2019

THIRTY YEARS OF DEPOSIT INSURANCE SYSTEM IN NIGERIA

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FOREWORD

Deposit Insurance Scheme (DIS) is recognized in many jurisdictions as one of the three pillars of financial safety-net in addition to prudential regulation/supervision and a lender of last resort function of the Central Bank of Nigeria (CBN). This is not an exception to Nigeria given the history of bank failure that led to the establishment of the Nigeria Deposit Insurance Corporation (NDIC) in 1989.

For the past 30 years, the NDIC had proven to be effective in protecting depositors, contributing to the financial system stability by making incidence of bank ruin less likely and enhancing public confidence by providing orderly mechanism for the resolution of failing and failed banks. / In line with global best practice and also its public policy objectives, the Corporation protects bank depositors in all categories of insured banks. Currently, at the NDIC's insure deposit coverage limit, more than 95% of all bank depositors in Deposit Money Banks (DMBs) including Non-Interest Banks (NIBs), Primary Mortgage Banks (PMBs) and Microfinance Banks (MFBs) are covered, thereby enhancing confidence in the banking system.

The NDIC is also the Resolution Authority for banks in Nigeria. The Corporation has adopted different resolution mechanisms including Purchase and Assumption, Open Bank Assistance, Assisted Mergers and Bridge Bank in ensuring that the resolution of distressed institutions is done in an orderly manner with minimal disruption to the payment system. This has earned the NDIC the confidence of the domestic and global public.

In performing its supervisory role, the NDIC continues to enjoy close collaboration with other safety-net participants in the financial sector, especially with the CBN. It should be noted that the NDIC collaborates with the CBN at the apex, strategic and operational levels. The CBN/NDIC Executive Committee on Supervision as the highest decision-making body between the two agencies is active and has been successful in guiding Nigeria's bank supervisory framework to the highest global standard.

The achievements, benefits and limitations of the deposit insurance practice in Nigeria in the last three decades are the focus of the book. To commemorate the 30th Anniversary of the NDIC of its existence and the desire to bridge the knowledge gap on the features, benefits, limitations of deposit insurance practice in Nigeria among the general public spurred the NDIC to document its experiences in this book.

The book offers a profound and scholarly master piece for those interested in being aware of insurable deposits, insured institutions, deposit insurance coverage limits, funding structure and bank supervision. It also provide coverage limits, funding structure and bank supervision. It also provide a rich information on reimbursement process, distress resolution and liquidation processes, internal administrative structure, consumer protection, local and international collaboration around DIS practices in Nigeria, as one of the leading DISs in the world.

It would also serve as a useful resource for depositors, creditors, debtors and shareholders of banks, mass media, students, researchers, consultants, government and practitioners of deposit insurance locally and abroad. The book is written in simple and clear language. Also its precision, relevance, accuracy and currency of facts presented should appeal to a broad range of the reading public.

It is therefore my honor and privilege to present the book for wide readership, this book which sets out the roles and explicit deposit insurance scheme can play in the financial system, particularly in Africa where such schemes are few, and which should assist the public in understanding the roles and constraints of the NDIC, as well as provide valuable information for academic work in this area. In addition, I believe that this publication will fill the gap in the literature on deposit insurance in Nigeria.

I must not conclude this FORWARD without giving special commendation to the pioneer members of the Management Team of the NDIC led by the first MD/CEO Mr. John Ebhodaghe of blessed memory. They worked tirelessly

with absolute dedication, integrity and commitment to lay a sound foundation on which their successors have faithfully built till date.

Chief (Dr.) J. O. Sanusi, CON
Governor (1999 -2004)
Central Bank of Nigeria.

PREFACE

The book titled **"30 Years of Deposit Insurance System in Nigeria"** documents the practice of Deposit Insurance by the NDIC within the last 30 years of its existence in the Nigerian financial system since 1989. It represents a new edition of the earlier books by the Corporation entitled "20 Years of Deposit Insurance in Nigeria" and "A Decade of Deposit Insurance in Nigeria: Issues and Challenges".

The occasion of 30 years of impactful and successful operation of NDIC and the significant transformation in the practice of deposit insurance during that period - such as extension of deposit insurance coverage to licensed Non-interest banks, Mobile Money Operators, upward review of deposit insurance coverage limits to different banking models in Nigeria, introduction of risk-based and consolidated supervision of banks, differential premium assessment system among other numerous internal, national and international developments – informed the Research, Policy & International Relations Department (RPIRD) the need to develop this valuable reference material for the benefits of all stakeholders.

Hence, this publication is aimed at creating and strengthening awareness on the benefits and limitations of deposit insurance system in Nigeria while also building trust and confidence among depositors, banks' customers, general public, students, relevant government bodies, professional associations, educational institutions and mass media on capability of NDIC in delivering on its mandates.

The book is structured along 17 Chapters with attempts to cover topics around concept & practice of deposit insurance; NDIC mandates, vision & governance structure; legal issues, deposit insurance coverage, funding & premium assessment in Nigeria; mobile money & Pass-through deposit insurance; bank failure resolutions; NDIC inter-agency & international collaborations; NDIC compliance with the core principles for effective deposit

insurance system and NDIC Public awareness and Corporate Social Responsibility efforts.

All the experiences documented in the book would not be complete without recognizing the contributions of the various departments, units and offices in the Corporation. Equal worthy of mention are the support and contributions of my Senior Management colleagues: Prince Aghatise Erediauwa, Executive Director, Operations and Hon. Omolola Abiola-Edewor, Executive Director, Corporate Services. Also appreciated is the support of Legal, Insurance & Surveillance, Communications and Public Affairs Unit and other departments in providing the information used for the book.

I also appreciate the professional effort of the Research team led by the Director of the Research, Policy and International Relations Department, Dr. S. A. Oluyemi, and those of Mr. Kingsley O. Nwaigwe, Mr. Hashim I. Ahmad and Dr. Kabir S. Katata in making this book project a reality. The contributions of Mr B. D. Umar, Director of Asset Management Department and Barr. Nyako, Mr. O. Sulaiman and Dr J. Ade Afolabi, former Directors of the NDIC are greatly acknowledged. I also wish to recognize all the staff of the Research, Policy and International Relations Department for their efforts towards making this book a reality.

Umaru Ibrahim, FCIB, mni.
Managing Director/Chief Eexecutive
Nigeria Deposit Insurance Corporation

CHAPTER ONE
CONCEPTS AND PRACTICES OF DEPOSIT INSURANCE

1.0 INTRODUCTION

Deposit insurance has become an increasingly important feature of financial safety-net arrangements used by various countries in an effort to ensure the stability of banking systems and protect bank depositors from incurring large losses due to bank failures (Demirgüç-Kunt, *et al.*, 2005). According to the International Association of Deposit Insurers (IADI, 2017a), there is rapid expansion in the number of jurisdictions that have either established or considering the establishment of a deposit insurance system in recent years. Deposit Insurance is a key element in maintaining confidence in the banking system and promoting financial system stability.

A deposit insurance system (DIS) refers to the set of specific functions (whether performed by a dedicated legal entity or not) inherent in providing protection to bank depositors, and their relationship with other financial system safety-net participants to support financial stability (FSB, 2012). Two broad types of deposit insurance systems identified by Kyei (1995) were explicit and implicit deposit insurance. Although policymakers have choices regarding how they can protect depositors of deposit-taking financial institutions in their domains, explicit deposit insurance system stands out as the preferred.

This chapter examines some conceptual issues regarding deposit insurance. It also describes the growth in the adoption of the scheme worldwide, and analyzes the core principles for effective deposit insurance systems as enunciated by IADI.

1.1 CONCEPTUAL ISSUES

Deposit insurance and other compensation schemes are used to protect the financial systems in many countries. Policymakers in general are proponents of deposit insurance and they argue that it promotes stability in the banking system and enhances depositors' confidence. Given that any disruption in a

country's banking system can potentially create social costs, it is vital to insulate banks, depositors and creditors from adverse shocks particularly from systemic bank runs that occur when depositors lose confidence in one or more banks.

An explicit deposit insurance is established by legislation or private contract which spells out its mandates, powers and governance structure. Also, the rules and regulations guiding participation by insured institutions, funding arrangements, coverage and compensation limits, failure resolution, reimbursement of depositors' claims, amongst other features, are all defined. The establishment of an explicit deposit insurance system is a pronouncement of government support for its nation's banking system that indicates a concern about the potential for costly bank runs and the treatment of bank depositors that also recognizes the importance of transparency in government actions (Ketcha, 2009).

In the case of implicit deposit insurance, there is no formal system in place. Under such an arrangement there is neither a formal means of funding the system nor a commitment on the part of government with respect to compensating depositors when failure occurs. All decisions and actions under the implicit system can be flexible and uncertain. According to Financial Stability Forum (2001), an explicit deposit insurance system is preferable to any other deposit protection arrangement because it clarifies the authorities' obligations to depositors thereby removing the uncertainties and inequities of an implicit arrangement. Beyond that, all other parties under the system have a better understanding of the options available to them in the event of failure. It also limits the scope of discretionary decisions that may result in arbitrary actions.

An explicit Deposit Insurance System (DIS) generally has two separate but complementary primary objectives within the overall framework of the financial safety-net. The first is to provide a minimum level of protection to the wealth of the average household in the event of bank failure. Deposit insurance guarantees that depositors will receive at least an amount of their

funds which could be full for some depositors irrespective of the disposal prospects of a failed bank's assets and more quickly than would otherwise be the case (Hoelscher et al, 2006). The second is to contribute to the stability of the financial system in conjunction with other safety-net arrangements. Deposit insurance enhances financial system stability by preventing bank runs. Bank runs are costly because they disrupt the financial intermediation role played by banks.

The secondary objectives of the explicit DIS include enhancing healthy competition in the financial sector, encouraging sophisticated depositors to monitor their banks and enforce market discipline, reducing government's obligations (that is contingent liability) and getting banks to contribute to the cost of bank resolution, encouraging savings and contributing to an orderly payment system.

Despite the benefits associated with DIS, it however, poses the risk of moral hazard which is defined as the incentive for excessive risk-taking by banks or those receiving the benefit of DI protection (FSF, 2001). Moral hazard could be very costly as has been shown in some countries where banking crises had taken place. For example, in the 1980s in the United States during the Savings and Loans banks debacle.

Typically, a DIS is adopted in the aftermath of a banking crisis or when industry conditions are deteriorating and unstable (Blair et al, 2006). Under such conditions, depositors' confidence could be very low and therefore the probability for bank runs could be very high. Therefore, government needs to reaffirm its commitments to all economic agents of its desire to maintain confidence in the system, ensure efficiency of the payment system as well as the availability of credit to finance economic activities. Deposit insurance is, however, not a panacea for resolving all failures in the banking system but it could be a reliable third leg of the safety-net arrangement if properly designed, well implemented and well understood by the public.

For an explicit DIS to be effective, it needs a clear mandate to reinforce the stability of the financial system and to contribute to its own sound governance, comprehensive disclosure regime and greater accountability (LaBrosse and Mayes, 2008). Other important factors that may enhance its effectiveness are macroeconomic stability, soundness of the financial system, high standards of supervision and regulation, adequate legal framework and the structure of the banking system, (Hoelscher et al, 2006).

In most of the countries where explicit deposit insurance systems are in practice, there have been different approaches to the practice depending on the mandates and powers statutorily given to the deposit insurer. According to LaBrosse and Mayes (2008), the types of deposit insurance mandates range from 'paybox' to 'risk minimizer'. A 'paybox' is a deposit insurer with powers limited to paying out the claims of depositors in the event of bank failure. In addition, it collects premiums from participating institutions and also manage the deposit insurance fund. There are some 'payboxes' with extended powers. Thus, beyond the basic powers of a 'paybox', this category can set regulations and also have authority to undertake liquidation. A 'risk minimizer' is a deposit insurer with powers to reduce the risks it is confronted with. It has the broadest roles, mandates and powers. Besides those powers of the second category of 'paybox', a 'risk minimizer' may be authorized to resolve bank failures, monitor member institutions, carry out supervision, provide financial assistance including open bank assistance, take enforcement actions against member institutions, and control membership. Structurally, whereas a 'paybox' is a small organization responsible for administering the insurance system, a 'risk minimizer' is much larger. A 'risk minimizer' is expected to possess the capability to manage the scheme such that it could minimize its losses.

1.2 GROWING GLOBAL RECOGNITION OF DEPOSIT INSURANCE SYSTEM

Although deposit insurance was formally introduced in the US in the 1900s, the history of deposit insurance system started in the early 1800s. The insurance system as at that period was known as the New York's Safety Fund

that covered only the State of New York. The objective of this 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, as it was administered by a private-owned entity which did not have the funding capacity like that of a government-owned entity. Subsequently, 8 new insurance schemes were introduced in the early 1920s and these schemes also failed due to limited funding and insufficient monitoring (Calomiris, 1990). The first federal government sponsored deposit insurance system in the world was the Federal Deposit Insurance Corporation (FDIC), introduced in the United States of America in 1934. In contrast to the previous schemes, the FDIC was funded through capital provided by the Treasury and the Federal Reserve Bank. The FDIC provided limited deposits guarantee which still exists with several reforms in the deposit insurance design features to restore depositors' confidence and ensure financial system stability.

In Europe, Norway was amongst the earliest countries to adopt deposit insurance for its savings institutions in 1921 and that was later extended to the commercial banks in 1938. Meanwhile, in Western European countries, deposit insurance started between the late 1970s and the early 1980s. The failure of banks in Western Europe such as the Bankhaus Herstatt in Germany in 1974, resulted in the adoption of the deposit insurance system in some European 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.

Deposit insurance has developed and expanded rapidly in recent years. The main reason for the phenomenal growth experienced in the 1980s, 1990s and even recently was the various financial crises that occurred in different parts of the globe. The introduction of explicit DIS in many jurisdictions was clearly part of the reaction to losses from such financial crises, and more particularly, as part of the drive for financial stability nationally and internationally (Allen & Wood, 2006). Furthermore, the inherent fragility of

banks has also prompted the establishment of deposit insurance schemes in many nations. This is because many countries around the world, irrespective of their income or geographical location, have experienced one or more banking crises during the last three decades of the twentieth century (Barth *et al*, 2013).

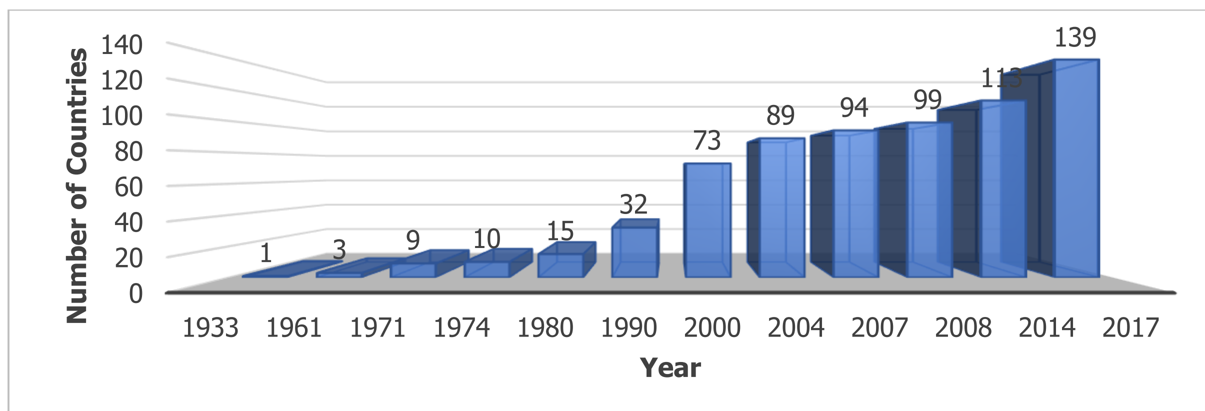
Following the evolution of elaborate DIS by the United States Congress which created the FDIC[1] through the Banking Act of 1933, the public initiative was a response to the tragedy of great depression and the inability of the Federal Reserve Bank to forestall the subsequent widespread of bank failures, which totalled almost 10,000 between 1929 and 1933 (Eisenbeis and Kaufman, 2010). Before that time, however, it was on record that some form of sophisticated credit and deposit insurance system had been introduced in the former Czechoslovakia in 1924 (McCharty, 1980). In present times as shown in Table 1.1, the Czech Republic established a DIS in 1994 and Slovakia in 1996 (Djurdjica, 2017).

As at 1961, the number of jurisdictions operating explicit deposit insurance systems had increased to 3 with the establishment of the systems in Norway and India. In total, 7 countries adopted the system in the 1960s, as Canada and Finland, amongst others later joined. In 1974, the number of countries operating the systems had increased to ten (10) when countries like Japan and Belgium, amongst others established DISs. However, from 1980 to 1990, the number of countries that had one type of explicit system or the other had more than doubled. A total of 18 countries established explicit deposit insurance systems in the 1980s, including the United Kingdom, Switzerland, Chile, Kenya and Nigeria. The high increase in the number of explicit deposit insurance systems was largely due to the occurrence of financial crises witnessed in many countries during the period (Caprio and Klingebel, 2003). The same factor was the principal determinant of the phenomenal growth of about 128 percent witnessed from 1990 to 2000.

[1] Although it is on record that the first formal system of deposit insurance was inspired by a Cantonese merchant's mutual guarantee scheme, which was established in 1829, in the State of New York, to guarantee both banknotes and deposits, and a number of other states established similar schemes subsequently (McCharty, 1980; p. 571-581).

By the end of 2008, 99 countries had adopted explicit deposit insurance, from 73 (an increase of about 36 percent) in 2000. The 2008 global financial crisis contributed to the upward trend, with 5 countries, including Australia and Thailand, adopting deposit insurance in 2008. As at 31st January, 2014, there were 113 jurisdictions with one type of explicit deposit insurance system or the other in operation while another 40 jurisdictions were studying or considering the implementation of an explicit deposit insurance system (IADI, 2017a). There were 139 countries with explicit DIS as at 22nd September, 2017 (IADI, 2017b). Figure 1.1 shows the continuous cumulative growth in the adoption of explicit deposit insurance systems by countries from one (1) in 1933 to 139 in 2017.

Figure 1.1
Growth of Explicit Deposit Insurance Systems Worldwide 1933-2017



Sources: (i) Demirgüç-Kunt, Asli, Edward Kane and Luc Laeven (2014)
(ii) IADI (2017a)

Table 1.1
Adoption of Explicit Deposit Insurance Systems 1933-2013

Year Adopted	Jurisdictions with Explicit Deposit Insurance Scheme
1933	United States
1961	India, Norway

1963	Micronesia, Philippines
1967	Canada, Lebanon
1969	Finland
1971	Japan
1974	Belgium
1975	Marshall Islands
1977	Spain
1978	Netherlands
1979	Austria
1980	France
1982	United Kingdom
1983	Turkey
1984	Bangladesh, Switzerland
1985	Colombia, Iceland, Venezuela, RB, Taiwan
1986	Chile, Mexico, Trinidad & Tobago
1987	Denmark, Italy
1988	Kenya, Nigeria
1989	Ireland, Luxembourg, Serbia
1991	Peru, Isle of Man
1992	Portugal
1993	Bahrain, Hungary
1994	Czech Republic, Tanzania, Uganda
1995	Argentina, Brazil, Greece, Oman, Poland
1996	Belarus, Korea, Rep., Lithuania, Morocco, Romania, Slovak Republic,
1997	Algeria, Croatia, Macedonia, FYR
1998	Ecuador, Estonia, Germany, Gibraltar, Jamaica, Latvia, Ukraine
1999	The Bahamas, Bulgaria, El Salvador, Guatemala, Honduras,
2000	Cyprus, Jordan, Turkmenistan, Vietnam
2001	Liechtenstein, Nicaragua, Slovenia
2002	Albania, Bosnia-Herzegovina, Uruguay, Uzbekistan
2003	Malta, Paraguay, Russian Federation, Zimbabwe
2004	Hong Kong SAR, Indonesia, Moldova, Montenegro, Tajikistan
2005	Armenia, Malaysia
2006	Singapore
2007	Azerbaijan, Barbados

2008	Australia, Kyrgyz Republic, Mauritania, Thailand, Yemen, Rep.,
2009	Afghanistan
2010	Libya, Nepal
2011	Brunei, Darussalam, Cameroon, Central African Rep., Chad, Congo Rep., Equatorial Guinea, Gabon, Kosovo, Andora
2012	Sri Lanka, Bermuda
2013	Mongolia, Palestine
2014 - 2017[2]	Ghana, Georgia, Niger, Senegal, Togo, Mali, Benin, Pakistan, Colombia

Sources: (i) Demirgüç-Kunt, Edward and Luc (2014a)
(ii) IADI (2017a)

Apart from the establishment of explicit DIS in many countries, a large number of countries had modified the existing systems by introducing significant changes. For example, there was significant modification to the system in the USA following the failure of several Savings and Loans Banks and the subsequent collapse of the Federal Savings and Loans Insurance Corporation (FSLIC), the deposit insurer of that sub-sector in the late 1980s. In Germany, there were two revisions of the system in 1969 and 1998 after its establishment. And generally in Europe since the European Union Directive in 1994, there had been various revisions to deposit insurance practice. Mexico reviewed its system twice in 1990 and 1999 since it was established in 1986 and in Venezuela, a review was carried out in 2001 whilst Brazil also had a revision in 2002. In Nigeria, a complete overhaul of the statute was done in 2006 following noticeable inadequacies/weaknesses in the system. The amendment of the statute was to ensure compliance with Core Principles and to address some other issues limiting the effectiveness of the system.

Furthermore, in response to the 2007/2008 global financial crises, some jurisdictions strengthened the powers of deposit insurers' in the areas of risk

[2] The countries listed are based on available information. Other jurisdictions that joined within this period might not have been captured.

assessment and intervention, which was documented by IADI (2012). For instance, under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, effective 21st July, 2010, FDIC was given conditional authorities for special back up examinations at systemic non-bank financial companies and bank holding companies; and backup supervisory enforcement actions at any bank holding company.

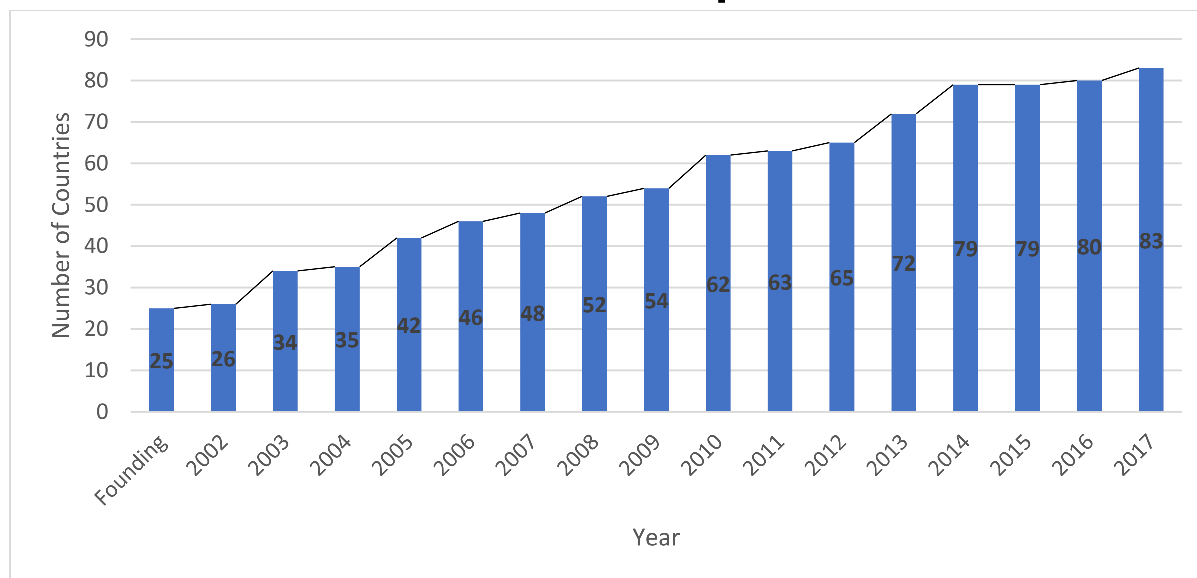
In Canada, CDIC statutory powers were strengthened to include a full bridge institution framework and an increase in emergency back-up funding provisions. The Kazakhstan Deposit Insurance Fund (KDIF) was given the right to conduct on-site inspections of problem banks with a view to assessing the accuracy of depositors' information as well as evaluate the accounting systems. There was also enhancement of Malaysia Deposit Insurance Corporation (MDIC) risk assessment and intervention powers after the new MDIC Act 2011 was put in place effective 31st December, 2010.

Many countries had either increased their deposit insurance coverage levels or introduced blanket coverage in order to restore public confidence and prevent bank runs and their attendant adverse consequences following the global financial meltdown that shook the world. During the 2008 financial crisis, 48 jurisdictions adopted some form of enhanced depositor protection as part of financial stability measures,e 19 states declared full depositors' guarantee (i.e. 'blanket guarantee'), 22 jurisdictions increased their deposit insurance coverage permanently and 7 jurisdictions increased deposit insurance levels on a temporary basis (IMF & IADI, 2010).

In further recognition of the growing importance of the role of DIS in financial safety-net, the International Association of Deposit Insurers (IADI) was founded in 2002 as the global standard-setting body for deposit insurance systems with the ultimate goal of contributing to the enhancement of deposit insurance effectiveness by promoting guidance and international cooperation. With 25 founding members in 2002, including the NDIC, recent statistics show that 107 organisations are affiliated with IADI, made up of 83 Members, 10 Associates (primarily central banks and bank supervisors)

and 14 Partners (other interested domestic and international organisations) as at 31st March, 2017 (IADI, 2017c). This is further shown in Figure 1.2.

Figure 1.2
IADI's Membership Growth



Source: IADI, 2017d

1.3 CORE PRINCIPLES FOR EFFECTIVE DEPOSIT INSURANCE SYSTEMS

In an attempt to promote sound practices amongst DISs in all jurisdictions, the IADI and Basel Committee on Banking Supervision (BCBS) in 2007, initiated the drafting of Core Principles for Effective Deposit Insurance Systems designed to contribute to financial system stability. The IADI, in collaboration with BCBS and the European Forum of Deposit Insurance (EDFI) issued the 18 *Core Principles for Effective Deposit Insurance Systems* in June 2009. The Core Principles are used by jurisdictions as benchmarks for assessing the quality/effectiveness of their DISs and for identifying gaps in existing systems and measures to address them as well as for setting up of new systems. They are also used in the Financial Sector Assessment Program (FSAP) reviews conducted by the International Monetary Fund (IMF) and World Bank.

Following the 2007-09 global financial crises, a recent IADI survey revealed that the percentage of deposit insurance agencies with some resolution role increased from 50 percent in 2005 to 65 percent in 2011 (FSB, 2012; IADI, 2014). As a result of the financial crises, the experience gained from the application of the Core Principles for effective deposit insurance (CPs) and further developments in global financial system necessitated the review of the Core Principles from 18 to 16. The overall objective for revising the CPs was to strengthen the financial system stability architecture. Thus, in 2013, IADI initiated an internal process for reviewing and updating the CPs by establishing an International Steering Committee of IADI members from 20 jurisdictions, including Nigeria. The Committee proposed a set of revisions which were adopted and published in November 2014. Refer to chapter 15 for a detailed discussion of the CPs.

The first Core Principle deals with the Public Policy Objectives, which are to protect depositors and contribute to financial system stability. These objectives, which are dependent on each other, should be formally specified and publicly disclosed to avoid misunderstandings and unrealistic expectations from a DIS.

The second Core Principle addressed the issues of mandate and powers of a deposit insurer. The mandate and powers of a deposit insurer should support its public policy objectives and be clearly defined and formally specified in legislation. A deposit insurer should have the requisite powers to fulfill its mandate. Such powers may include the ability to enter into contracts, set appropriate requirements and access timely and accurate information about member institutions. From available practice, the mandate of a DIS ranges from that of a pay-box system with narrow mandate to risk or loss minimization mandate with broader powers and responsibilities.

Sound Governance constitutes another key principle (Principle 3) for the effectiveness of DIS. It is important that the deposit insurer be operationally independent, and have a governing body that can be held accountable for its actions. The governance structure of a deposit insurer should be such

that it is insulated from undue political and industry pressures whilst its activities should be seen by the public to be transparent.

Principle 4 dealt with relationships with other safety-net participants. It emphasizes that a deposit insurer should have a close link with other members of the safety-net especially in the areas of information sharing, coordination, intervention and supervision as well as failure resolution where the deposit insurer has such mandate.

Cross-border issues are addressed by the fifth Core Principle. This is essential where there are foreign banks in a jurisdiction. All relevant information is expected to be exchanged between deposit insurers in different jurisdictions and between deposit insurers and other foreign safety-net participants with proper confidentiality arrangements.

Principle 6 dealt with the deposit insurer's role in contingency planning and crisis management. A deposit insurer should have a working plan in place for any bank failure and must be ready to execute the payout under any circumstances. There must be in place, an effective contingency planning and crisis management policies and procedures to ensure prompt response to risk of, and actual bank failures and other events.

The seventh core principle dealt with membership. In order to avoid adverse selection, the recommendation is that membership should be compulsory for all deposit-taking institutions. In case of termination of membership of any deposit-taking institution by the deposit insurer, arrangements should be in place to coordinate the immediate withdrawal of the institution's licence by the relevant authority. Upon termination, immediate notice is given to depositors to inform them that existing deposits will continue to be covered up to a specified deadline.

Core Principle 8 provided guidance on the level and scope of deposit insurance coverage. The deposit insurer should first define what constitutes insurable deposits, which should be clearly and publicly defined in law or

regulation and reflect the public policy objectives. Secondly, the deposit insurer should apply the level and scope of coverage equally to all its member institutions and finally, the level and scope of coverage need to be reviewed periodically (e.g. at least every five years) to ensure that it meets the public policy objectives of the deposit insurance system.

Core Principle 9 provided standards to be followed on funding in terms of sources and uses. A deposit insurance system should have all necessary funding available to ensure the prompt reimbursement of depositors' claims. Member institutions should be responsible for funding of the deposit insurance system. Legislation should provide the prescription of the main elements of regular funding formula in terms of eligible deposits and premium calculation formula.

Core Principle 10 dealt with public awareness. It emphasizes the importance of the deposit insurer embarking on public awareness programmes in order to accomplish its public policy objectives and mandate. Such public awareness programmes should be designed to educate the public about the benefits and limitations of the deposit insurance system.

Core Principle 11 dealt with legal protection of employees of a deposit insurer and other financial system safety-net participants. It advocates the need for indemnifying and protecting employees against lawsuits for their decisions and actions taken in good faith while discharging their duties. Such legal protection is expected to be codified in legislation. In turn, board members and employees must abide by proper codes of conduct (e.g. conflict of interest) to ensure they remain accountable.

Core Principle 12 provided guidance on 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. The deposit insurer, or other relevant authority, should also have policies and procedures in place to ensure that insiders, related parties

and professional service providers acting for the failed bank are appropriately investigated for wrongdoing and for possible culpability in a bank failure.

Core Principle 13 dealt with early detection and timely intervention in problem institutions. The deposit insurer should be part of a framework within the financial safety-net that provides for the early detection of, and timely intervention in troubled institutions. The framework should provide for intervention before an institution becomes non-viable. Such actions should protect depositors and contribute to financial stability.

Core Principle 14 gave guidance on failure resolution. An effective failure resolution regime should enable the deposit insurer to provide for protection of depositors and contribute to financial stability. The legal framework should include a special resolution regime. An effective failure resolution process should facilitate prompt reimbursement of insured depositors, minimize resolution costs, disruption to markets, and maximize recoveries on assets. Resolution procedures should also follow a defined creditor hierarchy in which insured depositors are protected from sharing losses and shareholders take first losses.

Core Principle 15 gave guidance on the reimbursement of depositors. It specifies that, the deposit insurance system should reimburse depositors' insured funds promptly, in order to contribute to financial stability. There should be a clear and unequivocal trigger for insured depositor reimbursement. The deposit insurer must be involved early in the problem bank resolution process and be provided with depositor information in advance in order to adequately prepare for prompt reimbursement.

Core principle 16 gave guidance on recoveries. It states that, a deposit insurer should have by law the right to recover its claims in accordance with the statutory creditor hierarchy. A deposit insurer, should share in the proceeds of recoveries from the estate of the failed institutions. In addition, failed institution's asset management and disposition should be guided by commercial considerations.

1.4 SUMMARY AND CONCLUSION

Explicit deposit insurance system has become a permanent feature of the financial safety-net arrangements put in place by various countries to protect and stabilize their financial systems. That has become so because of its advantages over other forms of depositor's protection. From less than ten in the 1960s, the number of countries with one form of explicit deposit insurance or the other stood at 139 in 2017. While some had narrow mandate of a 'paybox,' others were designed as 'risk minimizer' with broad mandates and powers.

The phenomenal growth in the number of DISs has been ascribed to the inherent fragility of banks, and frequent occurrence of financial crises in many countries during the 1980s to very recent times. The reactions of various countries to the 2007/2009 global financial meltdown further amplified the increasing importance of deposit insurance. In spite of the growth in the number of DISs worldwide, practices had varied even though there were convergences in several key areas. To ensure sound practices amongst DISs worldwide, the IADI, in collaboration with BCBS had developed Core Principles to encourage good practices. The 16 Core Principles, which were considered in this chapter, provide guidance in key areas such as enacting public policy objectives for the system, mandate and powers, governance, membership and coverage, funding, public awareness amongst other areas.

CHAPTER TWO
MANDATE AND POWERS OF NDIC

2.0 INTRODUCTION

An explicit deposit insurance system was established in Nigeria in 1989 following the passage of the NDIC Act No. 22 of 1988 (now repealed and replaced with NDIC Act No. 16 of 2006). The rationale for the creation of the system in Nigeria had been well documented (NDIC 1997, 1999). There were at least five main reasons adduced for the establishment of the system in Nigeria. First, it was created to avoid the repeat of bitter experiences of bank failures in the 1930s to early 1950s when there was no formal mechanism for protecting depositors. Second, the lessons of benefits of explicit DIS from other countries with such systems.

The experiences of the FDIC in stabilizing the banking system in the United States following major financial crises were quick reference points. Third, there was deliberate change in government policy from protecting all banks' stakeholders to that of protecting depositors following the deregulation of the financial services industry which was part of the Structural Adjustment Programme (SAP) introduced in 1986. Fourth, government was determined to further protect depositors from the ensuing competition induced by the liberalization of bank licensing in the late 1980s. Finally, it was envisaged that the establishment of an explicit system would relieve the Federal Government of the contingent liability of bailing out troubled banks.

The public policy objectives (PPOs) of the DIS have been expressly stated in the statute. However, in practice, the objectives are well recognized by major stakeholders. Like in many jurisdictions, the primary public policy objectives of the DIS in Nigeria are to protect the interest of small depositors by providing a mechanism for reimbursing them in case of imminent or actual failure of banks and also to promote financial system stability. Other objectives include ensuring safe and sound banking practices, contributing to an orderly payments system and enhancing fair competition in the banking

system. To achieve those objectives, the main functions of the Corporation as contained in Section 2 of its enabling Act are:

i. Insuring all deposit liabilities of licensed banks and such other deposit taking 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.

iv. Assisting monetary authorities in the formulation and implementation of banking policy.

The purpose of this chapter is to provide a discourse on the mandate and powers of the Corporation put in place in order to achieve the stated public policy objectives.

2.1 MANDATE

The mandate of an organization is defined as the legal duties it has to undertake in performing the tasks necessary to achieve its public policy objectives (IADI, 2007). A mandate defines the roles and responsibilities of the organization and could be used to identify the powers and authorities conferred on it to carry out its roles and responsibilities in order to achieve its public policy objectives (ibid). From inception, the DIS in Nigeria was established as a risk minimizer with the core mandates to guarantee deposits of insured institutions (Section 21, NDIC Act 2006), carry out supervision of insured institutions (Section 27-32, NDIC Act 2006), partake in failure resolution processes (Section 37, 38 NDIC Act 2006) and liquidate failed insured institutions (Section 40, NDIC Act 2006) These core mandates and the ensuing roles and responsibilities are examined below.

2.1.1 Deposit Guarantee

Deposit guarantee is a key and distinct role of the Corporation. Part Four of the enabling Act deals exclusively with this mandate. At inception, the Corporation had the mandate to guarantee the payment of deposits up to a maximum of ₦50,000 to a depositor in the event of a failure of an insured institution. That maximum deposit insurance coverage limit lasted till December 2006 (Section 17, NDIC Act 2006) when the coverage level was increased to ₦200,000 for depositors of deposit money banks and set at ₦100,000 for depositors of other deposit-taking financial institutions. The guaranteed amount is determined after all deposits held by a depositor in the same rights and capacity in the closed bank are aggregated. However, deposits held in separate legal capacities are insured separately.

It is significant to note that the NDIC Act 2006 empowers the Board of the Corporation to increase the coverage limit from time to time when the need arises. It was in the exercise of such power that coverage limit for Deposit Money Banks (DMBs) was increased to ₦500,000 and that of Other Deposit-Taking Financial Institutions increased to ₦200,000 effective from 2010. Furthermore, the coverage limit for depositors of Primary Mortgage Banks (PMBs) was increased to ₦500,000 in 2016 making it to be at par with DMBs as it was recognized that the deposit profiles of the PMBs were similar to those of DMBs.

Furthermore, the Corporation extended deposit insurance coverage of ₦500,000 to subscribers of mobile money to encourage financial inclusion in 2016. The Corporation finances the guarantee mainly from the yearly premiums collected from all licensed deposit-taking financial institutions.

2.1.2 Bank Supervision

Generally, banks are supervised to protect depositors, ensure stability of the banking system, ensure effective and efficient payment system and also to promote competition and innovation in the banking system. Given its status as risk minimizer, supervision comes naturally as a key mandate of the

Corporation. The Corporation carries out supervision of insured institutions in order to reduce the potential risk of failure and ensure that unsafe and unsound banking practices do not go unchecked. It also provides the oversight required to preserve the integrity of, and promote public confidence, in the banking system. Part Six of the NDIC Act 16 of 2006 (Sections 27 to 32) is devoted to defining and describing the supervisory roles and responsibilities of the Corporation.

The Corporation carries out its supervisory responsibilities through off-site surveillance and on-site examination of insured institutions' books and affairs from which exceptions are reported and recommendations made on how observed lapses should be corrected. Given that the Corporation and the CBN have supervisory powers, the two institutions collaborated in the discharge of their supervisory duties. Over the years, they have developed a comprehensive framework which has eliminated role conflict and duplication of efforts by the two institutions.

The collaborative approach to supervision by the two institutions has made it possible for every licensed bank to be examined at least once every year. Part of the mechanisms put in place to strengthen the collaborative approach by the two Bank Supervisors was the establishment of Joint CBN/NDIC Executive Committee on Supervision and other Committees among other measures.

2.1.3 Failure Resolution

As a risk minimizer, one of the core mandates of the Corporation is to ensure that failing and failed insured institutions are resolved in a timely and efficient manner. In that regard, one of the key responsibilities of the Corporation, as contained in Section 2 of the enabling Act is to provide financial and technical assistance to failing or distressed institutions in the interest of depositors in case of imminent or actual financial difficulties particularly where suspension of payments is threatened. The essence is to avoid damage to public confidence in the banking system. Part Eight of Act

16 of 2006 comprising Sections 37 to 39 describes conditions under which assistance could be given and types of assistance to be given.

A failing institution may enjoy assistance if such institution has difficulty in meeting its obligations to depositors or suffers liquidity deficiency. The financial assistance can take the form of loans, guarantees for loans taken by the bank or acceptance of accommodation bills. The technical assistance may include takeover of management and control of the bank, changes in management of such failing institutions or assisted merger or acquisition by another institution. In addition, the Corporation may acquire, manage and dispose of impaired assets of a failing institution. These responsibilities are to be carried out in consultation with CBN. Beyond all these, the Corporation may organize and incorporate a bridge bank to take over the assets and liabilities of the failing institution. The bridge bank may operate between two and five years before being dissolved.

2.1.4 Liquidation

The roles and responsibilities of the Corporation as a liquidator of failed insured institutions are expressly defined and described in Part 9 of the NDIC Act. The liquidation process is preceded by revocation of licence of a failed institution. It involves orderly and efficient closure of the failed institution with minimum disruption to the banking system, cost-effective realization of assets and settlement of claims of depositors, creditors and shareholders where possible though depositors are entitled to be paid in priority to all creditors as provided for by law (Section 54, Banks and Other Financial Institutions Act 2004). The Corporation, based on its right of subrogation, is entitled to receive its share of liquidation dividend as and when declared (Section 21(2), NDIC Act 2006). It should be noted that liquidation is a trusteeship responsibility strictly governed by laws; hence the liquidator must adhere to applicable legal requirements.

2.2 POWERS

Given the onerous responsibilities that the Corporation is expected to undertake, it is logical that powers and authorities be bestowed on it to

effectively discharge the tasks. This sub-section considers the powers and authorities as contained in the NDIC Act 2006.

2.2.1 Authority to enter into contract and set business regulations

The Corporation, through its Board of Directors, is empowered to enter into all types of contract and set up its own business regulations and do such other things which, in the opinion of the Board, may be reasonably incidental or supplementary to the exercise of the powers and performance of the Corporation's functions.

2.2.2 Authority to source and manage funds of the Corporation

By Section 10 of its enabling Act, the funds of the Corporation consist of the following:

(a) Assessed premiums paid by insured institutions;
(b) Income from the investments of the Corporation;
(c) Monies borrowed from any source with the approval of the Board; and
(d) Monies from any other source as may be approved by the Board.

With respect to premium assessment, the Corporation is empowered by law (Section 17, NDIC Act 2006) to impose per annum, a premium not above $^{15}/_{16}$ of one percent on the total deposit liabilities outstanding in the books of the DMBs as at 31st December of the preceding year. Similarly, it is empowered to impose per annum, a premium of $^{8}/_{16}$ of one percent on total deposit liabilities outstanding in the books of the PMBs/MFBs as at 31st December of the preceding year. It is pertinent to note that the NDIC Act 2006 has empowered the Board of the Corporation to adopt a risk-based premium assessment method. In addition to the levying of annual premium, the Corporation also has the authority to demand for special contribution from insured institutions where the funds of the Corporation are inadequate (Section 17(5), NDIC Act 2006). Such special contribution may not be more than 200% of the annual premium paid by a member institution. The Corporation is further empowered to invest the premiums and any other fund available to it in Federal Government Securities or other securities as may be determined by its Board (Section 10, NDIC Act 2006). In addition, the

Corporation is empowered to borrow from the CBN (Section 52, NDIC Act 2006). Finally, the Corporation is allowed to establish a separate deposit insurance fund for each category of insured institutions into which all assessed and collected premiums will be paid (Section 17, NDIC Act 2006).

2.2.3 Authority to vary Maximum Deposit Insurance Claim

By Section 20(1) of the enabling Act, the maximum claim by the depositor of a failed bank is ₦200,000 whilst that for other institutions is pegged at ₦100,000. Notwithstanding this provision, the Corporation's Board is given the authority to only vary upward the maximum claim from time to time.

2.2.4 Powers to access information from, and examine the books and affairs of member institutions

The Corporation has the power to require information from member institutions. It receives directly, periodic reports for regular off-site monitoring. It has the authority to request additional information from insured institutions on matters affecting the interest of the depositors and the health of such institutions. The Corporation is also empowered to carry out on-site examination of the books and affairs of insured institutions on regular basis. It also has the authority to conduct special and target examination on insured institutions.

2.2.5 Failure Resolution Powers of the Corporation

The NDIC Act empowers the Corporation to adopt the following failure resolution options: financial technical assistance, purchase and assumptions, merger and acquisition, assets sales and bridge banks.

2.2.6 Enforcement Actions against Member Institutions

The Corporation as a risk minimizer has the authority to take enforcement actions against member institutions in the discharge of its mandates. For instance, insured institutions and persons representing them could be subject to appropriate sanctions and penalties for violations of or non-compliance with the provisions of the enabling law (Section 45, NDIC Act 2006). Moreover, the Corporation has powers to withhold the payment of deposits linked with criminal and/ or fraudulent activities in the course of

liquidation (Section 22, NDIC Act 2006). It is also authorized to terminate the insured status of member institutions under conditions specified in its enabling Act (Part 5, NDIC Act 2006).

An insured institution can have its insured status terminated where it is deemed that it or its directors or trustees have committed a grievous violation of its obligation or continued to conduct the business of the institution in an unsound manner, either intentionally or negligently permitting any of its officers or agents to violate any provisions of any law or regulation to which the insured bank is subject. Finally, it has authority to demand for prompt corrective action from a member institution where on-site examination reveals that the situation in that institution is below set standards and that continued operations could jeopardize depositors' interests if not improved upon.

2.3 SUMMARY AND CONCLUSION

The Explicit Deposit Insurance System (DIS) is established by legislation or private contract which spells out its mandate, powers, governance structure, rules and regulations guiding participation by insured institutions, funding arrangements, coverage and compensation limits, amongst others.

The NDIC was established in 1989 as an explicit DIS following the passage of the NDIC Act No. 22 of 1988 (now repealed and replaced with NDIC Act No. 16 of 2006). The NDIC Act establishes the Corporation as a risk minimizer with the core mandates to guarantee deposits of insured institutions, carry out supervision of insured institutions, partake in failure resolution processes and liquidate failed insured institutions with minimal disruption to the payment system.

Given the onerous responsibilities that the Corporation is expected to undertake, it is bestowed with powers and authorities to effectively discharge the tasks and fulfil its public policy objectives.

CHAPTER THREE
GOVERNANCE AND ADMINISTRATIVE STRUCTURE

3.0 INTRODUCTION

Deposit insurance systems are structured in different ways, namely: as separate government agency, state-owned enterprise, government department, department of central bank, or supervisory authority. In some other jurisdictions, the private sector runs the DIS. There is a consensus, that the governance and administrative structure adopted in different jurisdictions depends on the DIS public policy objectives.

The NDIC was established by statute as a separate and independent government agency with ownership shared between the CBN and the Federal Ministry of Finance in the ratio of 60:40, with an independent governing Board. The ownership structure was defined by the statute only in terms of the initial share capital contribution of ₦100 million which was to be contributed by the two institutions. Although the share capital had been increased to ₦5 billion, the contribution ratio by the two shareholders had been retained.

This chapter presents the governance and administrative structure under which the NDIC carried out its roles and responsibilities in the last 30 years.

3.1 STRUCTURE AND COMPOSITION OF THE BOARD

At inception in 1988 and up till 1996, the Corporation had a professional Board of Directors made up of five members: The Governor of the CBN as Chairman, representative of the Federal Ministry of Finance not below the rank of a Director and three Executive members comprising a Managing Director and two Executive Directors. However, the structure was changed in 1997 following the enactment of the NDIC (Amendment) Act of 1997, then known as Decree No. 5 of 1997. The intent of that amendment was to grant the Corporation operational independence from the CBN. Consequently, the Board was enlarged from five (5) to nine (9) members. Under that

dispensation, the CBN Governor ceased to be the Chairman of the Board as the CBN was to be represented on the Board of the Corporation by a representative not below the rank of a Director, similar to the representation of the Federal Ministry of Finance. In addition, the amendment provided for part-time Chairman and three Non-Executive Directors in addition to the Managing Director and two Executive Directors.

Following the repeal of the NDIC Act 1988 as well as the NDIC (Amendment) Act, 1997 and the re-enactment of NDIC Act of 2006, the composition of the governing body was further enlarged from nine (9) to twelve (12). The Board structure introduced by the 2006 Act comprise a Part time Chairman and six other Part time members, one each from the six geopolitical zones of the Federation; and the Executive Management comprising the Managing Director and two Executive Directors. The Board Composition is completed by one representative each not below the rank of a Director of the Central Bank of Nigeria and the Federal Ministry of Finance.

It is instructive to note that for the first time, the NDIC Act, 2006 stipulates that the three members of the Executive Management and the 7 Part-time Directors, who are appointed by the President of the Federal Republic, must also obtain Senate confirmation. The NDIC Act 2006 retained the 5 five-year tenure for the Managing Director and the 2 Executive Directors, which could be renewed once and no more. However, no statutory tenure was specified for the Part time members of the Board.

3.1.1 Analysis of the Board Composition

An analysis of the Board composition since inception showed that over the years, the positions of the Managing Director and the two Executive Directors had been occupied by men and women with relevant skill, competence, experience and expertise from the apex regulatory body, the industry and the academia. For instance, the first two Managing Directors of the Corporation were career Directors at the CBN before being appointed to the Board. Amongst other things, their appointments had facilitated, to a great extent, the cordial interrelationship between the two institutions. Similarly,

the appointment of the Corporation's staff to the position of Executive Directors had fostered institutional memory and also helped with continuity of policy implementation.

On the same note, the consistent representation of the CBN and the Federal Ministry of Finance (the shareholders) on the Board by highly skilled and experienced staff had impacted positively on the governance of the DIS in Nigeria. Their presence on the governing body had also facilitated the coordination of intervention actions in respect of troubled institutions, amongst other benefits. It is noteworthy, that in 2010, for the first time since its establishment, the Managing Director/Chief Executive was appointed from within the Corporation in the person of Alhaji Umaru Ibrahim, mni.

A noticeable trend in the composition of the Board of the Corporation was the growth in the number of non-executive, part-time directors who were mostly politically-inclined persons. At inception, there were no non-institutional board members but by 1997 amendment, four of such directors were introduced including an independent Chairman whilst with the NDIC Act 2006, the number had gone up to seven. Ordinarily, the increasing dominance of politically-inclined persons on the Board could arouse some curiosity. However, the in-built 'fit and proper persons' test contained in the enabling Act could go a long way in allaying any fear on the performance of such Board members.

According to Section 5(3) of NDIC Act 2006, the Chairman and Board members shall not be persons who own or control significant interests in any insured institution. That provision takes care of any conflict of interest which could hinder effective corporate governance of the Corporation especially its operational independence. Furthermore, it is in that respect that Section 6(2) of the NDIC Act bars any director or employee of an insured institution from being appointed to the Board whilst in office. Section 5(6) also states that all part-time members must be experienced persons with relevant

background, thus capable of improving the potential for high quality decisions by the Board.

In addition to the above and for the avoidance of doubt, Section 5(7) states that all appointed members are expected to declare, in writing to the Board, their personal shareholdings and all significant interests as well as those of their family members or close associates known to them in any insured institution. Where a member of the Board, his family member or close associate is discovered to have significant interest in any insured institution or fails to disclose such interest, he/she ceases to be a member of the Board. Other grounds under which a person can cease to be a member of the Board as contained in Section 6 are personal bankruptcy, financial embarrassment, insanity, serious misconduct including professional misconduct such that the member is barred from practice of his profession.

In order to ensure that board members do not suffer personal liability for actions, omission or decisions taken in good faith while discharging the mandate of the DIS, and therefore compromise their independence, the NDIC Act provides protection through Section 55 against legal liability in respect of anything done or omitted to be done in good faith while executing the powers conferred on the Corporation.

Apart from ensuring a competent governing body through appointment of fit and proper persons, the NDIC Act also provides for continuity even where the Board is dissolved. By the provision of Section 6(3), the Minister of Finance in consultation with the CBN, is empowered to constitute a Management Committee, which shall comprise the Managing Director, Executive Directors and representatives of the CBN and the Ministry of Finance, one of whom shall act as the Chairman until a new Board is constituted. This provision can help to sustain the oversight functions and avoid vacuums.

3.1.2 Powers of the Board

As contained in Section 7 of the NDIC Act 2006, the Board of Directors has broad authority to superintend over, formulate policies for and generally act in the name of the Corporation. It is empowered to acquire offices and other premises for the use of the Corporation, employ officers for the Corporation and fix terms and conditions of service, including remuneration.

With respect to discharging its core mandates, the Board has powers to:

i. Advise the CBN on the need to close a failed insured institution, if in the opinion of the Board its continued operation will jeopardize the interest of depositors;
ii. Serve notice on a failed insured institution of its intention to remove the institution from its record of insured institutions;
iii. Assume, with prior concurrence of the CBN, the management of an ailing insured institution;
iv. Serve a notice of removal from office, with the prior concurrence of the CBN, on any officer or director who has violated any of the laws, rules or regulations of the Corporation or has engaged in unsafe and unsound practices that may lead to dissipation of assets or financial loss to his institution;
v. perform the functions of a liquidator or receiver for all failed insured institutions;
vi. extend from time to time the period within which a depositor is required under the NDIC Act to file his claim for the payment of insured deposit in a failed insured institution; and
vii. Prosecute any officer or director of an insured institution who has violated any provisions of the NDIC Act.
viii. Make, alter or revoke regulations, rules or orders to give full effect to the provisions of the enabling law.

3.2 MANAGEMENT OF THE CORPORATION

The day-to-day management of the Corporation is vested on the Managing Director / Chief Executive Officer of the Corporation. He is assisted by two Executive Directors who perform such duties as may be assigned to them from time to time by the Board and/or the Managing Director. Administratively, one Executive Director is in charge of Operations while the other oversees Corporate Services. The three executives constitute the Executive Committee of the Board. Apart from being responsible for the day-to-day management of the Corporation, the committee is also responsible for the implementation of the policy decisions of the Board as well as collaborating and networking with other agencies and organizations within and outside the country on a wide range of issues that could enhance the performance of the Corporation.

3.3 ADMINISTRATIVE STRUCTURE OF THE CORPORATION

In its thirty years of existence, the Corporation had been structured into three divisions: Managing Director's Division, Operations Division and Corporate Services Division (formerly Finance and Administration). Over the years, these divisions had remained same even though the number of departments and independent units had changed. Departments and independent units were created to take care of the expanding roles and responsibilities of the Corporation and also in response to Strategic Plans of the Board. The latest of these plans resulted in the present structure of sixteen (16) departments and three (3) independent Units. Departments are headed by staff of the rank of a Director whilst independent Units could be headed by other ranks of executive staff. For the proper coordination and supervision of the Departments and Units, they were shared among the three members of the Executive Management. The Managing Director/Chief Executive has oversight on the following Departments / Units: Legal/Board Secretariat, Internal Audit, Strategy Development, Research Policy & International Relations, Enterprise Risk Management Departments and Communications and Public Affairs Unit. The Executive Director, Operations oversees the following Departments: Insurance & Surveillance, Bank Examination, Claims Resolution, Asset Management, Special Insured

Institutions and Information Technology. The following Departments were assigned to the Executive Director (Corporate Services): Finance, Human Resource, Procurement and Management Services, Engineering and Technical Services, NDIC Academy, Performance Management Unit and Establishment Office, Lagos.

To ensure proper coordination of the activities of the different departments, and independent Units, a Management Consultative Committee comprising all heads of department/independent units is put in place to share information and harmonize strategies. The Committee chaired by the Managing Director/ Chief Executive Officer, meets every month.

3.4 ZONAL OFFICE STRUCTURE

As part of the efforts of the Corporation to bring deposit insurance awareness to the grassroot and make its services more accessible to stakeholders, it established offices in different parts of the country. After the relocation of its corporate Head Office to Abuja in 1993, it retained the Lagos office to service Lagos and the South West region. Subsequently it established various Zonal offices to facilitate its bank supervision and bank closing activities. The Corporation currently maintains the following zonal offices: Kano, Port-Harcourt, Sokoto, Yola, Bauchi, Benin, Enugu and Ilorin.

3.5 INFRASTRUCTURAL DEVELOPMENT

In order to meet up with its status as the leading deposit insurer in the African sub-region and its vision of becoming the "best deposit insurer in the world by 2020", it became necessary for the Corporation to initiate massive infrastructural development. These multi-billion Naira projects which commenced in 2016 included:

i. Head Office Annex Building, Abuja;

ii. Lagos Office Building located in Ikoyi; and

iii. NDIC Training School at Lekki, Lagos.

These projects had reached advanced stages of completion.

3.6 SUMMARY AND CONCLUSION

Since 1989, the Corporation has operated as a separate government agency with independent governing body. Basically, it derived its mandate, powers and authority from its enabling statute which had gone through several changes since it was first promulgated as Act No 22 of 1988. Presently, NDIC Act 2006 provides the legal framework for carrying out the functions of a deposit insurer in Nigeria. As contained in the enabling law, the basic mandate included deposit guarantee, supervision of insured institutions, failure resolution and liquidation. The Board of the Corporation is empowered, through different provisions of the Act, to discharge the mandate. The Management headed by the Managing Director and ably supported by two Executive Directors and staff of the Corporation helped the Board in carrying out the expected roles and responsibilities of the Corporation in order to achieve the public policy objectives of protecting small savers and contributing to financial system stability.

The Corporation has over the years ensured that the human capital, administrative structure and infrastructural facilities have been updated to effectively discharge its mandate.

CHAPTER FOUR
LEGAL FRAMEWORK AND ISSUES

4.0 INTRODUCTION

A comprehensive and adequate legal framework is one of the pre-conditions for effective implementation of a deposit insurance system (DIS). An explicit DIS is required to have an enabling statute that clearly establishes the legal framework for its operation. Depending on the public policy objectives of the scheme in each jurisdiction, the enabling statute should clearly set out the mandate of the scheme, unambiguously specify the powers and authority of the deposit insurer, insurance coverage limits, its source of funding, the participating deposit-taking financial institutions and the conditions for their participation, relationship with other safety net participants, etcetera. The legal framework for the establishment of a DIS in Nigeria was the NDIC Act 1988 which was repealed with NDIC Act 2006.

The NDIC Act 1988, which governed the operations of the Corporation for 18 years had some inherent inadequacies. In 1997, the Act was amended by the NDIC (Amendment) Act No. 5 of 1997 to create a more independent Board of Directors and to empower the Corporation to take proactive measures where a bank was significantly or critically undercapitalized. It clearly entrusted on the Corporation the power to resolve distress in the banking system. However, the NDIC 1997 Amendment Act, was further amended in 1998 to repeal Sections 23A-D of that Amendment Act.

Notwithstanding the foregoing amendments, the NDIC enabling Act of 1988 became increasingly ineffective in addressing the emerging challenges confronting deposit insurance practice in Nigeria. The need to overhaul the 1988 Act culminated in the enactment of the NDIC Act 2006 which addressed some of the challenges encountered by the Corporation in the discharge of its mandate.

This chapter examined the legal framework for the implementation of DIS in

Nigeria as well as other laws that impacted on its implementation in the last three decades. The Corporation's contributions to the development of legal system in Nigeria and some of the current legal challenges facing the Corporation in the course of implementing its mandate were also examined.

4.1 LEGAL FRAMEWORK FOR DIS IN NIGERIA

4.1.1 Importance of Adequate Legal Framework for DIS

A legal framework is the governing law or legislative provision that enables the establishment of a corporate body, group, commission, or organization. In a corporate setting, the legal framework prescribes the structure, grants the relevant powers, assigns roles and responsibilities, and regulates business activities, amongst others. Any DIS, especially the explicit model, requires the adoption of a legal framework to pilot its affairs and handle emerging issues relating to all the stakeholders particularly, depositors and deposit-taking financial institutions.

For an explicit DIS, there should be rules governing coverage limit, the types of deposits covered, the methods for calculating claims, funding arrangement and other related matters. Legal framework will no doubt, help clarify the authorities' obligations to depositors as well as limit the scope of discretionary decisions that may result in arbitrary actions. Also, there is the need for a legal framework to support early intervention and prompt corrective action, the ability to close failed banks promptly and provisions for the clear and orderly liquidation of assets.

4.1.2 Rationale for Repeal of NDIC Act No.22, 1988

The NDIC Act 1988 provided the guidance for the operating policies and procedures of the NDIC. The mandate of the Corporation under the 1988 Act could be broadly classified into deposit guarantee, bank supervision, distress resolution and bank liquidation.

Some of the issues which necessitated the repeal of the 1988 NDIC Act were as follows:

i. Poor drafting style leading to difficulty in the interpretation of provisions;
ii. The responsibility for bank supervision was transferred from the Federal Ministry of Finance to CBN in 1991 which was not reflected in the Act;
iii. Rigid provisions that hindered responsiveness to the needs of stakeholders. For example, premium payable by banks and insurance coverage could not be varied without amending the law;
iv. The appointment of NDIC as Liquidator of failed insured institutions was not automatic, but was subjected to the Companies & Allied Matters Act and tortuous court processes;
v. Failure to recognize deposit insurance as an exclusive mandate of a deposit insurer;
vi. Inadequacy of enforcement powers;
vii. Absence of protection for the Corporation, its Directors and Employees against adverse claims for actions or decisions taken in good faith in their official capacity; and
viii. Lack of provision to ensure payment of insured deposits in litigious situations, thereby causing hardship to the depositors of failed banks.

The major thrust of its amendments was to make room for flexibility such that the Corporation's Board of Directors would have the discretion to make policy decisions that would enable the Corporation to respond promptly to the dynamics of the financial services industry. For example, the increase in the deposit insurance coverage from ₦50,000 to ₦100,000 proposed in 2001 and to ₦200,000 in 2004 could not be effected because the Corporation's Board had no power to vary deposit insurance coverage in response to developments in the financial services industry and the economy.

Apart from the rigidity of provisions in the repealed Act, some observed inadequacies made its amendment imperative. Such inadequacies included explicit power to serve as liquidator, power to present winding-up petitions at the Federal High Court, power to incorporate bridge bank(s) as vehicle(s) for distress resolution, and the indemnity for the Corporation's officers and

directors in respect of actions taken in good faith.

As a result of the above deficiencies and other gaps in the 1988 NDIC Act, the Corporation had over the years pursued its amendment with vigour and the National Assembly passed the re-enacted NDIC Bill, which was signed into law by the President on 22nd December, 2006.

4.1.3 Highlights of the 2006 NDIC Act and Implications

The NDIC Act 2006 contains 60 Sections grouped into 12 parts. Some of the major provisions introduced into the 2006 Act and their implications for the operations of the Corporation are highlighted below.

4.1.3.1 Harmonization with the Banks and Other Financial Institutions Act, 1991 as amended

Although, the Corporation remains an autonomous agency under the supervisory purview of Federal Ministry of Finance (FMF), its operations, particularly with regard to banking issues were harmonized with the Banks and Other Financial Institutions Act (BOFIA). The 1988 Act was enacted when the CBN was under the supervision of the FMF, hence the Corporation's supervisory duties relating to banks was subject to the oversight of the Hon. Minister of Finance (HMF). However, following the enactment of the BOFIA in 1991 which conferred autonomy on CBN on banking matters, some of the powers of the HMF in the 1988 Act became ineffectual.

The NDIC Act 2006 has therefore, regularized the anomaly by substituting references to the FMF with references to the CBN in areas of banking supervision. The implication was that the Corporation would be able to collaborate effectively with the CBN on issues relating to banking supervision.

4.1.3.2 Sole Mandate as Deposit Insurer

The NDIC Act 2006 recognized the Corporation as the sole deposit insurer in Nigeria, hence it provided that no person other than the NDIC shall insure deposit liabilities or guarantee payment to depositors of insured institutions

in Nigeria (Section 3 NDIC Act 2006). This provision clearly barred insurance companies from deposit insurance. Hitherto, it was observed that some insurance companies had attempted to insure bank deposits by placing adverts in the media soliciting for depositors to insure their deposits with them.

4.1.3.3 Premium Rate

The rigid provisions on premium assessment was amended to allow the Board of Directors to vary the rates as the need arises. The Corporation exercised its power in that regard and introduced the differential premium assessment system in 2008.

Furthermore, the Corporation had been empowered to establish separate Insurance Funds for each category of insured institutions. This new provision had enabled the Corporation to set up a separate Deposit Insurance Fund for Deposit Money Banks, Primary Mortgage Banks, Micro-Finance Banks, and Non-Interest Banks in order to reflect the different orientation and focus of the three (3) categories of insured institutions (Section 17). Similarly, different premium rates could now be prescribed for each category of institution.

4.1.3.4 Maximum Insurance Claim

The NDIC Act 2006 increased the maximum insurance claim payable to depositors from ₦50,000 to ₦200,000 for DMBs, while a maximum claim of ₦100,000 was prescribed for depositors of PMBs and MFBs. More significantly, unlike in the 1988 Act which did not empower the Corporation to vary the maximum claim, no matter how desirable, the NDIC Act 2006 empowered the Corporation to increase the maximum claim whenever considered appropriate (Section 20 NDIC Act 2006). It is significant to note that only an upward review was allowed by the NDIC Act 2006 (Section 20). It was in the exercise of this power to vary the maximum claim that the Corporation has periodically reviewed upwards the maximum claim from ₦200,000 and ₦100,000 for DMBs and PMBs / MFBs to ₦500,000 and ₦200,000 respectively. Indeed, in 2014, the maximum claim for PMBs was

further enhanced to ₦500,000 to bring them at par with DMBs since they basically have similar deposits profile.

The Act also stated clearly that the insured claim was without prejudice to the additional payment which would be made to depositors with credit balances in excess of the insured sum by way of liquidation dividend as assets of the closed banks were being realized by the Corporation. The new amendment should put to rest the wrong notion that it was only the insured claim that a depositor could receive in respect of its deposit in a failed bank. Indeed, the bulk of the payments to depositors of failed banks are the liquidation dividends declared from time to time from the proceeds of the realization of the respective assets of the failed banks.

4.1.3.5 Power to Freeze Deposit Account

The NDIC Act 2006 empowers the Corporation to freeze a deposit account in a failed bank where it was suspected that such account is connected with any criminal activity until after final determination by a Court or Tribunal (Section 22 NDIC Act 2006). That provision is part of the anti-money laundering measures being implemented by Government.

4.1.3.6 Termination of Insured Status

Although there were provisions on termination of insured status of banks in the NDIC Act 1988, they were ambiguous. In the NDIC Act 2006, elaborate provisions on the power of the Corporation to de-insure a member institution were made (Section 23-26 NDIC Act 2006). The NDIC Act also stated quite clearly the implications of the termination of insured status which could be a ground for the revocation of the licence of a bank.

4.1.3.7 Prompt Corrective Action

The NDIC Act 2006 had made specific provisions empowering the Corporation to take prompt corrective actions deemed necessary to address incidences of unsafe and unsound practices or violation of law or regulations by an insured institution (Section 32 NDIC Act 2006).

4.1.3.8 Power to Manage and Restructure Failing Bank

The NDIC Act 2006 had streamlined the provisions on the take-over of Management of failing banks and had made provisions which would enable the Corporation to restructure such distressed banks, especially through Mergers/Acquisitions as well as Purchase and Assumption transactions (Section 37 and 38 of NDIC Act 2006). Furthermore, the Act had empowered the Corporation to establish a Bridge Bank in consultation with CBN (Section 39 NDIC 2006).

4.1.3.9 Power to Act as Liquidator

The NDIC Act 2006 had made it very clear that upon the revocation of the license of a bank by the CBN, the Corporation shall act as Provisional Liquidator, pending the making of a winding-up order by the Federal High Court (Section 40 NDIC Act 2006). With that development, there would no longer be any need for the Corporation to apply to a Federal High Court for appointment as a Provisional Liquidator of a bank whose licence has been revoked, which had in the past frustrated the efforts of the Corporation in prompt payment of insured deposits.

Furthermore, some provisions were made to address the hindrance which the companies winding-up rules had caused for the liquidation of banks. It is also significant to note that the NDIC Act had reduced opportunities for litigants to obtain frivolous injunctions against the Corporation, while performing its role as liquidator, particularly with regard to the payment of insured claims. Thus, whenever a litigant challenging the Corporation as liquidator files for injunction, the trial Court is required to refer such motion to the Court of Appeal for determination. The Court of Appeal is required to take a decision on the issue within a time frame of 60 days.

4.1.3.10 Right to Appear in Court

The in-house lawyers have been empowered to represent the Corporation in litigations (Section 47 NDIC Act 2006). This provision is very important, because many debt recovery cases which external solicitors are reluctant to take due to the difficulties associated with them as well as the nature of the

cases, could be handled by the in-house lawyers. Debt recovery is based on no recovery, no commission.

4.1.3.11 Higher Responsibilities on External Auditors

The NDIC Act had placed higher responsibilities on external auditors of banks with regard to their auditing assignment, while a higher penalty was also provided for non-compliance (Section 54 NDIC Act 2006).

4.1.3.12 Indemnity for Directors and Employees

In line with what obtains in most statutes establishing public institutions and consistent with best practice in deposit insurance, the NDIC Act provided protection to Directors and employees against personal liability for actions taken in good faith in the ordinary course of business (Section 55 NDIC Act 2006).

Furthermore, in order to prevent suits filed in Court against the Corporation in respect of liquidated banks without notice, the Act requires any party intending to file a suit against the Corporation to first give one (1) month notice of the intention to file an action in Court. Such pre-action notice would enable the Corporation to resolve the issues where feasible and avoid unnecessary litigation.

4.1.3.13 Increase in Quantum of Penalties

The penalties prescribed by the NDIC Act 1988 for contravention were enhanced in the NDIC Act 2006. The enhancement was intended to encourage compliance.

4.1.4 Other Legislations that Impact on the Corporation

Aside from the NDIC Act, there are other legislations that have impact on the operations of the Corporation. Some of the legislations include:

4.1.4.1 The Central Bank of Nigeria (CBN) Act of 2007

The Act provides for the establishment of the apex banking regulatory authority. The CBN directly regulates the activities of licensed banks and

other financial institutions to promote financial system stability.

4.1.4.2 The Banks and Other Financial Institutions Act 1991

The Act confers on the CBN the power to regulate banks and other financial institutions operating in the country. The BOFIA provides the legal framework governing the licensing, operations, regulation and supervision of banks.

4.1.4.3 The Failed Banks (Recovery of Debts) and Financial Malpractices in Banks Act No 18 of 1994 (as amended)

This Act established the Failed Banks' Tribunal with powers to recover debts owed to failed banks, try offences relating to financial malpractices in banks specified in the Act, BOFIA and the NDIC Act as well as other offences relating to business of banking. Jurisdictions of the Tribunals established pursuant to the Act were transferred to the Federal High Court following the advent of democracy in 1999, where tribunals are not favoured.

4.1.4.4 The Companies & Allied Matters Act (CAMA) 1990

The Act regulates incorporation and operation of companies in Nigeria. The Act is relevant to the operations of the NDIC to the extent that banks are incorporated as companies before applying for banking licence. The CAMA provides the framework for the banking institutions to be incorporated, registered and operated as corporate entities.

4.1.4.5 The Fiscal Responsibility Act 2007

The Act aims at redirecting government at all levels to imbibe fiscal discipline and controls that would promote prudence and sound financial management. Under Section 21 and the schedule to the Fiscal Responsibility Act (FRA), the NDIC was listed as one of the government agencies required under Section 22, to establish a general reserve fund to which one fifth of their operating surplus would be allocated at the end of each financial year while the balance of the operating surplus (i.e. 80%) would be paid to the Consolidated Revenue Fund of the Federal Government. Under Section 23, the surpluses of the Corporation were classified as a Federal Treasury Revenue while the

deficits were classified as the Corporations' losses for the fiscal year.

FRA has serious implications for the Corporation as it impairs its ability to build up the general reserve fund and thus the DIF. The significant reduction in general reserves further impairs the Corporation's ability to generate investment income to meet its operational expenses. Such impairment could affect the credibility of the DIS in Nigeria.

Inadequate funding can lead to delays in resolving failed institutions and loss of credibility by the deposit insurer. The Corporation had increased deposit insurance coverage limit from ₦50,000 to ₦500,000 through its NDIC Act 2006 signifying a huge increase of its liability to bank depositors. Also, the Corporation had indirectly reduced the premium rate through the adoption of the differential premium assessment system (DPAS). Consequently, the removal of 80% of NDIC's surplus through the application of the FRA compounds NDIC's predicament of balancing increased liability (i.e. increased insurance coverage) against reduced income (through premium rate reduction).

Above all, it is best practice for a DIS to plough back reserves to the premium fund. Such plough-back allows the DIF to be built up to meet contingencies, particularly in the case of the Corporation where government had maintained a policy of not using public funds to bail-out banks.

4.2 CONTRIBUTIONS TO THE DEVELOPMENT OF LEGAL SYSTEM IN NIGERIA

In its 30 years of existence, the Corporation had made some landmark contributions to the development of the legal system in Nigeria. Some of the achievements recorded by the Corporation included:

4.2.1 Reviewing, Initiating and Drafting of Legislation

Since its establishment in 1989, the Corporation had been actively involved in the initiation of legislation on banking activities and the review of

legislations affecting banking operations including that of the Corporation. Key examples are:

The Failed Banks Act

The Corporation provided the necessary impetus for the enactment of the Failed Banks Act No. 18 of 1994. The NDIC, in conjunction with the CBN and the Federal Ministry of Justice, presented drafts of the Act and received the inputs of all stakeholders and was able to see to its successful enactment. The legislation which was revolutionary in the annals of banking legislation in Nigeria, provided for the recovery of debts owed to failed banks as well as contributed greatly to the sanitization of the banking system.

The NDIC Act No. 16 of 2006

The Corporation was established under the NDIC Act 1988 and commenced operations in 1989. Due to the serious challenges it experienced while discharging its statutory functions, the Corporation embarked on review of the legal framework governing the DIS in Nigeria and successfully pushed for a repeal of the 1988 Act and the reenactment of the NDIC Act, 2006. The enactment of the NDIC Act 2006 significantly addressed the key challenges of the 1988 Act and contributed in consolidating deposit insurance practice in Nigeria.

4.2.2 Litigation, Management and Implementation of the Failed Banks' Act

The Corporation facilitated the implementation of the Failed Banks Act, which provided for recovery of debts owed to failed banks and prosecution of Directors and Officers that committed banking malpractices through the establishment of the Failed Banks Tribunals. The Corporation championed the recovery of bad assets of failing and failed banks through the use of Failed Banks' Tribunals. Through the implementation of the provisions of the Failed Banks' Act, a substantial quantum of unrealizable risk assets was recovered from debtors of the failed banks and also from insiders who abused their privileged position to obtain undeserved credit facilities.

The Corporation facilitated the implementation of the Failed Banks Act in the following areas:

i. Collating information and supporting documents on bank frauds and financial malpractice;
ii. Lodging criminal complaints to the police for investigation;
iii. Providing necessary technical and logistic support for police investigation;
iv. Maintaining liaison with prosecutors appointed by the Hon. Attorney-General of the Federation for the successful prosecution of criminal cases;
v. Appointing solicitors to file applications before the Tribunals to recover debts owed to failed banks; and
vi. Coordinating and monitoring of criminal and civil cases; and
vii. Maintaining a synergy with anti-corruption agencies to fast-tract financial fraud such as violation of procurement acts, contract awards, money laundering, etc.

The Corporation was instrumental to the tribunal approach due to the slow process of the normal courts, coupled with the frequent loopholes used by borrowers to evade or delay repayment. Until the promulgation and implementation of the Failed Banks Act, despite the tremendous efforts made at recovering the loans and advances of banks, very little was achieved. The poor quality of the loans and the protracted legal processes largely contributed to the low recoveries made. However, sequel to the promulgation of the Act and inauguration of the Tribunals, some positive results were achieved. For example, debts otherwise classified as either not collectible or lost were recovered from recalcitrant debtors who hitherto had refused /neglected to honour their obligations to the banks.

Before the Failed Banks Tribunals were abolished and cases under them transferred to the Federal High Court in 1999 following the advent of democratic rule, the Failed Banks Act contributed greatly to the sanitization of the banking system. Table 4.1 summarizes the achievements recorded in the implementation of the Failed Banks Act.

Table 4.1

Cumulative Statistics on the Implementation of the Failed Banks Act

Item	Criminal	Civil	Total
Number of Cases at the Failed Banks' Tribunals	132	2,332	2,464
Number of Judgments Delivered	44	672	716
Number of Suspects Convicted	104	-	104
Number of Suspects Discharged	34	-	34
Number of Cases Struck Out	1	17	18
Appeals	53	10	72*
Amount Involved in the Cases Filed at the Tribunals	₦17.48 billion US$63.89 million GBP 5.12 million DM379,000	₦45.36 billion US$386.44 million	₦62.85 billion US$450.29 million GBP 5.12 million DM379,000
Amount Recovered through the Tribunals	₦718 million	₦3.54 billion	₦4.26 billion
Judgment Debts in the Process	₦2.32 billion US$67.04 GBP 5.01 million	₦4.28 billion US$23.95 million	₦6.55 billion US$90.99 million GBP 5.01 million

Source: NDIC Annual Reports

** Figure included Appeal involving the NDIC in its Corporate Capacity*

As evidenced in Table 4.1, the cumulative number of cases filed at the Failed Banks' Tribunals stood at 2,464 from which 18 cases were struck out. As shown in the table, judgments were delivered in 716 cases out of which 44 were in respect of criminal matters involving 104 convicts and a total of 72 appeals were filed at the Court of Appeal. The table also shows that the amounts involved in criminal/civil cases were: ₦62.848 billion; US$450.294 million; GBP5.12 million; and DM379,000 out of which ₦4.259 billion was recovered whilst judgment debts in the process of collection stood at ₦6.553 billion, US$90.989 million and GBP5.012 million.

4.2.3 Publication of Law Reports

The need to place on record the avalanche of cases that were handled under the Failed Banks Act, necessitated the publication of Law Reports by the

Corporation to chronicle the cases heard and the judgments delivered by the Tribunals under the Failed Banks Act. The publication of the Failed Banks Tribunal Law Report (FBTLR) was embarked upon in 1995 and sustained until 1999 when the Tribunals were abolished and jurisdiction transferred to the Federal High Court. About 9 volumes of the FBTLR were published during that period by the Corporation.

With the abolition of the Tribunals, and the return to civil rule, the name of the publication was changed to the Nigeria Banking Law Reports (NBLR). The first part of the compendium which contained banking-related cases from 1933 - 1989 was produced in 5 volumes including a comprehensive index and was published in 2006. The 2nd batch of the compendium containing banking related cases from 1990 - 2004 and the 3rd batch containing cases from 2005 to 2011 had also been published. Meanwhile, the 4th and last batch of the compendium comprising banking cases decided between 2012 and 2016 to complete the compendium is in the process of being published. The Corporation intends to continue with the publication of new cases on an annual basis.

4.2.4 Some Notable Decided Cases

In the course of carrying out its statutory mandate as liquidator of failed banks, the Corporation, as earlier noted managed an avalanche of litigations which involved criminal prosecution of all persons charged for various financial malpractices in banks under the Failed Banks Act as well as all civil litigations involving the Corporation. One of the notable achievements in that regard was the decision of the Supreme Court of Nigeria in ***NDIC Vs Okem Enterprises Limited & Anor*** (SC/92/2003) which established the jurisdiction of the Federal High Court (FHC) to hear and determine debt recovery cases involving a bank in-liquidation and its customer. The Court of Appeal, Lagos Division had earlier held that the FHC lacked jurisdiction to try debt recovery cases under the Failed Banks' Act. The case was pursued to the Supreme Court by the Corporation consequent upon which the Supreme Court set aside the decision of the Court of Appeal, and restored

the FHC decision that the Federal and State High Courts had concurrent jurisdiction to hear and determine all failed banks debt recovery cases.

Another notable achievement was the case of ***Dr. Edwin Udemegbunam Onwudiwe Vs The Federal Republic of Nigeria*** (SC. 41/2003). The main issues for consideration in the appeal at the Supreme Court were on the criminal jurisdiction of the Failed Banks Act, particularly, those relating to the offence of stealing. The Tribunal found the appellant guilty on some of the charges and was sentenced accordingly. Dissatisfied with his conviction and sentence, the appellant appealed to the Court of Appeal which unanimously dismissed the appeal and affirmed the conviction and sentences imposed by the Tribunal.

Still dissatisfied, the appellant further appealed to the Supreme Court. He contended, amongst others, that the Failed Banks Tribunal had no jurisdiction to try him for the offences of stealing and obtaining by false pretenses under the Criminal Code as they were not offences relating to the operations or business of a bank. The appellant also argued that the Tribunal had no jurisdiction to try him for the offence of corrupt enrichment under the Recovery of Public Property (Special Military Tribunals) Act 1990, (as amended by Decree No.33 of 1991), because the Tribunal only came into existence in 1994 and had no retroactive application. The Supreme Court unanimously dismissed the appeal and held that the provision of Section 3(1)(d) of the Failed Banks Act conferred jurisdiction on the Failed Bank Tribunals to try any other offences relating to the business or operation of a bank under any enactment.

4.3 LEGAL CHALLENGES FACED BY THE CORPORATION

The Corporation had in the last 30 years, faced numerous legal challenges in the course of performing its statutory functions. In an attempt to address some of the challenges, the Corporation successfully pushed for a repeal of the 1988 Act and the passage of the NDIC Act 2006. While the Act addressed

some of the legal challenges, there are still some lingering ones which include:

4.3.1 Criminal Prosecution

Criminal prosecution of bank directors and officers suspected of committing financial malpractices had faced severe challenges. Following the abrogation of the Failed Banks Tribunals in 1999, consequent upon the advent of democratic dispensation, the jurisdiction of the Tribunals was transferred to the Federal High Court. Since then, the prosecution of criminal cases had declined and convictions became rare events. The proceedings at the Federal High Court were characterized by slow judicial proceedings, frequent adjournments over long period of time and unnecessary legal technicalities. Every unfavourable ruling against the accused was subject to interlocutory appeal to the Appeal Court and the Supreme Court. More significantly, is the fact that some of the convictions secured at the Failed Bank Tribunals were quashed by the High Court and Court of Appeal after the return to democratic rule.

4.3.2 Execution of Judgments against Assets of the Corporation for Liability of Banks in Liquidation

The Corporation had been faced with attachment levied on its assets in execution of judgments obtained against banks in-liquidation. That anomalous situation was the result of the Corporation's role as Liquidator of failed banks in Nigeria. The courts had regarded that role as making the Corporation the successor-in-title to the failed bank, which should not be the case. The Corporation's account with the CBN became a major target for garnishee proceedings by judgment creditors of failed banks. At a point, over a billion Naira of the Corporation's funds were under garnishee orders nisi. The Corporation, however, worked hard to set aside most of the garnishee orders before they became absolute.

4.4 STRATEGIES ADOPTED TO ADDRESS SOME OF THE CHALLENGES

The Corporation being fully aware of the legal challenges had embarked on certain measures to address them as follows:

4.4.1 Proposed Amendment to NDIC Act 2006

The Corporation embarked on a comprehensive review of the NDIC Act 2006 with a view to amending the Act in order to address some of the major legal challenges. The proposed amendments are before the National Assembly for further legislative action.

4.4.2 Appearance in Court by In-House Lawyers

The Corporation embarked on the training and re-training of selected in-house lawyers to equip them to appear in court for the Corporation. The in-house lawyers had started appearing in court. Their appearance would go a long way to assist in prosecuting the large number of debt recovery cases instituted by the Corporation to recover debts owed to the banks in-liquidation.

4.4.3 Public Awareness Campaign

As recommended by IADI, the Corporation embarked on public awareness campaign to sensitize the key stakeholders on the challenges of deposit insurance law and practice in Nigeria. A major component of the awareness campaign was the various sensitization seminars organized for the Corporation's external solicitors and judicial officers at all levels of the superior courts of record, notably the Federal and State High Courts, the Court of Appeal and the Supreme Court.

4.5 SUMMARY AND CONCLUSION

As noted in this chapter, a DIS requires a robust legal framework to pilot its affairs and handle emerging issues relating to all stakeholders particularly, depositors and insured institutions. For many years, one of the challenges that confronted the Corporation in its efforts to discharge its mandate since its inception had been the inadequacies in its enabling Act of 1988. Those

had been successfully remedied in the repeal of the 1988 Act and the enactment of the NDIC Act No. 16 of 2006. A notable area of the revision under the NDIC Act 2006 was the enhancement of the legal powers of the Corporation. That was expected to address most of the legal constraints facing the NDIC as well as provide it with sufficient powers for timely and resolute intervention in ailing banks.

Aside from the Corporation's enabling Act, there are other legislations such as the CBN Act, BOFIA, CAMA, and the Failed Banks Act that had also supported the effective operations of the DIS in Nigeria in the last thirty (30) years. The obligation imposed by the Fiscal Responsibility Act erodes the Corporation's ability to build up its general reserve fund as only one-fifth would be available for its use. It also impairs the Corporation's ability to generate investment income to meet its operational expenses.

The Corporation had made some landmark contributions to the development of the legal system in Nigeria. Some of them included: reviewing, initiating and drafting of legislation; establishment of the Failed Bank Tribunals; publication of Law Reports; and pursuance of some cases up to the Supreme Court. In the course of implementing its mandate, the Corporation had faced some legal challenges. However, it had embarked on appropriate measures to address them. These initiatives are already yielding the desired results.

CHAPTER FIVE
DEPOSIT INSURANCE FUNDING AND FUND MANAGEMENT

5.0 INTRODUCTION

A well-designed deposit insurance system should have in place 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. As the experiences of several countries have shown, inadequate funding could lead to delay in resolving failed institutions as well as significant increases in resolutions cost, with attendant consequences on the credibility, and confidence in the system.

It is in realization of the foregoing that IADI made funding one of the Core Principles for Effective Deposit Insurance Systems. According to Core Principle 9, "The deposit insurer should have readily available funds and all funding mechanisms necessary to ensure prompt reimbursement of depositors' claims, including assured liquidity funding arrangements. Responsibility for paying the cost of deposit insurance should be borne by banks." (IADI, 2015). It is imperative to note that regardless of how DIS is funded, it is not designed to withstand, on its own, a systemic crisis, especially when a large proportion of insured institutions fail at the same time or a significantly important insured institution fails.

In Nigeria, the explicit deposit insurance system being administered by the NDIC, necessitated the adoption of an ex-ante funding arrangement for the Corporation to enable it discharge its mandates as well as sustain its operations effectively. Although the system has been in practice for the last three decades, there are some lessons that could still be learned from the experiences of other countries particularly in the area of funding. It is in the light of this that this chapter discusses funding arrangement by the NDIC

5.1 DIS FUNDING IN NIGERIA

5.1.1 Initial Capitalization and Contingent Funding Arrangements

Section 10 (1) of the NDIC Act 2006 identifies four sources of funds for the DIS as follows. The sources were: capital contributions and periodic recapitalization provided by government through the CBN and the Federal Ministry of Finance; premium contribution by participating institutions; borrowing from the CBN; and special contribution by the participating institutions.

At inception, the authorized capital was fixed at ₦100 million, out of which ₦50 million was paid-up. It remained so until 1992 when the authorized capital was increased to ₦1 billion, with ₦500 million paid-up. In 1996, the authorized capital and the paid-up capital were raised to ₦2.3 billion and ₦1 billion, respectively. In the subsequent years, the paid-up capital had risen to ₦2.1 billion. The NDIC Act 2006 put the authorized capital at ₦5 billion, however, the paid-up capital rose to ₦2.3 billion. That was done to adequately cater for the rising capital expenditure requirements of the Corporation. Table 5.1 shows the initial capital contributed by the shareholders at the inception of the system in 1988.

Table 5.1
Deposit Insurance Capitalization by Shareholders

YEAR	AUTHORIZED CAPITAL (₦)	PAID-UP CAPITAL (₦)
1988	100 million	50 million
1989	100 million	50 million
1990	100 million	50 million
1991	100 million	80 million
1992	1 billion	500 million
1993	1 billion	500 million
1994	1 billion	500 million
1995	1 billion	700 million
1996	2.3 billion	1.0 billion
1997	2.3 billion	1.9 billion
1998	2.3 billion	2.1 billion
1999	2.3 billion	2.1 billion
2000	2.3 billion	2.1 billion
2001	2.3 billion	2.1 billion
2002	2.3 billion	2.1 billion
2003	2.3 billion	2.1 billion
2004	2.3 billion	2.1 billion
2005	2.3 billion	2.1 billion
2006	5 billion	2.3 billion
2007	5 billion	2.3 billion
2008	5 billion	2.3 billion
2009 to 2018	5 billion	2.3 billion

Source: NDIC

The Corporation is empowered to borrow from the CBN in times of need, as clearly specified in the NDIC Act, where the DIF is not sufficient to settle depositors' claims as a result of multiple bank failures or the failure of a Domestic - Systematically Important Bank (D-SIB). That has its implications, one of which is the inflationary effect on the economy and could as well be misinterpreted to mean that the scheme is insolvent with attendant consequences on depositors' confidence in the DIS and by implication in the banking system. So far, the Corporation never had cause to use this source of funding.

With regard to Special Contribution by the participating institutions as a source of funding the DIS, Section 17 (5) of the NDIC Act 2006 states as follows:

> "where the funds of the Corporation are not sufficient for giving assistance to insured institutions within the meaning of section 2(1)(b) of this Act or otherwise insufficient for implementation of the objects of the Corporation, every participating insured institution or category of insured institution may be obliged without prejudice to subsection (1) and (2) of this section to pay as **Special Contribution** out of its profit before tax, a sum equal to its annual premium or such other sum as the Board may require not exceeding 200% of its annual premium on such terms and conditions as the Board may from time to time determine".

It is pertinent to note that the Corporation never had cause to explore that option.

5.2 Separation of Deposit Insurance Funds

Following the extension of deposit insurance coverage to MFBs and PMBs, a separate fund called Special Insured Institutions Fund (SIIF) was created for them. The decision to separate the funds was informed by the deposit characteristics as well as the risk profile of the special insured institutions, the premium rate charged and their coverage level. The separation entails the maintenance of separate accounts for both the DMBs and the special insured institutions (MFBS / PMBS). In the event of failure, only money meant for a category of insured institutions and drawn from its own fund would be used to resolve the failure.

Section 10 (2) of the NDIC Act 2006 states as follows:

> "The Corporation shall have power to establish a separate Deposit Insurance Fund (DIF) for each category of insured institution in which

all assessed premiums paid shall be deposited and which fund the Corporation shall utilize for the respective insured institutions."

At the take-off stage, the SIIF was so small and that informed the need for the Corporation to augment its level, as a contingency arrangement against any possible failure of the institutions. That became necessary considering the number of licensed MFBs and PMBs, their locations, deposit profile and their mode of operation.

Also, the extension of deposit insurance coverage to Non-interest Banks necessitated the creation of another separate fund, known as Non-Interest Deposit Insurance Fund (NIDIF) in 2011. The separation became imperative in order to make the Fund's management Shariah-compliant.

By the creation of that Fund, the NDIC maintains three (3) separate Funds, namely: DIF for DMBs, SIIF for MFBs and PMBs and NIDIF for Non-interest banks.

5.3 Trends in the Growth of Deposit Insurance Fund

The size of the funds vis-à-vis the risk exposure of the insurance agency determines the extent to which a deposit insurer could meet its obligations in crisis situations. It is therefore imperative for the deposit insurer to not only ensure that the DIF grows overtime but that it is adequate to sustain its operations. Basic approaches to increasing a DIF include a steady build-up of premium assessed over an extended period of time as well as a premium system designed to achieve and maintain a target reserve ratio or range.

The Insurance Funds are generated through assessed premium contributed by insured institutions. The task of generating Insurance Fund for the DIS started with the first premium assessment carried out in 1989 on 82 insured banks assessed for premium on their deposit liabilities for 1988 and 1989. Table 5.2 presents the growth of Insurance Funds in the past thirty years. A total of ₦382.5 million was realized as premium contribution when the

scheme commenced in 1989 and grew to ₦10.2 billion in 1997. A decline to N8.3 billion was however experienced in 1998 as a result of the failure of 26 banks, whose insured depositors had to be settled by the NDIC. From that period, the DIF rose steadily from ₦12.3 billion in 1999 to ₦57.5 billion in 2004. Another decrease in the size of DIF was witnessed in 2005, which was as a result of the provision made in respect of a possible reimbursement of the claims of the depositors of Peak Merchant Bank and Savannah Bank, whose cases were in court as well as the 14 banks that could not meet the CBN recapitalization requirement and whose licenses were to be revoked (NDIC, 2005).

By 2007, the DIF had grown to ₦124.4 billion, despite the introduction of the DPAS, which caused a reduction in the amount of premium paid by the banks, owing to the reduction of the premium rate from 94 basis points under the flat rate regime to a maximum of 80 basis points under the DPAS regime. The upward trend in Insurance Funds continued and rose to over ₦1 trillion in 2018 in spite of the reduction of premium rate to 0.65%.

Table 5.2 also indicates that the SIIF whose accumulation started in 2008 grew from ₦0.956 billion in 2009 to ₦124.31 billion in 2018. Similarly NIDIF also witnessed growth from N0.0176 billion in 2011 when its accumulation started to ₦0.99 billion in 2018.

TABLE 5.2

Trend in the Growth of Insurance Funds in Nigeria

YEAR	DEPOSIT INSURANCE FUND (DIF) (₦) Billion	SPECIAL INSURED INSTITUTIONS FUND (SIIF) (₦) Billion	NON-INTEREST DEPOSIT INSURANCE FUND (NIDIF) (₦) Billion
1988	0.0395	-	-
1989	0.3825	-	-
1990	0.706	-	-
1991	1.205	-	-
1992	1.891	-	-
1993	2.830	-	-
1994	4.230	-	-
1995	5.909	-	-

1996	7.811	-	-
1997	10.265	-	-
1998	8.841	-	-
1999	12.380	-	-
2000	19.416	-	-
2001	26.337	-	-
2002	30.050	-	-
2003	42.773	-	-
2004	57.595	-	-
2005	54.727	-	-
2006	90.179	-	-
2007	124.423	-	-
2008	175.63	-	-
2009	224.392	0.956	NA
2010	295.720	2.287	NA
2011	356.88	19.95	NA
2012	425.21	39.79	0.0176
2013	508.06	57.71	0.02
2014	614.16	71.21	0.12
2015	725.58	77.49	0.24
2016	827.89	91.59	0.43
2017	959.55	114.39	0.69
2018	1,070.28	124.31	0.99

Source: NDIC Annual Reports

5.4 Fund Adequacy

The determination of the adequacy of Insurance funds was premised on bridging the funding gap between NDIC's risk exposure to insured depositors of unsound and marginal banks at a point in time. NDIC Risk Exposure was calculated as Total Insured Deposits of the Unsound and Marginal banks plus 20% of the insured deposits of the healthy banks in the System at any point in time. The funding gap was then calculated as the difference between Risk Exposure and Insurance Fund.

While that is a useful guide to assessing the adequacy of the Deposit Insurance Fund, it however, has the following challenges:

i. The framework was not established based on quantitative measures related to the historic experience of NDIC with bank failures.

ii. The approach relies on data that are available with a lag, thereby failing to provide a current view on the health of the banking sector.

iii. The approach assumes that all banks at the risk of failure will actually fail. It also assumes total loss to the DIF on the exercise of its right of subrogation and does not take into cognizance possible future losses on financial assistance transactions.

iv. The approach does not reflect changes in economic conditions or shifts in banks' risk profiles.

v. The framework neither appears to have benefitted from IADI guidelines and recommended methodologies for assessing the fund adequacy nor based on international standards.

Based on the foregoing, the methodology hitherto used by the Corporation in assessing its DIF adequacy was reviewed and alternative IADI-recommended methodologies were utilized in setting the new 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 as implemented in other key jurisdictions, like the FDIC (USA) and FITD (Italy).

5.5 DIF Investment Policy

The DIF investment policy put together by the NDIC was guided by the provisions of the NDIC Act 16 of 2006. Section 13, subsection (i), (ii) & (iii) of the Act, states as follows:

> "The Corporation shall have power to invest money not immediately required in Federal Government Securities or in such other securities as the board may from time to time determine. The incomes from the money invested shall be

credited to the account of the Corporation. All administrative expenses shall be defrayed out of the income of the Corporation".

The broad objective of the DIF investment policy in Nigeria is that of optimal returns without compromising safety and liquidity. The specific objectives of the policy are (NDIC, 2012):

i) To provide liquidity for its deposit insurance responsibilities and meet normal operating needs. The provision of an adequate liquidity profile will be informed by potential, anticipated or contingent insurance payouts and conditions operating in the financial markets. To this end, all investments held by the Corporation should be readily realizable or convertible to cash.

ii) Preserve capital and optimize investment returns by adopting a conservative investment policy. This requires that all investments should be of very high quality, in terms of the ability of the investee to meet its obligations to the Corporation and arrangements, which are in place to protect the Corporation as investor.

iii) Minimize overall risk by portfolio diversification.

iv) Ensure expeditious investment of all residual cash without threatening the safety and liquidity concerns. In that regard, the Investment Policy aims at ensuring that no residual Fund meant for investment remains idle.

v) Periodically measure its investment performance against acceptable bench-marks.

In an effort to realize the objectives of the policy, the Corporation developed an investment management structure. The structure comprises the Board, Senior Management, Investment Advisory Committee, Finance Department and Claims Resolution Department (NDIC 2012). The roles and responsibilities of each of the components of the structure have been clearly spelt out in the policy.

The Corporation also developed investment guidelines that deals with portfolio composition, investment limits, target rates, investment performance review, evaluation of risks, policy review and disclosures. For instance, the investment portfolio of the NDIC is made up of short-term, medium-term and long-term investments in eligible securities (NDIC 2012). The short-term investments should be highly marketable and serve as a source of asset liquidity through maturation or potential sale. The portfolio would be maintained at a level sufficient to provide adequate liquidity, having regard to other liability management options. The medium and long-term investments on the other hand, should possess a high degree of marketability or convertibility to cash since they are regarded as a secondary source of liquidity (NDIC 2012).

5.6 Management of General Reserve Funds

In addition to the above-mentioned sources of funds to the DIF, General Reserve Fund is yet another veritable source of funds to the deposit insurer. This is usually derived from the operating surplus of the deposit insurer at the end of a financial year. It also forms part of the funds not only available for use but also for investment by the deposit insurer.

Section 12 (1) of the NDIC Act 2006 provides for the establishment of a General Reserve Fund. The Act states as follows:

> "The Corporation shall establish a General Reserve Fund to which shall be transferred the Corporation's net operating surplus before tax if the reserve fund is less than ten times the authorized capital."

In compliance with the above provision of the Act, the NDIC established the General Reserve Fund from the inception of the scheme in 1989. Since then, the whole of the operating surplus at the end of each financial year had always been remitted to the fund. However, following the enactment of the Fiscal Responsibility Act in 2007, the remittances of the operating surplus to the General Reserve Fund became impaired. That was because the Act

stipulates that 80% of the operating surplus of some government agencies at the end of each financial year should be remitted to the Federation Account without any recourse to their enabling law. It also states that the Fiscal Responsibility Act supersedes any law that is in conflict with its provisions.

Where the operating surplus of the Corporation at the end of the year turns out to be more than ten times the authorized capital, Section 12 (2) of the NDIC Act 2006 provides for how the surplus would be appropriated 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."

5.7 SUMMARY AND CONCLUSIONS

In this chapter, funding arrangement of the DIS in Nigeria and the management of DIF have been examined. It is very clear from the above analysis that premium payment by the participating institutions is the biggest source of funds to the scheme. The Federal Government Securities are the only investment channel being patronized by the DIS for the investment of Insurance Funds in Nigeria, based on the considerations of safety and liquidity associated with such Securities. The Corporations learning from experiences of other countries and given its vision of being the best deposit insurer in the world by 2020, established a target fund ratio that was based on credit risk technique.

CHAPTER SIX
METHODS OF PREMIUM ASSESSMENT

6.0 INTRODUCTION

Premium assessment mechanism ensures that banks pay premium that are commensurate with the level of risk they harbour. This chapter examines issues in premium assessment in Nigeria especially the assessment approach and the premium rate.

6.1 CONCEPTUAL FRAMEWORK FOR DEPOSIT INSURANCE PRICING

A deposit insurer is required to relate the premium charged (the price) positively to the amount of risk posed by the insured institution. The premium assessment base sets the foundation of contributions made by insured institutions and, any deviation from this principle leads to under-pricing/overpricing with undesirable effects.

Each insured bank's premium should be such that, the discounted value of the stream of premium over the life of the insurance contract should be at least equal to the expected cost to the insurer. In other words, an actuarially-fair deposit insurance premium should be charged. Fissel (1994) provides a working definition of an actuarially-fair deposit insurance premium as, the degree of equity in a deposit insurance pricing system that is directly related to how well the system is able to measure the riskiness of these depositories and reflect it in differential pricing. In a situation where the insured banks pay a flat-rate and enough revenue is generated from this to provide adequate cover for all the insured, the low-risk depositories are in part subsidizing the high-risk ones. This cross-subsidy amounts to a tax on the low-risk insured banks. This was true in Nigeria when a flat-rate was charged on all insured financial institutions up to 2008. The well-capitalised banks with well-managed asset / liability portfolios subsidized the coverage of high-risk and undercapitalised ones.

The second potentially undesirable effect that a mispriced deposit insurance may have is in terms of the risk-taking incentive for these insured financial institutions. The inequity raised above would have altered the risk/return trade-off such that the price of assuming greater risk has been reduced. This is technically termed moral hazard. Moral hazard in general, is the incentive for increased risk-taking due to the presence of insurance. The incentive for bank managers and shareholders to exploit under-priced deposit insurance by taking additional risks in pursuit of profit is the moral hazard problem in this context. Moral hazard exists and a deposit insurer can only hope to reduce the risk through appropriate pricing, amongst others.

The moral hazard problem arises out of bankers' inclination to exploit the increased erosion of market discipline due to the presence of deposit insurance given the relationship between risk and return in the financial market. Since shareholders are residual claimants with their liability limited to the amount of their investment in the business, they therefore have incentive to invest in risky assets so long as the return is deemed compensating. If such investments payoff, shareholders are better for it; but if losses arise, they share the losses with creditors, which in the case of banks is inclusive of depositors. Without deposit insurance, depositors would either demand higher interest from such high-risk banks or move their deposits to less risky ones, instilling market discipline.

From the above discussion, appropriate pricing mechanism for deposit insurance essentially should ensure equity and discourage moral hazard through reinforcement of market discipline. It is against these expectations that the features of the two existing approaches to pricing deposit insurance are appraised.

6.2 APPROACHES TO PRICING DEPOSIT INSURANCE

Designing an appropriate pricing system first considers the objective the insurer wishes to achieve. The objective will help inform whether premium will be levied either on a flat-rate or a differential premium assessment system (i.e. institutions with a higher risk profile would pay higher premium

rates). Whichever method is selected, the deposit insurer clearly defines the mechanism for the assessment and collection of premiums. The premium rate is determined taking into account the funding needs of the insurer and the ability of the member institutions to fund the system. Policymakers must determine the assessment base as well as the premium assessment rate and method. Basically, there are two approaches in use world-wide.

Under the flat-rate approach, the premium charged is invariant to the level of risk the insured bank poses to the insurance fund, and the applicable rate for premium assessment is administratively determined. This system has been criticized on a number of grounds including the inherent inequity in the sharing of the burden of deposit insurance among the insured institutions and the potential it has for encouraging moral hazard. The basis for its application is primarily because of the simplicity in its implementation, once the administratively determined parameters have been decided upon. All member institutions are assessed at the same rate given the assessment base and it is relatively straightforward to implement. It also provides the opportunity for the deposit insurer to rapidly build the DIF. This is why many newly established or transitional systems always go for the flat rate assessment system (Hoelscher, Taylor & Klueh, 2006).

Alternatively, the differential premium assessment system (DPAS) is the risk-related pricing model in which the assessment of premium payable by the insured institution is based on an estimation of its risk and a cardinal ranking of risk estimates to ensure equitable premium assessment. The first recorded differential premium system was introduced by the FDIC in 1993. Several countries including Nigeria, have since then followed suit. According to a 2017 survey by IADI, 40 of the 131 countries that participated in the survey use risk-based premium assessment system. The main challenges associated with this approach include; complications in risk measurement, difficulty in obtaining timely, consistent and reliable information and transparency in rating criteria. This is why IADI advises reviewing the state of the economy, structure of the banking system, public policy objectives of the deposit insurer, public expectations, strength of prudential and supervisory

framework as well as the accounting and disclosure regimes before choosing to implement a risk-based assessment system. Also, for a country transitioning from a flat-rate system to a differential premium assessment system, the amount of premium levied would reduce, which has implications for the DIF.

Under the risk-based, the risk posed by a member institution to the deposit insurer is incorporated into the premium structure. This attenuates the moral hazard issue by providing member institutions with an incentive to take a more prudent approach in risk management. Differential premiums are more equitable, since cross-subsidization among institutions is reduced. In a risk-related system of insurance premium, banks pay a fee based on their relative risk of failure. If the risk of failure were priced properly, the benefits of increased risk taking would be taxed away, limiting banks' incentives to engage in overly risky activities. This in turn, leads banks to limit their risk exposure and therefore act as a correction to the erosion of market discipline resulting from the introduction of deposit insurance (Hoelscher, Taylor & Klueh, 2006). Another important advantage of risk-adjusted systems is that it can lead to pressure by the member institution's board of directors on management to address risk-related issues when premiums are raised.

There are wide variations in the practice of risk-adjusted premium system. Most countries use a variant of the CAMELS rating system to sort banks into different risk groups, often with emphasis on capital adequacy (e.g. Canada, Colombia, France and Hong Kong SAR). Other countries (e.g. Finland, Hungary, Portugal and Sweden), use solvency or capital adequacy ratios to categorize banks into different risk groups. It is imperative to note that although risk-based premium assessment may be attractive in principle, they are administratively demanding and are unlikely to work well unless supported by complementary policies such as prompt bank intervention and effective supervision and regulation (Hoelscher, Taylor & Klueh, 2006).

6.2.1 Premium Assessment Base

Premium assessment base is the foundation used to determine the contributions made by member institutions to the fund. The extent of the assessment base is determined by taking into account the maximum exposure of the DIS. The most common assessment bases are insured and total deposits. However, some systems could have a broader base, including domestic liabilities or all liabilities and obligations or take into account considerations such as non-performing loans. A 2014 IADI Survey revealed that 58.8% and 27.5% of respondents use insurable deposits and insured deposits as the assessment base, respectively. The deposit insurer assessing only the amount that is explicitly covered makes charging premiums on insured deposits more equitable. However, this can be administratively complex. Hence, the deposit insurers have to address this through the issuance of guidelines prescribing minimum requirements on the maintenance of deposit data by member banks. Singapore, Canada, Turkey and Malaysia are some of the jurisdictions which use insured deposits as their assessment base for premium calculation, while the USA has revised its assessment base from domestic deposits to assets, as required under the Dodd-Frank Act.

Insured deposits are all amounts of deposits within the specified deposit insurance limit. It is often argued that it does not fetch more premiums to the DIF and could be more complex to administer. However, charging premiums on insured deposits would seem more equitable, as the premium payable is equated to the perceived level of protection offered by the deposit insurance system (NDIC, 1999).

Insurable deposits are total deposits adjusted for some exemptions though not widely used, is mostly popular amongst newly established systems that need to build their DIF as rapidly as possible. It was argued that the use of total deposits for premium assessment fetches more money to the DIF than the insured deposits (IADI, 1999). It is also easier to administer than to assess premium using insured deposits. However, it is not equitable, which is the advantage the use of insured deposits has over it

6.3 RISK MEASUREMENT PROBLEMS IN RISK-BASED PREMIUM ASSESSMENT

Risk measurement in risk-based premium assessment has many problems, some of which are:

i. Information Asymmetry

Information Asymmetry is a situation in which the information about the risk characteristics of the insured is better known by the insured than the insurer. The flow of information from insured institutions to the insurer is characterised by a lot of imperfections, the least of which is the issue of time lag. Some of these can be overcome with investment in information gathering by the insurer but this, of course, will be constrained by cost consideration. Apart from cost, the insurer's efforts at bridging this gap can only have limited success because the information set is dynamic. For instance, the insured bank constantly changes its portfolio in the course of managing its business. In such a situation, at the very least the lag in the period it will take the insurer to know such changes is enough to entrench information asymmetry. This problem is therefore one of the obstructions to accurate measurement of insured institutions' risk and thus making any risk-based pricing prone to errors.

ii. Determining Accurate Estimation of Risk

Deciding on whether to measure risk ex-ante or ex-post is a challenge and can affect the accuracy of the risk estimated. Bank-specific actuarial information is obtained prior to the crystallisation of the risks and is used to estimate the riskiness of the bank. This yields an ex-ante estimate of a bank's level of risk. Alternatively, information on the riskiness of a bank can be obtained after the risk might have crystallised and the information is then used to provide an estimate of the bank's level of riskiness. This is an ex-post estimate of risk. Whichever method is selected, there will be divergence in these two estimates, thus creating the problem of choosing the more appropriate method to yield an equitable premium structure.

iii. Choice of Risk Assessment Methodology

The choice between a market-based risk assessment and that of the insurer's assessment of the insured institution's risk is another challenge. It has been argued that appropriate pricing of deposit insurance could be achieved if in the assessment of the insured bank's riskiness, a rate equivalent to the risk premium required by the market for bearing the same risk of loss is charged. The problem here, however, is that of getting an accurate measure of this "market equivalent" risk premium. Some of the approaches to pricing deposit insurance using market information that are found in the literature include using the risk premium required by the market on uninsured deposits or the option pricing theory. In practice, however, market imperfections impede the workability of the former approach.

On the other hand, the option pricing theory has become a standard valuation technique in finance and has in fact been demonstrated extensively in the academic journals as being feasible for valuing and hence pricing deposit insurance. Its feasibility however, depends on the ability of the insurer to adequately measure the volatility of returns on bank assets in a timely manner (Blair and Fissel, 1991). As pointed out by Pyle (1983) and Marcus and Shaked (1984), small errors in the estimation of the value of assets or their volatility can have major effects on the value of the option which is equivalent to the insurance premium. Furthermore, Ronn and Verma (1986) noted that, the estimated premiums using this method are also sensitive to policy variables that capture the behaviour of the regulators, such as the frequency of bank examination and forbearance. Also, stock market information on share value, earnings, variability, et cetera, are needed for the banks, so using proxies for these would compound the errors of estimation.

Alternatively, non-market-based risk assessment could be more appropriate because there are situations in which it is either impossible or undesirable to use market-based risk assessment techniques in pricing deposit insurance. For instance, certain types of market information may not be consistent with existing banking policy as in situations in which a regulator's

assessment of bank risk may be more accurate than that of the market given the regulator's better knowledge of the inner workings and conditions of the bank obtained from say, on-site examination.

There exists a number of approaches that employ non-market information to estimate a risk-based premium for participating depositories. These include using bank ratings based on examination information conducted by the regulatory authorities. The examination itself is normally based on the assessment of the banks as "going concerns" using the familiar CAMEL parameters. Also, it is an ex-ante measure of risk since the examination is aimed at determining whether the bank is being operated in a safe and sound manner. There are also failure prediction models developed for risk-based deposit insurance pricing. Such models utilize historical information on financial variables that have been consistent predictors of bank failures to determine risk-related premium based on an estimate of each bank's "expected insurance cost". Blair and Fissel (1991) provide an extensive discussion of these and other non-market risk-based methods for pricing deposit insurance.

6.4 PREMIUM ASSESSMENT APPROACH

The assessment base for determining 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 provision of Section 20 of the deposit insurance enabling decree, all deposits of a licensed bank or any other financial institution are expected to be insured with the Corporation except the following:

a. insider deposits, that is, deposits of staff including directors of the licensed bank or financial institution;
b. counter claims from a person who maintains both deposit and loan accounts, with the former serving as collateral for the loan; or
c. Such other deposits as may be specified from time to time by the Board of the Corporation.

The use of total deposits as the assessment base was to assist build up the DIF over time.

Section 59 of the NDIC Act further defines a deposit as "monies lodged by the general public with any person for safe-keeping or for the purpose of earning interest or dividend whether or not such monies are repayable upon demand, upon a given period of notice or upon a fixed date".

In 2007, the Board of the NDIC in the exercise of its powers to determine what constitutes insurable deposits approved the exemption of inter-bank takings.

6.5 DEPOSIT INSURANCE PRICING

Deposit insurance pricing or premium covers two broad issues, namely, the premium assessment rate and method. As for the assessment method, the Corporation started and continued with the application of a flat rate approach on all the participating institutions up till 2007. The application of the flat rate premium assessment approach was found to be administratively convenient and easy to understand even by the insured institutions. It also assisted the Corporation in the rapid build-up of its DIF in the first two decades of its application. However, that was criticized by some participating institutions. Those that perceived themselves as healthy and having large deposits saw no reason why they should be made to pay the same proportion as those that were adjudged weak. There was also the argument that the rate charged by the NDIC was one of the highest in the world and that it was higher than the net profit of some banks in the system at that time (NDIC, 1997).

The NDIC Act gave the Board the power(s) to alter the assessment rate approach, and thus adopted the Differential Premium Assessment System (DPAS) effective January 2008. The need to adopt the DPAS became more compelling not because of the agitations of the participating institutions but partly because of the emergence of bigger banks sequel to the bank

consolidation policy of the Federal Government, which made sound risk management a critical factor in ensuring the safety and soundness of the banking system. The other reason for the adoption of the DPAS was the introduction of risk-based supervisory framework and the emphasis placed on risk capital management by the Basel Accord.

In designing the DPAS for the country, the experiences of the NDIC in implementing DIS for close to two decades as well as the lessons learnt from the experiences of other jurisdictions, particularly Turkey and Canada were used. 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 based on individual bank's risk profile using both quantitative and qualitative factors.

It is pertinent to note that in determining the Ro, several scenarios were used, while taking into account the sustainability of the DIS in the country. The sustainability of the system was measured by the operating surplus/deficit at various levels of the feasible Ro. Given several assumptions and projections, 50 basis points emerged as the basic rate that would ensure the sustainability of the system and which must be paid by all the participating institutions irrespective of their risk profiles. The add-ons were calculated on individual bank's risk profile up to a maximum of 30 basis points. Table 6.1 contains these add-ons. As can be seen in Table 6.1, when the basic rate and the add-ons were put together, a maximum of 80 basis points was arrived at, which was the applicable premium rate for the riskiest bank in the system. Also, when this was compared with the 94 basis points applicable under the flat-rate system, it showed a significant reduction in the premium paid by banks, which was one of the objectives for adopting the DPAS.

Table 6.1
Differential Premium Determination Matrix

Basic Premium Rate (Ro) %			**(Ro) %**
S/N	Parameters	**Criteria**	**Add-ons**
Quantitative Factors			
1	Capital Adequacy: (a) Capital to Risk Weighted Assets Ratio (b) Adjusted Capital to Net Credit Ratio	$X < 5$ $5 \leq X < 8$ $8 \leq X < 10$ $X > 1:10$	0.05 0.04 0.03 0.01
2	Asset Quality: (a) Non performing Credits to Total Credits Ratio (b) Violation of Aggregate insider lending: (all insider credits & related party interest) (c) Non Performing Insider Credits (d) Violation of single obligor limit	$X \geq 20$ $15 \leq X < 20$ $10 \leq X < 15$ X > 60% of paid up capital $X > 0$ Credits > 20% of shareholders' funds	0.04 0.03 0.02 0.02 0.02 0.02
3	Liquidity Liquidity Ratio	$X < 30$ $30 \leq X < 35$ $35 \leq X < 40$	0.04 0.03 0.02
Qualitative Factors (Mgt)			
4	Poor Internal Control		0.02
5	Late Rendition of Returns		0.01
6	Financial misreporting		0.03
7	Poor Risk Management System		0.02
8	Non implementation of examiners Recommendations		0.02
	Maximum Additional Premium Basis Points		0.30
	MAXIMUM PREMIUM RATE		**Ro + 0.30**

Source: NDIC

The immediate impact of the DPAS implementation was a 35 percent reduction in the premium paid by insured institutions. In 2011, the base rate was further reduced to 40 basis points. This was in an effort to cushion the effect of increasing operational costs on the banks following the establishment of the Financial Stability Fund, which all banks were expected to contribute to. The base rate was further reduced to 35 basis points in 2015. The flat rate system at 50 basis points was maintained for Microfinance Banks (MFBs) and Primary Mortgage Banks (PMBs). Table 6.2 shows the premium rates paid by DMBs pre and post-DPAS.

Table 6.2
DPAS Rate Pre-DPAS till 2017

	Pre-DPAS	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Maximum Rate Paid (%)	0.94	0.84	0.73	0.74	0.65	0.59	0.60	0.58	0.54	0.52	0.56	0.59
Minimum Rate Paid (%)		0.55	0.55	0.55	0.47	0.46	0.45	0.40	0.40	0.35	0.35	0.36
Mean Rate Paid (%)		0.62	0.61	0.64	0.55	0.52	0.50	0.48	0.40	0.43	0.46	0.45

Source: NDIC

6.6 SUMMARY AND CONCLUSION

The issues in premium assessment have been examined in this chapter with a view to articulating both the conceptual and operational problems associated with appropriately pricing deposit insurance. Beyond the problems of accurate measurement of risk and the sharp practices by bankers to avoid premium payment, the chapter also highlighted the issues in deciding on the premium rate to be applied. The NDIC adopted DPAS for premium rate determination in 2008 based on quantitative and qualitative factors. DPAS ensures a more equitable pricing approach and also reduces the premium rate payable by banks while enhancing risk management practices of the institutions.

CHAPTER SEVEN
DEPOSIT INSURANCE COVERAGE

7.0 INTRODUCTION

One of the fundamental issues in the design of a DIS is that of insurance coverage. Deposit insurance coverage has two components, namely: scope and level. While scope relates to the type of institutions that are eligible for membership of a DIS as well as the type of deposits that are covered (insurable deposits), coverage level refers to the amount over which cover is extended. According to Core Principle 8, coverage is the maximum amount a depositor can claim from the deposit insurer in the event of a failure of an insured financial institution (IADI, 2014). It indicates the amount of protection extended to an individual depositor. Setting the coverage level is crucial because it determines the potential liabilities of the deposit insurer. It also influences the extent to which depositors' confidence can be promoted and sustained in the financial services industry.

Under the Nigeria deposit insurance scheme, one policy issue which the Corporation contended within the last thirty (30) years was the type of deposits covered and the inadequacy or otherwise of the coverage level. For example, at one time or the other, some reservations were expressed concerning the adequacy of the NDIC coverage level. Some stakeholders had argued that the limit claimable by a single depositor in the event of deposit pay-out was rather too low compared to the total deposits on which premiums were based.

In 1994, the Corporation conducted a nationwide study to assess public perception of the Corporation's activities. The most important message deduced from the study was that the prevailing amount claimable by a depositor was inadequate and therefore should be reviewed upwards. Further studies conducted by the Corporation in 1999 and 2004, on the maximum deposit insurance coverage in Nigeria arrived at the same

conclusion as that of 1994. However, the Corporation could not vary the coverage level because of legal limitations.

In response to the yearnings of its numerous stakeholders and the need to comply with the IADI Core Principles as well as align its statutory mandate with the various reforms of the government, various changes and reforms were initiated and implemented by the Corporation in the last 30 years with respect to the issue of deposit insurance coverage. Prominent among these were the upward review of the maximum deposit insurance coverage from ₦50,000 to ₦200,000 in 2006, the exemption of inter-bank deposits from the deposits cover with effect from 2007 and the extension of the deposit insurance scheme to Microfinance Banks (MFBs) and Primary Mortgage Banks (PMBs) in 2008 as well as to Non-interest Banks in 2010. The purpose of this chapter is to discuss the Corporation's experience with respect to deposit insurance coverage while drawing on conceptual issues on the subject.

7.1 NDIC'S EXPERIENCE IN DEPOSIT INSURANCE COVERAGE

7.1.1 The Institutions Covered

Deposit insurance systems in most countries cover deposit-taking financial institutions which include retail and wholesale banks, savings banks, cooperative banks as well as building societies. Section 15 (1) of the NDIC Act 2006, provides that "all licensed banks and such other financial institutions in Nigeria engaged in the business of receiving deposits shall be required to insure their deposit liabilities with the Corporation".

At the commencement of operations of the Corporation in 1989, commercial and merchant banks were the licensed deposit-taking financial institutions that were insured by the Corporation. Between 1989 and date, other deposit-taking financial institutions emerged through various government policies. Examples are PMBs, MFBs (formerly Community Banks) and non-interest banks were licensed within the period to take deposits.

Effective January 2008, the Corporation extended deposit insurance cover to all licensed MFBs and PMBs. Also, following the licensing of a non-interest bank and approval of non-interest banking windows for some banks, deposit insurance cover was extended to non-interest banks in 2010. The extension of the deposit insurance cover to these institutions is expected to engender the confidence of the banking public in the MFBs, PMBs and Non-interest Banks. The extension of coverage to these institutions also helped to promote financial inclusion in the country.

As at 31st December 2018, there were 27 DMBs (21 Commercial Banks, 5 Merchant Banks and one Non-Interest Bank), 888 MFBs and 34 PMBs under the deposit insurance scheme. It should be noted that NDIC coverage is not extended to some categories of financial institutions as they were not licensed as deposit-taking financial institutions by the CBN. Such financial institutions not covered by the NDIC include:

- Development Finance Institutions such as Bank of Industry, Federal Mortgage Bank, Nigeria Agricultural, Cooperative and Rural Development Bank and Urban Development Bank
- Discount Houses
- Finance Companies
- Investment Firms
- Unit Trusts/Mutual Funds
- Insurance Companies
- Pension Fund Administrators (PFAs)

For ease of identifying the insured financial institutions in Nigeria, NDIC has its decal (sticker) displayed in the head offices and branches of all insured institutions.

7.1.2 Type of Deposits Covered

Section 16 of the NDIC Act 2006 specifies the insurable deposits to include the following:

- Current Account Deposits;
- Savings Account Deposits;

- Time or Term Deposits; and
- Foreign Currency deposits.

Eligible deposits for coverage under the non-interest banking sub-sector include the following:

- Wadiah
- Qard
- Mudarabah
- Murabaha
- Musharakah
- Ijarah
- Salam/parallel Salam
- Istisnah
- Any other Shariah Compliant Product

7.1.3 Level of Coverage

Several factors had come to play in the determination of the effective insurance coverage. First is the basic insurance level set by law. At inception of the deposit insurance system in Nigeria in 1989, the coverage level was fixed by law at ₦50,000. That amount was set after a survey conducted by the Corporation. That amount fully covered about 85 per cent of the total deposits of the banking industry. The NDIC Act 2006 increased the coverage level to ₦200,000 per depositor per DMB and at ₦100,000 per depositor per MFBs and PMBs. The Act also empowered the Board to vary upwards the coverage levels. Accordingly in 2010, the Corporation increased the coverage limit for DMBs from ₦200,000 to ₦500,000 and from ₦100,000 to ₦200,000 for MFBs and PMBs. Similarly, in 2015, the Board increased the coverage level for PMBs from ₦200,000 to ₦500,000 because of similarity in their deposit-taking profile with that of the DMBs.

In 2015, the Board approved the implementation of Pass-Through Deposit Insurance whereby subscribers of mobile payments system (MPS) platform are protected up to ₦500,000 and such subscribers are treated as if they are

independent depositors of the DMBs where their Mobile Money Operators (MMOs) maintain pool accounts.

7.2 SUMMARY AND CONCLUSIONS

This chapter reviewed the Corporation's experience with deposit insurance coverage. In particular, it considered the scope and level including various adjustments that were done to the coverage levels following the enactment of the NDIC Act 2006. This is in furtherance to efforts of achieving the vision of being the best deposit insurer in the world by 2020.

CHAPTER EIGHT
MOBILE MONEY AND FINANCIAL INCLUSION

8.0 INTRODUCTION

The introduction of mobile money was a stepping stone to aid financial inclusion globally. In Kenya for example, M-Pesa was a revolution in bringing rural underserved adults into the formal financial sector. As at December 2016, Vodafone estimates put M-Pesa users at approximately 29.5 million across 10 countries and processed approximately 6 billion transactions since its launch in 2007 (Collins, 2017). In 2012, Nigeria launched its National Financial Inclusion Strategy (NFIS). The belief was that mobile money would play a significant role in bringing formal financial services to the rural population. The NDIC, as a member of the National Financial Inclusion Steering Committee, developed the Pass-Through Deposit Insurance (PTDI) Framework to help build trust in mobile money services and spread awareness of its potential advantages. This chapter, chronicles the mobile money history in Nigeria and the role NDIC has played to aid its growth.

8.1 MOBILE MONEY AND FINANCIAL INCLUSION

In 2011, Nigeria joined other countries in Riveria Maya, Mexico to endorse the '*Maya Declaration'.* The Maya Declaration is an initiative to encourage national commitments to financial inclusion. It was the world's first commitment to concrete financial inclusion targets.

Financial inclusion is the provision of a broad range of high quality financial products such as savings, credits, insurance, payments and pensions, which are relevant, appropriate and affordable for the entire adult population, especially the low-income segment (EFInA, 2018). Under the NFIS, financial inclusion is achieved when adults have easy access to a broad range of formal financial services that meet their needs and are provided at an affordable cost. As part of the strategy, Nigeria made a pledge to reduce the percentage of the financially excluded adults from 46.3% in 2010 to 20% by

2020. To achieve the goal of 20% financial exclusion by 2020. Mobile money was introduced as one of the key initiatives under the NFIS.

The confluence of mobile telephony with banking technologies provided an opportunity for enhanced financial inclusion of the unbanked, making mobile phones an attractive way to promote financial inclusion given their extensive presence in the population and their global reach. Mobile Banking at the most basic level is the provision of financial services through a mobile device. It refers to the ability of a customer to access a bank account via a mobile device and initiate transactions (GSMA, 2010). It is basically a channel that enables its user to carry out transactions like funds transfer, payment of bills, checking statement, balance enquiry, application for loans, cards and cheque book, stop cheque requests etc., remotely through a mobile device based on an existing bank account.

Mobile Money on the other hand allows users to do similar transactions with a mobile phone but not from a normal bank account. In the case of Mobile Money, a mobile phone is linked to a cash pool that has been pre-funded and users are able to make payments for goods and services without necessarily accessing the full variety of bank services. The focus of Mobile Money is primarily on the unbanked, conveying financial inclusion to those who could not establish a business relationship with banks because of the nature of their trade and assets or have been excluded by banks as per their KYC or other business rules or any other reason (Sharma, 2014). This broad definition of Mobile Money encompasses a range of services such as payments (peer-to-peer transfers), finance (insurance products), and banking (account balance transfers and inquiries), etc.

Typical Mobile Money transactions are sending and receiving money, prepaid airtime recharge, paying bills, payment for goods and services (EFInA, 2016). The mobile money is increasingly growing transaction volumes and value in the system and lately in many countries, transactions concerning social benefits, tax payments, salary transfers, and other payments are also being done through the platform.

8.2 STRUCTURE OF MOBILE MONEY PLATFORM

The Mobile Money platform in Nigeria typically has a diverse set of stakeholders, because the industry exists at the intersection of finance and telecommunications. Although mobile phones are central to mobile payments, it involves more than just the deployment of mobile phone technology. Other infrastructure, including an interconnected distribution network, exists to enable users perform a variety of transactions including cash-in and cash-out, money transfers and more. The Mobile Money space comprises mobile network operators, banks, payment card firms and agent networks, necessary to catalyze the industry with innovative offerings designed to meet the demand from consumers.

8.2.1 Regulators

The regulators for mobile money are the following: Nigerian Communications Commission (NCC) for network service providers, CBN for financial service providers and NDIC for pass-through deposit insurance for subscribers of mobile money operators (MMOs).

i) The Nigerian Communications Commission (NCC) - is responsible for the regulation and supervision of all infrastructure required to support mobile money. It is an independent national regulatory authority for the telecommunications industry. In conjunction with the CBN, they specify the minimum technical and business requirements for the various participants in the industry in Nigeria.

ii) The CBN - is responsible for defining and monitoring the Mobile Money systems in Nigeria. Pursuant to its mandate of promoting a sound financial system, it issued guidelines for Mobile Money services to promote and facilitate the development of efficient and effective system for the settlement of transactions, including the development of electronic payment systems.

iii) The NDIC - is solely responsible for the administration of pass-through deposit insurance for subscribers of MMOs. It protects depositors by guaranteeing the payment of insured funds in the event of failure of insured institutions where MMOs maintain their pool accounts.

8.2.2 MMO Operation

Mobile Money applications are typically small software embedded on a SIM card or available over a mobile network. Mobile Money is a data repository that houses consumer data sufficient to facilitate a financial transaction from a mobile device, and the applicable intelligence to translate an instruction from a consumer through a mobile device into a message that a financial institution can use to debit or credit bank accounts or payment instruments.

In practice, a variety of means can be used to transfer value or access bank account details via the mobile internet such as sending text messages. A customer can use an inexpensive mobile to send value to someone else. To change this digital value into cash, a user simply visits a retail agent who verifies the user's identity and makes the switch. Special "contactless" technologies allow phones to transfer money to contactless cash registers.

In Nigeria, the providers of mobile payment services and solutions are required to operate within the defined regulatory framework issued by the CBN. There are two operational models for Mobile Money services in Nigeria:

a) Bank-led Model: This is a model where a bank either alone or a consortium of banks, whether partnering with other approved organizations, seek to deliver banking services, leveraging on the mobile payments system. This model is also applicable where a bank operates on stand-alone basis or in collaboration with other bank(s) and any other approved organization. The Lead Initiator is a bank or a consortium of banks.

b) Non-Bank-led Model: This model allows a corporate organization that has been duly licensed by the CBN to deliver Mobile Money services to customers. The Lead Initiator shall be a corporate organization (other than

a deposit money bank or a telecommunication company) specifically licensed by the CBN to provide Mobile Money services in Nigeria.

8.3 SUBSCRIPTION TO THE PLATFORM

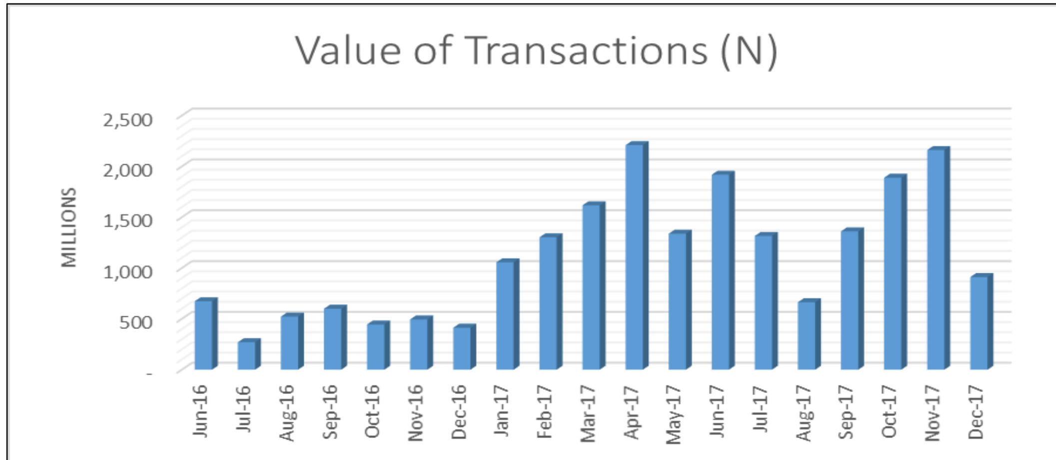
Globally, the mobile money industry is experiencing significant growth. As of 2017, there are 690 million registered mobile money accounts, a 25% increase from 2016 (GSMA, 2017). Total transaction values also grew by 21% from $26 billion in 2016 to $31.5 billion in 2017. Despite the huge potential of mobile money to reduce financial exclusion, in Nigeria, its impact has been largely negligible. Since its introduction in 2011, only 1% of adults use mobile money as of 2016 (EFInA, 2017). Compared to Kenya and other emerging markets, its adoption has been poor despite efforts of regulators like the CBN and NCC. There are several reasons for the low patronage to the service, which included stringent regulations, lack of interoperability, inadequate infrastructure as well as lack of knowledge and trust in mobile money services by the public (EFInA, 2016).

As at June 2017, there were 21 licensed MMOs in Nigeria, 2.3 million MMO subscribers and 5,517 MMO agents (NIBSS E-Payments, 2017).

8.3.1 Recent Transaction Trend

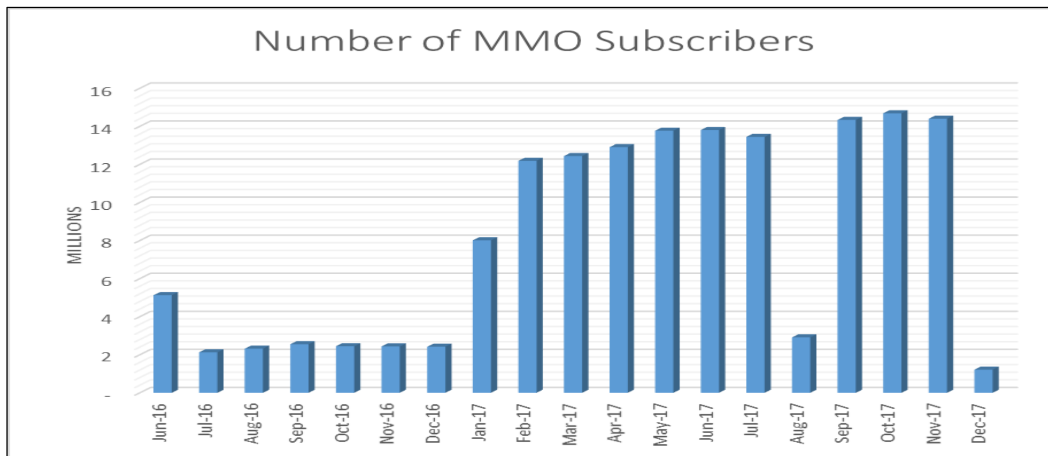
Notwithstanding the low patronage of MMO services, transactions on the platform have been on a steady increase as shown in Chart 8.1 and 8.2. Despite the increase, the value of transactions was minimal in comparison to cheque transactions and other e-payment channels (NEFT and NIP). From January – June 2017, the value of transactions across the MMO platform stood at ₦555.83 billion compared to NEFT and NIP which stood at ₦6 trillion and ₦26.49 trillion, respectively. According to the 2016 EFInA Access to Finance survey, the major uses of MMO services are sending money (70.8%), receiving money (45.6%), airtime purchases (40.6%) and bills payment (17.1%).

Chart 8.1: Value of transactions



Source: NDIC

Chart 8.2: Number of MMO Subscribers



Source: NDIC

Similar to the value of transactions, the number of MMO subscribers started off very low but overtime continued to rise. There are several reasons for the slow adoption of MMO platforms including, the cash culture of the Nigerian public, lack of awareness of its availability and advantages, lack of trust in the platform, as well as technical challenges. But as the graph clearly

shows, subscription has increased in recent times for reasons including, convenience, improved technological capacity and increasing trust in the system because of the introduction of PTDI. Customers are now using mobile devices to send and receive money more than was done in the past. That had improved transfers and remittances to people in rural locations.

8.4 RATIONALE FOR PROTECTING SUBSCRIBERS OF MOBILE MONEY PLATFORM

There is a lot of potential in Nigeria to enhance financial inclusion through Mobile Money. In order to exploit this potential, protection needs to be afforded to the users. Rural, poor and underserved groups are often the target of MMOs and the most vulnerable to financial uncertainty. Protecting them through PTDI goes a long way to allow them perform financial transaction without fear of loss of funds. In 2012, the Kenya Deposit Insurance Act, borrowing from the FDIC, provides protection for depositors in a disclosed trusteeship arrangement (Muthiora 2014).

Nigeria, trying to aid the progress of mobile money also started looking into the implementation of a version of Pass-through Deposit Insurance. Based on its role and focus in the financial system, a DIS for the Mobile Money platform should offer protection to users that will ensure a convenient, secure and an affordable way to send money and pay for goods and services using mobile phones.

8.5 FRAMEWORK FOR THE IMPLEMENTATION OF THE PASS-THROUGH DEPOSIT INSURANCE IN NIGERIA

Pass-through Deposit Insurance was introduced in Nigeria by the NDIC in June 2015 to subscribers of MMO to engender confidence in the mobile payment services and promote financial inclusion. As stated in the Framework, the four objectives of PTDI are:

i. To guarantee the payment of insured sums to subscribers of MMOs in the event of failure of insured institutions where MMOs maintain Pool accounts;
ii. To enhance confidence and ensure continuous sustenance of the MPS;

iii. To protect and ensure safety and stability of the MPS; and
iv. To promote financial inclusion.

Prior to the release of the guidelines, the subscribers of MMOs were not entitled to their insured amount if a bank failed. The pool account was regarded as one account, not recognising the individual subscribers and as such, were only insured up to the maximum amount of ₦500,000 per account. The introduction of PTDI breaks down the individual subscribers that make up the pool account and insures each one up to a maximum amount of ₦500,000 per subscriber per DMB.

8.5.1 Eligibility for Coverage

In order to be eligible for PTDI, the following criteria must be met:

i. A Bare Trust agreement between the MMO and subscribers – which is an agreement where the beneficiary has absolute right to their funds within the pool account;
ii. MMOs must take out fidelity bond insurance to protect against losses due to insider fraud;
iii. The records of the pool account holder at the insured institution must clearly state that the account holder is a custodian and that the funds belong to individual subscribers;
iv. The identities of the subscribers are disclosed in records maintained by the insured institutions, MMOs and Agents; and
v. All KYC requirements on the subscribers are fully met.

Since the roll-out of the Framework in May 2015, the NDIC has sensitized the MMOs and their subscribers on the operations and benefits of the PTDI. Some of the sensitization initiatives included public awareness campaigns at trade-fairs, financial inclusion sensitization programs with other regulators and other mass media channels, as well as educating the public (rural and urban). It is expected that initiatives would engender confidence and widen the use of mobile money services in the country.

The NDIC also developed a reporting template, for MMOs to enable them render monthly and quarterly returns to the Corporation for supervisory purposes.

8.6 CHALLENGES

Since the inception of mobile money in 2011, the patronage has been very low, with only 1% of adults using mobile money as at 2016. This is attributed to the following:

i. Poor interoperability – where e-money cannot be moved across financial service providers, agency networks and merchants.
ii. Little or no awareness of mobile money in rural areas.
iii. Lack of trust in the scheme.
iv. Infrastructure deficit hampering the implementation of mobile money services.

8.7 SUMMARY AND CONCLUSION

The growth of mobile money in the country has been slower than expected, and with its potential to deepen financial inclusion and alleviate poverty, more efforts are being made to develop it. The NDIC and other regulators through the auspices of the National Financial Inclusion Strategy are working very hard to see to it that the goals of financial inclusion through the adoption of mobile money are achieved.

The adoption of pass-through deposit insurance was a first step in the right direction to strengthen the financial safety-net for mobile money subscribers. To ensure that the framework is successful, all hands must be on deck to address the identified challenges. With increased acceptance, the mobile money services in Nigeria will be able to mirror that of Kenya and even surpass its achievements.

CHAPTER NINE
BANK SUPERVISION

9.0 INTRODUCTION

Effective banking regulation and supervision is a critical component of the financial safety net arrangement in any system; the other two being Lender of last resort and Deposit Insurance. While banking regulation has to do with laws, rules and guidelines guiding the business of banking, supervision entails carrying out oversight functions on the activities of banks to ensure that all laws, regulations, rules, guidelines and best practices are complied with. The liberalization of financial markets, banking consolidation and technological advancements created new business opportunities that significantly increased the risks undertaken by the banks. Consequently, the establishment of a sound and proactive regulation and supervisory regime for the banking system is imperative.

The main law relating to regulation and supervision of banking business in Nigeria is the Banks and Other Financial Institutions Act (BOFIA), 1991 (as amended). Pursuant to this Act, the CBN, in consultation with the NDIC, continues to make rules and issue guidelines to the banks to ensure financial stability in Nigeria. Besides, while BOFIA gives the CBN powers to supervise banks, the NDIC, as a deposit insurer with the risk minimization mandate, is also empowered under part VI of its Act to require information from any person; and to examine the books and affairs of all insured financial institutions to ascertain their financial conditions. Banking supervision is thus, a joint responsibility of the CBN/NDIC in Nigeria. The objective of this chapter is to establish the rationale for supervision of banks, highlight the supervisory activities of the NDIC within the Nigerian financial system and the challenges it had faced, in the discharge of its supervisory functions, in the last thirty (30) years.

9.1 RATIONALE FOR SUPERVISION

Supervision of insured financial institutions by the NDIC is informed by the following reasons:

9.1.1 Depositors' Protection

The protection of depositors is generally accepted as the most basic reason for bank supervision. Moreover, the NDIC insures the deposit liabilities of banks and in the event of bank failure; pays depositors up to the insured amount as quickly as possible. Consequently, in the case of a failed institution, the NDIC needed to have had sufficient information that would enable it to reimburse the insured depositors timely and subsequently, wind-up the affairs. Without access to information about the institution, engendered by ability to supervise banks, the Corporation would be handicapped and might not be able to discharge its responsibilities effectively.

9.1.2 To Minimize the Impact of Failure

The NDIC needed to have direct access to information on all insured banks to apprise itself of their financial conditions and thus, be able to take appropriate remedial actions, when necessary, to ensure their survival. Through supervision, early warning signs of trouble could be detected and the condition of the affected bank could be prevented from further deterioration.

9.1.3 Protection of Deposit Insurance Funds

Another important rationale for NDIC's engagement in bank supervision is to protect the DIF. The NDIC does not enjoy budgetary allocation from government and therefore, relies on the income from the investment of the DIF for the sustenance of its day-to-day operations and to meet its obligation to depositors of failed banks. The NDIC supervises insured banks to ensure that they remain healthy as any failure could deplete the DIF.

9.2 NDIC SUPERVISORY ACTIVITIES

The supervisory activities of the Corporation are carried out through a combination of on-site examination and off-site surveillance. Aside the supervision of the Commercial, Merchant and Non-Interest Banks, the NDIC also supervises the Micro Finance Banks (MFBs) and Primary Mortgage Banks

(PMBs), whose deposits it insures. Similarly, the NDIC monitors the activities of the Mobile Money Operators (MMOs) whose subscribers are also insured. In this section, the supervisory approaches used and the major achievements recorded by the NDIC are examined.

9.2.1 Departmental Arrangement for Supervision

Two Departments were involved in supervisory activities at inception in 1989, namely: Field Examination (now Bank Examination (BED)), and Prudential Regulation & Review (PRR), later changed name to Off-Site Surveillance and now Insurance & Surveillance Department (ISD). Bank Examination is charged with the on-site examination of the books and affairs of insured banks, to ensure that they are being managed in a safe and sound manner; PRR reviews all the specified statutory returns rendered by the banks and provide, on an ongoing basis, regular reports on the financial conditions of insured banks, as could be gleaned from such returns. The reports also provide necessary inputs for consideration by the on-site examination function in the planning and conduct of annual routine examination of all banks.

PRR performs the critical function of determining and collecting the premium payable by each of the mainstream banks. It is the premium collected that makes up the Deposit Insurance Fund, DIF, from which depositors of failed banks are reimbursed up to the insured amount. Indeed, it is from the income generated, through the investment of this fund, that the NDIC finances its administrative expenditures. Over the years, the NDIC had moved from the flat-rate basis of premium assessment to the Differential Premium Assessment System (DPAS) that factors the riskiness of a bank's business.

The licensing of Micro Finance Banks (MFBs) by the CBN commenced in 2005 following the launch of the Microfinance Bank Policy Framework. The MFBs were the successors of the defunct Community Banks that were established in the mid-1990s. Aside MFBs, Primary Mortgage Banks (PMBs), PMBs, were also licensed by the CBN. With their licensing, as deposit taking financial

institutions, the MFBs and the PMBs qualified for deposit insurance coverage and, consequently, the supervision of their activities by NDIC. Accordingly, the scope of the erstwhile Community Bank Examination Department was expanded to cover the supervision of all micro financial institutions under a new name: Special Insured Institutions Department (SIID). The on-site and off-site supervision of these institutions are carried out by the new department. The department also determines and collects deposit insurance premium from them.

9.2.2 On-Site Examination

The objective of the NDIC's on-site examination function is to ensure that the insured institutions are managed in a safe and sound manner, in the interest of depositors and, indeed, the entire economy. Timely identification of adverse developments in any licensed bank leads to prompt corrective actions to strengthen and enhance its viability and survival. In the last three (3) decades, the NDIC, through its Bank Examination Department (BED), statutorily conducted routine examination of banks.

Subsequent to the policy of liberalization of the issuance of banking license, the number of banks operating in Nigeria rose very rapidly from about 24 in 1984 to 120 in 1992. The establishment of NDIC, with statutory powers to examine the books and affairs of banks, just like the Central Bank of Nigeria, facilitated a yearly on-site examination of all licensed banks. The banks were simply shared amongst the two institutions. It was a significant improvement on the timeliness of bank examination, as routine on-site supervisory cycle was reduced from a minimum of two years to a maximum of one year for each of the licensed banks. Other types of examination conducted by the Corporation included: Joint/Special Examination with the CBN; Target Examination; Special Investigation; and Verification and Monitoring Exercise.

The bank examination functions of NDIC have been reputed to be thorough and highly professional. The reason should not be far-fetched. The Corporation invests so much in capacity building for its bank examiners and, indeed, its entire workforce. By its mandate, the NDIC is a risk minimizer,

with a need to ensure and strengthen safe and sound banking practices by the insured banks. Through its examination, which reports highlight weaknesses and provide recommendations for overcoming them, banks have been able to strengthen their operations and enhanced their viability. The viability of the banks engendered confidence in the banking public and by extension, ensuring depositors' protection.

Arising from the banking consolidation policy of the CBN in 2004/2005, and the resultant mergers, acquisition and liquidation of some banks, the total number of banks operating in Nigeria declined to 25 from 89. In 2009, the CBN/NDIC conducted stress testing of all the Deposit Money Banks operating in the country to ascertain the level of impact of the global financial crisis on them. A number of them were adjudged critically undercapitalized, insolvent and illiquid. In a joint decision, the CBN/NDIC removed the executive managements of such banks and replaced them with new individuals in an effort to manage the banks back to good health. The NDIC supervisors played significant roles in the supervisory exercises that led to the determination of the financial conditions of such banks.

Furthermore, aside the landmark review of banking regulation in Nigeria, the CBN/NDIC jointly implemented the Risk Based Supervision (RBS) approach to bank examination. Consequently, the routine RBS examination of banks and the subsequently introduced annual routine Risk Assessment Examination of banks operating in Nigeria have, since then, been jointly conducted by supervisors from the two institutions.

9.2.2.1 Mandate-Focused Examination

The NDIC's mandate for failure resolution is derived from its enabling Act and the BOFIA, 1991 (as amended). These statutes empower the NDIC to resolve the problems of any failing bank, albeit in conjunction with the CBN, by taking measures such as providing financial assistance; taking-over of, or directing changes in the management of banks; and, facilitating the Merger or Acquisition of any problem bank with, or by another bank. The laws also empowered the NDIC to determine appropriate resolution option for any

failed bank, some of which may include reimbursement of depositors up to the insured amount; arranging the purchase of assets and assumption of the deposit liabilities of a problem bank by a healthy bank; and, the establishment of a bridge bank to take over the assets and liabilities of a failed insured institution. All of these resolution options have been deployed by the NDIC at various times during its 30 years of existence. By leveraging on the mandate-focused bank examination, to improve on its preparedness for failure resolution, the NDIC has begun the development of a structured database of assets and liabilities of all insured banks, by instituting the Resolution Plan Investigation (RPI) ahead of any bank failure.

Aside developing a structured database of the assets, liabilities, off balance sheet engagements, and all the contractual obligations of each of the insured institutions, the RPI, which commenced in 2017, is expected to facilitate prompt payment of insured deposits in the event of closure of a failed insured institution; reduce failure resolution cost to the NDIC; maximise recoverable value of failed insured institution assets; and, augment the credibility of the NDIC in the safety net arrangement. Other benefits will include: enhancement of risk management practices by banks, especially with regards to documentation and perfection of collaterals, and KYC requirements; and, validation of the Living Wills prepared by Systemically Important Financial Institutions. More importantly, the RPI will provide the basis for stress-testing the adequacy or otherwise of the Deposit Insurance Fund (DIF) to meet the obligations of the NDIC to insured depositors in the event of single or multiple bank failures.

9.2.3 Off-Site Surveillance

The Off-site Supervision function involves the analysis of prudential returns from insured financial institutions on a periodic basis to ascertain the institutions' compliance with prudential regulation. The NDIC and CBN use the same set of prudential bank returns for appraising financial conditions and performances of both the industry and individual institutions. The frequency of the call reports ranged from daily to semi-annual. The NDIC also uses such returns to monitor its deposit insurance risk exposure. The

off-site surveillance function had assisted the NDIC, and by extension, the banking system in the following areas:

9.2.3.1 Early Warning Signals

The off-site surveillance provides continuous monitoring of the financial conditions of banks throughout the year by reviewing the financial statements and other statutory returns forwarded to the NDIC. The off-site function, therefore provides the early warning signals of problems in any bank, which otherwise could have gone on for many months before being unraveled by the periodic on-site examination. With early detection and confirmation by an on-site investigation, the problems are addressed and resolved very quickly before degenerating to full blown problem for the bank.

9.2.3.2 Bank Rating

This is usually carried out through the analysis of periodic call reports. With the analysis of returns, rating and categorization of banks into various risk buckets are undertaken for regulatory purposes. The bank rating system assists the NDIC and the CBN in designing regulatory interventions thresholds for different categories of banks.

9.2.3.3 Deployment of Tool for Off-site Surveillance

In collaboration with CBN, the NDIC continued to develop up to date platforms for collecting and analysing data from the banks. The Bank Analysis System (BAS) was the first platform that was jointly developed to ensure credible results. With the complexities associated with the dynamism in banking business, the BAS was enhanced to electronic-Financial Analysis and Surveillance System (e-FASS). The e-FASS was more robust as it ensured prompt availability of required information from the supervised banks on an on-line, real-time basis and assisted in reducing the problems of late and inaccurate rendition of returns. The rapid changes in banking business soon rendered the e-FASS inadequate for effective off-site monitoring function. It was jettisoned for the Financial Institutions Analysis System (FINA) which is currently used to collect data, electronically from the

banks. Meanwhile, a joint committee of CBN/NDIC is working to deliver a new data gathering platform called Integrated Regulatory System (IRS).

9.2.3.4 Fit and Proper Persons' Test

A "Fit & Proper Persons" Test is usually conducted to determine the suitability of individuals being considered for Board and Management positions in financial institutions and other corporate organizations. From the analysis of financial data on debtors of banks in-liquidation and other relevant returns and examination reports, the NDIC developed a data bank from which it is able to extract credible information that assists in determining the suitability of prospective appointees into regulated institutions. The NDIC provides information on "Fit & Proper Person" to the Central Bank of Nigeria (CBN), National Insurance Commission (NAICOM), Pension Commission (PENCOM) and Securities and Exchange Commission (SEC) on regular basis. The test assists in precluding persons of dubious integrity from gaining ascendency in the financial system.

9.2.4 Supervision of Other Insured Deposit-Taking Financial Institutions

The NDIC through its Special Insured Institutions Department, SIID, conducts on-site examination, off-site surveillance and premium assessment of licensed MFBs and PMBs. It also participates in joint and special investigations and examinations of these institutions with the CBN. The routine examination of these institutions involves the review of their books and records with a view to identifying, analyzing and measuring their risk exposures and recommending appropriate risk mitigating measures.

The supervision of these institutions revealed poor corporate governance, poor asset quality, weak internal controls, poor earnings; and, failure to operate within their main mandates. All of these result in serious capital inadequacy and liquidity problems. SIID conducts off-site supervision of all licensed MFBs and PMBs; albeit on a quarterly basis. In this respect, the prudential returns of the institutions are analyzed and reports generated

every quarter. The general observation is that some of the institutions do not render returns or render inaccurate returns to the NDIC. Besides, most of the institutions do not make adequate loss provisions for their delinquent assets.

To correct some of the foregoing problems, the NDIC in conjunction with the CBN developed a special version of e-FASS for MFBs/PMBs to enable them render returns electronically. The operators of PMBs have been trained on e-FASS. Similarly, CBN/NDIC are developing the National Association of Microfinance Information Technology (NAMBUIT) software for the MFBs to help in their reporting processes. Furthermore, the NDIC partnered with the CBN and the Chartered Institute of Bankers of Nigeria (CIBN) to mount a Microfinance Certification Programme for the operators of MFBs to address the observed skills gap. The programme was heavily subsidized by CBN/NDIC.

9.3.3 Collaboration with the CBN

Supervision of banks is a joint responsibility of the CBN and NDIC. Consequently, there is the need to co-operate in the development of banking rules, regulations and supervisory procedures to remove regulatory arbitrage and engender confidence in the banking system. Thus, there exist many committees of the two institutions to handle various aspects of regulation and supervision. The umbrella Committee is the CBN/NDIC Executive Committee on Supervision. This Committee creates many sub-committees to deal with various aspects of regulation and supervision. One of such sub-Committees is the CBN/NDIC Technical Committee on Supervision, which provides the opportunity for both institutions to discuss issues of common interest and share experiences on banking regulation and supervision.

Aside the joint development and implementation of the various platforms for collecting and analyzing data from the banks, earlier discussed, the following are examples of other supervisory activities that have been implemented under the aegis of the CBN/NDIC Executive Committee on Supervision:

9.3.3.1 Risk-Based Supervision

Risk-Based Supervision (RBS) is a proactive supervisory process, which focuses on the risk profile of the supervised financial institutions and enables the supervisor to develop a supervisory package for each institution, efficiently allocate resources based on the risk profiles of individual banks and proactively monitor and supervise them to facilitate the attainment of the supervisory objective of promoting soundness, safety and stability of the financial system. By placing emphasis on risk mitigation rather than risk avoidance, RBS seeks to encourage each institution to develop and continuously update its internal risk management system to ensure that it is commensurate with the scope and complexity of its operations.

9.3.3.2 Consolidated Supervision

Consolidated Supervision (CS) is an overall evaluation, both quantitatively and qualitatively of the strength and performance of a corporate group to which a bank belongs, in order to assess the potential impact of other group members on the bank. Its aim is to protect the interests of depositors of banks in the group and ensure the stability and soundness of the financial system.

Consolidated Supervision is coordinated by a sub-committee of the Financial Services Regulation Coordinating Committee (FSRCC) which commenced the consolidated examination of Financial Holding Companies and their subsidiaries in year 2015 using the Solo-Plus Approach. These banking groups have since been examined annually, on a consolidated basis.

Effective consolidated supervision entails the supervisor's understanding of the overall organizational structure including ownership, corporate governance, risk management systems and all material risks within a financial services conglomerate. Nevertheless, consolidated supervision does not imply that a bank supervisor will necessarily have to supervise each and every entity within the group. Instead, it supervises the regulated entity as a member of the group while factoring in the likely risks that may arise from the other elements of the group.

9.3.3.3 Compliance with the Basel Capital Accords

The CBN/NDIC Technical Committee is in charge of the implementation of the Basel Capital Accords. It maps out strategies for complying with the various Accords and sensitizes bank supervisors and operators on the respective Accords and the importance of compliance with their provisions. The committee organises training programmes for key members of staff of CBN, NDIC and the banks. The Committee has commenced the implementation of Basle III.

9.3.3.4 Supervision of Domestic-Systemically Important Banks

In September 2014, the CBN/NDIC issued the Framework for the Regulation and Supervision of Domestic Systemically Important Banks (D-SIBs) to limit the economic impact of bank distress and promote financial system stability. One of the requirements of the Framework is the submission of Recovery and Resolution Plans (RRPs) by banks designated as D-SIBs to the CBN/NDIC annually. Arising from the foregoing, guidelines covering the minimum contents for recovery planning and the documentary requirements for resolution planning, are issued to aid D-SIBs in the preparation of the submissions. The required plans are briefly described hereunder:

a. Recovery Planning

This involves the development of work-out options that a D-SIB will deploy to address a range of severe financial stress caused by idiosyncratic or systemic factors or a combination of both. The plans are expected to enable the D-SIB whether any life threatening financial crisis, through a series of well laid out, preconceived courses of actions with little or no assistance from the regulatory authorities.

b. Resolution Planning

To assist the resolution authorities in carrying out their statutory responsibilities when a large bank goes into distress, D-SIBs are required to provide some vital information about their operations and business profile that will enable resolution authorities in taking the best course of action when the need arises. Such actions may include financial assistance, holding

actions, assisted mergers & acquisition, in the case of a failing bank, or purchase & assumption, bridge bank, deposit transfer & deposit pay-out and liquidation, in the event of failure. This is the Living Will, which specifies how the bank intends its estate to be managed in case of eventual failure. D-SIBs are encouraged to develop more robust RRPs, taking into cognizance their respective size, complexity of operations and risk profile. The NDIC receives the reports on annual basis and analyzes them. The reports complement the NDIC's resolution planning initiative earlier discussed under Mandate Focused Examination.

9.3.4 Collaboration with Other Stakeholders

The NDIC collaborates with other stakeholders and institutions in the Nigerian financial services sector, either as a group or on individual basis, to ensure the stability and safety of the system. Notable ones include: Financial Services Regulation Coordinating Committee (FSRCC) and, Financial Reporting Council of Nigeria (FRCN).

9.3.4.1 Financial Services Regulation Coordinating Committee

The Committee was established by the CBN in 1994 as the Financial Services Coordinating Committee (FSCC) but later became the Financial Services Regulation Coordinating Committee (FSRCC). Members of the Committee comprises of the CBN, FMF, NDIC, SEC, NAICOM, CAC, and PENCOM. The NSE, FIRS and Abuja Stock and Commodity Exchange (ASCE) are observers.

The FSRCC has recorded the following achievements among others:

i) Maintained coherent, cordial and harmonious relationship amongst stakeholders in the Nigerian financial system;
ii) Addressed issues of concern to the financial system such as: Margin Lending, Introduction of Risk-Based Supervision, Implementation of IFRS, Corporate Governance, Consolidated Supervision, Capacity Building, etc;
iii) Minimised the number of illegal operators in the Nigerian financial system to protect investors and other stakeholders;
iv) Minimised arbitrage opportunities in the Nigerian financial system; and,

v) Provided a platform for Regulators and Supervisors in the Nigerian financial system to share experiences, facilities and resources.

9.3.4.2 Financial Reporting Council of Nigeria

The NDIC is a member of the Board of the Financial Reporting Council of Nigeria, the successor organ to the Nigerian Accounting Standards Board. Through its membership of the Board of FRCN, the NDIC contributes to the stability and safety of the Nigerian financial system by working closely with other Board Members to ensure that the Council fulfils its objectives, which among others include the protection of investors and other stakeholders.

9.4 CHALLENGES OF BANK SUPERVISION

The NDIC has had to contend with some challenges in the course of discharging its responsibilities as a Supervisor. Some of the challenges are as follows:

9.4.1 Data Integrity and Timeliness of Rendition

The timeliness and integrity of data forwarded by the insured financial institutions has continued to be a problem to the CBN/NDIC. Data generation from the DMBs started with the Bank Analysis System (BAS), which later gave way to Electronic Financial Analysis and Surveillance System (e-FASS), which ensured prompt delivery of information required from the DMBs on an on-line, real-time basis to reduce the problem of late or inaccurate rendition of returns.

Meanwhile, due to the inadequacy of e-FASS to meet the requirements of IFRS, Basel Accord, etc. the FINA was developed as an interim measure pending the deployment of the Integrated Regulatory System currently being developed by CBN and NDIC.

Similar efforts are ongoing to deliver a more credible and robust platform for gathering data from the MFBs and PMBs to address the data integrity and timeliness in the rendition of returns.

9.4.2 Capacity Building

The implementation of Risk-Based Supervision, Consolidated Supervision, Mandate-Focused Examination and Basel Capital Accords requires that the NDIC continues to upscale the capacity skill of its staff.

9.4.3 Cross-Border Challenge

Many Nigerian banks have subsidiaries/ branches in other jurisdictions. The activities of these subsidiaries could impact on the fortunes of the parent banks in Nigeria. That possibility poses a challenge that requires close cross-border collaboration between the Regulatory/Supervisory Authorities of the host country and their counterparts in Nigeria. As a Deposit Insurer, NDIC is obliged to ensure that depositors' funds, in Nigeria, are not at risk through cross-border expansion. The NDIC relies on the CBN for the monitoring of these out-of-site affiliates of Nigerian banks.

9.5 SUMMARY AND CONCLUSION

The rationale for the NDIC's involvement in supervision is derived from its statutory powers and mandate as a risk minimiser. The NDIC requires unhindered access to information on all insured institutions to enable it determine their financial conditions, on an ongoing basis, and be able to take prompt corrective actions aimed at protecting depositors; thereby engendering confidence in the banking system. In view of the fact that, supervision is a joint responsibility of the NDIC and CBN, the two institutions have over the years collaborated to ensure they developed and implemented various supervisory tools, processes and procedures. However, in the course of discharging its supervisory functions, the NDIC faces a number of challenges such as data integrity, timeliness in rendition of returns, among others.

To address some of these challenges, the NDIC has begun the Mandate Focused Examination, by leveraging on its supervisory powers, to develop a credible database for each insured financial institution ahead of probable failure. The task of a deposit insurer with a risk minimization mandate is tough; the NDIC continues to strive proactively to improve on its supervisory activities.

CHAPTER TEN
BANK DISTRESS & FAILURE RESOLUTION

10.0 INTRODUCTION

The fiduciary nature of banking business exposes banks to the risk of failure with attendant consequences capable of undermining public confidence in the banking system and adversely affecting the economy in general. Bank failure resolution has therefore become an inevitable component of the financial safety-net structure in most jurisdictions. Apart from government's direct interventions in various countries to stem the tide of the global financial crisis, the role of deposit insurance in bank failure resolution has been amplified. Deposit insurance forms part of the safety-net that works to ensure the stability of the nation's financial system through depositor protection scheme and failure resolution mechanisms. The NDIC, having been modelled as a 'Risk Minimizer' has failure resolution as part of its mandate.

The purpose of this chapter is to highlight the NDIC's experience in bank failure resolution in the past 30 years.

10.1 BANK FAILURE RESOLUTION MECHANISMS IN NIGERIA

10.1.1 Bank Failure in Nigeria

Prior to the establishment of the CBN in 1958, the Nigerian economy witnessed a flurry of bank failures particularly in the late 1940s and early 1950s. In all, a total of 25 indigenous banks failed during that period, (CBN/NDIC, 1995). During that period, there was no banking regulation framework in place and was often referred to as the era of free banking. The main causes of bank failure in the free banking era included under-capitalization, inadequate management skills and lack of regulation and supervision, (CBN/NDIC, 1995; Ogunleye, 2002; and Umoh, 2007). Also during the era, there was neither a formal nor informal depositor protection scheme in place, hence all the depositors of the failed banks had to bear the brunt of the failure with its attendant negative impact on public confidence

in the banking system. The experience partly informed the establishment of the CBN in 1958.

However, despite the establishment of the CBN and evolution of the financial safety-net arrangement, the country continued to experience bank failure. Indeed, the country experienced a number of bank failures between 1994 and 2018. The major causes of bank failures during that period included abusive ownership, weak corporate governance, insider abuse/self-serving disposition of Board/Management, inadequate executive capacity as a result of phenomenal growth in the number of banks from 40 in 1986 to 120 in 1990, without a corresponding growth in skilled manpower, inept management in the form of inadequate strategic plan and poor risk management, among others, (Ogunleye, 2002 & 2007; Umoh, 2007 & Adeleke, 2008).

Tables 10.1, 10.2 and 10.3 present the episode of bank failures as well as the extent of the failure between 1994 and 2014 for DMBs, MFBs and PMBs, respectively.

Table 10.1

Extent of Deposit Money Bank Failure in Nigeria between 1994 and 2018

Year of Closure	No of Banks	Total Assets(N'B)	Total Deposits (N'B)	Ratio of Assets of Closed Banks to Total Assets of Banking Ind. (%)	Ratio of Assets of Closed Banks to Total Deposits of Banking Ind. (%)	Ratio of Assets of Closed Banks to GDP (%)	Number of Depositors
1994	4	6.10	2.00	1.94	1.12	0.66	6,411
1995	1	0.40	0.80	0.09	0.38	0.02	7,416
1998	26	34.60	16.30	4.50	4.34	1.11	1,709,343
2000	3	2.70	3.80	0.14	0.45	0.06	31,969
2003	1	2.10	3.41	0.06	0.24	0.03	1,044
2006	13	160.10	99.80	1.23	4.69	0.55	961,211
2011	3*		809.40				4,719,815
2013	1**						
2018	1*						
TOTAL	**53**						

Source: NDIC

* The banks were resolved through bridge bank resolution mechanism
** The bank (African International Bank) was resolved by P&A transaction with Ecobank, which assumed the whole deposits and the physical assets of the failed bank.

Table 10.2
Extent of Microfinance Bank Failure in Nigeria between 1994 and 2018

Year of Closure	No of Banks	Total Deposits (N'B)	Number of Depositors
2010	103	11,054,029,474.76	821,023
2014	84	1,442,955,999.26	121,388
2018	138		
TOTAL	**325**		

Source: NDIC

Table 10.3
Extent of Primary Mortgage Bank Failure in Nigeria between 1994 and 2018

Year of Closure	No of Banks	Total Deposits(N'B)	Number of Depositors
2012	25	56,798,055.98	3,077
2014	21	2,055,410,832.5	52,008
2018	5		
TOTAL	**51**		

Source: NDIC

As shown in Table 10.1, the number of DMBs that failed between 1994 and 2018 was 53, with the highest failure occurring in 1998. The table also reveals that the total volume of assets and liabilities in absolute value of the failed universal banks amounted to N165.90 billion and N198.01 billion, respectively. In other words, the value of total assets of the closed DMBs was less than the deposit liabilities of the banks, thus reflecting the precarious position of the closed banks. The table further shows that the

market share of the failed DMBs (or the cost of bank failure to the banking industry), in terms of the ratio of their assets to the total assets of the industry and the ratio of their deposits to the total deposits of the industry stood at 1.15% and 0.88%, respectively. In terms of the cost of failure to the economy, proxied by the ratio of total assets of the closed banks to the Gross Domestic Product (GDP), was 0.44%. That indicates that the impact of failure on the banking system and/or the cost to the economy was insignificant and did not precipitate a systemic crisis. The number of Microfinance banks that failed between 2010 and 2018 was 325 while 51 Primary Mortgage Banks failed between 2012 and 2018 as shown in Tables 10.2 and 10.3.

10.1.2 Failure Resolution Options/Experience

Failure resolution is an important statutory mandate of the NDIC which entails that failing and failed insured institutions are resolved in a timely and efficient manner. That requires the existence of legal powers that support early intervention and prompt corrective action, the ability to close troubled banks promptly, and legal provisions for the swift and orderly liquidation of assets and resolution of creditors' claims.

The NDIC is empowered to provide financial and technical assistance to failing insured institutions in the interest of depositors. The financial assistance can take the form of loans, guarantees for loans taken by the bank or acceptance of accommodation bills. Similarly, the technical assistance may include takeover of management and control of the bank, changes in management or assisted merger with another viable institution.

The NDIC's responsibility for failure resolution is shared with the CBN. S.34 of BOFIA requires CBN to turn over significantly or critically under-capitalised banks to NDIC for distress resolution while NDIC is required to recommend the revocation of licenses of terminally distressed banks to the CBN (S.36). NDIC's mandate as a liquidator is contingent on revocation of a banking license by the CBN. In that regard, NDIC had in the last two decades worked closely with CBN in resolving failures in the banking System. The Framework

for Contingency Planning for Banking Systemic Distress and Crisis issued in 2003 (replaced in 2011) by the NDIC and CBN facilitates prompt resolution of problem banks. The framework reduces the incidence of systemic distress by improving the supervisory processes, providing transparent and objective thresholds for regulatory intervention and promoting self-regulation among banks.

It is worth noting that the Corporation was established when the banking system was already in distress. As a matter of fact, there were about seven technically insolvent state-owned banks in the system in 1988. The NDIC was nevertheless statutorily required to insure all licensed banks (NDIC, 2005). It, therefore, had to grapple with the resolution of bank failures at an early stage of its existence.

The NDIC Act 2006 and the Banks and Other Financial Institutions Act 1991 (as amended) have set out the framework for failure resolution in Nigeria. Failure resolution is classified into two broad categories: Open Bank Assistance (OBA) and Closed Bank Resolution (CBR). A discussion of the use of each of these mechanisms is presented below.

10.1.2.1 Open-Bank Assistance (OBA)

The term Open Bank Assistance (OBA), according to IADI (2005), refers to a resolution method in which an insured bank in danger of failing is allowed to continue to operate as a going concern, but receives needed support to overcome its distressed condition.

The determination of whether a bank will be permitted to continue to operate as a going concern in spite of its impaired financial condition, according to Hoelscher and Cortavarria (2004), will depend upon a number of factors, including public attitude towards its continuing operation and the relevant authorities' view of the likelihood of acceptable long-run performance, among others. Some of the reasons for adopting OBA include the following:

i. If the failure of a bank poses a serious threat to the stability of the financial system and domestic and/or external economies; and

ii. If the cost of providing OBA is less than the potential losses arising from a deposit payout.

The strengths of OBA include:

- Resolve liquidity problems of the failed financial institutions, enhance the confidence of depositors, stabilize the bank's financial condition, and avoid a systemic banking crisis; and
- Shareholders are required to bring in fresh capital to share in the costs of rehabilitating the failing institution.

However, the approach has some weaknesses, including the following:

- The insurance fund may be eroded more quickly and within a shorter time period than with other alternatives;
- It could induce moral hazard and possibly protect the bank directors and shareholders who contributed to the failure of the bank; and
- It can reduce market discipline.

A survey carried out by IADI Research and Guidance Committee on the subject in 2004 revealed that OBA resolution approach was generally used in very large bank failures, as the institutions involved were regarded as being too big to fail in view of the consequences of such failure.

10.1.2.2 OBA Options

The Corporation and the CBN either jointly or severally have over the years implemented the following Open Bank Assistance measures:

(a) **Granting of Financial Assistance**

This could be in form of loans to an insured institution that is suffering from temporary liquidity problem, the guarantee of the loans taken by the institution from elsewhere or the grant of accommodation bill facilities. It is worthy to note that the NDIC granted Accommodation Facilities to the tune of ₦2.3 billion (about US$500 million) to 10 banks which had serious liquidity crises in 1989 following the withdrawal of public-sector deposits from commercial and merchant banks and the transfer of same to CBN in that year. The disruption to the banking system as a result of the policy-induced shock largely reflected the

financial fragility of the system. The crisis occurred barely 3 months after NDIC commenced operations.

(b) **Imposition of Holding Actions**.

These are corrective or self-restructuring measures imposed on failing banks by the regulatory authorities. The measure, which was introduced in 1990 and first imposed on 6 banks, was expected to reduce the banks' risk exposure thus reducing potential for failure. By 1996, the number of banks on which holding actions were imposed increased to forty-seven, (NDIC, 1999). Measures under holding actions included recapitalization, aggressive debt recovery, restriction on new lending, restriction on new capital project; and rationalization of branches and staff, among others.

(c) **Technical Assistance**

Technical assistance could take two forms, namely:

(i) **Changes in Management** which entails the removal from office of a Director, Manager or Officer of a bank and the appointment of their replacements. This usually occurs where specific individuals have been identified to be conducting the affairs of a bank in a manner detrimental to the interest of the bank.

(ii) **Takeover of Control and Management** of a bank, entails the dissolution of the Board of the Bank or the removal of the entire Management and the constitution of a new Board or Management. During the past 30 years of its establishment, the CBN and NDIC had taken over the management and control of thirty-eight (38) distressed banks to safeguard their assets. The most recent intervention was the removal of the respective Boards and Managements of 8 banks in 2009 and another bank in 2016 as well as their replacement with new Boards and Managements to provide the enabling environment for effective resolution.

(d) **Assisted Merger/Restructuring**

As provided in its laws, the Corporation in collaboration with CBN had been involved in bank restructuring and assisted mergers. For example the Corporation was involved in the acquisition, restructuring and sale of seven distressed banks to new investors. The affected banks were:

(i) National Bank of Nigeria Limited (later merged with Wema Bank Plc);
(ii) Nigeria Universal Bank Limited (changed its name to NUB International Bank and later merged with other banks to become FinBank);
(iii) Orient Bank Limited (changed its name to African Express Bank Limited and now in liquidation);
(iv) First African Trust Bank Limited (changed its name to Eagle Bank Limited now in-liquidation);
(v) Nationwide Merchant Bank Limited (changed its name to Platinum Bank Limited and later merged with Habib Bank Nigeria Ltd to become Bank PHB and later, Keystone Bank);
(vi) New Nigeria Bank Plc. which later merged with other banks to become Unity Bank; and
(vii) African Continental Bank Limited (Changed its name to ACB International Bank, later merged with other banks to become Spring Bank and transformed to Enterprise Bank which was later acquired by Heritage Bank).

10.2 Closed Bank Resolution

In situations where the distressed condition of a bank is considered quite grave, especially where the bank has become insolvent, the resolution option could take a more serious dimension and may involve the withdrawal of licence. These options include:

10.2.1 Purchase and Assumption

This is a resolution measure in which a healthy bank purchases some or all the assets of a failed bank and assumes some or all the liabilities of the failed bank. What is purchased or assumed is decided upon through negotiation.

When the acquiring bank purchases all the assets of the failed bank and assumes all the liabilities of the failed bank, the Purchase and Assumption (P & A) transaction is called 'whole – bank transaction'. This is different from a 'partial P & A transaction', in which case the acquiring bank only purchases some of the assets and assumes some of the liabilities of the failed bank. In a partial P & A transaction, the deposit insurer is saddled with the residual assets/liabilities.

The P & A option has the following strengths among others:

- It can preserve the functions of the failed bank and maintain the relationship of the depositor with the bank. Thus, it preserves confidence in the system;
- It often covers all depositors, in which case there is total protection for them,
- It may preserve some jobs of the failed bank;
- It can minimize market disruptions since transfer of assets can be executed in a very short period; and
- It allows customers access to their deposits and they do not suffer any break in banking service.

Although useful as a resolution process, P&A transactions require conducive market conditions to be effective. In the midst of a systemic crisis or economic downturn when many banks fail, the opportunities for P&A transactions may be limited. In addition, if the financial system is not relatively deep, banks may not compete for the purchase of the assets, and the government (or its agency) may not realize the full value from the bank resolution process and minimize its costs. P&A resolution is also more cost effective when it is adopted in a timely manner before a bank's insolvency becomes severe.

10.2.2 Purchase and Assumption Transactions in Nigeria

The NDIC had recorded success in utilising the P & A resolution mechanism. In recognition of the inherent fragility of the banking system, the CBN in July

2004, announced a bank consolidation programme. Under the programme, each bank was required to attain a minimum shareholders' fund of ₦25 billion (about US$180 million) by 31st December, 2005. It was envisaged that with a stronger capital base, banks would be able to support economic development as well as compete effectively both domestically and off-shore. As at 31st December 2005, the bank consolidation programme resulted in a reduction of hitherto existing 89 banks to 25 better capitalized banks while 13 banks that failed to meet the new capital requirement had their operating licences revoked on January 16, 2006. The thirteen failed banks were:

i. African Express Bank PLC;
ii. Allstates Trust Bank PLC;
iii. Assurance Bank PLC ;
iv. City Express Bank Ltd;
v. Eagle Bank PLC;
vi. Fortune International Bank PLC;
vii. Gulf Bank PLC;
viii. Hallmark Bank PLC;
ix. Lead Bank PLC;
x. Liberty Bank Ltd;
xi. Metropolitan Bank Ltd;
xii. Trade Bank PLC; and
xiii. Triumph Bank PLC.

As a complementary measure to sustain public confidence under the bank consolidation programme, the Federal Government, through the CBN gave a full guarantee to private sector depositors of those banks that failed to attain the new capital requirement of ₦25 billion. Given the guarantee to the private sector depositors, the Corporation introduced the novel approach of resolving bank failure through the Purchase and Assumption (P&A) mechanism. The choice of the P&A was based on some public policy considerations, among which were:

- giving depositors easy access to their funds with minimum disruptions to the banking system;

- facilitating continuity of banking services in the same premises used by the failed banks;
- encouraging depositors to establish banker – customer relationships with the acquiring banks; and
- promoting banking culture which is critical to savings mobilization for economic development.

The Corporation obtained Final Court Orders to liquidate 11 of the 13 failed banks. Provisional Court Orders were also obtained in respect of the two remaining banks, namely, Fortune Bank PLC and Triumph Bank PLC.

As at 31st December 2008, P&A arrangement had been concluded for all the eleven (11) banks closed in 2006 for which the Corporation had obtained winding-up orders from the court. The private sector deposits were assumed and some assets of the closed banks were acquired by various healthy banks. Table 10.4 shows the failed banks and their acquirers under the P&A failure resolution option.

Table 10.4

Failed Banks and the Assuming Banks under P & A

S/N	BANKS IN LIQUIDATION	ASSUMING BANKS	HANDOVER DATES
1.	Allstates Trust Bank Plc	Ecobank Plc	16th May, 2006
2.	African Express Bank Ltd	UBA Plc	9th October, 2007
3.	Assurance Bank Nig. Ltd	Afribank Plc	16th August, 2006
4.	City Express Bank Ltd	UBA Plc	9th July, 2007
5.	Eagle Bank Plc	Zenith Bank Plc	14th January, 2008
6.	Gulf Bank Plc	UBA Plc	14th January, 2008
7.	Hallmark Bank Plc	Ecobank Plc	24th July, 2007
8.	Lead Bank Plc	Afribank Plc	11th August, 2006
9.	Liberty Bank Ltd	UBA Plc	23rd June, 2008
10.	Metropolitan Bank Ltd	UBA Plc	11th June, 2007
11.	Trade Bank Plc	UBA Plc	15th January, 2007

Source: NDIC

It is also noteworthy that Zenith Bank Plc acquired both private and public sector deposits of the defunct Eagle Bank Limited, whilst UBA Plc acquired six of the 11 banks.

(i) Payment of Insured Deposits under the P & A Transaction

In the case of the 11 banks for which P&A arrangement was concluded, the CBN guaranteed payment in full to all private depositors. In that regard, the NDIC paid the insured deposits while the CBN funded the gap between the value of the assets acquired by the healthy banks and balance of private sector deposits that remained outstanding. In addition, the NDIC paid the insured deposits of all insured public sector depositors. As the failed banks' assets were realized, the CBN was being paid liquidation dividend (to redeem its guarantee) along with other eligible claimants in line with the principle of subrogation.

As at December 31, 2018, the Corporation had paid about ₦3.9 billion to 961,442 insured depositors of the 11 banks.

(ii) Payment of Liquidation Dividends to Depositors

As at the end of December 2018, the Corporation had paid about ₦48.83 billion to almost one million uninsured depositors of the 11 out of 13 closed banks in 2006 for which P & A transactions had been concluded. The above payments included the uninsured portion of private sector deposits of the 11 banks and some uninsured public sector deposits. The dividend due to the private sector depositors was however, paid to the CBN as the 'subrogee' of the uninsured depositors of the affected banks.

10.2.3 Bridge Bank Resolution

Bridge bank is one of the bank failure resolution options introduced by the NDIC Act 2006 and adopted for the first time in 2011 in the resolution of three failed banks. A bridge bank refers to a temporary bank established and operated by the deposit insurer to acquire the assets and assume the

liabilities of a failed bank until a final resolution can be accomplished. The main objective of a bridge bank is to acquire the assets and assume deposit liabilities of a failing bank and then continue providing banking services until when a P & A partner is sourced or the bridge bank is recapitalized by new investors. It serves as a bridge between a bank that has failed or failing and a subsequent acquirer or Investor that is not readily available at the time the distressed bank failed.

The bridge bank resolution mechanism was used for the first time in Nigeria in 2011 in respect of three banks that failed, namely: Afribank Plc., Bank PHB and Spring Bank. These banks were among the eight distressed banks that the CBN had to intervene by providing liquidity support after a joint CBN/NDIC special examination carried out in 2009 revealed that they were in grave financial condition. However, by July 2011, while substantial progress were recorded in 5 of the 8 intervened banks, the above named banks financial conditions deteriorated, necessitating the need for more cogent resolution.

The combined size of the three banks in terms of deposit base, branch network, staff strength and volume of operations were quite significant and it was evident that outright liquidation and insured deposit payout would place the key stakeholders in precarious situation. In other words, the three banks had systemic importance and the resolution option that would be adopted could have great impact on public confidence in the banking system. The P & A mechanism, which would have been the preferred option was not immediately feasible because there was no P & A partner available to consummate the transaction and time was of the essence in such situation. Consequently, the adoption of the bridge bank option provided under Section 39 of the NDIC Act of 2006 became the only available workable alternative. In view of the fact that the bridge banks that would be organized by the Corporation were legal entities that would be duly licensed and therefore endowed with the capacity to serve as P & A partners, it was a good alternative to the traditional P & A framework.

Consequently, following consultation with the CBN, the adoption of bridge bank resolution was agreed upon. The NDIC began the process of incorporation of three bridge banks, namely: Mainstreet, Enterprise and Keystone banks as well as securing bridge bank licenses from the CBN.

The Corporation in the exercise of its statutory powers under Section 39(1) of the NDIC Act 2006 executed P& A agreements with each of the three bridge banks by which the entire deposit liabilities of the three failing banks and all their verifiable assets were transferred to their respective bridge banks. Afribank's deposit liabilities were transferred to Mainstreet Bank, those of Bank PHB were assumed by Keystone Bank while Enterprise Bank acquired those of Spring Bank.

Following the establishment of the three bridge banks, the banking licenses of the three affected failed banks were revoked and the Corporation was appointed as their Provisional Liquidator for the purposes of their winding up. It is also significant to note that soon after the consummation of the bridge bank resolution, AMCON acquired the three bridge banks and in that process, recapitalized the bridge banks consequent upon which they ceased to be bridge banks and acquired the status of full-fledged conventional banks.

10.2.4 Advantages and Weaknesses of Bridge Bank Option

The benefits of the application of bridge bank resolution are as follows:
(a) Continuation of banking services to all customers and full protection to depositors and creditors of the failed bank. It is also less disruptive to banking services and would engender confidence in the banking system.
(b) Continuation of bank employment.
(c) Protection of depositors funds.
(d) Preservation and growth of bank assets.
(e) Restoration of confidence of stakeholders

Some of the main weaknesses of bridge bank include the following:

- Setting bridge bank up may unduly take much time and effort.

- The deposit insurer becomes responsible for the operation of the bridge bank and this may constitute some burden on the DIF.
- It may also be difficult to retain the key employees of the bank during the transition period while some of the best customers may also leave the closed bank for stable banks.
- The bridge bank could fail thus aggravating the cost of resolution.
- The risk of litigations by the erstwhile directors of the failed banks and or their shareholders, as well as ex-employees of the affected failed banks.

10.2.5 Depositor Reimbursement

The activities of the Corporation can be categorized into two, namely payment of insured deposits and payment of uninsured deposits. While the payment of insured deposits arises directly from the Corporation's statutory mandate as deposit insurer, its responsibility for the payment of uninsured deposits arises from its mandate as liquidator of failed banks. Since inception, the payout option had been applied to 34 out of 53 failed DMBs, all closed PMBs and MFBs. The option involves the revocation of the licence of a failed bank and payment of the insured deposits up to the insurable limit to its depositors. Depositors with uninsured funds and other general creditors of the failed bank will receive their payments in the course of the winding up process after the verification of their claims. They are issued a Liquidators' Certificate which is an acknowledgment of their claims by the liquidator. The certificate entitles its holder to a portion of the dividend declared by the Liquidator, from proceeds of the realization of the failed bank's assets. General creditors of the failed bank receive their portion of the dividend declared by the Liquidator from the sale of the failed bank's assets after all depositors had been fully reimbursed on account of the preference accorded them by BOFIA. Furthermore, shareholders will also participate in the distribution of dividends but only after all depositors and other creditors have been fully paid their claims. The Corporation's activities in respect of insured deposit payout and liquidation dividend payment are discussed below.

10.2.6 Payment of Insured Deposits

The depositors of all the failed banks' whose licences had been revoked before the NDIC Act 2006 were paid their insured deposits subject to the coverage limits prescribed the NDIC Act 1988, which was ₦50,000.00 per depositor per failed bank. The applicable coverage limit had since 2006 been increased to ₦200,000 per depositor per insured failed institution for the DMBs, and ₦100,000 per depositor per insured PMB or MFB in order to ensure the adequacy of the coverage levels. In that respect, the Corporation had paid a total of ₦8.25 billion insured deposits out of ₦13.6 billion representing 61 percent of total insured claims to 442, 661 insured depositors of 49 closed banks.

10.2.7 Payment of Liquidation Dividend to Depositors

In the discharge of its statutory mandate as liquidator of failed banks, substantial portion of uninsured deposits had been paid through liquidation dividends in addition to the payment of insured deposits of the closed banks. As at December 2016, the Corporation had declared an aggregate dividend of ₦12.01 billion for 34 banks in liquidation. It is noteworthy that eleven (11) of the banks had declared a final dividend of 100 percent of total deposits, indicating that all their depositors had fully recovered their deposits. The banks were:

i. ABC Merchant Bank Limited (in-liquidation);
ii. Amicable Bank of Nigeria Limited (in-liquidation);
iii. Alpha Merchant Bank Plc (in-liquidation);
iv. Continental Merchant Bank Ltd. (in-liquidation);
v. ICON Limited (Merchant Bankers) (in-liquidation);
vi. Kapital Merchant Bank Ltd (in-liquidation);
vii. Merchant Bank of Africa (in-liquidation);
viii. Nigeria Merchant Bank Ltd. (in-liquidation);
ix. Pan African Bank Ltd. (in-liquidation);
x. Premier Commercial Bank Ltd. (in-liquidation); and
xi. Rims Merchant Bank Ltd. (in-liquidation)

Apart from the 11 failed banks that had declared 100% dividend to their depositors, many depositors of the remaining banks in liquidation had recovered as much as 90% of their trapped deposits in some of the closed banks.

10.2.8 Payment of Liquidation Dividend to General Creditors

In keeping with the priority of claims under the Companies and Allied Matters Act (CAMA), liquidation dividends had also been paid to general creditors of some of the banks. For example, the general creditors of five banks-in-liquidation, namely: Alpha Merchant Bank Plc, Amicable Bank Ltd, Nigeria Merchant Bank Ltd, Pan African Bank Ltd and Rims Merchant Bank Ltd had received the sum of ₦659.56 million out of ₦753.31 million declared in their favour.

10.2.9 Payment of Liquidation Dividend to Shareholders

After settling the claims of depositors and creditors, funds left are appropriated to shareholders of failed banks in the form of dividends in keeping with the provisions of CAMA. Consequently, shareholders of liquidated Nigeria Merchant Bank Ltd (i.e United Bank for Africa Plc and Ministry of Finance Incorporated) were paid liquidation dividends totalling ₦620 million based on their ownership ratio of 40:60. Similarly, the sum of ₦293 million had been paid to former owners of Pan African Bank Ltd (Rivers and Bayelsa State Governments) as liquidation dividend. The Corporation had also paid ₦600 million to the shareholders of the defunct Alpha Merchant Bank Plc as liquidation dividend. The cumulative sum of ₦2.71 billion had been paid to shareholders of closed DMBs as at 31st December, 2017.

10.2.10 Asset Purchase

This is an approach whereby the deposit insurer buys some of the assets, (usually problem assets) of the failing bank. This approach is often adopted where there is no established asset management company. The effectiveness of this approach depends on the quality of the assets and the availability of a virile secondary market, for loans among others.

10.2.11 Which Bank Resolution Option is Best?

Experience suggests that there is no single bank resolution technique that is consistently and uniformly superior to others, (Hoelscher and Cortavarria, 2004). The appropriate resolution technique depends on a number of factors, including the limitations imposed by the legal framework of the country; the size of the financial liability to stakeholders; the depth of the financial system; the private sector alternatives available; market conditions; and the underlying macroeconomic, and in particular fiscal conditions.

As a result, the deposit insurer and other relevant authorities need to have a range of instruments, and to select the tool appropriate to different circumstances. The description of alternative resolution techniques provided above, points to the circumstances in which each technique is most effective. However, there are broader considerations and practical issues that must be kept in mind in the design and selection of a bank resolution framework.

Resolution of bank failures must be designed to meet sometimes conflicting criteria. The authorities will seek to minimize resolution costs as well as any disruption in banking services or threat to the economy as a whole. The resolution strategy should aim at preventing contagion of bank failure to otherwise sound banks or the weakening of the banking system. As these objectives may conflict, crisis resolution can be politically and economically complex. The issue of burden-sharing (the distribution of the losses of bank failure) has widespread repercussions on the conduct of economic policy.

10.3 CHALLENGES OF FAILURE RESOLUTION

The effectiveness of the NDIC's efforts in failure resolution had been impaired by a number of constraints and challenges. These challenges are discussed in two parts, namely: general challenges confronting NDIC in failure resolution; and the P & A implementation challenges.

10.3.1 General Challenges

These were challenges that presented themselves irrespective of the adopted failure resolution option. They included the following:

(a) Delay in Granting Approvals for the Revocation of the Licenses of Terminally Distressed Banking Institutions

Under the Banks and Other Financial Institutions Act (BOFIA) No.25, 1991 as amended, the CBN has the powers to license and de-licence banks and other deposit-taking financial institutions. However, prior to the 1998 amendment of the BOFIA, CBN was required to obtain the approval of the President to de-license a banking institution. That requirement subjected revocation of banking license or de-licensing to approval of the political authority. Consequently, between 1988 and 1998, NDIC was confronted with the agency problem associated with delays in granting approvals for the revocation of the licenses of terminally distressed banking institutions. Indeed, a scenario of "free entry, no exit" prevailed over the period as illiquid and insolvent banks remained open. The requirement of the President's approval for de-licensing was, however, removed in 1998 through an amendment to BOFIA, thus giving the CBN full failure resolution powers. Nevertheless, the Corporation's authority to pay depositors still depends on the revocation of concerned bank's licence.

(b) Depositor Apathy and Ignorance

In spite of the various public enlightenment measures adopted by the NDIC, many insured depositors were yet to file their claims even in banks where 100 percent liquidation dividends had been declared. While the low depositors' response could be partly attributed to small deposit balances of many account holders, ignorance and apathy on the part of depositors could have played a significant role. The Corporation has consequently, come up with several measures and initiatives including 'depositor tracing scheme' to reduce the volume of unclaimed deposits.

(c) Delayed Depositor Reimbursement

Deposit insurance guarantee is primarily intended to reimburse insured depositors promptly when their banks fail. The insured depositors need to be promptly reimbursed in order to cushion the adverse effects of bank failure and to minimize the likelihood of deposit runs on other banks. By so

doing, public confidence and stability of the banking system would be promoted and enhanced. The NDIC Act of 2006 provides that depositor reimbursement should commence at most 90 days after bank closure. This may however, be achieved only if there are no litigations and/or other constraining factors that could delay payout exercise.

In practice, NDIC had not been able to achieve prompt reimbursement of insured deposit claims in many banks for a number of reasons, which include:

(i) The state of records of many of the closed banks, especially those that closed their doors to the public long before their licenses were revoked, made the compilation of information very difficult and protracted.

(ii) Some of the banks were not fully computerized and had wide branch network. For instance, the 26 banks closed in January 1998 had about 342 branches spread across 32 states and the Federal Capital Territory.

(iii) Some promoters of banks whose licenses were revoked sued the CBN and the Corporation challenging the revocation of their banking licenses and the winding-up of their banks. Such suits had made it difficult for the Corporation to carry out its statutory functions of payment of insured deposits and declaration of dividends to the uninsured depositors and other creditors. In two cases, the Courts had held that the revocation of the licenses by the CBN did not follow due process and had restored the licenses to the affected banks. It is worrisome that some court cases lasted several years before determination.

(d) Ineffective Mechanism for Debt Recovery

Apart from the basic insurance limit set by law as earlier noted, protection under the scheme could be expanded beyond this insurance limit by the payment of liquidation dividends. However, the quantum of liquidation dividend that can be paid by the Liquidator is critically dependent on the quantum of the failed banks' assets that can be successfully realized. Loans

and advances expectedly, constitute the bulk of their assets given the nature of banking business.

The recovery of loans of the banks in-liquidation had been constrained by a number of factors, which included poor state of business of borrowers, thus making recovery efforts difficult; protracted legal process; and the fact that many of the loans were irregularly granted and unsecured. Of particular concern was the unwillingness of some debtors to honor their obligations. Instead of seeking ways to settle their debts, some debtors had challenged the jurisdiction of the Federal High Courts to adjudicate in matters between them and the closed banks. For instance, in the case of O'Kem Enterprises v. NDIC, the Court of Appeal held that the Federal High Court had no jurisdiction over disputes on banker and customer relationship. However, the Corporation successfully challenged the judgment at the Supreme Court. The time taken to resolve the issues by the Courts was a huge cost to the Liquidator. In spite of the Supreme Court ruling, some solicitors still resorted to such gimmicks to buy time.

The transfer of cases being handled by the defunct Failed Bank Tribunals to the Federal High Courts in 1999 exacerbated the challenge faced by the Corporation in the area of its liquidation activities in particular and for banks' operations in general. That was because the normal court processes and procedures were not only slow and cumbersome, but they were easily abused by bank debtors. The protracted delays in disposing of cases brought before the courts had adversely affected the NDIC in debt recovery in respect of banks in liquidation and other operating banks' ability to recover hard-core debts. The debt recovery cases instituted by the Corporation which totalled over 1,086 as at 2007 dragged on for years without any appreciable progress.

(e) Cumbersome Procedure for Appointment as Liquidator

A deposit insurer, while acting as a liquidator of failed banks is expected to be vested with special powers. The special powers are to expedite the liquidation process in order to maintain confidence and stability of the

banking system as well as ensure cost effectiveness of the liquidation process. Furthermore, the special powers help to facilitate higher levels of asset realization which could minimize losses to the Deposit Insurance Fund. Consequently, in many jurisdictions including the Federal Deposit Insurance Corporation (FDIC) of USA, the Deposit Insurer is granted special powers. Liquidations undertaken by FDIC, for instance, are not subject to court supervision. There is also limitation on court action against FDIC which is intended either to restrain or affect its powers. Also, no attachment or garnishee order can be enforced against FDIC without its consent. FDIC does not require any court order to be appointed as liquidator of a failed bank. In fact, FDIC can be appointed as Receiver [liquidator] by a Chartering Authority and in special cases by itself. Generally, bank liquidation is not expected to be subjected to the general insolvency proceedings. Instead, bank – specific insolvency laws are enacted.

Up to 1998, the CBN had the power to appoint NDIC as provisional liquidator of a failed bank and such appointment was deemed as having been made by the Federal High Court. However, from 1998, NDIC was required to apply to the Federal High Court to be appointed as a liquidator whenever the license of a bank was revoked by the CBN. Furthermore, until 2006, NDIC was also subject to the general companies winding-up rules (CAMA, 1990), which, among others, require that notice of winding-up petitions should be advertised before appointment as liquidator. Predictably, the shareholders/directors of many banks, whose licenses were revoked in 2002, 2003 and 2006 challenged NDIC's application for appointment as Liquidator. Regrettably, some of the cases were still pending in court as at the end of December, 2018. The trend if not checked, can threaten the stability of the banking system and erode confidence of the banking public. The damage that is associated with protracted litigation is a very serious concern.

It is important to indicate here that the NDIC Act 2006 has given some comfort to the Corporation in that regard. In particular, upon revocation of the license of an insured institution, the NDIC automatically assumes the position of provisional liquidator and that appointment (made possible by the

Act) is deemed as having been made by the Federal High Court. However, since laws do not have retroactive effect, the cases of the banks challenging the appointment of the NDIC as liquidator before December 2006, still remained in court as at the end of December, 2018.

(f) Disposal of Physical Assets

Although NDIC had achieved appreciable success in the disposal of fixed/tangible assets of closed banks, there are a few prime-landed properties yet to be sold. The inability to dispose of these properties is attributable to certain problems. The legal titles of some of the assets are subject of litigation while some of the assets are located in towns or communities where there is low demand for such purpose-built properties.

(g) Assets Stripping

During the 2004/2005 bank consolidation programme, the CBN had given indications that banks that failed to meet the deadline set for recapitalisation will have their licences revoked. That prior notice of impending closure of banks, provided staff of the weak banks the opportunity to strip bank assets by appropriating vehicles and also swapping deposits with debtor customers. In addition, failure of bank supervisors to act in time, provided opportunity for asset stripping as experienced in many banks that failed.

(h) Problems with Computer Hardware & Software of Closed Banks

The operations of the closed banks were IT driven and they differed greatly in hardware, software and operating platforms. Even when the same software was used, different versions were deployed. This posed a great challenge to the IT staff of the Corporation who were not trained on all the software used by the banks. This necessitated the retention of some of the IT staff of the closed banks.

Another major challenge faced with respect to IT systems of the closed banks was that most of the computer systems were faulty and no longer running due to expired licenses. Another challenge was the high mobility of the IT staff of the closed banks. The experienced and knowledgeable ones

among them had secured employment with other organizations. The combined effect of the above challenges was that account enquiries and investigation work were stalled which led to series of complaints because the affected depositors were unable to verify their deposits with the assuming banks.

In order to resolve this challenge, a firm of IT Consultants was engaged in 2008 to migrate the data in the various servers into a single server. The migrated databases were then used to reconcile customers' accounts and respond to inquiries. In 2016 the databases of 5 closed banks, namely Allstates Trust Bank, Metropolitan Bank, African Express Bank, City Express Bank and Trade Bank were extracted from their original servers and migrated into the single server maintained for the 13 banks.

It is instructive to note that the efforts to resolve the IT problems in two of the failed banks, namely: Gulf Bank and Assurance Bank proved unsuccessful till date.

(i) Avoidance of Risk Assets by Assuming Banks

As a result of the difficulties associated with debt recovery, acquiring banks merely purchased physical assets and unexpired leases of the failed banks leaving risk assets. As a result of this, the Corporation was saddled with the recovery of loans most of which were classified lost.

(j) Escalation in Bank Closing and Related Costs

The delay in obtaining winding-up orders and the challenge of those obtained had led to increase in the costs related to bank closure. Such costs included salaries of members of the Interim Management Committees (IMCs) appointed to superintend over the affairs of failed banks before the winding-up order was obtained, as well as salaries of bank and auxiliary staff. Rent was also paid for over-stay period in leasehold premises. In some cases, chattels had to be moved from premises where the lease had expired with the attendant evacuation and warehousing costs. Furthermore, legal

expense was incurred defending landlords’, depositors’ and other creditors’ claims against the failed banks.

10.4 SUMMARY AND CONCLUSION

In this chapter, we have examined the experience of the NDIC in failure resolution and some pertinent issues in bank failure resolution. The review of these issues revealed that the choice of an appropriate failure resolution option depends on the country’s legal framework, the depth of its financial system, the nature and extent of failure, the prevailing market conditions as well as macroeconomic conditions. The nature of bank failures and their major causes in Nigeria were also discussed in the chapter. In particular, abusive ownership, weak corporate governance in the form of insider abuse as well as mismanagement and inadequate executive capacity were identified as the major causes of bank failures that occurred between 1994 and 2014. The chapter also highlighted the four main resolution options adopted by the NDIC in its 30 years of existence. While the adoption of the various resolution options had helped to enhance confidence in the banking system thereby promoting financial system stability, a number of challenges inhibiting the effectiveness of the failure resolution efforts of the NDIC were identified and discussed. While efforts were being made to address the challenges at various levels, there is need to continue making progress in the strengthening of the macroeconomic conditions as well as institutional and legal frameworks for bank failure resolution in order to enhance the mechanism for the resolution of failing and failed banks.

CHAPTER ELEVEN
BANK CONSOLIDATION

11.0 Introduction

In July 2004, the CBN unfolded a 13-Point Agenda as components of an elaborate Banking Sector Reform Programme. The Phase I of the Reform Programme aimed at consolidating and strengthening the banks, while Phase II aimed at encouraging the emergence of regional and specialized banks. Prior to the introduction of the bank consolidation programme, statistics as at the end of 2003 revealed that 69 out of 89 licensed banks in the system operated as marginal players. In addition, the banking industry exhibited the following fundamental issues, among others:

i. Poor asset quality;
ii. Undercapitalization;
iii. Poor corporate governance;
iv. Late or non-publication of annual accounts;
v. Over-dependence on public sector deposits (accounting for over 20 percent of total deposit liabilities of deposit money banks and over 50 percent in some banks);
vi. Inadequate risk management practices; and
vii. Neglect of small and medium scale enterprises by the system.

Also, the examination results of banks, as at the end of year 2003 revealed that pockets of distress still persisted in spite of the numerous efforts made by the regulatory/supervisory authorities. An assessment of the nation's banking industry against those of its counterparts in emerging economies showed that the Nigeria banking system was fragile, poorly developed and lacked depth.

The reform of the banking system through consolidation aimed at promoting banking system stability and ensures that the industry operates more efficiently. It was to enable the banks perform their catalytic role of financial intermediation to support sustainable growth and development of the Nigerian economy. The specific goals of the reform was to:

i. halt the incessant bouts of distress;
ii. prevent imminent systemic distress;
iii. promote competitiveness and transparency in the sector;
iv. enable the sector effectively play its developmental role in the economy;
v. strengthen the sector to become an active participant in the regional and global financial system; and
vi. enhance public confidence in the banking system.

The Key agenda in the first phase of the reform programme was the increase of the prescribed minimum capitalization requirement from ₦2billon to ₦25 billion for each bank which was to be met by 31st December, 2005. The prescribed capital requirement was to be achieved through:

i. Recapitalization via rights issues to existing shareholders, private placement and public offers for subscription in the capital market; and
ii. Consolidation of banking institutions through Mergers & Acquisitions (M&A).

By December 31, 2005, 25 banks emerged from hitherto 89 banks in operations through recapitalization and M&A. However, the operating licenses of 14 technically insolvent banks that could neither meet the capital requirement of ₦25 billion nor merge were revoked.

The purpose of this chapter is to highlight the outcome of the bank consolidation exercise in terms of its effects on the key stakeholders and their responses (if any) to such effects. In that regard, the rest of the chapter is organized into three sections.

11.1 BANKING SECTOR KEY STAKEHOLDERS

The key stakeholders have been identified as the banks, the regulatory/supervisory authorities, the Banking Public (especially the depositors), other customers and governments. Each of the stakeholders is examined below.

11.1.1 The Banks

At the end of the bank consolidation exercise, 25 predominantly retail banking institutions emerged as shown in Table 11.1.

TABLE 11.1
List of Banks after Consolidation

S/N	Bank Name	Members of the Group
1	Access Bank Plc	Marina Bank Capital Bank International Access Bank
2	Afribank Plc	Afribank Plc. Afrimerchant Bank
3	Diamond Bank Plc	Diamond Bank Lion Bank African International Bank (AIB)
4	EcoBank	EcoBank
5	ETB Plc	Equatorial Trust Bank (ETB) Devcom
6	FCMB Plc	FCMB Co-operative Development Bank Nig-American Bank Midas Bank
7	Fidelity Bank Plc	Fidelity Bank FSB Manny Bank
8	First Bank Plc	FBN plc. FBN Merchant Bank MBC
9	First Inland Bank Plc	IMB Inland Bank First Atlantic Bank NUB
10	GT Bank Plc	Guaranty Trust Bank
11	IBTC-Chartered Bank Plc	Regent Chartered IBTC
12	Intercontinental Bank Plc	Global Equity Gateway Intercontinental
13	Nigeria International Bank Ltd	Nigeria International Bank Ltd

14	Oceanic Bank Plc	Oceanic Bank In'tl Trust Bank
15	Platinum-Habib Bank Plc	Platinum Bank Habib Bank
16	Skye Bank Plc	Prudent Bank Bond Bank Coop Bank Reliance Bank EIB
17	Springbank Bank Plc	Guardian Express Bank Citizens Bank Fountain Trust Bank Omega Bank TransInternational Bank ACB
18	Stanbic Bank Ltd	Stanbic Bank
19	Standard Chartered Bank Ltd	Standard Chartered Bank Ltd
20	Sterling Bank Plc	Magnum Trust Bank NBM Bank NAL Bank INMB Trust Bank of Africa
21	UBA Plc	STB UBA CTB
22	Union Bank Plc	Union Bank Union Merchant Bank Universal Trust Bank Broad Bank
23	Unity Bank Plc	New Africa Bank, Tropical Commercial Bank, Centre-Point Bank, Bank of the North NNB, First Interstate Bank Intercity Bank, Societe Bancaire Pacific Bank
24	Wema Bank Plc	Wema Bank National Bank
25	Zenith International Bank Plc	Zenith International Bank Plc.

Source: NDIC

Table 11.1 shows that out of 25 banks, six, namely: Ecobank Plc; GT Bank Plc; Nigeria International Bank Ltd; Stanbic Bank Ltd; Standard Chartered Bank Ltd; and Zenith International Bank Plc met the ₦25 billion capitalization without any merger/acquisition. It is instructive to note that out of the 6 banks, four, namely: Ecobank Plc; Nigeria International Bank Ltd; Stanbic Bank Ltd; and Standard Chartered Bank Ltd were affiliates of foreign banks. Out of the remaining 19 banks, nine banks merged to form Unity Bank Plc followed by Spring Bank Plc with six constituent banks while Skye Bank Plc and Sterling Bank Plc had five constituent banks each. Table 11.1 also shows that each of the following five banks, namely: Afrbank Plc, Equitorial Trust Bank Plc, Oceanic Bank Plc, Bank PHB and Wema Bank Plc, had two constituent banks.

11.1.2 The Regulatory/Supervisory Authorities

The CBN is the apex regulatory agency in the Nigerian banking system responsible for licensing banking institutions. The CBN's main focus is to promote the stability of the banking system, foster smooth monetary policy transmission and engender confidence in the nation's banking system (in collaboration with the NDIC) particularly after the consolidation exercise in view of the fact that the exercise was policy-induced.

In the case of the NDIC, its primary mandate is to protect depositors. The NDIC provides inputs in the licensing process in the area of ascertaining the 'fitness and properness' of promoters as well as members of management of banks. As an integral part of the nation's safety net, the NDIC operates as a risk minimizer. It has powers to insure deposits of licensed banks, monitor their health status through supervision as well as provide mechanism for orderly resolution of failure including bank liquidation. Banking supervision and resolution is a joint responsibility of the CBN and NDIC. The responsibility is carried out through on-site examination and off-site surveillance.

11.1.3 Depositors

Bank depositors are individuals that placed their deposits or funds in an account with an insured financial institution (DMB, PMB, MFB or subscribers of MMOs). They can be private individuals, corporate bodies, businesses and the government. The depositor is the lender of the money to the bank and will be returned when requested or at the end of the deposit period. This hierarchy of bank stakeholders have the highest ranking in terms of resolution when unlikely bank failure occurs.

11.1.4 Creditors

A creditor to a bank is an entity, company or a person that has provided goods, services, or a monetary loan to a bank as the debtor. Creditors can be secured or unsecured and are next in hierarchy after uninsured depositors during bank failure resolution.

11.1.5 Shareholders

A bank shareholder is any person, company or legal entity that owns at a minimum a share of a bank's company stock. The shareholders have the residual claim of any failed bank after resolution and are the least in hierarchy in failure resolution.

11.2 OUTCOME OF THE CONSOLIDATION PROGRAMME

(a) Enhanced Capital Base

The immediate impact of the consolidation programme was the increase in the capital base of banks. The result of the consolidation exercise was the astronomical increase in the banking industry capital base. In the process of complying with the minimum capital requirement, about ₦406 billion was raised by banks from the capital market. As at the end of 2007, the shareholders' fund of the banking industry stood at ₦1,693.64 billion against its 2004 level of ₦289.83 billion. The enhanced capital base, all things being equal, implied increased ability of the banking industry to absorb shocks, thereby ensuring the stability of the system.

(b) Keener Competition Among Operators

Competition in the industry was heightened with the market becoming more demanding and sophisticated. Contrary to predictions that the reduction in the number of players in the banking industry was going to lead to a concomitant reduction in the intensity of competition, the reverse was the case. In fact, the competition went beyond the shores of the country. Prior to consolidation, there were a few Nigerian banks with branches located outside the country. However, four years after the end of the consolidation, several Nigerian banks opened branches in a number of African countries while some also opened branches in Europe and America.

(c) Reconstitution of New Board and Management

The bank consolidation programme brought about dilution in the shareholding structure of the affected banks as they had to reach out to new investors to provide the required capital injections. The dilution in shareholding brought about the need for the re-constitution of Boards and Management and appointment of new board members with diverse background. These developments had no doubt, enriched the quality of board deliberations and strengthened corporate governance practices in insured banks.

(d) People, Culture, Data and System Integration

The bank consolidation posed additional corporate governance challenges arising from integration of people, processes, IT and culture. The emergence of bigger banks in the post-consolidation era tasked the skills and competencies of Boards and Managements in improving shareholder values as well as balance the interest of other shareholders.

One impact of the consolidation programme was the integration of ICT to have a unified single information processing platform. A serious concern was how to deal with the cut-over/transition from legacy operating platforms to a single platform in a prompt and seamless manner with minimal disruption of customer service. The fears had since been allayed as most banks completed the integration of their ICT without much disruption to banking

services. Arising from the deployment of a single operating platform was the need to embark on the harmonization of processes and procedures across the banks.

Another critical integration challenge was that of people and culture of the merging banks. That included synchronization of staff grading and structure as well as ensuring the right mix of staff in terms of quality and quantity. Other challenges included developing a human capital management policy and change management issues.

The post-consolidation challenges arising from integration were fairly common amongst the merged institutions. However, integration of banking activities was considered a gradual process which could not be achieved immediately in one fell swoop. In the long run however, consolidation led to the deployment of highly sophisticated IT systems that changed the industry in particular and the economy in general, particularly since each bank had an enhanced financial muscle to acquire the needed IT infrastructure.

(e) Branch Consolidation/Rationalization

Consolidation particularly, where the merging institutions have branches in the same location led to a reduction in the number of branches in the short-run. But in the long run, because the merger actually resulted in, among other things, bigger capital, the new banks were expected to open more branches beyond what the individual banks could have opened before the merger and that led to the extension of banking services to more parts of the country. The actual experience of bank consolidation in Nigeria had shown that there had not been any decline in the total number of bank branches despite the revocation of operating licenses of those 13 banks by the CBN. For instance, as at the end of December 2005, there were a total of 3,535 branches/offices operated by all the insured banks in the country.

Between 2005 and 2006, the total number of bank branches increased by 300 or 8.5% to 3,835. By the end of December 2007, the number of branches/offices had gone to 4,579, an increase of 744 branches or 19.4

percent over the preceding year. The reason for the high growth in the number of bank branches was increased competition in the industry as a result of banks operating with a higher capital base, higher expectation of shareholders and the adoption of Purchase and Assumption as a failure resolution model by the regulatory authorities which made the acquiring banks to retain most branches of the failed banks.

(f) Staff Rationalization

In a service industry such as banking, motivation of staff is a key factor in ensuring that efficiency is maintained. When banks consolidate, there is the tendency that jobs might be lost as part of the repositioning strategies the new management may want to undertake. Apart from the adverse impact on employment level, the development could also impact negatively on the morale of the remaining workforce. This situation was witnessed, at least initially. However, appropriate strategies were put in place by the new managements of the emerging banks to address the dwindling morale of the remaining staff. In addition, adequate attention was given to trade unions in the industry in order to minimize disruptions from their activities arising from staff rationalization.

The adverse effects on employment had since waned with time as individual banking institutions embarked on massive recruitment of staff to cope with the challenges posed by rapid growth and expansion in their operations. Currently, the banking industry has become the largest employer of labour, net of attrition.

(g) NDIC to Play Its Role as Deposit Insurer and Liquidator

As at December 31, 2005, when the first phase of the banking sector reform programme ended, 13 of the former 89 banks were unable to either consolidate or raise their capital to the required minimum of ₦25 billion. Consequently, the CBN revoked their operating licences on January 16, 2006 and appointed NDIC as the official liquidator. The NDIC in accordance with

the provisions of its Act, proceeded to the courts to obtain winding-up orders, prior to the commencement of the liquidation process.

However, the action of the Corporation was immediately challenged in court by some of the former owners and directors of the closed banks. The counter suits filed by these owner-directors unduly delayed the liquidation time frame. Notwithstanding the above hurdles, the Corporation as at December 2008, had obtained Final Court Orders to liquidate 11 of the 13 failed banks. Provisional Court Orders had also been obtained in respect of two other banks namely, Fortune Bank Plc and Triumph Bank Plc.

It is instructive to note that as a deposit protection agency, NDIC out of its concern about the likelihood of a shake-out in the banking industry following the policy shift, had put in place appropriate strategies to ensure adequate depositor protection under a consolidated banking environment.

(h) Increased Agitation by Banks for Premium Reduction

A notable development arising from the consolidation programme was increased agitation by consolidated banks for a reduction in premium burden. As expected, the consolidation programme led to the emergence of relatively stronger and larger banks. As a consequence, depositors' confidence in the nation's banking industry received a big boost. The innovative and aggressive deposit mobilization techniques adopted by banks led to a significant growth in their deposit liabilities. For instance, deposit liabilities generated by insured banks increased by ₦0.94 trillion from ₦2.47 trillion as at December 2005 to ₦3.41 trillion as at the end of October 2006, representing an increase of 37.63 percent.

By the end of December 2007, deposit liabilities of the banking system further went up to ₦5.34 trillion, depicting a 57 percent over the preceding year. It was on the basis of such significant growth in deposit liabilities, which had invariably increased premium payable by banks that the agitation for a reduction in premium burden heightened. Of course, with the current premium rate of 94 basis points, such agitation could not be dismissed with

a wave of the hand. As a responsible corporate citizen, the NDIC, following the approval of the Board of Directors, removed Inter-bank takings from the premium assessment base.

Furthermore, the NDIC in 2008 adopted the differential premium assessment system (DPAS) in its bid to introduce fairness into the deposit insurance pricing system, promote sound risk management systems in banks as well as reduce the burden of premium payment by the banks.

(i) Capacity Building

Bank consolidation gave rise to an enormous increase in both the size of banks and their volume of operation thus making capacity building in the CBN and the NDIC more compelling. In that regard, staff of the regulatory/supervisory institutions were exposed to more focused training, to enable them understand the risk profile of the banking institutions as well as the various risk management models developed and adopted. Both the CBN and NDIC developed capacity to implement the developed framework for risk-based supervision. In addition, the two institutions procured relevant tools in Information and Communication Technology (ICT) and upgraded existing ones in order to facilitate the execution of their mandates. Furthermore, the CBN and NDIC developed a web-based information system, otherwise known as electronic Financial Analysis and Surveillance System (e-FASS). This tool enabled the supervisory authorities to access banking information on an on-line, real time basis. The e-FASS had since been replaced with FinA which has made supervision more effective.

In the same vein, consolidation brought to the fore the need for consolidated supervision that requires consultation and cooperation amongst the various regulatory/supervisory agencies in the system. In that wise, priority was given to the activities of the Financial Services Regulation Coordinating Committee (FSRCC) to ensure that supervisors obtain a global view of banks' operations.

As a result of consolidation, bank customers now have access to a higher volume of facilities due to increased single obligor limit. Without any shadow of doubt, consolidation has instilled greater confidence in the banking industry due to the emergence of relatively stronger and bigger banks. There has also been a remarkable improvement in service delivery due to increased competition among banks.

11.3 Effects on the Economy

At the beginning of the bank consolidation programme there were doubts in several quarters as to whether the Nigerian capital market had the necessary depth, breadth and resilience to absorb the many banking issues that were to enter the market. However, about 10 months after the end of the first phase of the consolidation programme it was apparent that the banking consolidation programme had encouraged the development of the Nigerian capital markets, with the attendant benefits for financial stability. That was because since the introduction of the programme, banking institutions had to raise funds from the capital market. It is on record that the entrant of many banks to the market contributed in no small way towards increasing the tempo of activities in the capital market. For instance, in the process of complying with the minimum capitalization requirement, about ₦406 billion was raised by banks from the capital market in addition to total Foreign Direct Investment of US$652million and GBP162,000.

There has also been a dilution in the ownership of banks in the country. A widespread ownership of banks has the potential benefit of reducing the possibility of abuse by owners. The ultimate effect of this development is a stable banking system which has the ability to support the real sector of the economy.

Another resultant effect of consolidation on the economy was the injection of liquidity occasioned by increased minimum recapitalization requirement, a situation that has given rise to a downward trend in interest rate movement. That implied that the cost of fund and cost of doing business had

taken a downward trend indicating a positive impact for the customers of banks, particularly the deficit-spending members of the public.

It is equally important to point out that banks, after consolidation, were not only under the regulatory oversight of CBN and NDIC but also that of the Securities and Exchange Commission (SEC) and the Nigerian Stock Exchange (NSE) as almost all the banks are now publicly quoted. That development impacted positively on the level of transparency, and also created stronger information disclosure regime and enhanced market discipline.

11.4 SUMMARY AND CONCLUSION

This chapter has highlighted some of the major outcomes of the bank consolidation programme of 2004. In particular, the aftermath of the consolidation exercise has been related to each of the identified key stakeholders vis-à-vis their mandates. The raising of funds from the capital market has led to increased transparency, stronger information disclosure regime and enhanced market discipline. The exercise has also challenged the regulatory/supervisory authorities to improve their staff capacity, service delivery and banking supervision as well as complaint resolution. It suffices to say that the programme has offered the entire economy with a lot of opportunities.

CHAPTER TWELVE
INTER-AGENCY COOPERATION AND INTERNATIONAL STRATEGIC ALLIANCES

12.0 INTRODUCTION

The 2007-2008 financial crisis impacted negatively on most economies of the World including Nigeria and that raised a number of questions concerning the role of DIS in contributing to financial system stability. It equally demonstrated the need for effective collaboration between supervisory and regulatory institutions domestically and internationally in order to combat the negative impacts or spillover effects of financial crisis. Furthermore, the contagion effects of the global financial crisis had exposed the vulnerabilities of deposit insurance agencies (DIAs) Worldwide. In that regard, it had become imperative for DIAs including the NDIC to collaborate effectively with other supervisory and regulatory institutions locally and globally on issues that concern the protection of depositors' funds as well as the stability of the financial systems.

Inter-agency collaboration improves the effectiveness of the back-up mechanisms that engender the protection of depositors as well as the interrelationship among the safety-net participants. It also assists in resolving conflicting mandates and regulatory arbitrage. In that regard, the effectiveness and stability of financial system require effective collaboration among all supervisory and regulatory institutions in the financial system.

It is important to note that, the NDIC since the commencement of operation in 1989 had always recognized the need for effective collaboration with other financial safety-net participants in Nigeria. It had always sustained the cordial relationship over the years with the CBN through planning and scheduling of bank examination, joint deliberation at both the Technical and Executive Committee levels on how to evolve effective regulation of banks and other deposit-taking financial institutions as well as the continued active

participation of the NDIC in the activities of the Financial Services Regulation Coordinating Committee (FSRCC), which is chaired by the CBN.

Also, in its quest to attain its vision of becoming the best deposit insurer in the world by the year 2020, the NDIC had been active in international networking and collaboration with the IADI, other DIAs around the world and multilateral agencies such as the World Bank, IMF and the US Department of Treasury (OTA).

This chapter discusses the inter-relationship between the NDIC and other financial safety-net participants in Nigeria, international networking and collaboration with various DIAs around the globe as well as multilateral institutions in the last 30 years. Also, discussed in the chapter are some of the challenges faced by the NDIC with respect to inter-relationship or collaborative efforts with other safety-net participants in Nigeria.

12.1 INTER-RELATIONSHIP WITH OTHER SAFETY-NET PARTICIPANTS

The soundness and stability of any financial system can be said to be largely dependent on the effectiveness of the collaboration between the safety-net participants in that economy. That is because coordination of activities and information sharing amongst financial safety-net participants is one of the necessary conditions for ensuring and sustaining financial system stability of every economy. Principle 4 of the IADI Core Principles, for Effective DISs, states that "in order to protect depositors and contribute to financial system stability, there should be a formal and comprehensive framework in place for the close coordination of activities and information sharing, on an ongoing basis, between the deposit insurer and other financial safety-net participants" (IADI, 2014).

For instance when a single organization performs all of the safety-net functions, the smooth resolution of potential tensions/disagreement is dependent on clarity of mandate and on the existence of an adequate

accountability regime among the relevant departments. However, when the functions are assigned to different organizations, issues relating to information sharing, allocation of powers and responsibilities, and coordination of actions among different functions become more complex and need to be addressed clearly and explicitly (Financial Stability Forum, 2001).

In the last three decades, the NDIC's major partner among the safety-net participants had always been the CBN. The CBN and NDIC jointly supervise licensed insured institutions to protect depositors, contribute to financial system stability; promote an effective payments system as well as healthy competition in the banking system as noted in the preceeding chapters of this book. The CBN and NDIC also consult each other on resolution actions as well as other issues of concern in the Nigerian financial system in order to avoid duplication of efforts and/or role conflict.

Furthermore, coordination and experience-sharing amongst CBN and NDIC are undertaken through standing Committees comprising staff from both institutions at the technical and executive levels. Supervisory issues are identified and analyzed by the Technical Committee while recommendations are forwarded to the executive committee for consideration. The Executive Committee makes the final decision on the appropriate supervisory measures to be adopted. Both Committees have senior officials from both institutions as members.

Given the nature of financial services and products offered by the insured deposit-taking financial institutions, their operations in the economy, their activities at the money and capital markets as well as the existence of multiple regulators for their different lines of businesses, inter-agency cooperation amongst safety-net participants and the other supervisory and regulatory institutions in the Nigerian financial system became necessary.

The NDIC, apart from being the deposit insurer also shares banking supervision and resolution with the CBN. The CBN is the apex prudential

regulator and supervisor for the banking industry as well as the lender of last resort to the insured financial institutions in Nigeria. The National Insurance Commission (NAICOM) is the regulator/supervisor of insurance sector in Nigeria. NAICOM supervises the insurance subsidiaries of banks operating in a holding company structure in Nigeria. The Securities and Exchange Commission (SEC) is the institution responsible for the regulation of the capital market in Nigeria.

Given the existence of multiple regulatory and supervisory institutions in the Nigerian Financial System, the Financial Services Regulation Coordinating Committee (FSRCC) was established in May 1994 to coordinate and harmonize standards and the supervisory efforts of the regulatory bodies. Since the establishment of the FSRCC, the NDIC had continued to participate actively in its activities.

The objectives of the Committee were to:

i. Co-ordinate the supervision of financial institutions especially conglomerates;
ii. Cause reduction of arbitrage opportunities usually created by differing regulatory and supervisory standards among supervisory agencies;
iii. Deliberate on problems experienced by any member in its relationship with any financial institution;
iv. Eliminate any information gap encountered by any regulatory agency in its relationship with any group of financial institutions;
v. Articulate strategies for the promotion of safe, sound and efficient practices by financial intermediaries; and
vi. Deliberate on other issues as may be specified from time to time.

In addition to the mandate of the Committee, each member is expected to play its role at the Committee level. In that regard, below are some of the roles played by NDIC at the committee.

i. Contributes to the Committees’ fund in order to ensure that the committees’ mandates and functions are executed.

ii. Shares information on the financial condition and any other issue on the deposit taking financial institutions with the Committee members.
iii. Participate in the consolidated supervision of Conglomerates that have Banking as the Holding Company or Subsidiary.
iv. Shares information on the status of liquidation activities with other members of the Committee.
v. Provides assistance on capacity building to some of the Committee members in order to enhance their competencies in supervision and related matters.
vi. Provides inputs and observations on issues tabled by other Committee members with a view to promoting financial system stability.
vii. Assists in the formulation of policies that will engender confidence and promote financial system stability with the other Committee members.

Members of the FSRCC include the following: The Federal Ministry of Finance (FMF), Central Bank of Nigeria (CBN), Nigeria Deposit Insurance Corporation (NDIC), Securities and Exchange Commission (SEC), National Insurance Commission (NAICOM), National Pension Commission (PENCOM) and Corporate Affairs Commission (CAC). Furthermore, 3 other institutions in the Nigerian Financial System attend the FSRCC meetings in observer status/capacity. These institutions are the Nigeria Stock Exchange (NSE), Federal Inland Revenue Service (FIRS) and Abuja Stock and Commodity Exchange (ASCE).

Furthermore, to facilitate access to prudential information amongst members, a Memorandum of Understanding (MoU) was executed by all the members of the FSRCC. The MoU contained safeguards for confidentiality of information among members.

In addition, the NDIC with other regulatory institutions in the financial system are also serving as members in the Banker’s Committee, the

Committee of Mortgage Institutions in Nigeria, the Committee on the Implementation of the National Microfinance Policy in Nigeria, the National Financial Inclusion Steering and Technical Committee, Systemic Policy & Partnership/Oliver Wyman, Financial System Strategy 2020 Committee, Chief Risk Officers Committee, CBN and NDIC Committee on Licensing, Regulation & Supervision of Asset Resolution Companies, Committee on Consolidated Supervision, Financial Sector Soundness Committee, CBN and NDIC Committee on Harmonization of Bank Ratings, CBN and NDIC Committee on Supervision of D-SIBs etc.

12.2 COOPERATION WITH OTHER AGENCIES

Since the establishment of NDIC 30 years ago, the NDIC has continued to cooperate as well as collaborate with several agencies and professional bodies in the country. Apart from its strings of collaboration with institutions like the Chartered Institute of Bankers of Nigeria (CIBN) and the FITC which the NDIC is a member of their Governing Councils. The NDIC has also collaborated with the Institute of Chartered Accountants of Nigeria (ICAN) and participated actively in the Research and Technical Committee of its Council. The NDIC is also an active member of the Nigeria Accounting Standard Board (NASB) and Risk Management Association of Nigeria (RIMAN).

Furthermore, the NDIC had also collaborated with the National Judicial Institute (NJI) in organizing yearly sensitization and capacity building workshops for the members of the Bench and the Bar on banking and financial matters as well as the challenges to deposit insurance law and practice in Nigeria since 2012. So far the sensitization and capacity building workshops have enhanced the capacity of more than 500 judges in the country. NDIC also liaised with the Bank Customers Association of Nigeria (BICAN) in order to sensitize bank customers on its activities. It has also organized Stakeholders' Forum: which provided the NDIC the opportunity to interact with key stakeholders in the financial services industry with a view to improving its effectiveness in the discharge of its mandate.

The NDIC is also collaborating with the Ministry of Justice, Nigeria Police Force, Office of the National Security Adviser, Securities & Exchange Commission (SEC), Central Bank of Nigeria (CBN) and other relevant agencies in a national inter-agency committee on digital currency system. This committee is saddled with the mandate of examining digital currency system, its risks and possible regulation and usage under the current nation's legal & regulatory system.

Similarly, the NDIC had continued to collaborate with the Economic and Financial Crimes Commission (EFCC) in a bid to stem the tide of economic and financial crimes (most of which were committed through the banking system). For instance the celebrated $242 million Brazilian bank scam prosecuted by the EFCC was reported by the NDIC in March, 2003. The NDIC had also provided technical support to the EFCC in conducting some of its investigations. In that regard, some senior staff of the Corporation are seconded to the Commission to provide technical expertise in the investigations of financial crimes. The Corporation's staff deployed to the EFCC at its inception participated in the preparation of the report of the Technical Committee that resulted in the establishment of Nigeria's Financial Intelligence Unit (NFIU). Also, the NDIC had provided technical support to the Federal Inland Revenues Service (FIRS) in the investigation of cases of conversion/diversion of tax revenues by some banks. For instance, the investigation conducted by the NDIC in July 2002 revealed that the FIRS cheques valued at ₦908,991,422 (for Value Added Tax and Withholding Tax), were fraudulently cleared, diverted or converted by some banks. The revelation subsequently assisted the FIRS to recover over ₦700 million of the diverted funds in 2003.

Furthermore, the NDIC had also collaborated with the National Universities Commission to facilitate the introduction of deposit insurance courses into the academic programmes of Universities and other tertiary institutions in Nigeria following the development of a curriculum by NDIC on two courses,

"Fundamentals of Deposit Insurance" and "Practice of Deposit Insurance". This was undertaken by the NDIC to enhance public awareness of Deposit Insurance System (DIS), promote financial inclusion and capacity building in the Nigeria Financial System.

These courses are now being taught in eight universities in the country following the execution of Memorandum of Understanding (MoU) between NDIC and the Universities as well as the execution of the train-the-trainers programme by NDIC. Lecturers of the selected universities are trained on the two (2) courses by NDIC staff. The selected institutions are University of Lagos (UNILAG), Obafemi Awolowo University (OAU), University of Benin (UNIBEN), University of Abuja, Ahmadu Bello University (ABU), Bayero University Kano (BUK) and University of Ibadan and University of Nigeria, Nsukka.

The NDIC and CIBN collaborated in developing two study packs on "Banking Practice and Credit Management" and "Banking Regulation and Supervision". That was undertaken for the incorporation of the teaching of deposit insurance in the curriculum of CIBN. To that effect, a MoU was signed and the NDIC/CIBN joint certification programme on Deposit Insurance System commenced in 2018. The NDIC is also collaborating with the National Institute for Policy and Strategic Studies (NIPSS) by setting up a joint committee to plan and coordinate activities for the establishment of a Centre for Financial Economics (CFE) in NIPPS, Kuru, Plateau State.

Given that NDIC's functions include assisting monetary authorities in the formulation and implementation of banking policy to ensure sound banking practice and fair competition amongst DMBs, the NDIC collaborates with financial safety-net participants, other agencies and professional institutions in conducting research studies that will ultimately lead to the formulation of policies in order to engender confidence in the system as well as ensure financial system stability. Numerous research studies had been undertaken

by the NDIC in conjunction with other institutional bodies in the past 3 decades.

The NDIC in conjunction with consultants Susman & Associates and DMC Konsult also conducted researches on Mergers and Acquisition (M&A) in the Nigerian banking industry. Furthermore, a study of the Framework for Credit Managements in Banks was also undertaken by NDIC and FITC. Also, a collaborative study with AG Partnership on Cooperatives in Nigeria was also undertaken. Furthermore, over 20 case studies on failed insured DMBs were developed in conjunction with some consultants which had been published in book form.

12.3 COLLABORATION WITH OTHER DEPOSIT INSURANCE AGENCIES AND MULTILATERAL ORGANISATIONS

The 2007-2008 global financial crises impacted negatively on most economies of the World and it reiterated the need for more effective collaboration among DISs and supervisory, regulatory and international institutions (e.g. World Bank, IMF, BIS, US Treasury Department etc).

Through its international networking with other DISs, the NDIC obtained technical support from other jurisdictions in the last 3 decades of its existence. For example, the FDIC continues to provide free technical support in the form of yearly training of staff of NDIC on DIS and the financial system. Furthermore, the NDIC had also enjoyed similar support from Poland, Korea, Malaysia and other DIAs.

To foster cooperation among different deposit insurance organizations as well as promote the stability of the international financial system, the IADI was founded in Basel, Switzerland in May, 2002. The vision of the Association is ***"sharing deposit insurance expertise with the world."*** The forum provides deposit insurance practitioners the opportunity to discuss leading issues in deposit insurance, net-working and information sharing. The NDIC

was a founding member of IADI and was the pioneer Chair of the Africa Regional Committee (ARC) of the Association. Also, the NDICs ex-Managing Director/Chief Executive Officer (MD/CEO), Mr. G. A. Ogunleye, OFR, was a pioneer member of the Executive Council of IADI and the current MD/CEO of NDIC, Mr. Umaru Ibrahim, mni, is serving on the Executive Board of IADI and he became the Chairman of the Africa Regional Committee (ARC) in September, 2018. In addition, the NDIC serves on various Committees of the Association.

As a founding member, the NDIC had since the inception of IADI in 2002, continued to participate in several fora organized by the Association, its member deposit insurers, its associates and partners in order to share experience and information on relevant issues and policies for strengthening DISs. The international networking had been mutually beneficial. Furthermore, NDIC had contributed significantly to the growth and development of the IADI. In particular, staff members of the NDIC had been very active in several research projects aimed at enhancing deposit insurance effectiveness across the globe.

Similarly, in 2004, the NDIC hosted the first international conference on deposit insurance organized by the ARC of the IADI in Abuja, Nigeria. Also, in order to encourage the introduction of Explicit Deposit Insurance System as well as strengthen the existing systems in Africa, the NDIC under the auspices of the ARC hosted an international workshop on deposit insurance between 2007 and 2018 with different themes.

In recognition of the fact that deposit insurance is knowledge-based, staff of various cadres in NDIC benefited from training programs organized by reputable foreign institutions in 2010. Some of the institutions that organized training programs were the Federal Reserve System (FED), Office of the Comptroller of the Currency (OCC), Financial Stability Institute (FSI) and Financial Services Authority (FSA) of UK.

Another workshop on **"Methodology for Assessment of Compliance with the Core Principles for Deposit Insurance"** was held in 2011. The objective of that workshop was to build the capacity of participants in conducting compliance assessment of Deposit Insurance System with Core Principles using the NDIC as a case study. The outcome of the workshop was that, the NDIC was fully compliant with 7 core principles, largely compliant with 8 core principles, materially non-compliant with 2 core principles and 1 principle was not applicable to NDIC.

Similarly, the NDIC entered into a Technical Assistance Agreement with the Office of the Technical Assistance (OTA) of the US Treasury Department. That resulted in the deployment of a Resident Technical Advisor in the person of Mr. Phillip Morris to the NDIC. Under the project, the NDIC benefited from technical trainings such as International Financial Reporting Standards (IFRS), Risk Based Supervision (RBS), Enterprise Risk Management, Legal and Asset Management etc. The technical assistance led to the development of Subject Matter Experts (SME) in those areas for the NDIC. In that regard, some SME in IFRS in NDIC were utilized by the OTA in the delivery of IFRS training at the Kenya School of Monetary Studies (KSMS), in 2015.

Furthermore, between 2013 and 2014, the NDIC signed an MoU with the Bank Guarantee Fund (BGF) of Poland following a study visit by the Board of NDIC to BGF Poland. The MoU was to further strengthen cooperation between the two institutions in such areas as information and experience sharing as well as exchange of expertise.

In 2015, the NDIC secured a technical assistance from the World Bank to develop a Target Fund Ratio Framework. The Framework is was to assist the NDIC in determining the adequacy of its insurance fund at any point in time. The World Bank provided the technical expertise and funding needed to execute the project. The framework had been successfully completed.

Similarly, between 1989 – 2018, NDIC received staff of several jurisdictions with DIS in Africa and those wishing to establish a DIS on attachments and capacity building.

The NDIC also participated in the activities of the Committee of Banking Supervisors of West and Central Africa (CBSWCA). The CBSWCA was initiated in 1994 as a liaison group essentially made up of Banking Supervision Organizations from twenty-six (26) countries from West and Central Africa. One of the objectives of the CBSWCA was to facilitate information sharing amongst its members.

12.4 SUMMARY AND CONCLUSION

The NDIC had in the last 30 years collaborated with other financial safety-net participants in Nigeria, IADI, and other Deposit Insurance Agencies around the world and some multilateral agencies (i.e. the World Bank, IMF etc) with a view to enhancing its operational effectiveness. In that regard, it had maintained a cordial relationship with the apex banking regulatory organ in the country, the CBN. The two institutions meet regularly at the executive and technical levels to deliberate on ways to evolve effective regulation/supervision and distress resolution, in addition to participating in the Bankers' Committee, the FSRCC and the Committee of Mortgage Institutions in Nigeria, amongst others.

Equally as noted in this chapter, the NDIC had over the years participated actively in, and organized, several international exchange activities to enhance its international image and visibility as well as enhance the effectiveness of the DIS in Nigeria. As a founding member of IADI, and the pioneer Chair of the Africa Regional Committee (ARC) of the Association, the Corporation had been exchanging information on best practices with other practitioners around the world.

CHAPTER THIRTEEN
PUBLIC AWARENESS AND DEPOSIT INSURANCE SCHEME

13.0 INTRODUCTION

A Deposit Insurance System (DIS) offers a measure of protection against the occurrence of bank runs as it builds public confidence in the safety of bank deposits, and promotes the stability of individual banking institutions, thereby enhancing the stability of the entire financial system. IADI (2012) stated that no amount of prudential supervision can provide protection against bank runs that is equivalent to deposit insurance. Public concern about the safety of deposits, whether based on facts or only on rumour, can lead, and has led, to damaging bank runs that can cause banks that are otherwise sound to fail.

The understanding of the benefits and limitations of a DIS is hinged on effective public awareness programmes designed to spur confidence in the banking system. IADI (2012) stated that public awareness of deposit insurance in terms of its existence and how it works plays a significant role in underpinning a sound deposit insurance system. According to IADI (2014), "In order to protect depositors and contribute to financial stability, it is essential that the public be informed, on an ongoing basis, about the benefits and limitations of the deposit insurance system". The effectiveness of DIS is therefore based on how the public have been educated about its numerous benefits and limitations. That is because it is only when depositors are aware and also believe that they have some protection against a failing bank that they would likely have confidence in the banking system.

In the last three (3) decades, the NDIC had designed and implemented public awareness campaigns to improve the understanding of the benefits and limitations of its mandate. This chapter discusses the role of public awareness in enhancing the effectiveness of the DIS and IADI recommendations on the issue. Also discussed are the NDIC's public awareness policy, communication tools employed, the successes recorded

as well as the challenges faced while educating the Nigerian public on its DIS mandate in the last 30 years of its existence.

13.1 EFFORTS OF THE NDIC ON PUBLIC AWARENESS

13.1.1 Public Awareness Policy Objectives of the NDIC

The NDIC instituted public awareness policy objectives specifically geared towards broadening the understanding of the general public and major stakeholders regarding its operations. The main objectives of the DIS in Nigeria are basically to protect the interest of small depositors, promote public confidence, and contribute to financial system stability. Consequently, the NDIC is poised to promoting the needed awareness of its activities geared towards ensuring that depositors funds are protected, thereby helping to maintain financial system stability.

The public awareness policy objectives of the NDIC include:

i) Create and maintain an appropriate level of awareness among depositors/other stakeholders and enhance their understanding of key features of deposit insurance;
ii) Build and safeguard depositors' trust and confidence in NDIC's capability, integrity and efficiency;
iii) Disseminate accurate and timely information in response to depositors' and other stakeholders' needs from an objective, balanced and factual perspective; and
iv) Deliver prompt, friendly and responsive service that is sensitive to the needs and yearnings of depositors and other stakeholders.

In the process of achieving its set public awareness policy objectives, the underlisted issues form the strategic guiding principles:

i) Ensuring that consistent/credible messages are provided in a timely, accurate, and balanced manner;
ii) Identifying the specific target audience(s);
iii) Adopting proactive/open communication framework;
iv) Channeling of crucial information to all stakeholders;
v) Ensuring effective crisis management; and

viii) Utilizing various communication channels, while ensuring equal treatment and maintaining one spokesperson.

13.1.2 Expectation of NDIC Major Stakeholders

"Publics" is used in public relations to refer to all the vital segments or strategically relevant groups of people or corporate bodies to a particular organisation or company. Publics may be internal or external. NDIC's Publics are categorized as Internal and External.

Major stakeholders and target audience of the DIS in Nigeria and their respective expectations are presented in Table 13.1.

Table 13.1
Major External Stakeholders of NDIC and Their Respective Expectations

Stakeholder	Expectation
Depositors:	Increased coverage limit
	Prompt reimbursement in the event of bank failure
Insured Institutions	Reduction of premium burden
Executive/Government	Remittance of operating surplus as required by Fiscal Responsibility Act (FRA) 2007
	Payment of tax
Shareholders	Dividend payment
Legislature	Remittance of Operating Surplus as required by FRA, 2007
Media	Prompt Failure Resolution
	Information on Claims Reimbursement for failed banks and Performance of Healthy Banks

From the foregoing, it can be seen that the effectiveness of the DIS, like the operations of the NDIC, is significantly enhanced through public-focused campaigns to ensure that the public are sufficiently informed about the benefits and limitations of the DIS thereby promoting the stability of the financial system. That is predicated on the fact that, a successful public

awareness programme which transmits accurate and timely messages would invariably build trust amongst depositors.

13.1.3 Communication Tools Deployed To Meet Major Stakeholders' Expectations

Given the diverse nature of the NDIC's various target audience as enumerated above and their respective expectations, different public awareness modes were used to address their awareness needs in the last thirty (30) years. For each mode, the target audience was usually determined ahead of time and the best way/medium of reaching them employed to maximize envisaged benefits. Some of the measures adopted were informed by the need to tackle the peculiar circumstances of the audience such as geography (people living in difficult terrains); life styles (nomads); etc. The NDIC embarked on various sensitization programmes to inform the general public on its activities with a view to building/reinforcing depositor confidence in the Nigeria banking system.

The NDIC, in the last 30 years, deployed the following tools to engage the general public on its DIS operations:

a) **Media Campaigns**

- Radio and TV depositor protection awareness jingles in local languages (Hausa, Yoruba, Igbo & Pidgin English)
- Special reports on electronic and Print media special reports (Supplements, Advertorials, sponsored opinion articles/editorials, TV and radio commentaries)
- Advertisements (TV, Radio and Newspaper/News Magazines)
- Talk Shows:
  - NDIC Calling: Weekly Public Enlightenment TV Programme
  - NDIC Sponsorship of Radio Programme: Economic Matters on Vision 92.1 FM
  - NDIC Participation on Live Radio Programme: "Brekete Family" on Love FM 104.5, Mpape, Abuja
  - NDIC Participation in FRCN Network English and Hausa Live (Interactive) Programmes: Radio Link and "Hannu Da Yawa"

b) Press Conferences/Briefings
c) Press Releases
d) Media Visits
e) Participation in major International Trade Fairs
f) Stakeholders' Forum/ Road Shows
g) Sponsorship of events (e.g. Sports competitions in Secondary Schools, Major National Events; such as Children's Day, etc.)
h) Corporate Social Responsibility (CSR) - Sponsorship & Official Commissioning Of Various Education Assisted Projects
i) NDIC Re-Branding – Launched in 2013
j) NDIC Robust Website: www.ndic.gov.ng
k) Incorporation of Social Media Networks (Facebook, Twitter, YouTube, Instagram, LinkedIn) on the Website
l) NDIC Help Desk: 24-Hour Toll Free Line: 080063424357;
m) Sponsorship of National Essay Competition
n) In-House Publications:
   - NDIC Annual Report
   - NDIC Quarterly Journal
   - Basic Knowledge on Banking and Deposit Insurance
   - Frequently Asked Questions (FAQs) on Deposit Insurance System in Nigeria
   - NDIC Handbills - NDIC Stickers "Insured by NDIC"
   - Deposit Insurance and You
o) Periodic survey to assess the level of public awareness on the DIS in Nigeria
p) Sponsorship of Sensitization Seminars and Workshops
   - Annual Workshop for Business Editors and Finance Correspondents under the umbrella of Finance Correspondents Association of Nigeria (FICAN)
   - Annual Editors Forum/Breakfast Meeting with Editors
   - Sensitization Seminar for the Bar and Bench
   - Sensitization Seminar for relevant committees of the National Assembly (Senate Committee on Banking, Insurance & Other

Financial Institutions and House Committee on Insurance & Actuarial Matters)

- Sensitization Seminar for Corporate Affairs Managers (ACAMB) of deposit money banks (DMBs) and Front Desk Officers of MFBs/PMBs
- Annual Depositor Protection Awareness Week

q) NDIC hosting of educational visits/excursion by students of universities and other tertiary institutions and primary & post primary institutions

13.1.4 Achievements

Based on stakeholders' expectations, the NDIC often proactively adopts systematic strategies or effects changes within allowable sphere to address the identified issues to pave way for efficient and smooth functioning of the DIS scheme. Also, it anticipates and tackles emergent expectations such that, they do not adversely affect the NDIC's operations, but rather enhance its effectiveness and operational capabilities. Some of the strategies adopted in the last 3 decades by the NDIC in response to various stakeholders' expectations included:

- **Depositors**

a) Coverage level was increased from ₦50,000 to ₦200,000 and further to ₦500,000 for depositors of Deposit Money banks (DMBs) and from ₦100,000 to ₦200,000 for depositors of Microfinance Banks (MFBs) and from ₦100,000 to ₦200,000 and subsequently to ₦500,000 for Primary Mortgage Banks (PMBs);

b) Prompt claims reimbursement was priotized and ensured;

c) Adoption of Purchase and Assumption (P&A) to resolve 13 failed banks in order to ensure that critical banking functions are maintained;

d) Adoption of Bridge Banking by establishing four (4) bridge banks, namely: Mainstreet Bank Limited assumed the assets and liabilities of Afribank Plc; Keystone Bank Limited (Bank PHB), Enterprise Bank Limited (Spring Bank) and Polaris Bank Limited. These banks had effectively been sold to new investors by the Asset Management

Corporation of Nigeria (AMCON), with the exception of Polaris Bank Limited, established in September 2018;

e) Strengthening of legal framework through the proposed amendments of the NDIC Act No 16 of 2006; and
f) Publication of handbills in various languages as well as radio and television jingles.

- **Insured Banks**
  a) Reduction of premium burden through introduction of Differential Premium Assessment System (DPAS). On the average, 35% reduction had been achieved for the industry.
  b) Provision of financial assistance to distressed banks.

- **Legislature**
  a) Appearance of NDIC's Management before the relevant Senate and House Committees to brief the Committees on its activities, and defend its annual budget;
  b) Facilitating oversight visits by relevant Senate and House Committees to the NDIC Head Office, Lagos Office and Zonal Offices; and
  c) Remittance of operating surplus as required by the FRA, 2007.

- **Mass Media**
  a) Media briefings to shed light on its mandate;
  b) Prompt responses to enquiries and adequate information on claims settlement and other NDIC activities – Bank Supervision, CSR, etc;
  c) Provision of information on Financial Condition and Performance of Banks and Bank Failures;
  d) Periodic Press Briefings; and
  e) Annual FICAN Workshop and Editors' Forum.

13.2 ASSESSMENT OF THE EFFECTIVENESS OF THE PUBLIC AWARENESS ACTIVITIES OF NDIC

It is well established that one of the major challenges facing all deposit insurers in achieving their mandate and objectives, is the issue of low public awareness about the DIS and a misconception of their role in the financial services industry. Yet, effective public awareness is critical to the success of any DIS. Therefore the NDIC had intensified efforts in enhancing its public awareness activities in the last 3 decades. In spite of its efforts, the awareness however was observed to remain low. That essentially informed the directive of IADI in 2007 that all deposit insurers should promote public awareness about DIS on an ongoing basis.

One of the ways through which improvement can be made is periodic survey to gauge the effectiveness of the efforts as well as make recommendations on areas of improvement. The NDIC had carried out surveys to assess the effectiveness of its public awareness activities, amongst other objectives. The most recent surveys carried out in that regard were in 2010 and 2013.

13.2.1 The 2010 Survey Exercise

The 2010 exercise which was conducted by independent consultants to ensure objectivity, confirmed the low level of public awareness. The 2010 survey brought to light the potency of the then public awareness initiatives as shown below.

i. Educating Depositors of Insured Deposits by Insured Institutions

Since insured institutions benefit from deposit insurance, they are expected to be fully aware of DIS and be willing partners with NDIC without further prompting in creating public awareness of DIS. Only 72.2% of DMBs were educating their depositors that their deposits were insured while 89.6% of insured MFBs and PMBs were doing same. Responses from banks showed that 33.3% used placement of NDIC Sticker, 38.9% informed customers when selling deposit products that they were insured by NDIC while other means were not prominent. The main findings under this part are:

- From the foregoing, there's the need for DMBs, MFBs and PMBs to educate depositors on insurance status of their deposit products, and
- Draw the attention of customers to their insurance status via the NDIC sticker.

ii. Participation in Seminars/Workshops Organized by NDIC

Participation in seminars/workshops organized and or facilitated by NDIC was a good source of knowledge to participants. Insured institutions, trade/ student unions and media houses are the usual target groups for such seminars/ workshops. About 72.2% of responding insured banks had participated while only 50% of responding insured MFBs/ PMIs and 19.7% of trade/student unions and media shown had participated. It is most cheering that 92.3% of insured banks; 84.2% of insured MFBs/ PMIs; and 91.7% of trade/ student unions and media houses that participated in such workshops/ seminars either benefited very strongly or strongly. Given the findings, the NDIC should encourage its major stakeholders: DMBs, MFBs, PMBs, Trade/Student unions, Media, etc to patronize its organized seminars/workshops.

iii. Reading of NDIC Publications

NDIC publishes several journals, pamphlets, books and other publications aimed at enhancing public knowledge on DIS. Responses from the survey showed that only 53.9%, 23.8%, 12.8% and 16.2% of insured banks, MFBs/PMBs, trade/students unions and media houses, and depositors/general public had read NDIC publications, respectively. Again, it is most cheering that respective responses of 100%, 80.4%, 65% and 79.2% from insured banks, insured MFBs/PMBs, trade/student unions and media houses, and depositors/general public found NDIC publications as either very effective or effective in enhancing their knowledge of DIS. Based on the findings and given that NDIC publications are given free of charge, the reasons for low readership should be identified and addressed.

iv. Display of NDIC Decal Logo in the Premises of Insured Institutions

NDIC Decal Logo has been produced and distributed to insured institutions for them to display in strategic locations particularly so as to inform depositors that their deposits are insured. Surprisingly, only 44.4% of responding insured banks and 47.6% of responding MFBs/PMBs displayed the NDIC Sticker. Of the banks that displayed the Sticker, 75% claimed that the information in it was adequate in enlightening the banking public while 50% of MFBs/PMBs that displayed the Sticker agreed to the same thing. Up to 71.4% of trade/student unions and media houses and 64.9% of depositors/general public claimed that the message in the NDIC Sticker gave the impression that either the insured institution was strong or do not know the message. Based on the findings, it became imperative for the NDIC to compel all insured institutions to display its sticker and monitor compliance.

v. Sources of Obtaining Information on DIS

Out of the 18 responding insured banks, 13 or 72.2% did obtain information on DIS while 63.4% MFBs/PMIs did same. Sadly, even when their level of awareness was low and they therefore have a greater need to find out, only 15.1% and 21.5% of responding trade/student unions and media houses, and depositors/general public did obtain information on any aspect of DIS, respectively. About 57.1% of responses from insured banks identified NDIC as their source and NDIC source also accounted for the highest proportion of 45% of the different sources from where MFBs/PMBs obtained information on DIS. The main source for trade/student unions and media houses was news media as that accounted for 43.3% of the sources while 24.8% of depositors/general public indicated that financial institutions were the main source. The findings pointed to the fact that the NDIC should utilize sources used by stakeholders to maximum effect.

vi. Determination of Awareness Level

Using the returns from the various strata of respondents, the level of awareness of DIS was estimated. The assumption that the level of awareness among insured banks would be total was misplaced as 84.4% of them knew

the mandates of NDIC. Using the same measure, only 60% of insured MFBs/PMBs knew the mandates of NDIC. It was also pathetic to observe that the level of awareness of DIS among staff of insured banks and MFBs/PMBs was poor contrary to our expectation. A demonstration of the low level of awareness of DIS is evidenced when a mere 9.6% of respondents said 'yes' to the issue of whether NDIC had done enough to create public awareness of DIS in Nigeria. The overwhelming 90.4% of public figures/captains of industry either answered 'no' or 'cannot say'. A simple average of 8 different measures of awareness level of DIS among trade/student unions and media houses showed that the level was 30.2%.

The average of the 4 measures of awareness level, namely: level of knowledge about DIS (40.2%); knowledge of the basis for establishing NDIC (36.4%); whether or not their deposit- taking financial institution was insured (42.5%); and knowledge of maximum deposit insurance average (9.6%) showed that 32.2% of the depositors/general public had partial awareness of the DIS.

13.2.2 The 2013 Survey Exercise

The need to further ascertain the level of awareness of the NDIC's activities and obtain recommendations on how to improve on the current level led to the 2013 Survey on NDIC Public Awareness Activities which was carried out by 5 teams of consultants. The outcome of the 2013 survey can be summarized as follows:

The Survey sought to examine the knowledge/perception of respondents about NDIC and its operations. The 2013 Survey comprised eight (8) subsections namely: perception of respondents about NDIC, level of knowledge of DIS, level of knowledge on the insurance status of deposits and deposit-taking institutions, knowledge of current maximum deposit insurance coverage, knowledge of additional amount after the payment of initial insured amount, awareness of whether NDIC makes additional amount from the proceeds of the sale of the physical assets and recovery of debts

owed to the failed institution, knowledge of NDIC mandates, and knowledge of the type of message conveyed by the NDIC sticker.

i. Knowledge/Perception about NDIC and Its Operations Perception about NDIC

Perception: The respondents mostly perceived NDIC as a financial guarantee to protect depositors from losing all their money in the event of failure of insured institution while a few respondents perceived is "as a supervisor of insured institutions", indicating that the respondents' general perception could be described as above average.

ii. Knowledge of DIS

It was observed that the levels of DIS knowledge (those that indicated 'very well' and 'fairly well') among trade/student union and media house/electronic and print dropped from 53.0% survey to 49.5% and increased from 40.3% to 43.7% among depositors and general public between 2010 and 2013 surveys. That suggested that there is a need to device new ways of enhancing knowledge of benefits.

iii. Knowledge of insurance status of deposit products and deposit-taking institutions

The level of knowledge of insurance status of the deposit-taking financial institution used by trade/student union and media house/electronic and print respondents reduced from 27.4% in 2010 to 19.6% in 2013. Conversely, the level of knowledge of insurance status of deposit-taking financial institution used by respondents of depositors and general public increased from 37.8% in 2010 to 43.4% in 2013. In the same period, the level of awareness that some deposits in insured institutions were not insured amongst trade/student unions and media house/electronic and prints increased from 14.1% to 23.5%. That indicated improved awareness and knowledge of this status improved marginally.

iv. Knowledge of additional amount after the payment of initial insured amount

Only 38.3% of staff of the insured institutions and 12.5% of trade/student union and media house/electronic and print respondents were knowledgeable that additional amounts are paid after the payment of the initial insured amount. The awareness of payments of additional sums of money after the initial insured amount has been paid increased marginally from 12.3% in 2010 to 12.5% in 2013 among the trade/student unions and media house/electronic and print respondents. That finding informed the NDIC of the need to emphasize that actual payments may exceed guaranteed sum.

v. Information Sourcing About NDIC/DIS

There was a general improvement in attempts to obtain information about DIS between 2010 and 2013 except in the case of trade/student unions and media. Among insured banks, that had increased from 72.2% to 100.0%; other deposit-taking financial institutions marginally increased from 63.6% to 65.4%; and depositors and general public from 15.1% to 19.09%. On the contrary, the level of attempt in obtaining information about DIS among trade/student unions and media house/electronic and print reduced from 21.4% in 2010 to 18.7% in 2013.

vi. Participation in Seminar/Workshop Organized by the NDIC

Participation in NDIC seminar/workshop was only high among the insured institutions. Specifically, participation rate was high among insured bank (72.7%), other deposit-taking financial institutions (58.7%), but low among staff of insured institutions (17.2%) and trade/student unions and media house/electronic and print (16.8%).

a. Efforts Of Insured Institutions at Enhancing Public Awareness Of NDIC/DIS

The level of efforts made by insured banks to educate depositors rose from 72.2% in 2010 to 90.9% in 2013 while that of other deposit-taking and financial institutions rose from 88.5% to 90.4%. That showed an improvement in the level of efforts made to educate depositors by insured institutions. Moreover, the percentage of insured banks that displayed NDIC sticker strategically in their banking hall increased from 44.4% in 2010 to 90.9% in 2013 while those of other deposit-taking financial institutions rose from 47.6% to 89.4% in the same period.

The percentage of trade/student unions and media house/electronics and prints who noticed NDIC sticker in the banking hall of their insured institution increased from 22.3% in 2010 to 57.9% in 2013. In addition, the percentage of depositors and general public who noticed NDIC sticker in the banking hall of their insured institution also increased from 27.4% to 46.1% in the same period.

b. Effectiveness Of NDIC Seminars And Publications

The level of effectiveness of NDIC seminars/workshops at educating participants increased from 66.7% in 2010 to 72.7% in 2013 among insured bank respondents. Also, the level of effectiveness of NDIC seminars/workshops at educating participants increased from 41.0% in 2010 to 55.8% in 2013 among other deposit-taking financial institutions. Moreover, level of effectiveness of NDIC seminars/workshops at educating participants increased from 12.3% to 12.9% among trade/student unions and media house/electronic and print in the same period.

vii. Information sourcing about NDIC/DIS

The percentage of respondents interested in sourcing information about NDIC/DIS ranged between 19.38% and 31.60%. Specifically, the North-West zone seemed to be mostly interested in sourcing for information about NDIC/DIS, followed by South-South/South-East zones while South-West and North-East zone appeared to be least interested in sourcing for information about NDIC/DIS.

13.3. Recommendations of the Survey

The findings in the 2013 Survey informed the need for new set of strategies while old ones should be repackaged for a more robust public awareness campaign. The strategies being explored include:

a) Extensive utilization of Social Media through collaborative projects such as Wikipedia, blogs and microblog like Twitter, and social networking sites like Facebook;

b) Using sponsored TV programmes and Jingles on TV especially during primetime football matches like UK Barclays Premier League and Champions League;

c) Wider circulation of NDIC publications;

d) Devoting more resources to newspaper advertisements;

e) Wider distribution of posters, Handbills and pamphlets;

f) Organising Consumer Education Programmes;

g) Organising regular Briefing Sessions for Journalists;

h) Direct prosecution by NDIC of Directors and Officers of Insured Institutions that Violate any Provision of NDIC Act;

i) Organising Regular seminars for Finance Correspondents/Business Editors;

j) Organising Conference for Political office holders and captains of industry;

k) Efficient and Effective Service Delivery especially the sustenance of NDIC brand of effective supervision which has become a culture for which NDIC is well known;

l) Regular Training of Judges;

m) Given more Support to Higher Institutions;

n) Embarking on Road Show; and

o) Encouraging effective Partnership with Insured Institutions.

13.4 SUMMARY AND CONCLUSION

Despite the impressive nature of the deposit insurance design and implementation, the lack of public awareness would severely undermine the achievement of the DIS objectives. Public awareness of the deposit insurance system therefore, plays a significant role in ensuring that depositors are aware that their insured deposits are safe. In turn, this knowledge can help contribute to financial system stability.

The primary responsibility for the public-awareness campaign generally rests with the deposit insurer. Hence, the manager of the DIS would need to carefully map out devise communication strategies that will guarantee the best returns in terms of the objectives of the public-awareness programme. A well-crafted public awareness programme can help to bring about recovery or minimal distortion in the financial system even during financial crisis.

In the last thirty 30 years, the NDIC had put in place a robust public awareness programme geared towards achieving its set goals. These included seminars, workshops, the display of its logo at insured banks' premises, information on website as well as press briefings by the Managing Director and other Executives of the NDIC. Similarly, various publications, such as the NDIC Quarterly, Annual Report and Facts about NDIC were issued to members of the public periodically to inform them about its existence and activities of the Corporation. The NDIC also embarked on annual workshops for Business Editors and members of the Finance Correspondents Association of Nigeria (FICAN) to educate them on NDIC mandate and operations.

The NDIC continued to embrace best practices in deposit insurance as issued by the IADI and set-aside sufficient funds for public awareness campaigns based on cost estimates of activities to be undertaken. It also conducted periodic surveys to ascertain the extent of achievements of its mandate and gauge the effectiveness of its public awareness activities. With those initiatives, more stakeholders would be informed of the benefits of DIS being implemented by the NDIC.

CHAPTER FOURTEEN
INSTITUTIONAL REFORMS AND CAPACITY BUILDING

14.0 INTRODUCTION

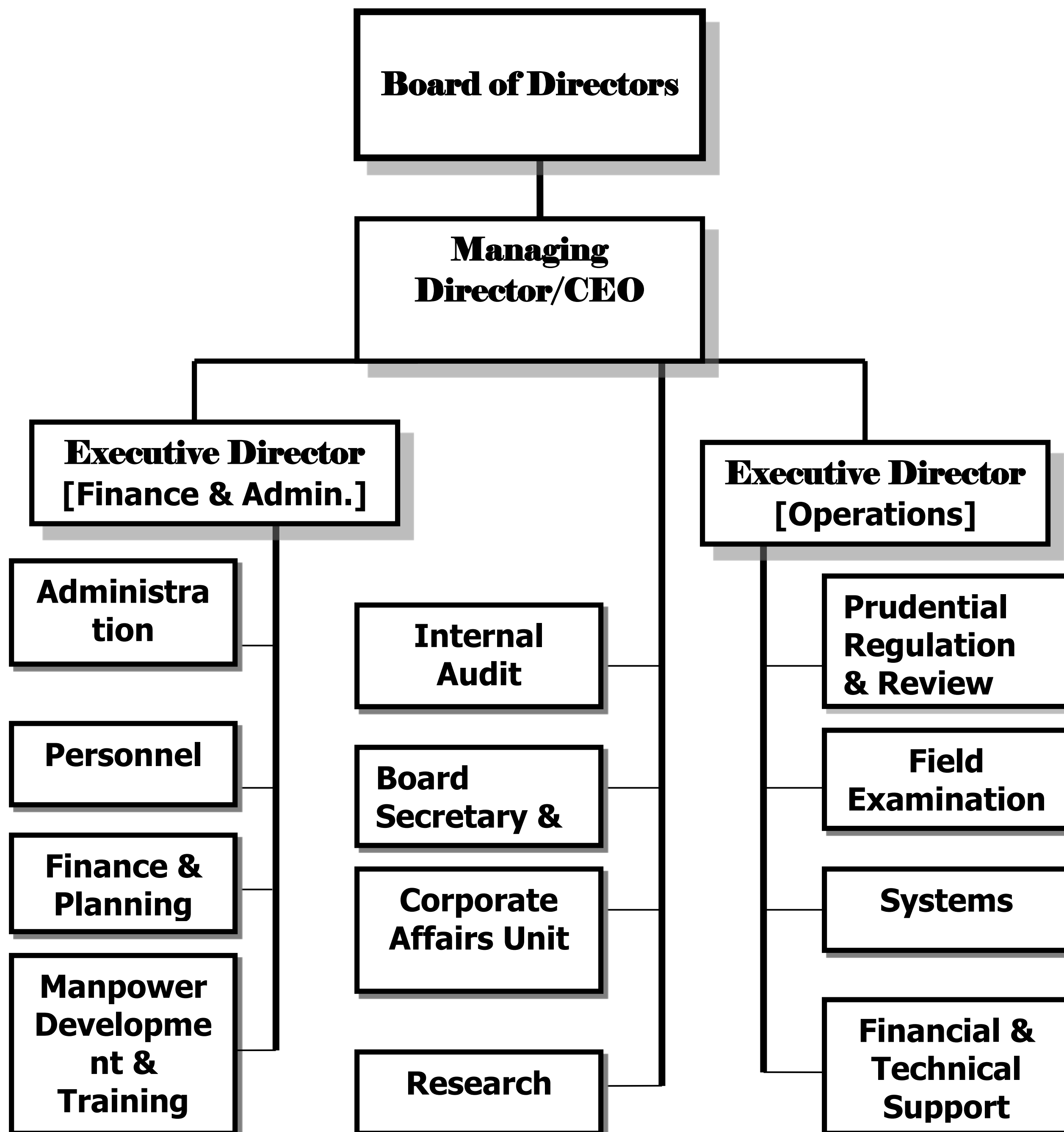
Over the years, the NDIC undertook institutional reforms through processes of reviewing and restructuring to promote integrity and legitimacy based on extant laws, public sector reforms and the dynamic nature of the nation's financial services industry. The reforms are categorized into: organizational structure, operational reforms, legal reforms and other reforms.

14.1 THE REFORMS

14.1.1 Changes in the Organizational Structure of the NDIC

At inception in 1989, the NDIC started with an organizational structure made up of 10 departments and 2 autonomous units, reporting to the three divisions, namely: the MD/CEO's Office, Executive Director (Operations) and Executive Director (Finance & Admin). The departments/units reporting to the MD/CEO in 1989 were: Office of the Board Secretary and Legal Adviser, Research Department, Corporate Affairs Unit and Internal Audit Unit. Those reporting to the Executive Director Operations were: Prudential Regulation & Review; Examinations; Systems; and Financial and Technical Support Departments. Those reporting to the Executive Director, Finance and Administration were: Administration; Personnel; Finance and Planning; and Manpower Planning and Training Departments. The structure reflected the functional requirements of the Corporation as at that time. For example, there was no Department like Receivership and Liquidation (R&L) at inception because there was no bank closure until 1994. The R&L Department was later created to handle the claims and liquidation activities of the NDIC. Chart 14.1 shows the organizational structure of the Corporation at the formative years of its existence.

CHART 14.1
NDIC's ORGANISATIONAL STRUCTURE AT INCEPTION IN 1989



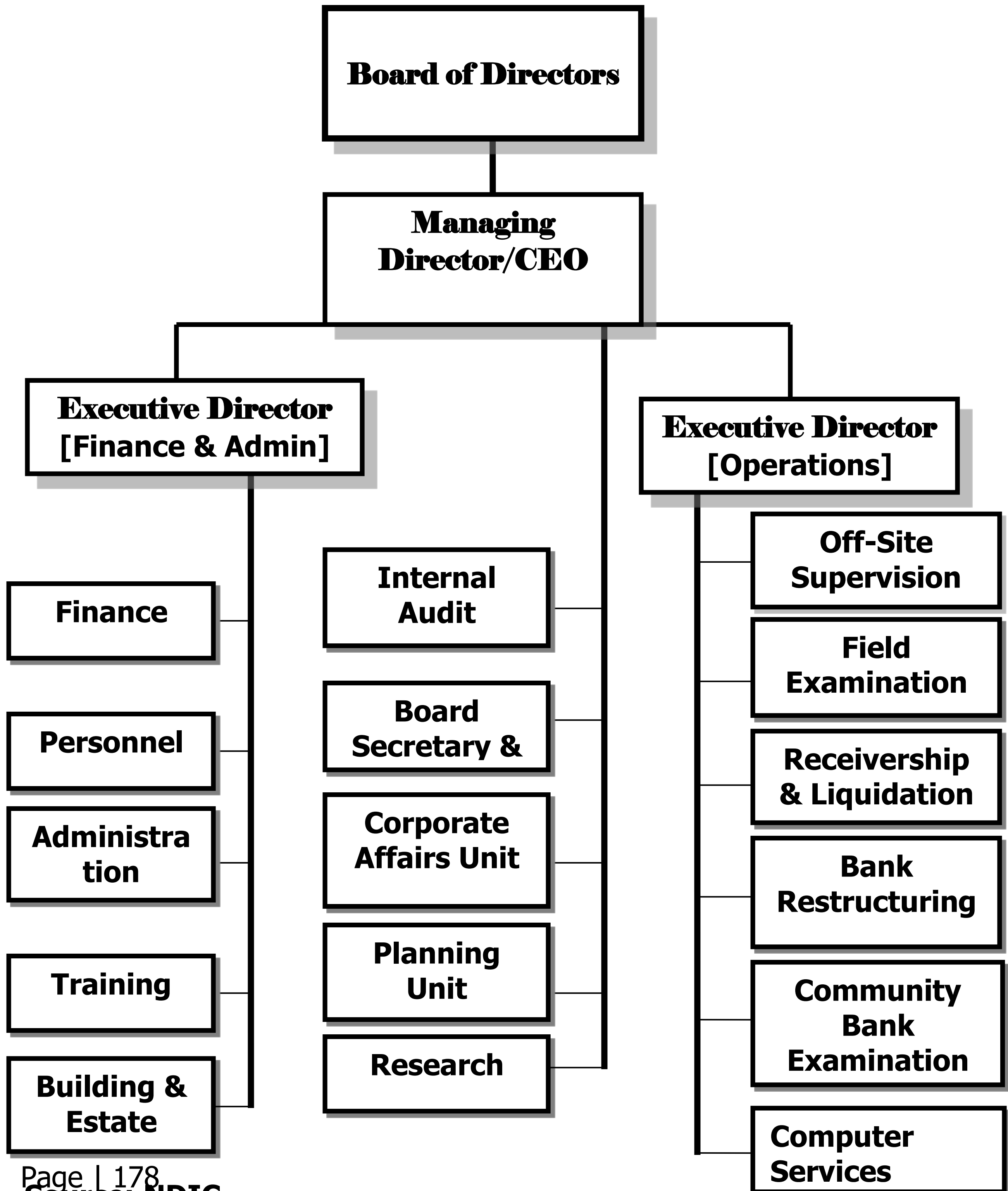
Source: NDIC

In the subsequent years, the structure was subjected to series of changes as a result of the expansion in the scope of the NDIC's activities, sometimes arising from developments in the banking industry. Consequently, between

1992 and 1994, three zonal offices were established with a view to increasing the outreach of the NDIC in terms of the examination of banks. The Zonal Offices were reporting to the Director of Field Examination Department. Also, other changes introduced included the splitting of some departments/units, while some had their names changed and some new ones were added. For example, Finance and Planning Department was split into Finance Department and Planning Unit. Also, Prudential Regulation and Review Department was changed to Off-Site Supervision Department and merged with the Financial and Technical Support Department. The Systems Department had its name changed to Computer Services Department, while the Community Bank Examination Department was created in the Operations Division. Building and Estate department was also carved out of the Administration Department. Manpower Development and Training Department had its name changed to Training Department, while Bank Restructuring Department was created. Chart 14.2 presents the organizational structure of the Corporation as at December, 1994.

CHART 14.2

NDIC' ORGANISATIONAL STRUCTURE AS AT DECEMBER 1994



Source: NDIC

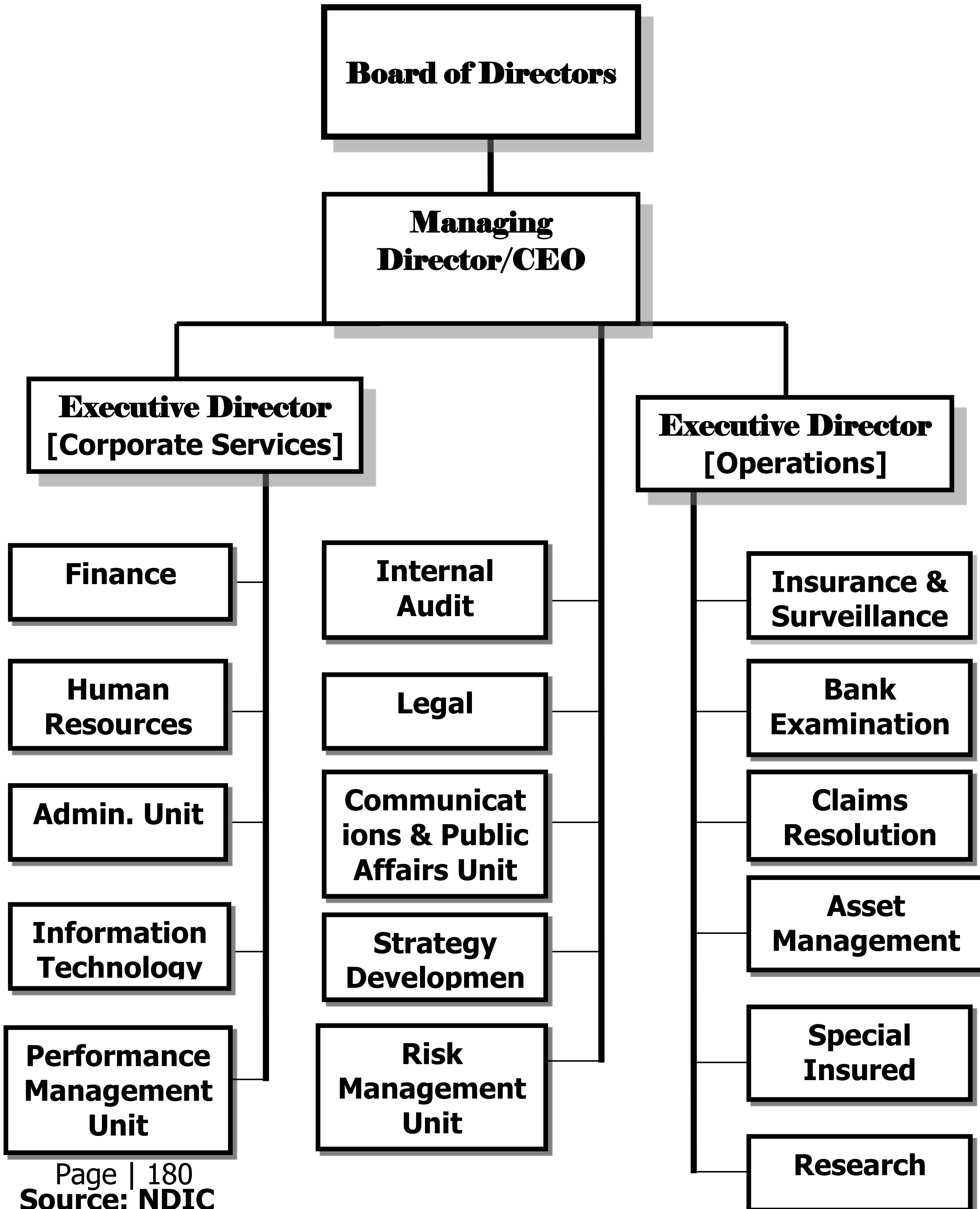
Between 1999 and 2006, the structure went through series of adjustments such that Research Department hitherto under the MD/CEO's Division was moved to ED (Ops) Division, while Computer Services Department was moved to the ED (F&A) Division. Planning Unit had its name changed to Corporate Development Department for effectiveness. Also, Building and Estate Department was merged with Administration, Training Department was merged with Personnel Department to form the Human Resources Department.

In 2007, following the adoption of a three-year strategic plan for the Corporation, there was another major reform that brought about changes in its organizational structure. As a result, autonomous units such as Performance Management Unit and Risk Management Unit were added to the structure. Also, Receivership and Liquidation Department was split into Asset Management and Claims Resolution Departments, while Administration Department was reduced to an autonomous unit as a result of significant reduction in its volume of activities.

A Division and some Departments/Units had their names changed. They included: Executive Director (F & A.) which later became ED (Corporate Services) while Field Examination Department was changed to Bank Examination Department. Other changes affected Off-Site Supervision Department which became Insurance and Surveillance Department; Corporate Development Department was changed to Strategy Development Department; Computer Services Department changed to Information Technology Department; and Public Affairs Unit (formerly Corporate Affairs Unit) was changed to Communications & Public Affairs Unit. Also, a new Department called Special Insured Institutions Department was created under the ED (Ops) Division. The changes were aimed at clearly reflecting the mandates of various Departments/Units based on the restructuring that had taken place. At a glance, Chart 14.3 gives the NDIC's Organogram as at December 2008.

CHART 14.3

NDIC ORGANISATIONAL STRUCTURE AS AT DECEMBER 2008

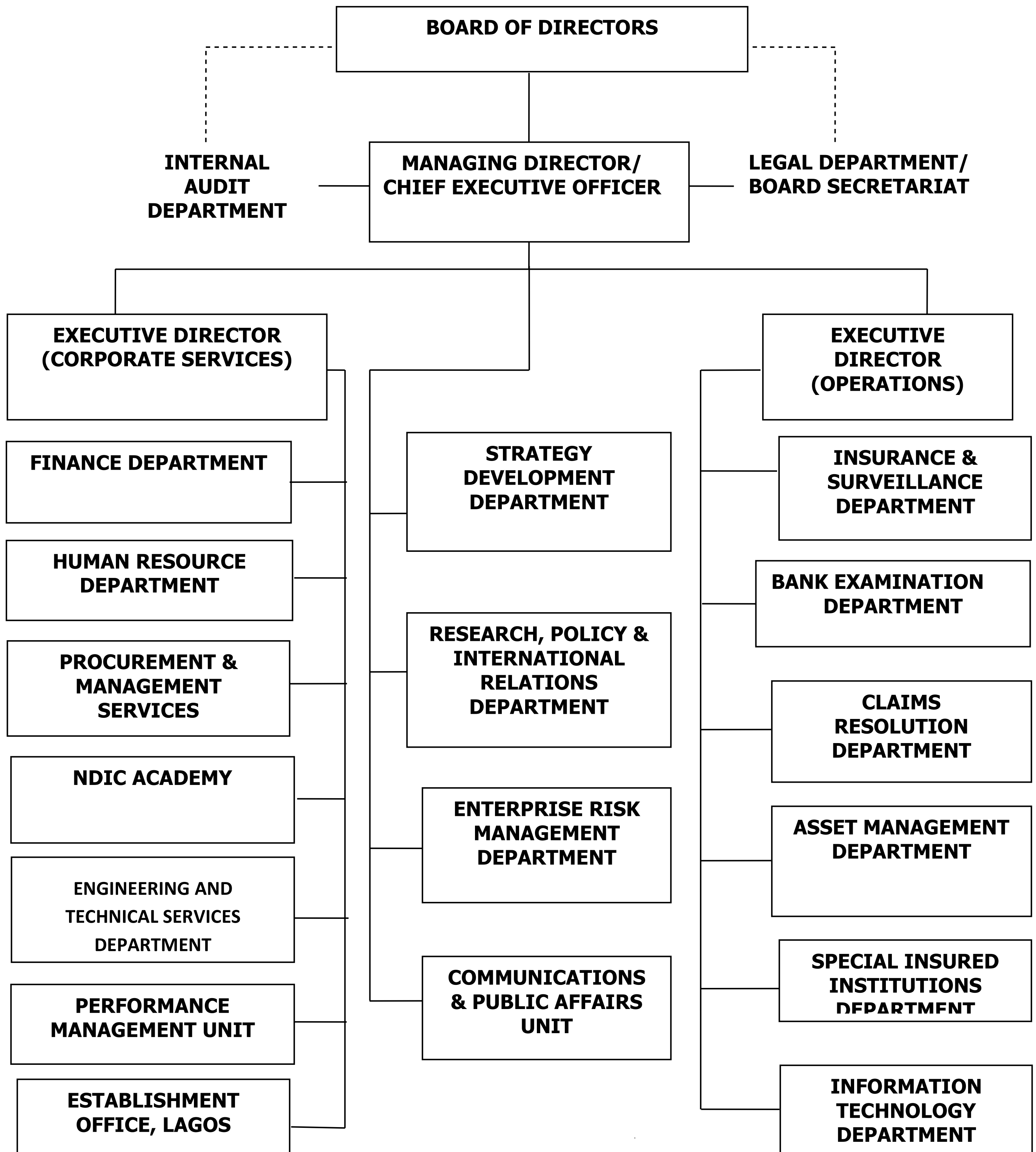


Source: NDIC

Between 2008 and 2018, there were changes in its organizational structure, which was in line with the NDIC's strategic plan. As a result, autonomous unit, such as, Risk Management Unit was upgraded to full fledged Departments, and thus added to the structure. Also, Administration Department was split into Human Resource Department and Establishment Office, Lagos as autonomous department/unit as a result of significant reduction in its volume of activities. A division and some departments/units had their names changed. They included: Executive Director (Fin. & Admin.) which became Executive Director (Corporate Services) while Field Examination Department was changed to Bank Examination Department.

Other changes affected Off-Site Supervision Department which became Insurance and Surveillance Department; Corporate Development Department was changed to Strategy Development Department; Computer Services Department changed to Information Technology Department; and Public Affairs Unit (formerly Corporate Affairs Unit) was changed to Communications & Public Affairs Unit. The changes were aimed at clearly reflecting the various mandates of the departments/units based on the restructuring that had taken place. Three departments and one unit are directly under the MD's office. These include: Strategy Development Department; Enterprise Risk Management Department; Research Policy & International Relations Department and Communications & Public Affairs Unit. At a glance, Chart 14.4 gives the NDIC's Organogram as at December 2018.

CHART 14.4:
NDIC's ORGANISATIONAL STRUCTURE AS AT 2018



Source: NDIC

14.1.2 Operational Reforms

The NDIC carried out series of reforms on its operational activities. The NDIC in order to render excellent services to its stakeholders particularly the depositors, which the system was to protect and the operators (banks) through which the system was being implemented, some of the operational reforms included:

i) Deposit Insurance Reform

An important aspect of the deposit insurance reform that was undertaken by the NDIC in the last thirty years of its existence was the review of some of the design features of the DIS. The essence of the reform was to respond to the changes that had taken place in the Nigerian economy, which affected the relevance of the system, as well as in response to the expectations of its various stakeholders. First, there was an upward review of the Maximum Deposit Insurance Coverage for deposit money banks from N200,000.00 to N500,000.00 per depositor per DMB (including non-interest bank). Similarly, the coverage level for Primary Mortgage Banks was reviewed upwards from N200,000.00 to N500,000.00 per depositor per PMB upon approval of the Minister in 2016. However, that of the Microfinance Banks remained at N200,000.00 per depositor per MFB. The NDIC also guarantees funds of subscribers of Mobile Money Operators (MMOs) in Nigeria through Pass-Through Deposit Insurance (PTDI) up to a coverage limit of N500,000.00 per DMB per subscriber.

Secondly, there was a shift from the use of Flat Rate Premium Assessment method to Differential Premium Assessment System (DPAS), which was based on the risk profile of the insured institutions. The base rate is applied uniformly to all insured institutions, while the add-ons were based on the risk appetite of each institution in order to ensure fairness and equity in deposit insurance pricing and to reduce premium burden on banks. In addition, Inter-bank Takings were removed from the list of insurable deposits to avoid double assessment.

ii) Reform on Service Delivery

The Federal Government introduced a service delivery programme called SERVICOM in 2004, and all government agencies, including the NDIC, were mandated to implement. SERVICOM is an acronym for "Service Compact with all Nigerians". For effective implementation of the programme, a coordinating office was set-up at the Presidency headed by a Special Adviser to the President, while all government agencies were required to set up similar offices.

In compliance with the above directive, the NDIC set up a SERVICOM Unit under the Strategy Development Department. The Unit produced a service charter for the NDIC and coordinated similar initiatives by other Departments/Units. Also, other activities such as the establishment of Customer Helpdesks in all the Departments, putting in place grievance redress mechanisms, and proper sign-postings of offices in all the office buildings of the NDIC across the country, that could give NDIC customers maximum satisfaction, were also undertaken under the SERVICOM programme.

iii) Whistle-Blowing Policy, Anticorruption and Transparency

The primary goal of the whistle blowing policy is to support the fight against financial crimes and corruption, by increasing exposure of financial crimes and rewarding whistle-blowers. In order to promote such exposure, whistle-blowers are encouraged and offered protection from harassment or intimidation by their bosses or employers. It was believed that the initiatives would enable increased recovery of looted funds through the encouragement of voluntary information about corrupt practices.

Furthermore, in recognition of the need for probity, accountability and transparency in public service, the Federal Government, established both the Independent Corrupt Practices Commission (ICPC) and Economic and Financial Crimes Commission (EFCC). Government agencies were mandated to establish anti-corruption units and maintain synergy with main anti-corruption agencies with a view to fighting corruption in their organizations.

In compliance with the directive, the NDIC established an Anti-corruption and Transparency Unit (ACTU) under the Internal Audit Department. It is noteworthy that even before the directive by the Federal Government, the NDIC Management always had zero tolerance for corruption. It demonstrated that, by ensuring accountability and transparency in all its dealings/transactions as well as taking disciplinary actions against culprits.

iv) Automation of Internal Payment System

To date, the entire operations of the Finance Department of the NDIC are fully automated through the use of various software in all areas of its operations.

In June 2016, the NDIC fully integrated its payment system with the **Remita** e-payment and e-collection solution with a view to achieving its end-to-end payment regime and comply with the directive of the Federal Government for the implementation of the Treasury Single Account (TSA).

14.1.3 Legal Reforms

The major development was the repeal of the Decree No. 22 of 1988 and re-enactment of NDIC Act 16 of 2006. Having operated for two decades, the NDIC faced a lot of legal challenges in the course of executing its mandate. Hence, the need for review/amendments to its enabling law. Accordingly, the Corporation had its enabling law (NDIC Act 22 of 1988) amended two times between 1989 and 1999. However, in 2006, the Act No. 22 of 1988 was repealed and replaced with NDIC Act 16 of 2006. With this reform, the NDIC became better positioned to carry out its responsibilities. Given the dynamic nature of the financial services industry and the need for the NDIC to achieve its vision of becoming the Best Deposit Insurer in the World by 2020, it further proposed amendment to the 2006 Act. The proposal is before the National Assembly for consideration and further necessary actions.

i) Performance Management

The Management of the NDIC had always been committed to efficient service delivery. In December 2008, a new Performance Management System was

developed and deployed. The new system had the capability of effectively linking individual staff results to specific organizational goals and provided the basis for rewarding good performance. The process was being driven by Performance Management Unit. Other value additions from the system include improved management of staff, guided career development, effective identification of staff weaknesses and a more focused and systematic training of staff.

14.2 CAPACITY BUILDING INITIATIVES

Since its inception, the NDIC had continued to leverage on the training opportunities available at older deposit insurance agencies such as the Federal Deposit Insurance Corporation (FDIC) of the United States of America, Philippines Deposit Insurance Corporation (PDIC) and other relevant institutions such as Federal Reserve Bank (FED) of the United States of America and Financial Services Authority (FSA) of the United Kingdom. That was complemented with attachments and study tours for the NDIC's staff in an effort at building relevant skills and competences to undertake the tasks ahead of it.

Presented below are some of the capacity building initiatives undertaken by the NDIC in the last three decades of its existence.

14.2.1 Establishment Planning Committee:

After several years of operation that witnessed internal redeployments of staff at intervals as well as staff disengagements due to various reasons particularly retirement and resignation, the NDIC found it necessary to undertake a stock-taking of its manpower with a view to repositioning it to be in tandem with developments in the financial services industry. Accordingly, in 2002 it inaugurated the Establishment Planning Committee (EPC) which reviewed the human resources capabilities, operational structures and processes of the NDIC. The outcome of that exercise included the redefinition of the functions and objectives of the various Departments/Units. Indeed, as a result of that exercise, a Performance

Management Unit (PMU) was eventually established in the NDIC to address performance related issues.

14.2.2 Establishment of a Training Advisory Committee

In order to facilitate proper appraisal of training programmes and keep them focused on the needs of the NDIC, the Training Advisory Committee (TAC) was established in 1998. The TAC has since maintained this objective, thus ensuring that programmes approved were relevant to DIS, and specifically to the operations of NDIC.

A training policy was articulated in 1999 which was aimed at:

- Ensuring that training was intentional, systematic, integrative, rational and need-driven;
- Ensuring that training was cost-effective;
- Providing broad direction and guide for all training activities;
- Ensuring that training was aligned with the general corporate objectives and strategy; and
- Ensuring fairness and equity in the distribution of training opportunities to all staff.

14.2.3 Leadership Development

Over the years, management development courses were designed and implemented in the NDIC to facilitate strategic management. Areas covered in that respect included: Management Appreciation; Leadership Skills; Strategic Management; Delegation and Control; Team Management and Communication; and Report Writing.

14.2.4 Establishment of NDIC Academy

In 2013, the NDIC upgraded the NDIC Training Centre to a full-fledged Academy. In 2017, the NDIC Academy received accreditation as a training service provider for the Banking and Finance Industry by the Council of the Chartered Institute of Bankers of Nigeria (CIBN).

Table 14.1 shows the number of training programs organized by the NDIC Academy since 2013. As evident from Table 14.1 is the significant rise in the number of staff trained since 2013, as it rose from 250 in 2013 to 2,627 in 2017.

Table 14.1
Number of NDIC Staff Trained In-House (2013-2018)

Year	No. of Courses	No. Of Staff Trained (In-House)
2013	5	250
2014	8	302
2015	13	766
2016	13	715
2017	21	2,627

Source: NDIC

14.2.5 Staff Training Programs

Huge investment on staff training and development was made by the NDIC through local and overseas training programs as well as training conducted by the Corporation's Training Centre, which covered significant number of staff. Table 14.2 shows the participation rate on training in the Corporation.

As shown in the table, the number of staff trained locally has grown over the years, rising from 208 in 1989 to 1158 in 2017. It is worth mentioning that as the staff size of the NDIC increased over the years, there was the need to equip them with the necessary training to efficiently perform their duties. The staff of the NDIC have also participated in overseas training. Through these trainings, they have gained international exposure on the practice of DIS in other climes, and broadened their network. Specifically, the number of staff who participated in overseas training increased from 5 in 1989 to 77 in 1999, and further to 176 in 2010. It increased to a peak of 282 participants in 2014 and declined to 94 in 2017. The observed relatively low participation rate since 2015 is attributed to the Federal Government of Nigeria's embargo

on foreign trainings and international travels by MDAs in 2015. That was one of the cost-cutting measures of the Federal Government of Nigeria to reduce government spending.

Table 14.2
Number of NDIC Staff Trained (1989-2018)

Year	No. Of Staff Trained (Local)	No. Of Staff Trained Overseas
1989	208	5
1990	147	18
1991	191	13
1992	66	40
1993	246	42
1994	209	60
1995	91	24
1996	312	49
1997	225	21
1998	227	80
1999	203	77
2000	219	62
2001	221	62
2002	384	111
2003	422	109
2004	280	118
2005	315	130
2006	328	133
2007	207	117
2008	306	138
2009	347	169
2010	391	176
2011	576	-
2012	1641	169
2013	1375	228
2014	1138	282
2015	1463	52
2016	1326	79
2017	1158	94

Source: NDIC

14.2.6 Support for Membership of Professional Associations

Over the years, the NDIC staff who were members of professional associations such as Institute of Chartered Accountants of Nigeria (ICAN), Chartered Institute of Bankers of Nigeria (CIBN), Nigeria Institute of Management (NIM), Risk Managers Association of Nigeria (RIMAN), Chartered Institute of Personnel Management of Nigeria (CIPMN), etc benefited from various Mandatory Professional Continuing Education (MPCE) programmes as well as annual conferences and seminars. In 2002, 71 staff benefited from the sponsorship of such programmes. It increased to 262 employees in 2008, and further to 454 in 2017.

Table 14.3 gives statistics of staff that benefited from the NDIC's sponsored professional development programme from 2002 to 2018.

Table 14.3
Staff Participation at the Professional Development Programmes (2002-2018)

Year	No. Of Staff Sponsored
2002	71
2003	94
2004	30
2005	168
2006	98
2007	165
2008	262
2013	254
2014	318
2015	404
2016	313
2017	454
2018	

Source: NDIC

14.2.7 Self Development Programmes

As part of its remarkable effort in capacity building from the institutional perspective, the NDIC, consistent with its policy of self-development, had

continued to encourage staff to acquire additional qualifications (Degrees, Diplomas, and Professional Certificates) in various disciplines relevant to the functions of the NDIC. To encourage self-development, bonuses (in monetary terms) were granted to staff members who obtained relevant additional qualifications.

14.2.8 Training and Development of Other Stakeholders

In the three decades of its existence, the NDIC had invested in the training and development of other stakeholders that could facilitate the effective discharge of its mandate. In that regard, insured bank staff were trained in areas such as Risk Management and the New Capital Accord (Basel II) to facilitate transition to Risk-Based Supervision (RBS).

Also, in 1995, courses/workshops were also organized for police personnel and High court judges engaged in the implementation of the Failed Banks (Recovery of Debts) and Financial Malpractices in Banks Act, No. 18 of 1994. Since 2002, Business Editors and Financial Correspondents of print and electronic media under the aegis of FICAN had been trained annually on the activities of the NDIC, so that they could appreciate the concept of DIS and help educate the public on its activities. Similarly, the personnel of accounting /auditing firms that were engaged in the liquidation of failed banks were also trained to enhance their performance. Indeed, 15 firms of Chartered Accountants engaged as closing agents in respect of fifteen (15) out of the twenty six (26) banks whose licences were revoked in 1998 were trained before they started work. Furthermore, in 2016, the NDIC Academy organized a one-month intensive programme for security operatives of the Economic and Financial Crimes Commission (EFCC) and Independent Corrupt Practices and Other Related Offences Commission (ICPC).

14.3 SAUMMARY AND CONCLUSION

During the past thirty (30) years of NDIC's existence, it had undergone several institutional reforms categorized into organizational, operational,

legal and others. Those reforms were instituted in compliance with the government directives, in conformity with the changing banking system as well as to best serve its various stakeholders. In line with its recognized global status as one of the best deposit insurance agencies, an assessment of its compliance with core principles by the IADI, revealed a few shortcomings which the Corporation is trying to rectify largely through amendment of its enabling Act.

Similarly, the NDIC devotes a lot of resources towards capacity building of its staff as it's most valuable resource and because deposit insurance is a specialist field that suffers various skills shortage issues. Despite these challenges, the various reforms and capacity building institutional efforts have largely succeeded in resolving the identified issues while it strategizes and plan for the future.

CHAPTER FIFTEEN
COMPLIANCE WITH CORE PRINCIPLES FOR EFFECTIVE DEPOSIT INSURANCE SYSTEMS

15.0 INTRODUCTION

The Core Principles for Effective Deposit Insurance Systems was developed by a joint group of the Basel Committee on Banking Supervision [BCBS] and the International Association of Deposit Insurers (IADI). The objectives of the Core Principles were to enhance the effectiveness of deposit insurance systems 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 deposit insurance system.

Initially, the Core Principles which were first introduced in June 2009 comprised 18 Principles, but were revised to 16 in November 2014. The revision was informed by the need to achieve greater clarity and consistency of terminology, reduce overlap and strengthen the Core Principles in certain areas. It is the belief of IADI that a high degree of compliance with the Core Principles should enhance depositor protection and contribute to financial system stability.

15.1 OVERVIEW OF THE CORE PRINCIPLES

The essence of the 16 Core Principles can be summarized as follows:

Principle 1 – Public Policy Objectives

- Public policy objectives (PPOs) should be formally specified through legislation and publicly disclosed.
- The two main PPOs for DIS are:
  - Protecting depositors; and
  - Contributing to the stability of the financial system.

Principle 2 – Mandate & 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:

❖ Assess & collect premiums; transfer deposits to another bank; reimbursing insured depositors

❖ Information sharing with other safety-net members;

❖ Entering into contracts;

❖ Access timely and accurate information to ensure that it can meet its obligations to depositors, etc.

Principle 3 – Governance

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

Principle 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.
- Information –sharing and coordination arrangements should be formalized.

Principle 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 (with proper confidentiality arrangements).

- Essential where there are foreign banks in a jurisdiction.

Principle 6 – Deposit insurer's role in contingency Planning and Crisis management.

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

Principle 7 – Membership

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

Principle 8 – Deposit Coverage

- Deposit Coverage in terms of Scope and Level should be clearly defined and reviewed periodically.
- Scope – Insurable deposits must be clearly defined in law, prudential regulations, or by-laws.
- Level – The level of coverage should be limited but credible and capable of being quickly determined.
- The deposit insurer should apply the level and scope of coverage equally to all its member banks.

Principle 9 – Sources and Uses of funds

- A deposit insurance system should have all necessary funding available to ensure the prompt reimbursement of depositors' claims.

- Member banks must pay for deposit insurance since they and their clients directly benefit from having an effective deposit insurance system.

Principle 10 – Public Awareness

- An effective deposit insurance system will keep the public informed about all aspects (i.e., benefits and limitations) of the deposit insurance system.
- Deposit insurers should promote public awareness about the deposit insurance system on an ongoing basis to maintain and strengthen public confidence.

Principle 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.

Principle 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.

Principle 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.
- Identification of problem banks should be made early and on the basis of well-defined criteria by safely net participants with the operational

independence and power to act before the bank becomes non-viable to protect depositors and contribute to financial stability.

Principle 14 – Failure Resolution

- An effective failure-resolution process should:
- ✓ Facilitate the deposit insurer's ability to meet its primary obligation: prompt reimbursement to insured depositors.
- ✓ Minimize resolution costs and disruption to markets.
- ✓ Maximize recoveries on assets
- There must be a flexible mechanism to help preserve critical banking functions by facilitating liabilities (P&A transactions).

Principle 15 – Reimbursing Depositors

- The deposit insurance system should give depositors prompt access to their insured funds.
- The deposit insurer 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.

Principle 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.

15.2 PEER ASSESSMENT OF NDIC ON COMPLIANCE WITH CORE PRINCIPLES

In December 2011, the NDIC voluntarily agreed to subject itself to Peer review assessment with regard to its compliance with the Core Principles for Effective Deposit Insurance System 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:

[i] Compliant: This is where there is no material short coming and the level of compliance with a Core Principle was considered adequate,

[ii] Largely compliant: This depicts a good level of compliance but with some material deficiency that needed to be addressed,

[iii] Materially non-compliant: This reveals a significant level of non-compliance with the expectations of the Core principle for which more efforts towards compliance should be made,

[iv] Non-compliant: This depicted that not much had been put in place with regard to the objectives of the Core Principle.

The Peer Review Team returned the following verdicts on NDIC in respect of each of the Core Principles":

Principle 1 Public Policy Objectives

Although the two main public policy objectives of the scheme could be discerned from the statutory functions/mandates of the NDIC, the NDIC Act 2006 did not stipulate the policy objectives in express terms. The conclusion of the Peer review therefore, was that Nigeria was largely compliant. However, since the 2011 assessment, more progress towards full compliance status had been made. The NDIC had proposed a review of its enabling Act which contained in very clear terms, the public policy objectives of the scheme. The public policy objectives proposed in the amendment bill are the following:

[1] To protect small depositors in the event of bank failure
[2] To contribute to financial system & macro- economic stability
[3] To provide formal mechanism for failure resolution
[4] To contribute to orderly payment system

Thus, whenever the proposed Amendment Bill is passed into law, Nigeria would be fully compliant.

Principle 2 Mandate and Powers

Although the mandate of the NDIC was clearly stipulated in various sections of the NDIC Act 2006, the IADI assessment Team was of the view that the mandate should have been consolidated in one Section or Part of the Act instead of being scattered in various Sections/Parts of the Act. Consequently, the verdict was that Nigeria was only largely compliant. It is significant to note that the NDIC Amendment Bill pending before the National Assembly had addressed the issues raised on this Core Principle.

Principle 3 Governance

Nigeria was adjudged as being largely compliant on this Principle. The Peer Assessment noted that there was an enabling legislation that established the DIS in Nigeria with very clear governance structure and relative independence. However, there was some concerns on possible influence of political authorities on the operations of the scheme especially arising from the implementation of the Fiscal Responsibility Act.

Principle 4 Relationship with Other Safety-Net Participants

The NDIC was rated compliant to this Core Principle as there were administrative structures put in place for coordination and information sharing amongst the Nigerian Safety Net Participants. Examples of such arrangements between the key financial safety net players (CBN and NDIC) included:

[i] CBN/NDIC Joint Technical Committees on Supervision
[ii] CBN/NDIC Joint Executive Committee on Supervision
[iii] CBN/NDIC Joint Examination Teams;

[iv] Financial Services Regulation Coordinating Committee (FCSSC) a platform for collaboration among Regulators/Supervisors in the financial services sector.

Inspite of being rated compliant, the NDIC is pressing for a more concrete legally enforceable framework for coordination and information sharing among safety net players.

Principle 5 Cross-Border Issues

The NDIC was rated compliant with the Principle as it maintained close cooperation with other deposit insurers as a founding member of IADI.

Principle 6 Deposit Insurer's Role in Contingency Planning and Crisis Management.

The NDIC was rated largely compliant with the Principle given the existence of a contingency Planning Framework for Banking Systemic Crises, jointly developed with the CBN.

Principle 7 Membership

The assessment was that Nigeria was compliant in Principle, as the provisions of the NDIC Act 2006 makes it mandatory for all licensed banks and other deposit taking financial institutions to participate in the deposit insurance system.

Principle 8 Coverage

The NDIC was rated as compliant. The favorable assessment was achieved as a result of the repeal of the NDIC Act 1988 and the enactment of the NDIC Act 2006. The 2006 Act clearly defines the deposits that are covered by the scheme and the maximum claim payable to each depositor when a bank fails. The Act also empowers the NDIC to vary upwards the maximum claim payable. That had enabled the NDIC to increase maximum insured claims of ₦50,000.00 per depositor per bank set in 1988 to the present level of ₦500,000.00 for DMBs and PMBs, while that of MFBs was increased from ₦100,000.00 to ₦200,000.00.

Principle 9 Sources and Uses of Funds

The NDIC was rated as largely compliant, based on the threat posed to the insurance funds by the implementation of the Fiscal Responsibility Act where the DIS was practically treated as a revenue centre for Government contrary to international best practice.

Principle 10 Public Awareness

The NDIC was rated as largely compliant. However, since then, the NDIC has been implementing a robust public awareness programme involving the media, tailored sensitization seminars for its key stakeholders especially the judiciary and the Bar among others. Many other initiatives aimed at promoting public awareness of the deposit insurance system had been put in place and it is evident that if another assessment was conducted, the Corporation would be adjudged fully compliant.

Principle 11 Legal Protection

The NDIC was rated as compliant as Section 55 of the NDIC Act provided the required protection for Board and Staff. Furthermore, conflict of interest provisions have been made in the pending NDIC Amendment Bill pending in the National Assembly for consideration and passage.

Principle 12 Dealing with Parties at Fault in a Bank Failure.

The NDIC was rated as compliant on the Principle. That verdict took into account the roles played by the NDIC over the years in holding accountable parties who were responsible for bank failures. The enactment of the Failed Banks Act in 1994 at the instance of the NDIC was aimed at achieving the objectives of this principle and it recorded tremendous success during the Military regimes. Although, the great success recorded at the early stages of the implementation of the Failed Banks Act has waned on the advent of democratic governance, collaborative efforts by the NDIC, other /safety net players and law enforcement Agencies have continued to yield positive results.

Principle 13 Early Detection and Timely Intervention

The NDIC was rated as largely compliant on the Principle. Although, there is in place a robust framework for distress resolution available to the financial safety net agencies, there were some reservations that the application of the framework may not be rule based but more of discretionary in terms of the resolution model and time of application of same. The failure to have a formal well-defined delineation of the respective roles of the NDIC and the CBN with regard to failure resolution was the caveat that led to the rating.

Principle 14 Failure Resolution

Although the failure resolution framework in place was considered to be generally satisfactory, the Assessment Team expressed dissatisfaction with the 90-day period for depositors' reimbursement after a bank failure, as a result, rated NDIC as materially non-compliant. The international best practice allows a maximum of one week for reimbursement of claims. The NDIC had since started developing the capacity to drastically reduce the time frame for reimbursement. One of the major causes of delay is the legal framework, which compels the Corporation to await the revocation of a banks license before paying claims. Furthermore, litigation by the shareholders could impede the ability of the Corporation to settle claims of depositors promptly. Nevertheless, if the amendment of the NDIC Act 2006 is completed, the ability of the Corporation to settle claims promptly will be enhanced.

Principle 15 Reimbursing Depositors

The NDIC was rated as largely compliant primarily because the extant law prescribes 90 days for settlement of claims. The rating should improve as soon as the legal framework is reviewed as proposed.

Principle 16 Recoveries

The NDIC was rated largely compliant on the Principle.

15.3 SUMMARY AND CONCLUSION

It is evident that in terms of its design features, and as confirmed by the IADI Assessment Team, the DIS in Nigeria has substantially met the international best practice established by IADI having substantially complied with the 18 Core Principles (now 16). Indeed, as a result of various institutional reforms and other innovations, the NDIC had put in place it is now recognized as the leading Deposit Insurer in Africa. In 2014, the NDIC won the IADI Best Deposit Insurance of the year Award in the area of Core Principles and International Participation, thereby confirming its leading status in Africa.

It is also significant to note that some of the challenges that informed the Peer Team assessment were statutory and therefore outside the area of control of the NDIC. That informed the reason for the determined effort made by the NDIC to carry out some amendments to its enabling statute, which process is still ongoing. The outstanding challenges would be dealt with after the amendment process is completed.

CHAPTER SIXTEEN
CORPORATE SOCIAL RESPONSIBILITY

16.0 INTRODUCTION

The main objective of an organization is to maximize the stockholder value by realizing its corporate objectives. Most organizations have established that long-term survival is more germane than short-term profit-maximization motives. The long-term objective, however, hinges on societal acceptance through which the organization obtains all the requirements to realize the objective. This chapter presents the CSR activities of the NDIC in the last thirty (30) years.

16.1 CSR ACTIVITIES OF NDIC

NDIC activities since inception have been wholly beneficial to the society. To promote educational excellence and in fulfilling part of its social responsibility, the NDIC instituted endowment fund and prize awards for institutions of higher learning in the country in 1994. Under the scheme, grants were made to nine (9) Universities for endowment of Professorial Chairs in different academic fields in 1995. Likewise, in 1996, 31 Universities benefited from cash award prizes.

In 2003, the Board of the NDIC decided to sponsor projects in the institutions of higher learning instead of the previously endowment/prize awards. That was in response to the challenge thrown by the Federal Government that year to the Bankers' Committee on the deplorable state of infrastructural facilities in the higher institutions of learning in the country. Consequently, the NDIC Board approved the disbursement of a grant of ₦10 million each to 13 selected Federal Universities totalling ₦130 million. Two institutions were selected each from the six geopolitical zones of the country and one from the FCT for the projects.

In 2006, the NDIC Board approved another disbursement of ₦120 million to twelve (12) institutions under the initiative, thereby bringing the cumulative

amount disbursed under the first and second phases of the project-based support to ₦250 million. Twenty five (25) universities and polytechnics, therefore benefited under the first and second phases of the programme.

In 2011, the NDIC reviewed upward the maximum grant extended to educational institutions, from ₦10 million to ₦20 million, per project under the third phase of the initiative. That was in view of the rising cost of materials and to ensure the successful completion of the projects. A total number of eleven (11) institutions received ₦20 million each for their respective projects.

The scope of NDIC's CSR beneficiaries was further expanded to include colleges of education and secondary schools. Extending the CSR scope to secondary schools underscore the importance of financial literacy. About ₦100 million was released in 2012 to three universities, a college of education and a secondary school towards the completion of sponsored infrastructure in these institutions[3].

NDIC increased the magnitude of its CSR contribution to infrastructural development of educational institutions in 2013 from ₦20 million to ₦30 million. The sum of ₦84 million was disbursed to three educational institutions[4] (NDIC, 2013).

A larger amount was expended on CSR-based project finance in 2015. ₦236.15 million was expended to finance 18 projects[5] (NDIC, 2015). A sum

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[3] NDIC in 2012 financed construction of a clinic in North West University Kano; a Library complex in Novena University, Delta State; a bookshop in Enugu State University of Science & Technology; ultramodern ICT Centre in Adamu Augie College of Education, Kebbi state; and a modern ICT Centre in St. Augustine's Grammer School, Nkewere, Imo State.

[4] N30 million was allocated to Layola Jesuits University, Edo, Edo State, for construction of Ewatto Campus. Fountain University, Osogbo also received N30 million to build a Science Laboratory; while Zaria Academy, Shika was allocated N24 million to rebuild and furnish its Science laboratory.

[5] These projects included the construction of College Auditorium and the Expansion of the College Clinic Federal College of Agriculture, Ishiagu, Ebonyi State; building and Furnishing of a 3 Classroom Block, Staff Room, and 4 Toiltes in Oghareki Grammer School, Delta State; Rehabilitation of 2NR-2 Storey Blocks of 12

of ₦71.6 million was expended in 2016 on several CSR-based projects across many geopolitical zones. In 2017, over ₦319 million was approved for CSR but about ₦230 million was expended because not all the projects were completed during the year. The balance was to be later disbursed in subsequent years for the completion of the projects. That again signified the NDIC's commitment to efficient fund utilization by ensuring that funds were released in accordance to stage of project completion. Over ten infrastructural projects were to be financed in various educational institutions across the geopolitical zones[6].

The NDIC initiated the publication of the Nigerian Banking Law Reports. The publication is a compendium of decided banking-related cases in Nigeria. It documented all banking and finance cases decided by the courts since 1933. That was part of its contribution to the development of the legal profession in Nigeria.

The above represented value-adding CSR policies that the NDIC delivered, 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. Table 16.1 presents the summary

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Classrooms in Unity Junior High School Ago-Ika, Ogun State; Construction and Furnishing of an Auditorium/Examination Hall in Government Secondary School, Bakin Kogi, Plateau State.

[6] Projects financed in 2017 included Construction and Furnishing of Classrooms in Special Adult Education School, Azare, Bauchi State, as well as in Mai Hassan Primary School, Maigatari, Jigawa State with a sum of N25,755,870 each; Construction and Equipping of proposed Muhammadu Buhari ICT Centre in Yusuf Bala Usman College of Legal & General Studies, Daura, Katsina State with a sum of ₦29,612,973; Building and Rehabilitating the dilapidated School buildings in Ipokia Local Government Primary Health Centre, Agosasa, Ipokia LGA, Ogun State with a sum of ₦29,579,777.53. Construction and Equiping Science Laboratory at Egba Owode Grammar School, Ogun State was also budgeted at a sum of ₦28,408,328.33. A sum of N30 million was approved for each of Akanu-Ibiam Federal Polytechnic Unwana, Ebonyi State, Nigerian Military School, Zaria, Kaduna State, NIPPS , Kuru Plateau State, Government Secondary School Goniri, Yobe Sate, Kiriji Memorial College, Igbajo, Osun State, Amaimo Comprehensive Comprehensive Secondary School, Ikeduru, Imo for infrastructural projects requested by the institutions.

of approved project-based support to institutions of higher learning & assistance for community development projects from inception to 2015.

Table 16.1: SUMMARY OF APPROVED PROJECT-BASED SUPPORT TO INSTITUTIONS OF HIGHER LEARNING & ASSISTANCE FOR COMMUNITY DEVT PROJECTS FROM 1989 TO 2015

S/N	ZONE/LOCATION	BENEFICI-ARIES	Project Amount In Million (₦)	Amount Disbursed In Millions (₦)
1	SOUTH-EAST	8	150	135
2	SOUTH-SOUTH	8	163.48	143.64
3	SOUTH-WEST	10	228.92	159.01
4	NORTH-CENTRAL	11	190.58	121.05
5	NORTH-EAST	10	175.73	160.73
6	NORTH-WEST	13	238.77	194.77
	Sub Total	60	1147.48	914.20
7	DONATION	5	145	140
	Grand Total	65	1292.48	1054.20

Source: NDIC

16.2 SUMMARY AND CONCLUSION

In the last thirty (30) years, the NDIC as part of its CSR role, impacted on its stakeholders through various sponsored projects and programmes in academic and non-academic institutions in order to enhance academic and economic development in the country.

The Corporation has passionately pursued other developmental activities as part of its CSR and members of the public especially bank depositors have felt the impact of its existence through its contributions to socio-economic development. These efforts had earned the Corporation respect from its

major institutional stakeholders like the Federal Ministry of Finance, the Central Bank of Nigeria, the National Assembly, Banks and Depositors.

CHAPTER SEVENTEEN
PROSPECTS AND LESSONS FOR THE FUTURE

17.0 INTRODUCTION

The NDIC has achieved significant milestones and giant feats in the thirty-years (30) of its operation in promoting stability in the Nigerian financial system. The Corporation has been able to accomplish these achievements through its cooperation with other financial safety net participants in the system. Innovative approaches such as Bridge-Banking have been employed in ensuring that bank resolution is characterized by minimal or no disruption to the banking system, and that customers do not lose their money.

On the global front, the NDIC is a member of the International Association of Deposit Insurers (IADI); which is the foremost international body promoting guidance and international cooperation among deposit insurers. The Corporation has also participated actively in international deposit insurance conferences and played important roles in global decisions relating to deposit insurance, particularly at the regional level. In 2018, the Chair of the Africa Regional Committee was given to the NDIC; the Corporation also became a full member of the Islamic Financial Stability Board.

However, the Corporation has had its challenges within the three decades. While some have been addressed, the lingering ones that require further attention have been discussed in detail in the early chapters of this book.
In spite of these challenges, the prospects for improved performance of the NDIC remain bright. The Corporation continues to leverage on its three-decade experience and lessons learnt in the discharge of its mandate in the most efficient and effective manner. In this concluding chapter, we examine the prospects of the Corporation and lessons for the future.

17.1 FUTURE PROSPECTS

The prospects for the effective discharge of the Corporation's mandates are based on the following enabling environment

17.1.1 Political and Macro-economic Environment

The soundness of a financial system is largely determined by the stability or otherwise of the macroeconomic and political space. Nigeria has enjoyed a stable macroeconomic environment over the years. This manifests in the consistent positive performance in the World Bank's Ease of Doing Business ranking. Occasional downswings have also been experienced. The major one being the economic recession witnessed in 2016. Risks to macroeconomic stability such as exchange rate fluctuation, high consumer prices and interest rates are closely linked to volatility in the international price of crude-oil. Inflation has remained subdued in recent years but could be elevated if Naira value depreciates significantly against basket of major currencies in the international arena. High borrowing costs in the financial sector may continue to negatively impact businesses and raising default on loans.

An unstable political environment may dampen public confidence in government, with spill-over effects on economic activities and banking institutions. Guaranteeing deposits under such conditions may not be sustainable as economy-wide distress may result from such instabilities. Current key political risks in Nigeria include conflict in the North-East region, religious and herdsmen-farmers crisis in some states in the country.

17.1.2 Improved Legal Framework

One of the issues that constrained the effectiveness of the practice of the DIS in Nigeria for many years within the past three decades has been inadequate legal framework. The NDIC Act of 2006, which replaced the 1988 Act has its inadequacies.

In that regard, an Amendment Act to the NDIC Act No. 16 of 2006 was presented to the 7th (2011-2015) and 8th (2015-2019) National Assembly of the Nigerian Legislature for amendment. The revision aims at strengthening the NDIC's supervisory capabilities and addressing its challenges in the areas of liquidation of failed insured financial institutions and ensuring compliance with the Core Principles for Effective DIS.

Specifically, the Act seeks to explicitly document the NDIC's Public Policy Objectives. The introduction of PPOs for the operation of the DIS in Nigeria serves as a veritable guide for the NDIC's policy thrusts and operations. This complies with the first International Association of Deposit Insurers (IADI) Core Principle for effective DIS.

More importantly and in the interest of bank depositors, the proposed amendment seeks to empower NDIC to pay insured deposits irrespective of the filing of such an application in court, as payment of insured deposits will be statutorily obligatory. In the event that the licence of the institution is restored, or for an institution that is insolvent but still has its licence, the NDIC would have a right of subrogation. In the event that payment of such insured deposits was an error in law, the aggrieved party would have remedy in damages. This amendment would ensure prompt payment of depositors of failed insured institutions, while litigation challenging revocation of the failed institution's operating licence is ongoing.

In order to discourage Directors of banks and the Board from engaging in practices that could undermine the stability of the bank, the proposed amendment sought to provide the NDIC with adequate powers to seek legal redress against those parties at fault in bank failure. The amendment will enable the NDIC to comply with the Revised IADI Core Principles 12.

17.1.3 Enhancement of the Supervisory Tool

The introduction of the electronic Financial Analysis and Surveillance System (e-FASS) jointly developed by the NDIC and CBN has eased the compilation of data and made information usually required by the NDIC when closing a bank readily available. With such information, the NDIC undertakes preparatory review of deposit liabilities held by problem insured institutions. In the event that a bank is closed, the NDIC would have sufficient information to facilitate early compilation of deposit registers and other relevant reports so as to ensure prompt payment of depositors' claims. In that regard, the Corporation's short-term goal is to reduce deposit payment to depositors of failed banks to seven days in line with global best practices.

17.1.4 Availability of Framework for Early Intervention

Principle 6 of the IADI Core Principles for effective deposit insurance system requires a deposit insurer to have in place effective contingency planning and crisis management policies and procedures. This is to ensure prompt and effective response to the risk of bank failure. In compliance with this, the NDIC in collaboration with the CBN developed a Contingency Planning Framework for Banking Systemic Crisis since early 2000s. As introduced by the FSB Key Attributes for Effective Resolution Regimes, the banking system regulators have also introduced Frameworks for Identification of Systemically Important Banks (SIBs) as well as Recovery and Resolution Planning Frameworks for the SIBs. These have facilitated prompt resolution of problem banks and reduced the incidence of systemic distress.

17.1.5 Enhanced Public Awareness

Public Awareness is one of the key pillars to the success of any DIS. Effective public awareness efforts promote public confidence and therefore contribute to the actualization of DIS's public policy objectives. In recent times, the Corporation had embarked on efforts at enhancing its public awareness activities with a view to creating and maintaining an appropriate level of awareness among depositors and other stakeholders as well as enhancing their understanding of key features of deposit insurance. At different times, the Corporation had mounted different public awareness and education programmes to diverse target audience. It had also embarked on mass public education through advertisements in the media and wide distribution of its publications such as pamphlets, reports, books and other publications on deposit insurance. In addition, it organizes annual depositors' awareness week as well as annual workshop to educate and update the knowledge of finance correspondents and editors of different media organisations. The Corporation also participates in international trade fairs, where the work of the NDIC is showcased and questions from aggrieved bank depositors are entertained.

These efforts will help to reduce poor perception of the DIS scheme as well as reduce the slow response by depositors of failed institutions in coming to collect their monies during pay-out exercise.

17.1.6 The Fight against Corrupt Practices

Anti-graft agencies of the Federal government such as the Economic and Financial Crimes Commission and the Independent Corrupt Practices Commission have played significant roles in ensuring that financial crimes such as internet fraud, banks' management indiscriminate abuse of depositors' funds are nipped in the bud. The NDIC organizes and trains staff of the Economic and Financial Crimes Commission (EFCC) and Justices of the High Court on banking, finance and the economy to aid the fight against corrupt banking practices. Ongoing litigations against some erring bank Executives would help in restoring sanity into the system. Continued activities of these agencies will reduce the occurrence of fraudulent practices particularly, in the financial services industry thereby reducing the risk of failures and their associated costs to the NDIC. In addition, the power granted the Corporation to withhold any deposit suspected to be held in furtherance of criminal activities is also a step in the right direction in the fight against financial crimes.

17.1.7 Improved International Networking

In order to ensure a good grasp of the latest international trends in deposit insurance systems and promote cooperation and collaboration with deposit insurance institutions in other countries, the NDIC joined the International Association of Deposit Insurers (IADI) based in Basel, Switzerland as a founding member in May 2002. In addition, the Corporation continues to host visits by personnel from foreign deposit insurance organisations and also sends its staff to advanced countries to learn from their DIS experiences with a view to attaining international standards for the implementation of the DIS in Nigeria. In 2018, the NDIC hosted the IADI Africa Regional Committee (ARC) Annual General Meeting and Workshop in Lagos. Currently, the Chair of the ARC, is the MD/CEO of the NDIC. The NDIC continues to engage in knowledge and expertise sharing, particularly among her peers in

Africa, as several staff of deposit insurance systems across Africa are sent to the NDIC on attachment and study visits to benefit from its three-decade experience in deposit insurance.

17.1.8 Training of Judges on Banking and Financial Matters

Limited knowledge of judges and legislators on banking and financial matters often impede the resolution of banks or the legal prosecution of erring directors and smooth passage of Bills that will enhance efficient operations of deposit insurance system. Given this realization, the NDIC organizes annual sensitization seminars for Judges and NDIC external solicitors. Similarly, retreats are held for Legislators in both the Upper and Lower Chambers of the Nigerian Legislature to educate them on the workings of the NDIC. It was expected that such intervention will assist in the expeditious recovery of debts owed to failed banks.

17.2 LESSONS LEARNT FROM NIGERIA'S EXPERIENCE

The Nigerian experience offers some useful lessons for the future and for those countries about to implement a DIS. In general, the following lessons, among others, can be identified:

i) Participation in the DIS should be mandatory in developing or emerging economies in order to mitigate the phenomenon of adverse selection which could manifest if only unhealthy financial institutions are covered by the system. The Nigerian DIS which provided coverage for all licensed banks and other deposit-taking financial institutions, irrespective of their state of health, had in the last thirty years engendered public confidence and promoted financial system stability.

ii) There should be a periodic survey on financial products held by the public to obtain number of accounts and their size distribution in order to set an appropriate coverage level and gauge its adequacy over time. NDIC regularly examines the adequacy of current deposit insurance bearing in mind development in the banking industry and the economy with the use of appropriate survey instrument. This has been the basis for the adjustment of its coverage level over time. In addition, both eligible and non-eligible deposits for DIS coverage should be clearly

defined by law or by private contract so that depositors could know them with certainty. The enabling Act of the NDIC unambiguously enumerated both eligible and non-eligible deposits.

iii) Public awareness campaign about deposit insurance should clearly define principal target audience group and subgroups for it to be effective. There should be a periodic survey to gauge the effectiveness of the public awareness strategies being employed by the DI agency as a way of measuring "returns on investment", in respect of public awareness activities. Furthermore, during bank failures, messages and instructions released to stakeholders must be accurate, simple and timely. They must be relevant, consistent and credible to avoid confusion and misconceptions about the roles of DIS during bank failures. This was the practice by the NDIC in the discharge of its mandate of depositor reimbursement upon revocation of insured financial institutions' licence. Moreover, there is the need to actively involve participating institutions in the dissemination of information about deposit insurance. In that regard, adequate training and education could be given to bank staff.

iv) Bank licensing authorities should also have uninhibited power to revoke licence. In Nigeria, prior to Bank and Other Financial Institutions (BOFI) Decree 1998, the CBN was required to obtain the approval of the President to revoke licence. As a result of delays in granting such approvals, many illiquid and insolvent banks remained open thus posing contagion risk to other banks in addition to increasing the cost of failure resolution.

v) In the case of a DIS that has the mandate to serve as liquidator of failed insured institutions, the legal framework should provide for an unambiguous procedure for appointment of such deposit insurer as liquidator. For instance, the NDIC Act excluded the application of the companies winding up rules in the liquidation of insured institutions, which is understandable given the specialized insolvency legal framework required for such institutions. However, no other Rules were provided leaving a lacuna in the framework. The proposed amendment to

the NDIC Act 2006 thus empowers the Chief Judge of the Federal High Court to make the Winding-Up Rules applicable to insured institutions.

vi) While a clear legal role delineation of safety-net participants is necessary to ensure effective supervision and facilitate bank resolution, it is critical that an effective mechanism to coordinate and communicate actions is put in place. In particular, effective coordination and collaboration between the bank regulator/supervisor and the deposit insurer is imperative especially where they have joint responsibility as in the case of the CBN and NDIC in Nigeria. Both agencies' mandates include bank supervision and failure resolution, hence a collaborative framework was established in order to avoid needless duplication of effort or role conflict.

vii) The existence of multiple regulators (each with its distinct mandate) as in Nigeria where banking, insurance and securities businesses are under the purview of different regulators, requires the establishment of a formalised framework for the coordination of supervisory activities. That was the justification for the establishment of the Financial Services Regulation Coordinating Committee (FSRCC), a statutory committee comprising of regulators in the Nigerian financial services industry, in 1994. The framework should seek to minimize arbitrage opportunities for financial institutions and promote information sharing amongst the regulators.

Systemic policy partnership/Oliver Wyman (SPP/OW) were engaged by the CBN to suggest enhancement of the framework for managing the stability of Nigeria's financial system. That has resulted in a draft Nigerian Financial System Stability Framework and a Bill to be enacted as an Act at the National Assembly. The passage and implementation of this Bill will be a positive development for financial system stability.

viii) The need to put in place adequate mechanism for debt recovery is imperative in order to maximize recovery of failed insured institutions' assets and enhance payment of uninsured deposits to eligible claimants. The dissolution of the Failed Banks Tribunals and transfer of debt recovery cases to the regular courts inhibited the Liquidator's ability to

recover debts owed to failed banks. The consequences of that development are, delays in payment of uninsured deposits and other creditors and erosion of public confidence in the banking system.

ix) The prosecution of managers and directors responsible for wrongdoing in banks is one of the best recipes to impose market discipline. In cases where legal action had been taken, the operators in the market would appreciate the authorities' determination to have a sound and safe banking system. In that regard, granting such powers to the DI agency as in the case of Nigeria is necessary. In addition, a more critical condition is to make the judicial procedures for such prosecution less cumbersome and more expeditious.

x) Market conditions can limit the effectiveness of some resolution tools. Tools that rely on private sector participation either for asset resolution or to absorb failed banks require effective markets and accurate asset valuation. In Nigeria, the effectiveness of the Purchase and Assumption as a failure resolution tool was impaired. Some of the factors that limited the effectiveness of the technique included the following, among others: (i) poor quality of risk assets made them unattractive to acquiring banks; (ii) absence of debt factoring companies; and (iii) incomplete documentation for some of the assets as well as high levels of insider lending.

17.3 SUMMARY AND CONCLUSION

In this chapter, we have hinged the prospects for better performance of the Corporation in the future on several factors including conducive political and economic environment, improved legal framework and enhanced supervisory tools. Other identified factors that signal brighter future for the Corporation include early intervention in troubled banks, enhanced public awareness efforts by the Corporation and the concerted efforts of the government in fighting corrupt practices.

The chapter also highlighted some key lessons that can be learned from the Nigerian experience. Such lessons include setting or adjusting coverage limit based on financial products held by banks, bearing in mind development in

the banking industry and the economy. Another lesson is that public awareness about the DIS is critical for the effectiveness of the scheme. The chapter also emphasized the need for an appropriate legal framework to provide for unambiguous procedure for the appointment of a deposit insurer as liquidator. Given that the lessons are imbibed and given a conducive environment, the Corporation is well positioned for better performance in the future.

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