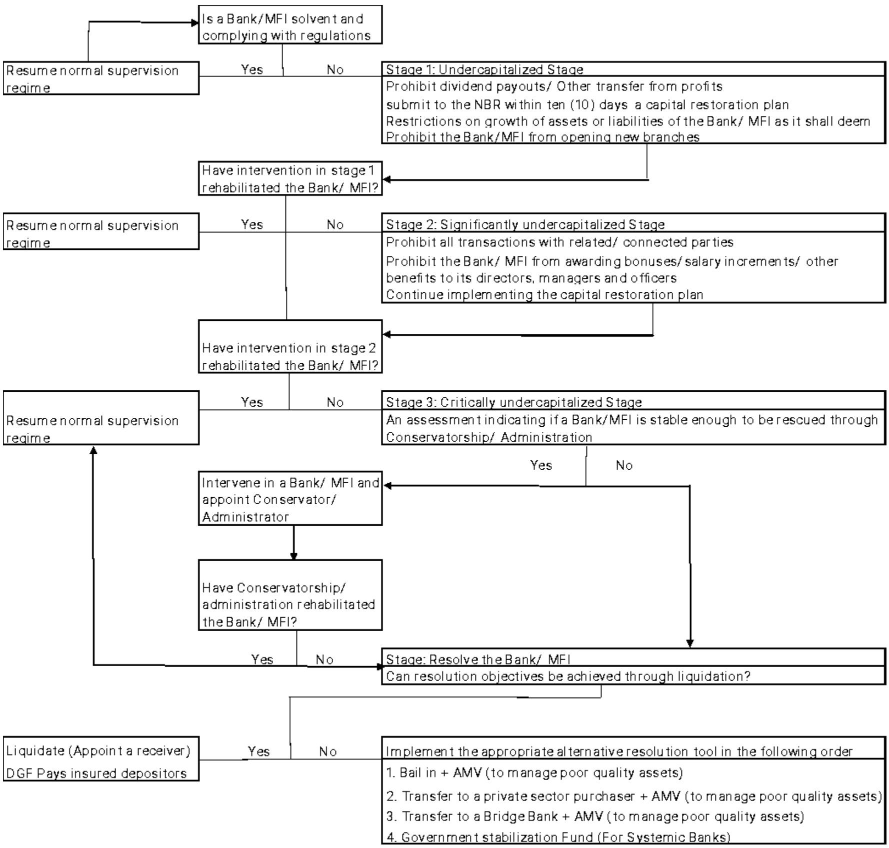
vii. If NBR receives a notification from the Management body of an institution that considers the institution to be failing or likely to fail.

b. When no other regulatory actions outside resolution can save a failing bank. In other words, all possible supervisory actions to improve financial viability should have been exhausted and the bank/MFI remains unsound. For NBR to take any resolution action, the BSD/or MFSD should ascertain if no alternative supervisory action can save the bank, other than resolution. Again, it should be the Management of NBR, at the recommendation of the CMC, to confirm that no actions out of resolution can save the failing bank/MFI. The CMC should present to Management a picture of how different alternative intervention actions/scenarios were implemented and failed to improve the bank/MFI.

c. The determination that the resolution action is necessary in the public interest objective:

A resolution action shall be treated as in the public interest if it is necessary for the achievement of one or more of the resolution objectives stated above and winding up of the institution under normal insolvency proceedings would not meet those resolution objectives to the same extent. Resolution action in most cases involves tampering with investors' property rights and should therefore be exercised with the justification of defending public interests (see section above on resolution objectives). In other words, the NBR should establish that the resolution objectives wouldn't be met under the normal insolvency proceedings.

Figure 6.2 Decision making flow Chart for placing a firm (Bank or MFI) into resolution



A resolution action shall be deemed to be in the interest of the public if it is necessary for the achievement of one or more of the resolution objectives stated above.

6.3.4 Supervisory actions to deal with problem Banks and MFIs

a. Corrective Actions for Banks/MFIs with Capital Problems

Regulation N° 2310/2018 -00016 [614] relating to capital requirements for banks classifies banks according to capitalization levels as indicated below as well as the respective measures to be taken to address these challenges;

i. Adequately capitalised deposit-taking financial institutions (Banks &MFIs): These are banks with total capital above twelve percent (12.5%) of total risk weighted assets of which ten percent (10%) is core capital. For MFIs, an adequately capitalized deposit taking microfinance company is one having a total capital of not less than 12.5% of total risk-weighted assets of which 10% is core capital and an adequately capitalized deposit taking microfinance cooperative is one having capital adequacy ratio of not less than 15%. Normal supervisory approaches are applied to banks/MFIs in this category unless the bank is likely to incur a loss which may result in it becoming undercapitalized or conducting its business in an unsound manner. In such an instance, the bank/MFI will be required to submit a written plan of corrective action that identifies the existing weaknesses in the administration or operations of the bank/MFI, determines in detail the corrective measures required to remedy such weaknesses and avert future losses and offers a realistic timetable for taking such measures. The bank/MFI may also be prohibited from paying dividends which would likely cause the bank/MFI failure to comply with the capital requirements or may be required to have a specific capital adequacy ratio when it has higher market risk. The bank/MFI directors and/or management of the bank/MFI may be required to provide a written explanation detailing the causes of the losses and the measures to be taken by the bank to rectify the position and avert future losses. In addition, the NBR will intensify its oversight and monitoring of such banks/MFIs in accordance with the principles of risk-based supervision.

ii. Undercapitalised deposit-taking financial institutions (Banks &MFIs): These are banks with total capital to risk weighted assets below 12.5% but above 10% and core capital below 10% but above 8%. For MFIs, an undercapitalized deposit taking microfinance company is one having a total capital of less than 12.5% of total risk-weighted assets, of which core capital is less than 10% and an undercapitalized deposit taking microfinance cooperative is one having capital adequacy ratio less than 15% but not less than 12%. Banks/MFIs in this category are prohibited from declaring dividends, making any transfer from profits or capital or making any other distributions other than to a reserve account, that would be likely to result in the bank/MFI's failure to meet its capital requirements. The Bank/MFI would also be required to submit to the Central Bank within ten days counted from the date of such notification, a capital restoration plan that specifies the steps to be taken to become adequately capitalised and the levels of capital to be attained during each quarter in which the plan will be in effect. The bank/MFI will also be prohibited from opening new branches or may be restricted from growing assets or liabilities as may be deemed fit.

iii. Significantly undercapitalised deposit-taking financial institutions (Banks &MFIs): These are banks with total capital to risk weighted assets under 10% and core capital below 8% but above 6%. For MFIs, a significantly undercapitalized deposit taking microfinance company is one having a total capital of less than 10% of total risk-weighted assets, of which core capital is less than 8% and a significantly undercapitalized deposit taking microfinance cooperative is one having capital adequacy ratio less than 12% but not less than 10%. All the above measures may be applied to banks/MFIs in this category. In addition, the bank/MFI may be prohibited from transacting with its related parties and connected parties except for repayment to the bank/MFI of any outstanding credit accommodation or any transaction specifically permitted by the Central Bank to facilitate recapitalization. In addition, the bank/MFI may be restricted from awarding any bonuses or increments in the salary, emoluments and other benefits of its directors, managers and officers.

iv. Critically undercapitalised deposit-taking financial institutions (Banks &MFIs): these are banks with core capital to risk weighted assets below 6%. For MFIs, a critically undercapitalized deposit taking microfinance company is one having a core capital of less than 6% of total risk-weighted assets and a critically undercapitalized deposit taking microfinance cooperative is one having a capital adequacy ratio of less than 10%. Where all the above measures have failed in ensuring that the bank/MFI is adequately capitalised, then resolution options should be explored and implemented.

b. Supervisory Corrective Actions for Banks/ MFIs with Liquidity Problems

With regard to liquidity, the Emergency Liquidity Facility (ELF) is available to solvent banks facing transitory liquidity needs, have no eligible collaterals to access the Standing Liquidity Facility (SLF) and other options to attract liquidity have been exhausted. The facility shall be collateralised by unencumbered assets (loans, fixed assets) of the bank and may be registered with the Registrar General. Amounts to be disbursed under this facility will be determined mainly by the bank's capital base, liquidity need, and available collaterals. The facility is available for 120 calendar days renewable once and at an interest rate above the SLF rate.

A decline in liquidity below the required minimum for LCR and NSFR will trigger NBR's supervisory corrective actions including the following:

- Require a bank to submit to NBR plans to restore its liquidity above the regulatory minimum;
- Require a bank to implement structural measures to promote resilience over a longer time horizon, e.g., increasing the most stable components of funding, reducing the loan-to-deposit ratio;
- Require the bank to inject additional capital through a capital instrument acceptable to NBR;
- The NBR may be able to assist a solvent and viable bank in acquiring liquidity, on published terms and against acceptable collateral, within its normal standing loan facilities. The NBR may also consider providing emergency liquidity assistance, beyond that provided through its normal standing facilities to illiquid banks that are assessed solvent; and
- The NBR may wish to help restore public and market confidence in the bank by issuing a statement confirming that it stands ready to provide liquidity support to the bank to maintain financial stability.

On MFI, deposit-taking microfinance companies shall always maintain a liquidity ratio of at least 20% while deposit-taking microfinance cooperatives shall maintain a liquidity ratio of 30% at all times. This ratio is defined as the ratio between cash and cash equivalents to all deposits and contingent liabilities denominated in local and foreign currencies maturing in a period not exceeding three months.

c. Supervisory Corrective Actions for Banks with Earnings Problems

- Banks with weak earnings or loss making should be required to reduce or restructure unprofitable activities (e.g., close branches) and to reduce costs (e.g., cut bonuses and salaries and/or the number of employees). If the problems are severe, a significant reorganisation of the bank may be necessary.
- In parallel, other actions may be taken to turn around its earnings, such as changes to the business model and operating plans. When weak earnings derive from risk-taking activities, some banks may also seek to claw back incentive compensation from senior management.

d. Supervisory Corrective actions for Banks with Assets Quality Problems

Banks with asset quality problems may be required to take the following measures depending on the assessed root causes:

- Require the bank fully reviews its processes for credit assessment, credit approval and credit monitoring;
- Writing off long-term problem loans;
- Selling assets or transferring them to a special purpose debt management vehicle – although the supervisor should determine that such transactions are not designed only to

remove low quality assets as a form of regulatory arbitrage; and

- Require the bank to clean up its books and inject additional capital into the bank.

e. Supervisory Corrective Actions for Banks/MFIs with governance weaknesses

The NBR may take any of the following actions to address weaknesses in the governance structure of the bank:

- Require the bank to enhance governance, internal controls and risk management;
- Suspension of particular or all shareholders' rights;
- Removal of directors and senior managers;
- Limitations on compensations to directors and senior executives; and
- Appointment of an administrator for the bank.

Other measures at the disposal of the NBR include:

- Impose pecuniary sanctions;
- Issue cease and desist orders;
- Suspension or removal of any director, manager, officer or other person or persons in the position of management;
- Appoint a special administrator to advise and assist the bank/MFI in designing and implementing the capital restoration plan and regularly submit to the Central Bank a progress report of the plan; and
- Take any other measures that may be deemed appropriate to ensure the bank/MFI complies with Central Bank requirements.

6.3.5 Resolution Tools

The NBR has six resolution tools to manage failing financial institutions. These tools, as elaborated below, can be used individually or in any combination, depending on the situation.

i. **Conservatorship/Administration**: this tool will be used where the NBR believes that the bank can be turned around or rehabilitated despite being critically undercapitalised. The NBR may appoint one or more administrators in accordance with the provisions of Articles 71-76 of the Banking Law to temporarily manage, and control the bank and develop a rehabilitation plan aimed at turning it around to solvency and stability. The bank would remain operational during this period to allow customers access to their funds. A partial deposit freeze by which depositors may only access a limited amount of their deposit may, however, be enforced to give the affected institution liquidity space to support its day-to-day expenses and shield it against a potential bank run. The partial deposit freeze may however exempt business accounts and payroll processing, among others. Other operations such as new lending and asset acquisitions would be restricted with a focus on implementation of cost saving measures.

ii. **The Bail-in Tool:** The bail-in tool will allow NBR to allocate incurred losses to the owners and debt holders of the failing institution. This involves a write-down of the claims of the firm's unsecured creditors (including holders of capital instruments) and conversion of those claims into equity as necessary to restore solvency of the bank. The bail-in tool shall be used in combination with other resolution tools depending on the extent of losses and amount of bail-able liabilities.

iii. **Transfer to a private sector purchaser:** This includes the transfer of all or part of an institution's business, its assets and liabilities, to a willing and appropriately authorised private sector purchaser without the need for consent of the failed bank, or its shareholders, customers or counterparties. The Bank could transfer the whole of the firm to a private sector purchaser, or to a bridge bank pending an onward sale to a private sector purchaser.

iv. **Transfer to a bridge bank:** this involves the transfer of all or part of the institution's business to a temporary bank controlled by the resolution authority (NBR). The purpose is to maintain the continuity of the failed bank's critical functions until the sale of the bridge bank. The bridge institution tool aims to buy time until a private sector solution is found, while preserving the critical functions of the failing bank.

v. **Transfer to an Asset Management Vehicle (AMV):** This allows all or part of the business of a failed bank or a bridge bank to be transferred to and managed by a separate asset management vehicle. The AMV can be wholly or partially owned and controlled by the NBR, with a view to maximise the value of assets through an eventual sale or orderly wind-down. The asset management vehicle tool could be used together with both bail-in and transfer resolutions. In a bail-in, the tool could be used to support a rapid restructuring after the firm has been stabilised while in a transfer, the tool could be used to transfer poor-quality assets to the asset management vehicle.

vi. **Government stabilization tools:** In line with international resolution standards, Government funds should be employed in cases of systemic crisis and after exhausting all available tools. In exercising this resolution tool, the NBR shall seek funding from the Government. Government support can take the form of participation in the recapitalization of a bank in exchange for shares or other capital instruments (temporary public equity support), or taking a bank into temporary public ownership through the use of a transfer order (temporary public ownership). In both cases, the bank shall be managed on a commercial and professional basis and transferred to the private sector as soon as the commercial and financial circumstances allow.

6.4 REIMBURSEMENT OF DEPOSITORS/PAY-OUT PROCESS

There are three main phases of the payout process as stated in the DGF Law 31/2015 article 11, Compensation of Depositors: preparation, implementation (running the pay-out process) and completion of pay-out/ reimbursement process.

In the first phase, the DGF gathers data and information from the liquidator or directly from the insured institution's register of deposits and depositors, immediately after receiving the liquidation notification from the NBR. In the implementation phase, pay-out is done through direct payment or an agent bank approved by the NBR. In the completion of pay-out phase, the Fund withdraws and archives the entire documents certifying the completion of the process for the purpose of keeping records of the reimbursement process. That must occur not later than 20 working days from the expiry date of the official deadline of the pay-out process.

The DGF, at the closing of the pay-out process shall continue the following tasks:

- Undertake efforts to locate depositors whose reimbursement were unsuccessful during normal processes; and
- Review the process of pay-out while deciding the time for the submission of documentation on the process to an independent auditor.

The Fund shall, in its first press release, inform the public about the details of process of pay-out, including the methods, the initiation date, the duration period of the pay-out, the name of the Agent Bank and the available network used for the settlement of pay-out process. Any other necessary information for the compensation process might be added.

The Fund shall inform the public periodically on the development of the process of compensation and the work accomplished in cooperation with all the participants in the process. The notifications to the public shall be through press conferences, national newspapers, electronic media communications and the NBR website.

6.5 INSTITUTIONAL REFORMS

The DGF is in the process of reviewing its enabling law, using the IADI self-assessment report and the findings of the GAP analysis conducted by the Policy and Regulation Department. It is also in the process of automating its operations (Premium declaration & payment, investment of premiums collected and pay-out of insured depositors), which is scheduled to commence in 2021/2022.

In addition, the NBR agreed to increase the number of staff for its effective operations, given the volume of work involved. The Fund will continue to collaborate with IADI on technical assistance as well as Deposit Insurers in different regions for future capacity building.

6.6 PUBLIC AWARENESS

The objectives of the public awareness programme are clearly defined and consistent with the public policy objectives and mandate of the DGF. The DGF is responsible for promoting public awareness using a variety of communication tools as part of a comprehensive communication programme including the scope, a list of member institutions, deposit insurance coverage level and other information, such as the mandate of the DGF.

In the event of failure of an insured financial institution, the DGF and NBR, in collaboration with an appointed liquidator, notify depositors, via press releases, print advertising, websites and other media outlets. Contained within the notice, is information concerning where, how and when insured depositors will be provided with access to their funds and what an insured depositor must provide in order to be reimbursed.

6.7 CORPORATE SOCIAL RESPONSIBILITY

The NBR had been actively involved in voluntary activities and projects aimed at conferring benefits on, and positively impacting the welfare of various stakeholders. Apart from being a public institution, which should ordinarily serve public interest, the NBR had a stake in demonstrating social responsibility. As members of the public, especially bank depositors, are one of the largest stakeholders, the Fund is desirous that they benefit not only from its operations and activities but also its contributions to socio-economic development.

Among the objectives of the NBR are to promote banking culture and to preserve public confidence in the system. Thus, any social programme or project in the name of the NBR would raise its public image.

6.8 ACHIEVEMENTS AND CHALLENGES

6.8.1 Achievements

i. Different guidelines, policies and strategies were developed and approved by the NBR Board and Management and are being used in the daily operations of the Fund. These include:
   a. DGF Reporting Guidelines: these provides guidance to members on how premiums will be declared and paid as well as the reporting templates to be used;
   b. DGF Funding & Accounting guidelines: these provide guidance on how funds collected will be accounted for in

NBR Accounting system and how to treat other sources of funding;

c. DGF Investment policy and guidelines: these documents provide guidance on how funds collected will be managed and invested in accordance with DGF Law;

d. Verification Manual: this provides guidance on how data made available to DGF by members are verified;

e. Pay-out Process Manual: this provides guidance on how the reimbursement of insured depositors in case of failure of any Bank/ MFI will be conducted; and

f. Public Awareness Strategy: this provides guidance on how to make the public aware of the existence of DGF.

ii. Given their compliance levels, all banks in Rwanda can be rated to have complied with all DGF requirements since the financial year 2017/18, and there was an improvement in MFIs' (including UMURENGE SACCOs) reporting and payments of premium when compared to the previous financial year. The Fund was able to address all other pertinent issues during follow-ups including workshops conducted in March 2019 and subsequent years.

iii. Two committees (the Advisory committee (DGF AC) and Investment committee (DGF IC)) were established to oversee the operationalization of the DGF since its establishment. The DGF AC provides technical advice on the daily operations of the Fund and sits twice a year. The DGF IC helps the Fund to invest premiums collected and sits quarterly. Both committees have contributed immensely to assisting the DGF to achieve its objectives during the last six years.

The DGF coordinated activities of these two committees by having its staff as the Secretary in the committees in the last six years. For the DGF IC, policies and strategies were put in place to increase the Financial Capacity of the DGF through different investment opportunities. The Fund which started with zero balance has accumulated a Fund balance of over FRW 11 billion equivalent to USD 11 Million. DGF AC, also provides technical advice to the management of the NBR for the Fund's smooth management and development, with all recommendations successfully implemented.

iv. The DGF has built a financial capacity by which it is able to provide insurance cover for depositors of 11 banks out of 15 and all MFIs except one (1) cooperative microfinance, in case of their failure.

v. The DGF joined the IADI as its 83rd Member.

vi. The Fund often anchors training for Banks and MFIs staff to promote awareness of deposit insurance and increase compliance with the DGF reporting and other legal requirements. This platform has facilitated awareness of the importance of DIS and cooperation with stakeholders within the DIS and contributed to the smooth collection of premiums from the insured financial institutions.

vii. Successful coordination of the pay-out process of the closed institution in September 2019. The entire process was scandal free and all registered insured depositors were timely paid within the timelines set by the Law. In addition, more than 80 percent of total deposits were refunded to insured depositors while 37 percent of loans were recovered.

viii. The DGF processes were automated to reduce work overload as well as reducing errors that may occur using manual operations. Prior to its automation, the DGF had been operating manually since its operationalization in 2016. The automation was approved by the NBR Board in March 2021 with its implementation scheduled for the financial year 2021/22 when all the pertinent issues will be resolved and full compliance with reporting and other requirements enforced.

ix. The IADI Self-Assessment Technical Assistance (SATAP) was contacted to help the Fund to know the gaps and get advice from the association on the way to address those gaps in its bid to become an effective DIS in Africa.

x. To increase compliance with international best practices as well as respond to the market dynamism in DIS, DGF participated in the review of its Law in accordance with IADI Core principles. The revised Law was approved by the NBR Board in June 2021.

xi. Onsite & off-site verifications/ inspections were conducted to verify compliance with DGF reporting and payments of premiums requirements. Twenty-one on-site inspections (of 4 public limited institutions and 17 SACCOs) were completed and reports were communicated to the affected institutions for implementation.

6.8.2 Challenges

i. Low Coverage limit i.e., FRW 500,000 equivalent to USD 515

ii. Understaffing of the Fund compared to the volume of work. Only Four staff. This is to be addressed with the restructuring in 2023.

iii. Manuals processes delay the collection of information from MFIs and lead to delays in the payment of premiums by some members especially MFIs. However, the automation process of UMURENGE SACCOs had commenced and would improve the operations of the DGF.

iv. Non-compliance of MFIs with the timing and format of returns to the DGF in terms of reporting and payment of premiums still remains a challenge. This shortcoming stems from the perception that penalty charges were very low for some MFIs & SACCOs (0.5 percent of unpaid amount/ premium), leading to weak incentive mechanisms that fail to discourage non-compliance. This is expected to be addressed in the revised DGF law.

v. Non-compliance with some IADI Core Principles is another challenge that is expected to be resolved through the implementation of SATAP recommendations.

6.9 CONCLUSION

The evolution of the nation's financial system has largely been driven by the dynamics of the banking sector. The banking sector, which consists of commercial banks and other financial institutions, is dominated by microfinance institutions. The sector is currently well-capitalized, especially in the wake of a number of bank reforms targeted at improving the sector's efficiency.

The DGF was established in 2015 with a pay-box mandate. It was charged with providing protection to small depositors against risks of losing their deposits arising from the failure of banks and microfinance institutions using funds generated from premiums collected from insured institutions, income from DIF invested, grants and donations from the NBR, among others.

The DGF, though with less than a decade of experience, has made giant strides in the administration of deposit insurance in Rwanda. By operating a transparent premium assessment system and providing guidance to insured banks on several issues of policy importance, it contributed significantly to 100% of banks' compliance with its requirements in 2018. The DGF was also able to successfully coordinate the pay-out process of the closed institutions in September 2019 without hitches.

These achievements, among others, have positioned the DGF to contribute immensely to enhancing the maintenance of public confidence in the banking sector, thus promoting financial system stability in Rwanda. Notwithstanding its nascency, the DGF has a bright prospect in complementing other financial safety-net participants in Rwanda for a virile financial system that would support the growth and development of the Rwandan economy.

CHAPTER SEVEN

GHANA

7.0 STRUCTURE AND EVOLUTION OF THE FINANCIAL SYSTEM

The financial landscape of Ghana has undergone significant transformation since 1980, following the launch of its economic recovery programme through the Financial Sector Strategic Plan (FINSSP I and FINSSP II). The financial sector reforms led to a rise in the number of banks and non-banks. As of August 2017, Ghana had 34 Deposit Money Banks (DMBs), 140 Rural and Community Banks, 37 Savings & Loans Companies, and 34 Finance House Companies.

The financial system of Ghana consists of financial markets, financial instruments, and regulators. The regulatory authorities in Ghana comprise the Bank of Ghana (BoG), the Securities and Exchange Commission, the National Insurance Commission, and the National Pensions Regulatory Authority.

The BoG has the overall supervisory and regulatory authority in all matters relating to banking and non-banking financial business with the purpose of achieving a safe, stable, and sound financial system. The mandate of the BoG is to ensure the safety of depositors' funds; banks' solvency, asset quality, liquidity and profitability; adherence to statutory and regulatory requirements; fair competition among banks and maintenance of an efficient payments system.

The Securities and Exchange Commission ('the Commission') was established by the Securities Industry Act 929 of 2016 with the objective of regulating and promoting the growth and development of an efficient, fair and transparent securities market. The mandate of the Commission is to advise the Minister on matters relating to the securities industry;

maintain surveillance over activities in securities to ensure orderly, fair, and equitable dealings in securities; register, license and regulate the activities of the securities market; and formulate principles for the guidance of the industry.

The National Insurance Commission (NIC) was established under Insurance Law 1989 (PNDC Law 227), but now operates under Insurance Act 724 of 2006. The objectives of the NIC, as detailed in its Act, is to ensure effective administration, supervision, regulation and control of the business of Insurance in Ghana. NIC is mandated to perform a wide spectrum of functions including licensing of entities, setting of standards and facilitating the setting of codes for practitioners. The NIC is also mandated to approve rates of insurance premiums and commissions, provide a bureau for the resolution of complaints and arbitrate insurance claims when disputes arise.

The National Pensions Regulatory Authority (NPRA) was established by the National Pensions Act 766 of 2008, to regulate and monitor the operations of the three-tier pension scheme and ensure the effective administration of all pensions in the country. The functions of the NPRA include registering occupational pension schemes, provident funds and personal pension schemes; issuing guidelines for the investment and management of pension funds; approving, regulating and monitoring trustees, basic National Social Security Scheme pension fund managers, custodians and other institutions that deal with pensions as the NPRA may determine and advising the government on the overall policy on pensions in the country.

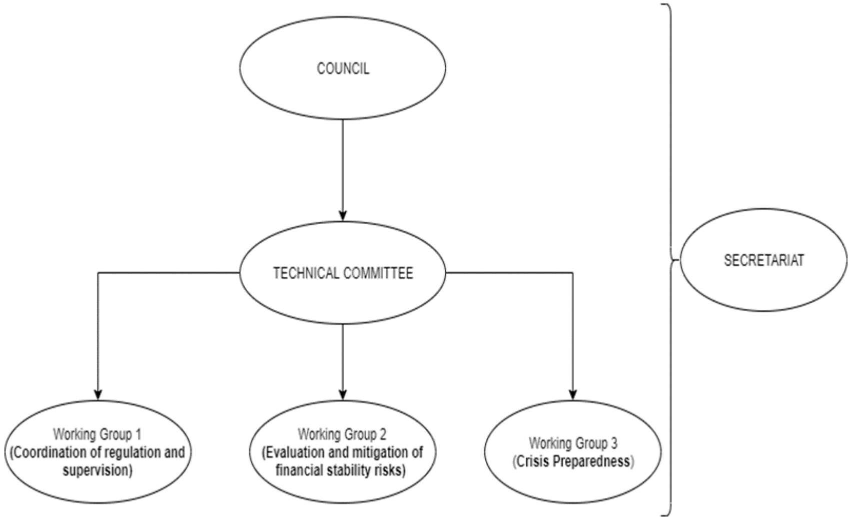
7.1 THE FINANCIAL SAFETY-NET

The financial safety net comprises prudential regulation and supervision, distress resolution, lender of last resort, and deposit insurance. The safety-net is designed to promote financial system stability.

The BoG is in charge of the regulatory and supervisory framework of the financial safety net in Ghana and via its prudential regulation powers, it oversees all matters relating to banking and non-banking financial businesses with the purpose of achieving a safe and sound financial system. The BoG plays the role of the resolution authority and the lender of last resort to financial institutions. The BoG discretionarily exercises its lender-of-last-resort function to achieve its financial stability objective. It has developed a clear and robust policy and operational framework for providing Intraday Liquidity Facility (ILF) and Emergency Liquidity Assistance (ELA). The Ghana Deposit Protection Corporation (GDPC) is tasked with the deposit insurance function of the financial safety net.

In accordance with IADI Core Principle 4 (Relationships with other Safety-Net Participants), there is a formal and comprehensive framework in place for close coordination of activities and information sharing between the financial safety-net participants. The Financial Stability Council (FSC) in Ghana is an inter-institutional advisory coordination body responsible for advising the financial sector stakeholders in Ghana. The FSC is centred on three (3) pillars: coordination of regulation and supervision at the micro-level, evaluation and mitigation of financial stability risks, and crisis preparedness, as depicted in Figure 7.1.

Figure 7.1 Structure of the Financial Stability Council



Source: GDPC

7.2 GHANA DEPOSIT PROTECTION CORPORATION

The GDPC was established by the Ghana Deposit Protection Act 931 of 2016, as amended. The scheme seeks to protect small depositors from loss occasioned by a bank failure. The objective is to support the development of a safe, sound, efficient and stable financial system in Ghana, by ensuring prompt pay-out to insured depositors, thereby engendering public confidence in the system.

Under the bilateral agreement, discussions were held between BoG and the German Government. The Government of Ghana (GoG) acting through the Ministry of Finance (MoF) and the German Government, acting through KfW (a German Government state-owned development bank), agreed to establish a deposit protection scheme.

The deposit protection scheme in Ghana was conceived based on a feasibility study conducted in 2012, in consultation with stakeholders such as BoG, Association of Rural and Community banks (ARB Apex Bank), Ghana Association of Microfinance Companies (GAMC), Universal Banks, Savings and Loans Companies and MoF, amongst others. Some of the recommendations from the study included that:

i. Management of BoG should proceed with the collaboration and preparation of a legal framework for the establishment of a deposit protection scheme in Ghana;

ii. Two different funds should be set up, one for banks and the other for Specialised Deposit-taking Institutions;

iii. BoG should select a working team to kick-start the establishment process;

iv. BoG, in collaboration with the MoF, should make a case for Parliament to exempt the fund from corporate tax;

v. A consultant should be hired to assist with the drafting of the Bill and the establishment of the scheme; and

vi. BoG and GoG/MoF should provide the stated capital to fund logistics for the commencement of the scheme.

In line with the above recommendations, further consultations were held, resulting in the signing of an agreement between GoG, KfW Development Bank and BoG in 2015.

In November 2016, the BoG, as the Project Execution Agency (PEA) under the fundamental agreements signed, set up a committee called the Deposit Protection Implementation Committee (DPIC) with the mandate of undertaking the task of implementing the deposit protection scheme in Ghana. The Committee was made up of members from BoG, MoF, Ghana Association of Savings and Loans Companies, GAMC, ARB Apex Bank and KfW Development Bank.

7.2.1 Operational Structure & Legal Framework

The Ghana Deposit Protection Act, 931 of 2016, provides for the establishment of a Deposit Protection Scheme (the Scheme), a Deposit Protection Fund, and a Deposit Protection Corporation (GDPC). The GDPC is governed by a Board consisting of the Governor of BoG as the Chairperson of the Board; a representative of the MoF; the Chief Executive Officer of the Corporation; one representative of the Chartered Institute of Bankers who is a chartered banker; one representative of the Association of Ghana Industries; a legal practitioner of not less than ten years standing at the Bar (nominated by the Ghana Bar Association); and one certified practicing accountant nominated by the Institute of Chartered Accountants of Ghana.

The regulatory and legal framework within which banks and non-bank financial institutions operate in Ghana include:

i. BoG Act 2002, Act 612;
ii. BoG (Amendment) Act, 2016 (Act 918);
iii. Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930);
iv. Non-Bank Financial Institutions Act, 2008 (Act 774);
v. Companies Act, 1963 (Act 179); and
vi. BoG Notices, Directives, Circulars and Regulations.

7.2.2 Mandate

The GDPC, as clearly stated in section 2 of the GDP Act, has a pay-box mandate. To enhance the effectiveness of its mandate, roles and responsibilities should be consistent with the powers and authorities on one hand and the public policy objectives (PPOs) on the other hand.

The GDPC has the following responsibilities and powers under the

GDP Act:

i. Determine the levels of insurance premiums for participating institutions under the Scheme;
ii. Set the coverage limits for insured deposits;
iii. Invest the assets of the Scheme;
iv. Pay off insured depositors in accordance with the Act within 30 days after the failure of member institutions;
v. Cooperate with the BoG in exchanging information relevant to the attainment of the objectives of the Scheme;
vi. Borrow money to ensure attainment of the objectives of the Scheme where GDPC has insufficient funds;
vii. Determine administrative sanctions to be imposed on members of the Scheme; and
viii. Do anything incidental to the efficient performance of the functions of the GDPC.

It is, however, instructive to note that the GDPC cannot grant credit or donations to members.

7.2.3 Membership

The members of the Scheme are all banks and specialised deposit-taking institutions licensed by the BoG. The GDPC is required to issue members with a certificate of membership which must be surrendered when the operating licence of a member is revoked by the BoG.

Membership of the Scheme ceases after the GDPC pays off all insured depositors upon the revocation of the licence of a member institution or after a member pays off all insured depositors after undergoing a voluntary liquidation.

7.2.4 Scope of Coverage

All deposits with a bank or specialized deposit-taking institution are protected, except the following:

i. A deposit for which the depositor has not been identified;

ii. A deposit that is frozen in compliance with an order of a court;

iii. A deposit that belongs to a director or any key management personnel;

iv. A deposit belonging to an audit firm, in charge of performing the external audit of the financial statements of the bank or specialized deposit-taking institution for at least three years before the liquidation of the bank or specialized deposit-taking institution;

v. A deposit used as collateral for a loan or other obligation with the bank or specialized deposit-taking institution.

vi. A deposit held by a financial institution, pension fund, retirement fund, insurance company, collective investment undertaking, local government, central government and administrative authority; and

vii. Deposits held in a foreign branch of a bank or specialized deposit-taking institution incorporated in Ghana, and a subsidiary of that bank or specialized deposit-taking institution operating in a foreign country.

7.2.5 Funding and Fund Management

The Deposit Protection Fund (DPF) is divided into two Funds based on the category of the member institutions:

i. Fund A – Banks; and

ii. Fund B – Specialized Deposit-Taking Institutions (SDIs).

The DPF was established with seed funding from the GoG and the BoG, each pledging a total of EUR13m towards the Fund. The seed funds have been allocated between Funds A and B, with a portion of BoG's contribution supporting operational expenses.

The GDPC operates an ex-ante fund in which members pay premiums into relevant funds. These premiums are calculated on year-end insurable deposits and invoiced to the member institutions on a quarterly basis.

Sections 24 (Functions of the Corporation) and 41 (Investments) of the GDP Act 931 of 2016, enjoin the GDPC to invest the DPF, using the principle of "liquidity and safety over returns". The GDPC is allowed to invest the DPF in securities issued or guaranteed by the Republic of Ghana and securities designated by the BoG as qualified instruments.

7.2.6 Premium Assessment

Based on its nascency, the GDPC had to quickly grow the DPF so as to have enough financial resources for the reimbursement of depositors in case of a failure of an insured financial institution. According to the GDP Act, the DPF draws from two types of premiums charged on member financial institutions: initial premium and annual premium.

All insured financial institutions are required to pay an initial one-off premium of 0.1 percent of the required minimum paid-up capital. The GDPC currently assesses flat-rate premiums for all members, but the GDP Act allows differential premium assessment three years after the GDP Act becomes operational.

7.2.7 Cooperation with the Bank of Ghana

Both the GDP Act and the Banks and Specialised Deposit-Taking Institutions Act 930 of 2016 provide for the cooperation between GDPC and the BoG, and for the entry into a MoU between the parties to set out the terms of the cooperation. The MoU which has been executed between the GDPC and the BoG, provides for cooperation in the conduct of on-site examination, information sharing and emergency financial assistance from the BoG in the event of liquidity shortage during a pay-out.

7.2.8 Public Awareness

Although, the GDPC brand has just begun to be known by the public, its relevance to financial sector stability and national development cannot be underestimated. Therefore, the need for increased national awareness becomes imperative. Some of its public awareness initiatives include:

i. **Branding**

   At the inception of the Scheme, the GDPC's communication efforts were focused on developing an effective branding and communications strategy to rapidly enhance stakeholders' awareness of the key features of the Ghana Deposit Protection Scheme. The current GDPC logo featuring Ghana's map sitting on two hands signifies the universal and broad nature of the Scheme, and indicates how the deposits of the small depositors across the country are held secure in the hands of the GDPC. The Ghana Cedi sign in the map depicts the currency in which the deposits are protected, while the colours gold and blue signify wealth and confidence.

ii. **Establishing GDPC's Online Presence**

   Recognizing the usefulness of social media as a channel for engaging stakeholders, the GDPC created official Facebook and Twitter accounts in 2020. The GDPC developed a website that prominently features its write-ups, statutes, FAQs and audio visuals that explain key features of the deposit protection scheme.

iii. Other Communication Efforts

After GDPC became fully operational, it implemented communication activities aimed at supporting the new deposit protection Scheme in 2020. Key among these activities was the drafting of communication policy manuals, board approval of these policy manuals, dialogue with member institutions about the key features of Ghana's new deposit protection Scheme, and the production of communication materials such as information leaflets, and brochures, among others.

iv. Collaboration with Other Stakeholders

The most important stakeholders are the depositors and deposit-taking institutions who seek assurance of prompt deposit reimbursement. GDPC currently carries out a number of sensitization sessions for its member institutions. These sessions discuss issues relating to the role of banks and SDIs in informing depositors about the features of the Scheme, modalities for premium collection, current and upcoming programmes, and expected changes in the regulatory framework governing the Deposit Protection Scheme. The GDPC also ensures engagement with its stakeholders like IADI and Alliance for Financial Inclusion (AFI).

v. Brand Awareness Survey

In order to obtain baseline data on the levels of awareness about deposit protection in Ghana, the GDPC was set to conduct a brand awareness survey in 2021.

vi. Integrating DIS into Schools' Curriculum

As part of efforts to entrench the knowledge about GDPC and deposit protection practice within Ghana, the GDPC plans to introduce deposit insurance as a course into the curriculum of business schools.

vii. Workshop for Editors and Business Reporters

The GDPC organizes workshops for news editors of major media organizations in order to enhance their knowledge about deposit insurance. Also, it collaborates with the Institute of Financial and Economic Journalists (IFEJ) and the Journalists for Business Advocacy (JBA) to educate business reporters on proper financial reporting standards.

viii. Press Kits

The GDPC prepares press kits for distribution to the media. These press kits are made up of press releases, brochures and leaflets containing information on the benefits and limitations of the Ghana Deposit Protection Scheme.

ix. TV Adverts

In order to increase public awareness about the features of the Ghana Deposit Protection Scheme, the GDPC sponsors television adverts and coordinates the production of live-televised panel discussions in English and various Ghanaian languages such as Twi, Ga, Ewe, Nzema and Dagbani.

x. Radio Adverts

The GDPC uses radio adverts and radio panel discussion programmes as a means of sensitizing the public about the features, activities, benefits and limitations of Ghana's Deposit Protection Scheme.

xi. Road Shows

The GDPC organizes roadshows to sensitize stakeholders (member institutions, markets and schools) about the operations and benefits of the GDPC.

xii. World Savings Day

World Savings day is celebrated on 31st October each year to inform people worldwide about the benefit of savings. In October 2021, the GDPC collaborated with banks to engage students in selected schools to educate them on the basic features of deposit insurance in Ghana.

7.3 ACHIEVEMENTS AND CHALLENGES

7.3.1 Achievements

i. The GDPC, in collaboration with BoG, hosted the 2019 IADI Africa Regional Committee (ARC) Technical Assistance Workshop in Ghana from the 18th to the 22nd of November, 2019. The theme of the conference was 'Deposit Protection - A Catalyst for Financial Stability. The conference was attended by 146 participants from 24 jurisdictions representing 60 institutions across the globe.

ii. The GDPC successfully deployed a Deposit Insurance Software (Integrator) for premium calculations, invoicing, reporting, claims and Pay-out.

iii. The GDPC issued Guidelines and Reporting Templates to member institutions on how to generate the Single Customer View (SCV) which gives a 360-degree view of every depositor of a member institution.

iv. It also developed key policies, manuals and procedures required to operationalise the mandate of the GDPC under its enabling legal framework.

7.3.2 Challenges

The GDPC faced challenges in its operating environment including, but not limited to:

i. Inability to carry out adequate public awareness campaigns as desired in 2020. This was largely due to the realisation that information about the GDPC's limited coverage could conflict with the Government's ongoing full pay-out to depositors of resolved institutions;

ii. The limiting effects of the COVID-19 pandemic on the extent to which the GDPC could engage with its stakeholders. In this regard, the GDPC was constrained to replace many of the planned workshops with webinars which, however, suffer from their inherent limitations;

iii. inadequate data from member institutions and the inability of some institutions to render statutory returns; and

iv. Low level of the current coverage limit of GHC1,250 for SDIs depositors which covers less than 95 percent of insured depositors, with negative implications for public confidence of customers in SDI subsector.

7.4 CONCLUSION

The development of the financial system in Ghana has largely benefited from the financial safety-net arrangement in the country. The arrangements, which consist of prudential regulations, lenders of the last resort, and lately, deposit insurance, are administered by the Bank of Ghana and the Ghana Deposit Protection Fund. These authorities, in conjunction with others such as the Securities and Exchange Commission, National Insurance Commission and the National Pensions Regulatory Authority, regulate and supervise the entire financial system which comprises, as of 2017, 34 Deposit Money Banks (DMBs), 140 Rural and Community Banks, 37 Savings & Loans Companies, and 34 Finance House Companies.

Ghana Deposit Protection Corporation (GDPC) was established in 2016 with a pay-box mandate to complement the Bank of Ghana in the discharge of safety-net functions. Primarily, the GDPC is charged with a deposit guarantee and bank liquidation. These functions are enabled by setting and collection of premiums, the appropriate setting of deposit insurance coverage and cooperation with the Bank of Ghana on many pertinent issues.

In its few years of existence, the GDPC encountered many challenges including low level of public awareness, paucity of data to discharge deposit disbursement function in bank liquidation, low level of deposit insurance coverage, and recently, the destabilizing effects of COVID-19 Pandemic. Despite these challenges, the GDPC has remained resolute in delivering its mandate.

The Corporation has thus been successful in the administration of the deposit insurance system in Ghana. Notable among the achievements that evidence its progress include, among others, the successful deployment of Deposit Insurance Software (Integrator) for premium calculations, invoicing, reporting, claims, and Pay-out. With its giant strides in deposit insurance administration, the GDPC is poised to continue to support financial system stability in Ghana.

CHAPTER EIGHT

FONDS DE GARANTIE DES DEPOTS ET DE RESOLUTION DANS L'UMOA (FGDR-UMOA)

8.0 STRUCTURE AND EVOLUTION OF THE FINANCIAL SYSTEM

The Fonds De Garantie Des Depots Et De Resolution Dans L'umoa (FGDR-UMOA) is made up of eight countries, namely: Benin, Burkina-Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo. The member countries of the West African Monetary Union (UMOA) share a common currency, the CFA Francs (XOF); a common Central Bank, a single banking supervisor, and uniform laws governing the banking and microfinance sectors.

The Central Bank of West African States (BCEAO) is responsible for the conduct of the monetary policy of the Union. It ensures the regulation of banks, financial institutions and large-sized microfinance institutions. The small and medium-sized microfinance institutions are supervised by a dedicated unit (Regulation and Supervision Department of the Microfinance Institutions) of the Ministries of Finance of each member country.

The Insurance and Capital market or Stock Exchange are respectively regulated and supervised by the Inter-African Conference on Insurance Markets (CIMA) and the Capital Markets Authority (AMF-UMOA), while the Inter-African Conference on Social Welfare (CIPRES) regulates and supervises the pension system of the eight-member countries. The Regional Stock Exchange of Securities (BRVM) whose head office is in Abidjan, Côte d'Ivoire, has as its mission organizing the stock market, listing and trading of securities, dissemination of stock market information as well as the promotion and development of the capital market. It also serves as the unique stock exchange in the UMOA region, with 65 listed companies and a market capitalization of 10,700 billion XOF (USD19 billion) as of April 2021.

The UMOA financial sector landscape has developed rapidly. It is largely dominated by the banking sector which holds around 90 percent of its total assets. As for the Microfinance Institutions (MFIs), with a little over USD 2 billion in assets, they represent a small part of the financial system and strongly contribute to improving access to finance both for low-income households and SMEs. Recently, the high penetration of mobile money in the region has also stimulated financial inclusion.

8.1 FINANCIAL SAFETY-NET

The financial safety net of UMOA comprises the following:

i. The Ministry of Finance in each country;
ii. The BCEAO;
iii. The Banking Commission (supervisor);
iv. The Financial Market Authority;
v. The CIMA; and
vi. The FGDR-UMOA.

A Financial Stability Committee in the UMOA has been established and holds periodic meetings under the chairmanship of the Central Bank Governor.

8.2 OVERVIEW OF THE BANKING SYSTEM

The UMOA banking system is organized around 152 Credit Institutions made up of domestic and foreign banks. These banks are distinguished primarily by their size, mainly the total balance sheet (systemically important banks, medium-sized banks and small banks). At end-

December 2020, the banking landscape was made up of 65 international banks, 63 sub-regional banks, and 20 financial institutions with banking profiles (5 of which are international while 15 are sub-regional). The majority of the banks are affiliated with banking groups controlled by parent companies or holding companies located in the WAMU.

8.3 DEPOSIT INSURANCE SYSTEM

8.3.1 Mandate

The FGDR-UMOA's mandate is limited to deposit insurance and the financing of banking resolution. The FGDR-UMOA was designed as a Pay-box Plus without supervisory powers. Banking supervision in UMOA is the responsibility of the Banking Commission and the BCEAO.

8.3.2 Distress and Failure Resolution

The UMOA banking crisis resolution system aims to define the intervention modalities of different authorities involved in the resolution when disturbances occur that may affect the banking sector in general.

The authorities that manage UMOA's approaches and modalities for strengthening resolution mechanisms are:

i. **Crisis Resolution Authority -** which oversees the development and implementation of crisis prevention and resolution measures; and

ii. **Crisis Resolution Fund -** whose mission is to finance the banking crisis resolution actions.

These mechanisms for resolving banking crises in the UMOA were instituted in July 2015. The resolution tools available to the UMOA's resolution authority for the accomplishment of its mission include:

a. **Information dissemination:** each member institution is required to provide all useful information for the implementation of its resolution procedure;

b. **Parties-at-Fault:** the power to remove or replace any manager who is responsible for the failure of the institution;

c. **Purchase & Assumption (P&A):** the power to adopt P&A including the transfer of all or part of one or more of the bank's business lines;

d. **Bridge Bank:** decide to establish a bridge bank to acquire the assets and assume the liabilities of a failed bank on a temporary basis under the conditions set by the Banking Commission;

e. Involve the FGDR-UMOA in accordance with the provisions in force;

f. **Restructuring:** Impose capital restructuring measures that may include the cancellation of equity or liabilities or the conversion of liabilities;

g. **Cease & Desist Orders:** Temporarily limit or prohibit incorporation of certain operations;

h. **Restriction on payment of dividends:** Limit or prohibit the distribution of dividends to shareholders or remuneration of corporation shares to members.

8.3.3 Liquidation

When the resolution options adopted cannot resolve the problems of the failing bank, liquidation becomes the ultimate option. In that case, the Resolution College may decide to grant compensation to the creditors of the institution in resolution according to the liquidation procedure in force.

8.3.4 Reimbursement

The FGDR-UMOA has a drafted Pay-out Circular which sets out the depositor pay-out modalities, as well as an implemented procedure that outlines the pay-out process. The FGDR-UMOA pays the depositors within three months of its referral by the Banking Commission or the Central Bank. This period will be reviewed and reduced after the processes related to the implementation of a pay-out platform.

8.3.5 Premium Assessment

The FGDR-UMOA has two contribution rates approved by the UMOA council of ministers:

i. **Banks:** 0.06% of eligible deposits; and
ii. **Microfinance institutions:** 0.29% of eligible deposits.

The FGDR-UMOA plans to shift to the implementation of the Differential Premium Assessment System (DPAS) in the coming years. The DPAS is a system in which the contributions of the member institutions will be based on their individual risk profiles. Elsewhere, the main objective of this project is to address two major challenges, namely:

i. Moral hazard; and
ii. Fairness in the contributions calculation system.

8.3.6 Deposit Insurance Funding and Fund Management

In accordance with its enabling by-laws, the Fund resources are derived from contributions raised from member institutions, investment income where applicable, donations, grants, and loans, as well as all other resources applicable for the purpose of the Fund. The FGDR-UMOA implements an investment policy that aims to preserve the level of invested capital and ensure the investment portfolio liquidity.

8.4 INSTITUTIONAL REFORMS

The Institutional reforms that have taken place from the inception of the Fund to date relate to the following:

i. The setting up of a banking crisis resolution authority, where the Fund Director is a member;

ii. The extension of the Fund's mandate to finance the resolution actions (Pay-box Plus); and

iii. The change of name from the Deposit Guarantee Fund to the Deposit Guarantee and Resolution Fund, with the extension of its mandate to the financing of banking crisis resolution actions.

8.5 CAPACITY BUILDING

The FGDR-UMOA relies on the capacity building programs put in place by IADI, ARC and Deposit Insurers in other jurisdictions.

8.6 PUBLIC AWARENESS

The FGDR-UMOA has undertaken communication and awareness actions, including the drafting of a Circular aimed at specifying the modalities of information dedicated to the depositors of member institutions, and the public. The FGDR-UMOA deploys all appropriate channels for scaling up the communication to the public and depositors of member institutions, providing useful information on the deposit insurance system.

8.7 ACHIEVEMENTS AND CHALLENGES

8.7.1 Achievements

The main achievements of the FGDR-UMOA include the following:

i. The Fund operationalization with the effective membership of all banks and the large sized of microfinance institutions in

UMOA member countries;

ii. The establishment of DIF for insured institutions (Banks and Microfinance);

iii. The implementation of the Fund's investment policy;

iv. The implementation of the Fund's Information System, in particular, the automation of the data collection on deposits through the Central Bank reporting platform;

v. The signing of a Memorandum of Understanding (MoU) with the supervisor (Banking Commission), which was necessary for the transmission of the member institution risk profiles to the Fund as part of the implementation of the proposed DPAS;

vi. The launch of the Fund's website; and

vii. The outreach of banks and microfinance institutions through workshops in each country of the UMOA.

8.7.2 Challenges

Beyond the accomplished progress, the Fund faces the following challenges:

i. Implementation of a Pay-out platform;

ii. Reduction of its Pay-out period from three (3) months to a relatively shorter period and close to the international standards;

iii. Setting up a backup funding mechanism;

iv. Diversification of its investment vehicle; and

v. Communication and public awareness.

8.8 CONCLUSION

The financial sector comprises financial institutions in eight countries, namely: Benin, Burkina-Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo which all share a common currency (the CFA

Francs), a common Central Bank, a single Banking supervisor and uniform laws governing the banking and microfinance sectors. The financial system of the UMOA is largely dominated by the banking sector which holds about 90 percent of its total asset.

The DIS in member countries is administered by the FGDR-UMOA, which has a pay-box plus mandate to protect depositors' funds and perform failure resolution. The FGDR-UMOA has a Pay-out Policy that pays the depositors within three months from its referral by the Banking Commission. It is also charged with the responsibility of liquidating banks when a host of resolution options fail. Leveraging its enabling law, the FGDR-UMOA has been able to discharge its mandate using the premium collected from insured institutions.

In spite of the few challenges experienced in its operations such as limited public awareness and unavailable backup funding, FGDR-UMOA is committed to promoting financial stability in member countries by engendering public confidence through effective depositor protection and prevention of systemic crises through a prompt resolution of bank failures.

9.0 CONCLUSIONS AND RECOMMENDATIONS

The financial system in Africa is relatively young when compared to that of advanced economic groups like the G7. It has, however, undergone significant growth and development in recent times. The formal financial system largely developed from the banking sector that was originally predominated by foreign entities. However, with the political advancement of many African States, the banking sector, as well as the financial system, is now largely operated by indigenous banks, albeit with enough room for foreign firms' participation. Most of the developments that characterize the banking sector evolution in Africa were locally driven and designed to suit the needs of the continent.

The banking sector in Africa has a long history that spans over a century.

For instance, the African Banking Corporation started operation in 1892 in Nigeria while the Bank of India opened for transactions in Uganda in 1906. The developmental challenges, nascency of the institutions, as well as the lack of regulatory framework contributed to the vulnerability of the banking sector in Africa.

Several reforms which were put in place to resolve the problems led to the liberalization of the banking systems in Africa. The development contributed to the transition from predominantly State-controlled financial institutions to a privately owned bank and non-bank financial institutions. The various reforms were targeted at managing the proliferation of financial institutions that followed.

In response to the lingering challenges that threaten the safety and stability of the financial system, many African countries began to establish explicit DIS to protect the stability of their banking sectors. The first country to establish an explicit DIS was Kenya, followed by Nigeria, and thereafter, many other countries followed suit.

As at 2021, 21 African countries had established DIS, some of which are members of the International Association of Deposit Insurers (IADI), a global standard-setting body for a deposit insurance system that promotes international cooperation on deposit insurance and bank resolution. Currently there are 10 DIS that are members of the ARC.

Deposit Insurance is a key element of the financial safety-net arrangement that protects stakeholders of any financial system. In Africa, the DIS is administered by government agencies whose mandate range from pay-box to risk minimizer. The choice of the mandate is optional and is largely reflective of the local financial situations, the level of banking system development and the complexity of the challenges that DIS was established to resolve. While deposit insurance mandate vary from country to country, the primary objective remains to protect depositors.

The Kenya Deposit Insurance Corporation was established in 1985 as the Deposit Protection Fund, a department within the Central Bank of Kenya. The KDIC has evolved over the years with its mandate transiting from a pay-box plus to a risk minimizer. The responsiveness of the KDIC to the trend of financial services in Africa should be commended for being a pioneer in the practice of Pass-Through deposit insurance for subscribers of mobile money.

The Nigeria Deposit Insurance Corporation (NDIC) was established in 1988 as a risk minimizer with the mandate of deposit guarantee, bank supervision, failure resolution and bank liquidation. As at December 2020, the NDIC has successfully closed 49 deposit money banks, 367 MFBs, and 51 PMBs. It is noteworthy that the NDIC had implemented Bridge Banking, among other resolution options. Since its establishment, the NDIC has complimented the efforts of the CBN in protecting depositors and promoting financial system stability in Nigeria.

In July 1994, explicit deposit insurance began as an account in the Central Bank of Uganda following the collapse of the Teefe Bank in 1993. However, the Deposit Protection Fund of Uganda was not an autonomous institution until the enactment of the Financial Institutions (Amendment) Act, of 2016. The DPF of Uganda operates as a Pay-box plus. Over the years, the DPF has achieved success in the growth of its deposit insurance fund to UGX 824 billion as of June 2020 and subsequently increased its coverage levels from UGX 3 million to UGX 10 million. The DPF has also operationalized its single customer view framework for faster deposit payout.

The Deposit Protection Corporation in Zimbabwe was created in 2003 as a response to the harsh economic conditions that plagued the economy in the late 1990s. Established as the Deposit Protection Board in July 2003 with a pay-box mandate, the agency was recreated as the Deposit Protection Corporation in 2012, with a risk minimization mandate separate from the Reserve Bank of Zimbabwe. The DPC has continued to improve its operations winning the most improved deposit insurance agency award in 2015 from the International Association of Deposit Insurers.

The Deposit Guarantee Fund of Rwanda was established in 2015 with a pay-box mandate. It has achieved notable success in the automation of its operations, leading to the successful and hitch-free payout process of the closed financial institution in September 2019. More than 80 per cent of total deposits were reimbursed and 37 per cent of loans were recovered.

In 2016, the Ghana Deposit Protection Corporation was established with a pay-box mandate to insure banks and specialized deposit-taking institutions. The GDPC currently protects 34 deposit money banks, 140 rural and community banks and 37 savings & loans companies. The GDPC has successfully automated its operations from premium assessment to depositor payout. It is also in the process of operationalizing its Single Customer View guidelines for a 360-degree view of every depositor.

The FGDR-UMOA was also established in 2016 to protect depositors in the West African Monetary Union. The FGDR-UMOA is making significant strides to ensure that banks and microfinance institutions within the monetary union are adequately insured and protected.

Deposit Insurance in Africa and around the world is constantly evolving to keep up with the speed of banking digitization. To remain effective in depositor protection and promoting financial system stability, DIS will require a more conducive political, economic, technological, legal, and regulatory environment. Despite various challenges experienced by member jurisdictions over the years, the outlook for deposit insurance in Africa is brighter if more emphasis is given to cross-border collaboration, technological innovation, financial inclusion, financial literacy, and public awareness of DIS.