

THE ROLE OF DEPOSIT INSURANCE IN ENSURING FINANCIAL  
SYSTEM STABILITY IN NIGERIA

**BY**

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# PAPER OUTLINE

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- DESIGN FEATURES OF DIS IN NIGERIA
- CONTRIBUTION OF THE NDIC TO FINANCIAL SYSTEM STABILITY IN NIGERIA
- SUMMARY AND CONCLUSION

# INTRODUCTION

- Initially DIS was implicit in Nigeria (Govt.)
- Then, Safety-net had two components:
  - Lender of last resort
  - Effective supervision
- Implicit DIS is discretionary
  - Protects all depositors, creditors and shareholders
  - Contingent liability on Federal Budget
  - Cannot engender confidence

# INTRODUCTION CTD

- Establishment of NDIC was necessitated by the deregulation of the banking industry during SAP
  - The scheme was introduced to provide a further layer of protection to depositors
  - complement the role of prudent bank management
  - Complement CBN's supervisory activities in ensuring a safe and sound banking system.

# FUNCTIONS OF THE NDIC

- Insure deposit liabilities
- Provide financial and technical assistance
- Guarantee payment to depositors
- Distress Resolution
- Assist Monetary Authorities in policy formulation and implementation

# DESIGN FEATURES OF DIS IN NIGERIA

- It is a Risk-Minimizer
- Government owned
- Mandatory participation
- Limited Coverage
- Funding
  - Mainly premium contributions from participating members
  - No government funding except equity capital

# CONTRIBUTION OF THE NDIC TO FINANCIAL SYSTEM STABILITY IN NIGERIA

- **Deposit Guarantee**

- Paid out N3.3 billion to depositors of 34 banks out N5.2 billion total insured deposits
- the general public seem inadequately aware of the benefits and limitations of the system.

# CONTRIBUTION OF THE NDIC TO FINANCIAL SYSTEM STABILITY IN NIGERIA (ctd)

- The ₦50,000.00 MDIC had been reviewed upward to ₦200,000.00
- Proposal before NASS
- Lack of legal powers to execute prompt payment of insured deposits

# CONTRIBUTION OF THE NDIC TO FINANCIAL SYSTEM STABILITY IN NIGERIA(ctd)

## ● **Banking Supervision**

- Banking supervision provides the oversight required to preserve the integrity of, and promote public confidence in, the banking system.
- Carried out through on-site examination and the off-site surveillance of insured banks
- NDIC shares the responsibility with the CBN.

# CONTRIBUTION OF THE NDIC TO FINANCIAL SYSTEM STABILITY IN NIGERIA (ctd)

- Examination cycle reduced to one year with the establishment of NDIC
- The major challenge to off-site surveillance relates to inaccurate and unreliable returns from banks.

# CONTRIBUTION OF THE NDIC TO FINANCIAL SYSTEM STABILITY IN NIGERIA(ctd)

- To enhance the effectiveness of supervision the Corporation is building supervisory capacity through:
- Focused training and acquisition of relevant tools.
- Enhancing BAS to e-FASS
- Training on Basle II Accord.

# CONTRIBUTION OF THE NDIC TO FINANCIAL SYSTEM STABILITY IN NIGERIA(ctd

- **Distress Resolution**
- The responsibility is shared with the CBN
- The Corporation is empowered to provide financial and technical assistance to failing banks in the interest of depositors.

# CONTRIBUTION OF THE NDIC TO FINANCIAL SYSTEM STABILITY IN NIGERIA(ctd

- The financial assistance can take the form of:
  - loans,
  - guarantee for loan taken by the bank or
  - acceptance of accommodation bills.
  
- the technical assistance may include
  - Take-over of management and control of the bank
  - changes in management
  - assisted merger with another viable institution.

# CONTRIBUTION OF THE NDIC TO FINANCIAL SYSTEM STABILITY IN NIGERIA(ctd

- NDIC in collaboration with the CBN, had, over the years, successfully adopted the following measures, among others, to address bank distress:-
- Accommodation facilities of ₦2.3 billion to 10 banks in 1989.
- The crisis occurred barely 3 months after NDIC commenced operations.

# CONTRIBUTION OF THE NDIC TO FINANCIAL SYSTEM STABILITY IN NIGERIA(ctd

- Take-over of management and control of twenty-five (25) distressed banks by CBN/NDIC to safe guard their assets.
- Acquisition, restructuring and sale of seven (7) distressed banks to new investors.

# CONTRIBUTION OF THE NDIC TO FINANCIAL SYSTEM STABILITY IN NIGERIA (ctd)

- Closure of 36 terminally distressed banks
- Savannah Bank of Nigeria and Peak Merchant Bank still challenging the revocation of their licences in court

# CONTRIBUTION OF THE NDIC TO FINANCIAL SYSTEM STABILITY IN NIGERIA(ctd

- **Bank Liquidation**
- It is adopted as a last resort
- Depositors are given priority over all other creditors.
- Insured deposits paid from DIF

# CONTRIBUTION OF THE NDIC TO FINANCIAL SYSTEM STABILITY IN NIGERIA(ctd

- **Payment of Liquidation Dividend to Depositors**
  - As at 31st July, 2005, the sum of ₦5.872 billion had been paid out to the depositors of 32 of the 34 banks in liquidation.
  - This is more than half of the ₦10.75 billion declared as liquidation dividends.

# CONTRIBUTION OF THE NDIC TO FINANCIAL SYSTEM STABILITY IN NIGERIA(ctd

- The Corporation had declared 100% dividend (i.e full recovery) for all uninsured depositors 10 banks.
- Dividend declared is as high as 93% in some other banks.

# CONTRIBUTION OF THE NDIC TO FINANCIAL SYSTEM STABILITY IN NIGERIA(ctd

- **Payment Of Liquidation Dividend to General Creditors**
- The general creditors of five banks-in-liquidation had received the sum of ₦659.56 million out of ₦753.31 declared.

# CONTRIBUTION OF THE NDIC TO FINANCIAL SYSTEM STABILITY IN NIGERIA(ctd

- **Payment of Liquidation Dividend to Shareholders**
- Shareholders of Nigeria Merchant Bank Ltd were paid liquidation dividends of N620 million based on their ownership ratio of 40:60.
- The sum of N293 million had been paid to former owners of Pan African Bank Ltd.

# CONTRIBUTION OF THE NDIC TO FINANCIAL SYSTEM STABILITY IN NIGERIA(ctd

- The Corporation has commenced payment of dividends to the shareholders of the defunct Alpha Merchant Bank Plc.

# CONTRIBUTION OF THE NDIC TO FINANCIAL SYSTEM STABILITY IN NIGERIA(ctd)

- Challenges facing NDIC as a liquidator:
  - Appointment as Liquidator must be advertised
  - Inadequate legal powers
  - Legal actions by owners of closed banks
  - Poor debt recovery
  - Inability to dispose some physical assets

# OTHER CONTRIBUTIONS OF THE NDIC TO FINANCIAL SYSTEM STABILITY IN NIGERIA

- The Corporation, in its capacity as a liquidator, facilitated the implementation of the Failed Banks Act No. 18 of 1994.
- **Following the implementation of the Decree, about ₦4.3 billion was recovered.**

# OTHER CONTRIBUTIONS OF THE NDIC TO FINANCIAL SYSTEM STABILITY IN NIGERIA

- **Relationship with Other Safety-Net Participants**
- NDIC collaborates effectively with CBN through:
- Planning and scheduling of bank examination;
- Deliberation on how to ensure effective regulation and distress resolution;
- Deliberation on implementing the new banking reform agenda; and
- Provision of input into the conduct of “fit and proper” person test for bank owners and management.

## **OTHER CONTRIBUTIONS OF THE NDIC TO FINANCIAL SYSTEM STABILITY IN NIGERIA**

- **Relationship with Other Safety-Net Participants**
- **MoU was executed by all the members of the FSRCC In order to facilitate access to relevant information**
- **The MoU contained safeguards for confidentiality of information.**
- **NDIC participates actively in FSRCC**

# CONCLUSION

- DIS being implemented by NDIC has contributed to financial system stability of Nigeria.
- DIS in Nigeria has removed the contingent liability of bailing out distressed banks by the Federal Government.
- DIS is not however designed to handle systemic crises if and when they occur.