

KEYNOTE ADDRESS BY THE HONOURABLE MINISTER OF FINANCE, FEDERAL REPUBLIC OF NIGERIA, DR (MRS.) NGOZI OKONJO-IWEALA, AT THE OPENING CEREMONY OF THE INTERNATIONAL CONFERENCE ON DEPOSIT INSURANCE IN AFRICA ORGANISED BY THE AFRICA REGIONAL COMMITTEE OF THE INTERNATIONAL ASSOCIATION OF DEPOSIT INSURERS (IADI) HELD AT ABUJA, NIGERIA FROM JUNE 21 - 23, 2004.

- 1.0 I feel highly honoured to be invited to present this Keynote Address and declare open this very important conference on deposit insurance organised by Africa Regional Committee of the International Association of Deposit Insurers (IADI). In doing that, I wish to commend the foresight, vision and initiative of the leadership and members of this organisation whose belief in a virile financial system led to the birth of the IADI in 2002. It is gratifying to note that African countries were co-founders of this esteemed organization and also serve on its Executive Council.

- 2.0 Consistent with the mission of IADI which is “to share deposit insurance expertise with the world”, it is my expectation that the Africa Regional Committee would strive to encourage the adoption of explicit deposit insurance schemes (DISs) by many countries in the continent as well as strengthen the existing DISs. To this end, this Conference will provide opportunities for discussing topical issues on

deposit insurance, networking and information sharing amongst member organisations.

3.0 As you are aware, a stable and virile financial system is critical to the growth and development of every economy. This is because the financial system, particularly the banking sector of any nation performs the vital role of financial intermediation, provision of an efficient payments system and serving as the fulcrum for monetary policy implementation. The effectiveness and efficiency with which these roles are performed, particularly the intermediation between the surplus and deficit spending units of the economy, depends on the degree of safety, soundness and the stability of the banking system.

4.0 In view of the importance of the banking sector in economic development, governments the world over, regulate the banking sector more than other sectors of the economy. In addition, bank failures are widely viewed in all countries as more damaging to the economy than failures of other types of firms of similar size for a number of reasons. Their failure may produce losses to depositors and other creditors, break long-standing banker-customer relationships, disrupt the payments system, and spill over in a domino fashion to other banks, financial institutions and markets, and even to the entire macro-economy.

- 5.0 The usual devices used by nations to reduce the impact of banking failures/instability include effective bank regulation and supervision, provision of lender of last resort and the establishment of a deposit insurance or deposit protection scheme. These three mechanisms are complementary to each other and are collectively known as the safety-net in a banking system.
- 6.0 In our own case, the Nigeria Deposit Insurance Corporation (NDIC), was established as part of the reform measures taken to strengthen the safety-net of the banking sector following the adoption of the Structural Adjustment Programme (SAP) in 1986. The scheme was introduced in 1988 to provide a further layer of protection to depositors, contribute to financial system stability by complementing the role of the Central Bank of Nigeria (CBN) in supervision and in orderly failure resolution. Prior to the establishment of the NDIC, the government was playing the role of an implicit insurer as it had to bail out troubled banks in its bid to protect depositors.
- 7.0 The scheme in Nigeria was designed as a Risk Minimiser, with powers and responsibilities to insure deposits, monitor the health of insured institutions through supervision and provide orderly resolution mechanism for failing and failed insured institutions. Accordingly, the focus of the Corporation's activities, as aptly captured by its **Mission**

Statement, is to protect depositors through effective supervision of insured institutions, prompt payment of guaranteed sums, provision of technical/financial assistance to eligible insured institutions, and orderly resolution of failed insured institutions. In pursuance of its mandate, the Corporation had over the years collaborated effectively with other safety-net players especially, the Central Bank of Nigeria.

8.0 The Corporation has since its establishment justified the purpose for which it was set up. Apart from insuring the deposit liabilities of all licensed banks, the establishment of the NDIC has no doubt, contributed to the maintenance of financial stability and confidence in the banking system. In particular, the Corporation had successfully closed/liquidated 34 banks between 1994 and 2003 with minimal disruption to the banking system and to the entire economy. In spite of the achievements recorded by the Corporation, the implementation of the scheme by the NDIC is however, still being faced with many challenges which include poor public awareness about the scheme, the perceived inadequacy of the maximum coverage, cumbersome judicial process and weak corporate governance in insured institutions, among others.

9.0 At this juncture, I wish to observe that the topics for the sessions in this conference have been carefully chosen, bearing in mind the critical issues in the design and implementation of deposit insurance

schemes. For instance, the conference will discuss deposit insurance experiences in various African countries. This is expected to highlight the nature and challenges of deposit insurance in such countries as well as spotlight areas in which the existing deposit insurance schemes need to be strengthened. This sets the stage for a thorough examination of more specific issues such as public awareness. Public awareness is one area that is often overlooked in the design of deposit insurance schemes. Meanwhile, no deposit insurance scheme can be effective if the public is unaware of the benefits and limitations of the scheme because unrealistic expectations can undermine a deposit insurance system and contribute to financial instability. Public awareness programmes, targeted at the right audiences can create an image of solidity, professionalism, public-mindedness and efficiency for the deposit insurer. I am therefore, delighted to note that public awareness issues from selected countries will be extensively discussed at this conference.

10.0 Another key issue is determining the adequacy of maximum insurance coverage. Coverage limit must be credible, internally consistent with other design features, and meet the objectives of a deposit insurance scheme. In addition, the relationship between coverage limit and moral hazard should be considered. This is particularly important in Africa, where deposit insurance tends to be

confused with conventional insurance, with the result that total coverage is expected rather than the best practice of limited coverage. Coverage limit varies from country to country depending on several factors such as the number of accounts as well as the amount of deposits covered; the prevailing consumer price index; and the country's per capita income, among others. Coverage limit is at the heart of any deposit insurance scheme because it determines the extent of protection the scheme provides.

11.0 Funding and investment arrangements are also critical deposit insurance issues. A deposit insurance system should have available all funding mechanisms necessary to ensure prompt reimbursement of depositors' claims after a bank failure. Inadequate funding can lead to loss of credibility of the deposit insurance system. Its inclusion as an issue to be examined at this conference is commendable.

12.0 Going through the array of speakers and discussants, I feel confident that they are eminently capable of tackling the issues and achieving the set objectives. Moreover, I am aware that participants, comprising DIS practitioners, policy makers and the academia would be exposed to such interesting issues as the practice of deposit insurance in Africa and implementation issues in deposit insurance. While not attempting to pre-empt the eminent speakers, I hope that

adequate time would be spent on measures and strategies for strengthening the operation of deposit insurance schemes in this region to enable it support the goal of the attainment of a virile financial system which hitherto seems to elude most African economies.

13.0 As members of the Africa Regional Committee of the IADI, there is commendable recognition that we are partners in progress, so I enjoin all stakeholders in this endeavor to work with this spirit. Being partners, there is the benefit of synergy, particularly, in the array of experts and experiences available to member institutions. As we look forward to stimulating deliberations over the next three days, I urge all participants and resource persons to give their best in addressing the problems facing the African financial system and proffer appropriate solutions. During the course of addressing the sub-themes of the conference, we should be able to define a broad outline of the key issues that we need to tackle as a continent in order to revamp our financial system and reposition it on the path of sustainable growth.

14.0 Finally, let me emphasise that the success of this conference will depend on the constructive contributions of all. I therefore, urge you all to have interactive sessions on the various issues and speak frankly. The organizers of this conference have thought it wise to

include a "city tour" on the last day of the conference. I understand that most of you are first time visitors to Nigeria. Therefore, the tour would enable you to experience the warmth and hospitable environment of our capital city, Abuja. It is my sincere hope therefore, that you will find your stay with us worthwhile and enjoyable.

15.0 Once more, I thank you for the honour of giving this Keynote address and I wish you very fruitful deliberations. It is my pleasure to declare the Conference open.

June 21, 2004