

DEPOSIT INSURANCE SCHEME IN NIGERIA:  
PROBLEMS AND PROSPECTS  
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## *1.0 INTRODUCTION*

A Bank Deposit Insurance Scheme (DIS) is a financial guarantee to depositors, particularly the small ones, in the event of a bank failure. Bank deposit insurance schemes developed out of the need to protect depositors, especially the uninformed, from the risk of loss and to also protect the banking system from instability occasioned by runs and loss of confidence. The banking system has been singled out for the special protection because of the vital role banks play in an economy whether developed or developing. For a DIS to be effective in achieving the above objectives, it must be properly designed, well implemented by the agency established to execute the scheme and well understood by members of the public, [Financial Stability Forum (FSF), 2001]. A well designed DIS contributes to the stability of a country's financial system by reducing the incentives for depositors to withdraw their insured deposits from banks following rumours about their financial conditions.

The establishment of the Nigeria Deposit Insurance Corporation (NDIC) in 1988 heralded the introduction of an explicit Deposit Insurance Scheme in Nigeria. The NDIC is responsible for insuring the deposits of all banks and other deposit-taking financial institutions licensed by the Central Bank of Nigeria (CBN). It also gives financial and technical assistance, in the interest of depositors, to banks in difficulties and in case a bank fails, it guarantees the payment of insured deposits. Finally, the Corporation assists the CBN in the formulation and implementation of banking policies with a view to ensuring sound banking practices among others.

The scheme was meant to augment the existing safety-net by protecting depositors, thereby boosting confidence of the banking public. It was also considered as an additional framework to serve as a substitute to the government support policy (implicit insurance) hitherto in place. Prior to the establishment of the Corporation, government was unwilling to let any bank fail no matter its financial condition due to fear of the potential adverse effects. Consequently, inefficient banks were given government support over the years. However, such direct supports (implicit insurance) could not be sustained under the Structural Adjustment Programme introduced in 1986 which, among others, deregulated the economy towards market orientations. With the establishment of the NDIC the pains of bank failure, inevitable in a market environment, were reduced to a minimum while moral hazard associated with direct government support was eliminated.

The purpose of this paper therefore, is to highlight some of the major challenges and the future prospects of the DIS as being implemented in Nigeria. For ease of comprehension, the rest of the paper is organised into six parts. In part 2, we enumerate some major reasons for the establishment of a DIS in Nigeria. Presented in part 3 is a discussion of the ownership, membership, coverage and funding of the scheme in Nigeria. In part 4, we present the key achievements of the scheme whilst part 5 discusses the problems facing the scheme. Part 6 highlights the prospects of the scheme while Part 7 summarises and concludes the paper.

## 2.0 REASONS FOR ESTABLISHING THE DEPOSIT INSURANCE SCHEME IN NIGERIA IN 1988

The decision by the Federal Government of Nigeria to establish the Nigeria Deposit Insurance Corporation in 1988 was informed by a number of factors. These included the country's past bitter experience of bank failures, the lessons of other countries' experiences with deposit insurance schemes, increased competition in the industry, the need for effective supervision/prudential regulation and change in government bank support policy. We shall discuss these very briefly.

### 2.1 Lessons of History: Bank Failures in Nigeria

The period between 1947 and 1952 witnessed a rapid growth of indigenous banks in Nigeria. This was before the establishment of the Central Bank of Nigeria in 1958 (though it commenced operations in 1959). The increase in the number of indigenous banks was followed also by a high rate of failures of such banks. By 1954, twenty-one (21) out of twenty-five (25) indigenous banks operating in Nigeria had collapsed. The failures were attributed largely to mismanagement of assets, lack of adequate capital and inexperienced personnel on the one hand and the lack of regulation on the other hand. Since the country had no Central Bank at the time to regulate the operations of the banks, market participants set their own differing standards until the enactment of the Banking Ordinance in 1952 which came into force in 1954.

Since the mid-60's the Federal Government had ensured through direct support of banks, that the Nigerian banking public was no longer exposed to the hazards of bank failures. In this respect, the Central Bank of Nigeria had deliberately pursued certain measures to prevent bank failures. These included the requirement for every licensed bank to create and maintain a statutory non-distributable reserve fund from yearly profits before dividend payments; stipulation of minimum liquidity ratio and capital requirements as well as the rendition of statutory returns. In spite of these measures, experience showed that the capital of some licensed banks were seriously eroded by bad and doubtful debts due mainly to poor management. Since the Federal Government of Nigeria did not want Nigerians to relive those experiences, it was considered that the establishment of a Deposit Insurance Scheme was urgently needed.

### 2.2 Lessons from Other Countries

The success stories of some countries especially the United States of America(USA) in addressing the problems associated with bank failure through explicit DIS also informed the establishment of the scheme in Nigeria. In fact the Federal Deposit Insurance Corporation (FDIC) has since provided the abiding lessons and model for most countries which subsequently introduced explicit deposit insurance schemes in response to anticipated changes in economic and banking conditions. Since Nigeria was at the threshold of fundamental changes in the economy and the banking sub-sector, the authorities reckoned that country might benefit from the experience of the FDIC.

### 2.3 Bank Deregulation and Bank Competition

Sequel to the deregulation of the Nigerian economy, the banking system witnessed a rapid growth in view of the pivotal role it was expected to play in the economy. Market forces were allowed to play prominent role in the determination of the prices of bank services and interest rates. Banking competition increased as is evident in the growth of number of licensed banks (see Table 1) plus the growth in the range of banking services offered.

Table 1  
Growth in Number Banks in Nigeria (1980 - 1990)

Year	Number of Banks	Annual Growth Rate (%)
1980	26	0.0
1981	26	0.0
1982	30	15.4
1983	35	16.7
1984	38	8.6
1985	40	5.3
1986	41	2.5
1987	50	21.9
1988	66	32.0
1989	81	22.7
1990	107	32.1

*Source: CBN Statistical Bulletin*

Table 1 shows that the number of licensed banks in the immediate years following the introduction of SAP (1987 - 1990) witnessed double digit annual growth rates. This can be taken as evidence of increasing competition in the banking industry. The increasing bank competition manifested in higher risk appetite hence banks and consequently bank depositors were exposed to greater risks.

## 2.4 Change in Government Bank Support Policy

Prior to the establishment of NDIC, government had been unwilling to let any bank fail, no matter the bank's financial condition and/or quality of management. Government feared the potential adverse effects on confidence in the banking system and in the economy following a bank failure. Consequently, government deliberately propped up a number of technically-insolvent state-owned banks over the years.

In the new economic policy of government dictated by the imperatives of SAP, it was felt that there was the need to shift emphasis from direct support of banks to prevent failure to one of protecting the deposits of customers, especially the small depositors. It was considered that the establishment of an explicit DIS would facilitate the change in policy.

## 3.0 OWNERSHIP, MEMBERSHIP, COVERAGE AND FUNDING OF DIS IN NIGERIA

The different characteristics of DIS from country to country is usually measured in terms of the coverage, ownership, funding and membership. The practice in Nigeria in these areas is reviewed in this section.

### 3.1 Ownership

There are three types of ownership structures identified among the countries that have established the scheme. There is the one where ownership is jointly held by the private and public sectors. The second type is the private ownership whilst the third variant is one where ownership is held purely by the public. The practice in Nigeria falls into the third category. The DIS in Nigeria is owned 100% by the Federal Government of Nigeria through the Central Bank of Nigeria and the Federal Ministry of Finance which hold 60% and 40% equity capital of the Nigeria Deposit Insurance Corporation, respectively.

### 3.2 Membership

The major issues associated with membership are the types of institutions that should be included in the scheme, and whether or not participation by eligible members should be compulsory or voluntary. In Nigeria, membership of the scheme is compulsory for all licensed banks and deposit-taking institutions. Section 15 (1) of the NDIC Act No. 22 of 1988 (as amended) makes it mandatory for all licensed banks and deposit-taking financial institutions to be members of the scheme. Presently, only banks licensed by the CBN are covered by the scheme.

### 3.3 Funding

Adequate financial resources are required to meet the scheme's obligations and operational costs. In Nigeria, the act establishing the NDIC recognises four sources of funding the activities of the scheme. These are insurance premium contribution by participating institutions, capital contributions and periodic recapitalisation provided by the owners of the scheme, borrowing facility from the CBN and special contributions or levies imposed on healthy member

institutions as and when necessary. In specific terms, Section 21(1) of the NDIC Act 22 of 1988 states the assessment rate for premium by all insured institutions as 15/16 of 1% per annum which is about 0.94 per cent with the possibility of reduction in premium rate when the Deposit Insurance Fund (DIF) is more than 10 times the paid-up capital as provided for in Section 10(2) of the decree. Section 20(a-c) specifies the assessment base as the total deposits of insured institutions except the following deposits:

- a) insider deposits, that is deposits of staff including directors of the insured institutions;
- b) counter claims from a person who maintains both a deposit and loan accounts, with the former serving as collateral for the loan; and
- c) such other deposits as may be specified from time to time by the Board of the NDIC.

Also, Section 9(1) of the act indicates the amount of initial capitalisation by government as 100 million with provision for periodic recapitalisation in Section 9(3). Under this provision, the initial paid-up capital had been reviewed upward to 500 million in 1995 and 2.3 billion in 1998 to take adequate care of the rising capital expenditure requirements of the Corporation. Lastly, where the Deposit Insurance Fund (DIF) of the Corporation is not sufficient for its insurance obligations, Section 21(3) of the Corporation's enabling act provides that all participating institutions shall be obliged to pay to the Corporation, special contribution up to the amount of an annual premium. Finally, Section 36(1) of the act gives the NDIC the power to borrow from the Central Bank of Nigeria such moneys as it may deem fit for the discharge of its statutory functions.

I want to emphasize that the day to day administration of NDIC is being funded from the income earned on the investment of the Deposit Insurance Fund (DIF) in accordance with Section 11(3) of NDIC Act, 1988 as amended. The DIF can only be used to pay depositors in banks under liquidation and to resolve the problems of a distressed bank as provided for in Section 12 of NDIC Act, 1988 (as amended).

### 3.4 Coverage

Coverage is of great significance in a DIS because it determines not only the potential liabilities of the scheme but also depositors' level of confidence in the banking system. The key factors that are central to the issue of coverage are the deposits to be insured and the insurance limit. Coverage may be limited or unlimited. Unlimited insurance coverage has been widely criticised due to the fact that it leads to moral hazard. The argument is that when deposits are 100 percent insured, bankers tend to engage in highly risky business activities with a view to maintain high returns. The question of coverage also crops up in terms of types of accounts to be covered. In some countries, only accounts denominated in the domestic currency are covered whereas in others, coverage is extended to accounts denominated in foreign currencies. It should also be noted that in some cases, large deposits are left uninsured as a way of retaining some measure of market discipline.

All depositors in Nigerian banks are covered as provided for in Section 20 of NDIC Act, 1988 (as amended) with the exception of insider deposits, counter-claims from a person who maintains both a deposit and loan account and such other deposits as may be specified from time to time by the Board.

At the commencement of the Corporation in 1988 the maximum insurance coverage per depositor was set at 50,000.00 and is still in use. However based on its perceived inadequacy, in the light of Naira depreciation and inflation among other reasons, the Board of Directors of the Corporation approved an upward review of the limit to 100,000.00 during the last quarter of Year 2000. The review would become operational once the necessary amendment is made to the NDIC Act by the National Assembly.

### 3.5 Others

#### (a) Investment Policy of Deposit Insurance Fund

A policy regarding how the deposit insurance fund is to be invested is usually contained in the enabling legal instrument establishing a DIS. Major points of emphasis are usually liquidity and safety of the fund. The availability of instruments for meeting these criteria depends on the depth and breath of the financial system and its exchange rate regime. By the provision of Section 11 (1) of the NDIC Act, 1988 (as amended) the Corporation is required to invest its fund in government securities and any other securities that may be approved by its Board of Directors.

#### (b) Power to Supervise Insured Institutions

Under a DIS, the supervision of insured institutions is a major burden that falls squarely on the insurer. This arises from the fact that it is of paramount importance that the administrator of the scheme knows the extent of risk it is assuming and to monitor the changes in the composition and extent of such risks through close supervision of the insured institutions.

For effectiveness therefore, the legal instrument establishing the scheme in countries where it exists normally provides power for close supervision. Such is the case in Nigeria. The NDIC Act 1988 (as amended) empowered the Corporation to supervise insured institutions. The Corporation carries out its supervisory responsibility through the on-site examination and off-site surveillance of insured banks.

### 4.0 OPERATIONAL ACHIEVEMENTS OF THE NDIC

The operational achievements of the NDIC are brought into sharper focus when examined within the context of its activities in the discharge of its primary mandate of deposit insurance. These activities are broadly classified into four, namely: deposit guarantee, depositor protection through supervision (off-site surveillance and on-site bank examination), distress resolution and other activities undertaken by the Corporation with the aim of insulating the industry from destructive runs and instability.

#### 4.1 Deposit Guarantee

As a deposit insurer, the Corporation guarantees payment to insured banks' depositors in the event of bank failure. At the commencement of the scheme in Nigeria, the maximum insurance limit was set at N50,000.00 per depositor and that was applied to insured depositors of all the 33 closed banks up to Year 2000. However, after one decade of operation, the maximum limit is being reviewed upwards to align it more closely with prevailing economic conditions.

The Corporation had paid about N3.3 billion to depositors, representing 63% of total insured claims to the depositors of 33 banks in liquidation as at March 22, 2002. This has gone some way in engendering depositors' confidence in the nation's banking system. A large number of depositors who are aware of these previous payments or affected in the previous exercise no longer panic at the first signs of financial distress in insured banks. Thus, the absence of panic and runs have ensured stability in the banking system.

#### 4.2 Depositor Protection Through Supervision

Banks are supervised to protect depositors, ensure financial stability, evolve efficient and competitive system and protect customers. In addition to these reasons, the Corporation supervises insured banks to gauge the health of the banks, as no deposit insurer would wait to be told by another party that its insured institutions have failed. Supervision of insured banks therefore, remains an integral part of the mechanism for ensuring safe and sound banking practices and the Corporation continues to regard this as a major responsibility. Operationally, this entails on-site examination and off-site surveillance, both of which are mutually reinforcing. The off-site supervision provides early warning signals which are useful in prioritizing on-site examinations and assessing potential problem areas.

The establishment of the NDIC in 1989 and its involvement in on-site examination have significantly shortened the examination cycle such that despite the increase in the number of banks and their branches, banks are now examined yearly as against once in three years before NDIC came on stream.

#### 4.3 Distress Resolution In The Banking Industry

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 banks in the system in 1988. The NDIC was nevertheless statutorily required to insure all the banks. It, therefore, had to grapple with the resolution of distressed banks at an early stage of existence.

Depending on the severity and peculiarity of the distress, NDIC in collaboration with the CBN, has, over the years, successfully adopted such measures as provision of financial assistance, imposition of prompt corrective actions, assumption of control and management, restructuring and sale of some distressed banks as well as liquidation of the terminally distressed banks as a last but unavoidable option. The achievements recorded in this area include, but are not limited to the following:

Accommodation facilities were granted to eight (8) banks with serious liquidity crises to the tune of x2.3 billion in 1989 following the withdrawal of public-sector funds from commercial and merchant banks to CBN during that year.

Holding Actions were imposed on 46 banks to help stabilize their financial conditions. Twenty-four (24) banks were temporarily taken over to safe guard their assets. Seven (7) distressed banks were acquired, restructured and sold to new investors.

Between 1994 to date, thirty-five (35) terminally distressed banks were closed with minimal disruption to the banking system. The closure of these banks was because of their inability to respond to all the various regulatory/supervisory initiatives put in place to resolve their problems and the continued deterioration in their financial conditions. Thereafter, NDIC was appointed Provisional Liquidator of the closed banks. The Corporation's dual roles of insurer and liquidator ensured that the losses suffered by the banking public as well as the economy at large due to bank failure had been minimised.

The cumulative effect of the above measures was a drastic reduction in the level of distress in the nation's banking system. The number of distressed and potentially distressed banks was drastically reduced.

As part of failure resolution measures, NDIC continues to serve as liquidator to all the closed banks. The achievements of the Corporation as liquidator of the failed banks include the following:

a. Payment Of Liquidation Dividend to Depositors

In addition to the payment of insured depositors of the closed banks, depositors with credit balances in excess of the guaranteed amount were paid liquidation dividends based on the volume of proceeds of the closed banks assets realised by the Corporation. As at December 31, 2001, the Corporation had declared an aggregate dividend of 5.67 billion for 27 out of 33 banks in liquidation. Out of this amount, about 2.9 billion representing 51% of the total amount declared had been paid.

Of the 27 banks, 5 banks had declared final dividend of 100 per cent while the remaining banks declared dividends ranging from 10 to 82 per cent. In other words, all the depositors in the 5 banks had fully recovered their deposits, both insured and uninsured.

b. Payment of liquidation Dividend to General Creditors

Similarly, liquidation dividend had also been paid to some general creditors of some of the banks. For example, the general creditors of Pan African Bank (in-liquidation), a state bank, had been paid a total of about 163 million. The amount represented about 90% of the total amount of 180.54 million declared as liquidation dividend in favour of the creditors of the bank as at the end of December, 2001. Likewise, the shareholders of another bank, Nigeria Merchant Bank (in-liquidation), had received liquidation dividend of 450 million which was far in excess of their equity interest of x50 million.

### c. Recovery of Loans & Advances

The total book value of the loan portfolio of the 33 banks in liquidation stood at 35.37 billion as at January 16, 1998. Recoveries made since commencement of liquidation up to December 31, 2000 amounted to 3.79 billion.

## 4.4 Other Activities Of The NDIC Which Have Facilitated The Achievement Of Stability In The Banking Industry

### a. The Implementation Of The Failed Banks' Act

The promulgation and implementation of the Failed Banks (Recovery of Debts) and Financial Malpractices Act No. 18 of 1994 was in response to the inadequacies of the existing laws, court processes and procedures with respect to debt recovery and prosecution of perpetrators of financial crimes in the banking industry. Thus the main thrust of the Law was to facilitate the recovery of debts owed to failed banks and to subject individuals involved in the monumental incidence of financial malpractices in the distressed banks to due process.

The highly acclaimed successful implementation of the *Failed Banks Act* which was facilitated by the NDIC was indeed a major plank in the battle to contain distress and promote the soundness of the Nigerian banking system. A total of 3,714 cases were filed before the Tribunals; ₦8.99 billion was recovered, while judgment in respect of ₦2.3 billion, ₦67.04 million, and ₦5.021 million had been delivered.

With the advent of democratic rule in 1999, the special purpose vehicle for debt recovery (that is Failed Bank Tribunal) was abolished and all the undecided cases were transferred to the Federal High Court. Since then, the recovery of debts owed to failed banks remained an intractable problem.

### b. Bank Customers' Enlightenment

The Corporation has, since its establishment, been providing financial information on insured banks to the general public. Such information had enabled the public to have a better understanding of the banking system. The dissemination of financial information is done through the Corporation's Annual Reports and the NDIC Quarterly. Other publications which have aided public enlightenment include a pamphlet, Facts About NDIC and two books written on Deposit Insurance by the staff of the Research Department. All these publications are now being regarded by operators and the academia as veritable sources of information on the banking industry. In addition, top quality courses, seminars, workshops and endowment of Chairs to chosen departments in Nigerian Universities are widely acclaimed as successful capacity building initiatives by the NDIC.

## 5.0 CHALLENGES FACED BY DEPOSIT INSURANCE SCHEME IN NIGERIA

Despite the modest achievements highlighted in the preceding paragraphs, the Corporation faces a number of challenges in implementing the DIS in Nigeria. These are discussed below.

### 5.1 Public Perception and Public Awareness of the DIS

On the one hand, the concept and operational activities of the DIS are still being confused with the those of conventional insurance business for protection against incidents such as fire, tornado, automobile accidents and so on, by those who are supposed to know. It is this confusion that is responsible for the lack of understanding with respect to areas related to coverage, membership and even premium rate. For instance, the agitation for 100% coverage has been heightened under the current democratic governance as some of our law makers and members of the public are clamouring for complete coverage. This is largely due to the wrong perception of the scheme.

On the other hand, there is inadequate awareness of the existence of the scheme and the role of NDIC, particularly by the banking public and especially amongst small depositors. Arguably this was one of the reasons that have contributed to the low response by depositors to file their claims. The Corporation had to extend, twice, the 18-months period for filing claims for payments of insured deposits. Such misunderstanding, confusion and lack of awareness could erode public confidence and undermine market discipline.

### 5.2 Clamour for Increased Coverage

There has been a great clamour for increase in the deposit insurance coverage. Even the proposed increase of insurance cover from x50,000 to x100,000 has been criticised as inadequate. The Corporation has consistently argued that an unduly high coverage will create a perverse incentive and expose the DIS to moral hazard. The survey conducted by the Corporation revealed that up to 90% of depositors are covered by the proposed coverage.

### 5.3 Clamour for Risk-Based Premium Assessment

Some operators have advocated the introduction of Risk-Based Premium Assessment as against the present flat-rate assessment method. While the Corporation appreciates the concerns of the advocates of risk-based premium assessment, it is of the firm view that caution should be exercised in adopting it. The parameters for risk-based assessment have to be clearly defined. The integrity of prudential returns should not be in doubt. Public perception of "riskier banks" that could trigger flight to safety by depositors could be counter-productive. The Corporation would prefer a gradual transition from flat-rate assessment to risk-based premium assessment.

### 5.4 Reduction of Premium Rate

The premium rate of 15/16th of 1% has been criticised while operators had clamoured for a reduction. The Corporation had explained that the rate was informed by the need to rapidly build

up the DIF against the background of pervasive distress in the banking system at the time the rate was fixed. The Corporation has proposed the necessary amendment to the law to give it the discretion to vary the rate from time to time. The present provision of the Law did not allow any discretion.

### 5.5 Determination of Bank Distress

The issue of determination of bank distress has emerged as a challenge in recent times. This resulted from the tendency to equate ability to meet obligations irrespective of the cost of borrowing to meet such obligations. Thus, a bank that is illiquid may be perceived as liquid. Also, supervisory sanctions imposed on some banks are interpreted to portend distress thus leading to run on such banks despite the fact that they are solvent and liquid. For example, banks penalised for violation of the Foreign Exchange Market's rules and regulations were being perceived as distressed by the banking public.

### 5.6 Banking Supervision

The major challenge in this area has to do with the adequacy of enforcement powers. Examiners' recommendations are not promptly implemented. The latest development is the resort to litigation by Principal Shareholders and Directors of banks to contest regulatory sanctions imposed on them.

Furthermore, it is the CBN that has the power to impose sanctions for the violations of Banks and Other Financial Institutions Act (BOFIA). Consequently, the Corporation has to refer infractions of BOFIA to the CBN for appropriate actions. The point being made here is that the Corporation has very limited enforcement powers. However, proposals to review the Corporation's enabling law have been made to the Legislature.

### 5.7 Legal Framework

Rules and regulations guiding distress resolution in Nigeria flows directly from the provisions of the Bank and Other Financial Institutions Act No. 25 of 1991 (as amended). With the series of amendments that gave operational independence to the CBN as regards withdrawal of banking license, the issue of enforcement powers in this regard is still a challenge to the Supervisory Authorities. The recent case of a commercial bank whose license was revoked but could not be closed because of court injunction is a test case. More importantly, the Corporation does not have the enforcement power to close any bank deemed to be in distress however bad the financial condition might be.

### 5.8 Prompt Reimbursement of Guaranteed Deposits When Banks Fail

One of the factors that often enforces public confidence in the DIS is the ability of a deposit insurer to promptly reimburse insured depositors of their insured deposits when their insured institutions fail. Whereas the Corporation had achieved a lot of success in its liquidation efforts, prompt payment of insured deposits to depositors had been very elusive. A significant number of depositors have not filed their claims. This problem is partly attributable to the low level of

awareness of the DIS and apathy on the part of depositors with small credit balances. The Corporation had to issue press releases to invite depositors to file their claims.

### 5.9 Corporate Governance

In Nigeria, one of the recurring challenges facing the Corporation has been the need to ensure the transparency and accountability of management of banking institutions and the curtailment of their risk appetite. Some of the operators engage in unethical practices, including rendition of inaccurate or misleading prudential returns which undermine early detection of problems or weaknesses that require urgent supervisory action. Furthermore, the rapid growth in the number of banks over-stretched the available managerial capacity.

### 5.10 Advent of Universal Banking

The adoption of Universal Banking poses many challenges to the NDIC. There is the issue of market perception whereby the public believes that a bank is not insulated from the problems of its non-bank affiliates or subsidiaries. Such negative perception can precipitate a run on a bank with contagion effect which could in turn threaten the DIF. These concerns make it imperative for other regulatory agencies (mainly the securities and insurance regulators) to have in place an adequate and efficient investor-protection scheme.

Furthermore, it is imperative to have regulatory restrictions on risk-taking by universal banks. In pursuance of this, the NDIC had presented the underlisted issues to financial market regulators for discussion:

Banks should not guarantee or enhance the marketability of securities or debt instruments underwritten by their own affiliates or subsidiaries.

Banks should not grant loans to clients for the purpose of repaying obligations relating to securities underwritten by their affiliates or subsidiaries.

Affiliates/subsidiaries of banks should not be permitted to serve as issuing houses for stocks affecting their parent or affiliated banks.

Banks' affiliates should publicly disclose that their liabilities are not insured by NDIC.

The existing Prudential Guidelines for banks which place greater emphasis on credit risk, asset classification, income and loss recognition requires a comprehensive review to accommodate other risks to which universal banks will be exposed.

There is need for clear guidelines for banking intra-group transactions such as sale and lease back, swaps, back-to-back transactions.

There is the need for the adoption of risk-based supervision by all the regulators of the financial services industry.

Disclosure requirements by financial institutions should be reviewed and enhanced to facilitate market discipline.

The above list is by no means exhaustive.

## 6.0 PROSPECTS FOR THE SCHEME IN NIGERIA

In spite of the challenges indicated above, there appears to be prospects for the long-term goal of the deposit insurance scheme in Nigeria. The optimism is based on the following :

The continued efforts at improving the Corporate Governance of banks especially the continued encouragement of banks by the regulatory/supervisory authorities on the need to always adopt employment policy which will guarantee that staff recruited are satisfy the "fitness and properness" criteria. This effort has taken two broad forms, namely:

The specification of minimum qualification and experience required of board membership and top management positions by the CBN in 2001 will go along way in addressing the problem of inexperienced top management staff and this will also help to address the observed problem of inadequate corporate governance prevailing in the system.

The regulators' facilitated the newly adopted code of ethics and professionalism for bank employees which is also aimed at evolving responsive corporate governance in the nation's banking system.

b The recently released Contingency Planning Frame-work for handling systemic crisis has made the determination of distress and handling of distress situations more transparent and more objective than hitherto.

c The automation of rendition of prudential returns by licensed banks through a computerized Banking Analysis System (BAS). BAS was designed to enhance data capture and analysis by the bank regulators.

d The proposed amendments of the enabling laws for conducting banking business are expected to address the challenges posed by the advent of universal banking as well as inadequate enforcement powers with respect to bank closure and liquidation.

e The continued efforts of the CBN and the NDIC to enhance the scope of their supervisory activities through consolidated supervision, risk-focussed supervision and capacity building are likely to impact positively on the safety, soundness and stability of the banking system.

f The establishment of the Financial Services Regulation Coordinating Committee (FSRCC) which encompasses all regulators/supervisors of the financial system would go a long way to improving the supervision of financial conglomerates as well as minimise regulatory arbitrage opportunities being exploited by market operators. The key responsibilities of the committee is to coordinate and harmonize the supervision of all market participants in the system and to ensure effective information sharing amongst regulators/supervisors.

g The hope for the emergence of a stable macro-economic environment with few relative price distortions would enable business enterprises, both individual and corporate, to generate stable income to repay bank loans.

h An increase in public awareness about the existence of deposit insurance scheme through closer relationship with the Nigerian press will go a long way in boosting public confidence in the scheme and by implication in the nation's banking system.

i The disposition to implement the policy of "free entry and free exit" has compelled banks to operate in a safe and sound manner.

## 6.0 SUMMARY AND CONCLUSION

Like many countries that have established the DIS, the Nigerian government reacted promptly to the imperatives of the current wave of economic deregulation sweeping through the world by establishing a deposit insurance scheme in the country IN 1988. The NDIC, an organization charged with the responsibility of managing the scheme, has spent the last 13 years putting in place various measures designed to protect the economy from the risk of deposit runs. While the Corporation has achieved some measures of success in its areas of mandate, it had had to grapple with some daunting problems which have affected the effective running of the DIS. Amongst the main ones are issues of public perception/awareness of the scheme, integrity of prudential returns rendered by market operators, weak or abusive corporate governance in insured banks low debt-recovery, and slow judicial process. In spite of the challenges, the series of developments in the system as indicated in Part 6 of the paper have indeed given hope of a bright future for an effective DIS in the country.

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