

What's New at IADI?

Volume 2, Issue 12

May - June 2004

IADI is Celebrating its Second Birthday this Month – Here is just a sample of what we have done so far!



IADI Africa Regional Meeting and Conference

Deposit Insurance in Africa: Issues, Challenges and Prospects

Hosted by the Nigeria Deposit Insurance Corporation



21-23 June 2004

Location: Abuja, Nigeria

Central Bank of Nigeria, Auditorium

Central Business District
Abuja FCT

Venue

Preliminary Program

Monday 21 June 2004

09.00 – 09.30	Registration
0900 – 11.00	Session 1: Conference Overview Welcome Address by G.A. Ogunleye , Chairman IADI Africa Regional Committee and CEO of the NDIC Goodwill Message from CBN Governor Keynote Address by Hon. Minister of Finance
11.00 – 11.30	Tea Break
11.30 – 01.30	Session 2: Deposit Insurance: Concept, Practice and Relevance in Africa (Prof. Peter N. Umoh)
01.30 – 02.00	Discussion
02.00 – 03.00	Lunch
03.00 – 06.00	African Regional Committee Meeting
8.30	Dinner

Tuesday, 22 June 2004

0900 – 0930	Session 3: Deposit Insurance Practice in Tanzania and Kenya (Simon Matafu and Eunice Kagane)
0930 – 10.00	Discussion (Participants)
10.00 – 10.30	Session 4: Deposit Insurance Practice in Nigeria (NDIC)
10.30 – 11.00	Discussion

11.00 Tea Break

1130 – 12.00	Session 5: Deposit Insurance Practice in Zimbabwe and Algeria (John Chikura and Speaker, TBC)
12.00 – 12.30	Enterprise Risk Management at Canada Deposit Insurance Corporation (Ray LaBrosse)

IMPLEMENTATION ISSUES IN DEPOSIT INSURANCE	
12.30 – 01.00	Session 6: Determining the Adequacy of Maximum Deposit Insurance Coverage (Speaker TBC)
01.00-01.30	Discussion
01.30 – 03.00	Lunch Special Guest Speaker: Charles Okeahalam “Deposit Insurance in an International Banking Context”.
03.00-03.30	Session 7: Funding and Investment Policies (Paper presentation) (Ray LaBrosse)
03.30- 04.00	Discussion
04.00-04.30	Session 8: Differential Premium Systems (J. Ade Afolabi)

16.00 Tea Break

4.30 – 5.00	Discussion
5.00 – 5.30	Tea Break
5.30 – 6.00	Session 9: Interrelationships among safety net players (Ray LaBrosse)
6.00 – 6.30	Discussion
8.30	Dinner

Wednesday 23 June 2004

0900 – 9.30	Session 10: Public awareness(presentation of Issues of some selected countries (Speaker TBC)
9.30-10.00	Discussion
10.00 – 10.30	Financial stability: Work plans of the Reserve Bank of South Africa(Andre Bezuidenhout)
10.30-11.00	Discussion
11.00-11.30	Tea Break
11.30-12.30	Session 12: Lessons learned from Introducing Deposit Insurance (Ray LaBrosse)
12.30-1.30	Discussion Wrap-up and Next Steps
1.30 – 3.00	Lunch
3.00 – 7.00	City Tour
8.30	Reception and Dinner

Registration: Kim.utnegaard@iadi.org and Kim.utnegaard@bis.org

<http://www.iadi.org/html/App/SiteContent/Registration%20form%20Abuja%20Conference%2018052004.DOC>

Member Profile



NIGERIA DEPOSIT INSURANCE CORPORATION

A founding Member of IADI

Introduction

The establishment of the Nigeria Deposit Insurance Corporation (NDIC) in 1989 heralded the introduction of an explicit deposit insurance system. The NDIC was created as part of the reform measures taken to strengthen the financial safety net following the adoption of the Structural Adjustment Programme (SAP) in 1986. The system was introduced to provide a further layer of protection to depositors, contribute to financial system stability by complementing the role of prudent management and the Central Bank of Nigeria's (CBN's) supervisory activities in minimising risks, as well as by providing a framework for orderly failure resolution. Prior to the establishment of the NDIC, the government played the role of an implicit insurer as it had to bail out troubled banks in its efforts to protect depositors.

Mandate and Powers

The system was designed as a Risk Minimiser, with powers and responsibilities to insure deposits, monitor the health of member institutions and provide an orderly resolution mechanism for failing and failed. Accordingly, the focus of the Corporation's activities, as aptly captured by its **Mission Statement**, which 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 failing and failed insured institutions.



Ganiyu Ogunleye,

CEO and Managing Director of the NDIC



Offices of the NDIC in Abuja

Functions of the Corporation

In accordance with the provisions of the Act establishing the Corporation, the NDIC performs the following functions:-

1. **Deposit Insurance:** This is the most significant and distinct function of the Corporation. As a deposit insurer, NDIC guarantees the payment of deposits up to the specified limit to a depositor in the event of failure of an insured financial institution. Balances in all deposit accounts held in the same right and capacity by a depositor in all the branches of a closed insured institution, net of outstanding debts, are aggregated to determine the maximum insured amount. The Corporation repays the insured deposit either directly or through agent banks.

2. **Bank Supervision:** NDIC supervises banks to protect depositors, ensure monetary stability, promote an effective payments system, and promote competition/innovation in the banking system. The supervision seeks to reduce the risk of failure while ensuring that unsafe and unsound practices are minimized. The Corporation carries out this responsibility through on-site examination and off-site surveillance. This responsibility is shared with the Central Bank of Nigeria (CBN).
3. **Distress Resolution:** The Corporation is empowered to provide financial and technical assistance to failing insured institutions, in the interest of depositors. The financial assistance can be in the form of loans, guarantee, or accommodation bills. Similarly, the technical assistance may include assumption of control and management of a failing institution, change in management, or assisted merger with another viable institution. The responsibility for distress resolution is undertaken in consultation with the CBN.
4. **Bank Liquidation:** NDIC is responsible for the orderly and efficient closure of failed institutions. The closures are done with minimal disruption to the banking system. After closure, the assets of the failed institutions are realized in the most cost effective manner and the proceeds appropriated among the various claimants in accordance with relevant laws. The laws give depositors seniority of claim on a failed bank's assets over and above other stakeholders such as preferred creditors, general creditors, and shareholders.

Governance

The NDIC was established as an independent Corporation within the public sector by Act 22 of 1988. The governing body of the Corporation is the Board of Directors which is responsible for policy formulation and oversight of its affairs. As provided in the enabling Act, the Board is appointed by the President of the Federal Republic of Nigeria, and it consists of nine (9) members. These include a part time Chairman, three part time members, a representative each of the Central Bank of Nigeria and the Federal Ministry of Finance as members, the Managing Director and two Executive Directors. However, should the Board be dissolved, the Act provides that the Minister of Finance shall appoint a Management Committee for the Corporation with the Managing Director as the Chairman to superintend over the affairs of the Corporation pending the constitution of a new Board.

Membership

Act 22 of 1988 makes membership of the system in Nigeria compulsory for all licensed banks and other deposit-taking financial institutions. In that regard, all the licensed deposit-taking financial institutions, comprised of 89 banks, 283 community banks and 81 primary mortgage institutions, which are currently operating in the country are mandatory members of the system.

Funding

Apart from the initial capitalization which was provided by the Federal Government through the CBN and the Federal Ministry of Finance, the subsequent funding arrangements have *ex ante* and *ex post* features. The *ex-ante* funding relies on the periodic premium contribution by insured institutions. The objective is to build the fund that is required to meet possible future insurance obligations. NDIC currently adopts a flat rate premium assessment approach. Using this approach, insured institutions in Nigeria are charged 15/16 of 1% (or 94 basis points) of their total deposit liabilities (except deposits of insiders and those that are used as collaterals for loans) as at 31st December of the preceding year as premium for the current year.

In the case of *ex post* funding, the Act empowers the NDIC to charge insured institutions a special levy in a sum equal to the amount of an annual premium where the Deposit Insurance Fund (DIF) is not adequate to settle obligations arising from its deposit insurance liabilities. In addition, the Act gives the Corporation the power to borrow from the CBN such money as it may require discharging its statutory functions.

While the above two funding options are available to the NDIC, in practice, the Corporation has relied on *ex-ante* funding arrangement to meet its obligations.

Investment Policy of the Corporation

The funds of the Corporation are invested in Federal Government securities. This investment policy is informed by the need for safety and liquidity. The operating expenses of the Corporation are defrayed out of the income earned on its investments.

Relations with Other Safety-Net Participants

The Corporation has always recognized that there must be effective collaboration between the deposit insurer and other safety-net participants. In that regard, it has a cordial relationship with the head regulatory body in the country, i.e. the CBN. This has been done through the planning and scheduling of bank examination, and the establishment of a Joint Executive Committee on Banking Supervision.

Similarly, the Corporation has been participating very actively in the activities of the Financial Services Regulation Coordinating Committee (FSRCC) which is made up of other regulators in the financial services industry such as the CBN, Securities and Exchange Commission (SEC), National Insurance Commission, Corporate Affairs Commission (CAC), and Federal Ministry of Finance. The body was established to ensure effective supervision of the financial services industry through coordination of supervisory activities, cooperation and information sharing.

At the same time, the Corporation is collaborating with the recently established Economic and Financial Crime Commission (EFCC) in its bid to stem the tide of economic and financial crimes (most of which are committed through the banking system).

Achievements of the Corporation

The achievements of the Corporation can be reviewed within the context of its activities in the discharge of its primary mandate of a risk minimizer. The Corporation's major achievements include:

a. Deposit Guarantee

From the inception of the scheme in 1989 to December 2003, the Corporation had paid about N3.3 billion (US \$24.3 million) insured deposits to the depositors of 34 banks in liquidation. This development has no doubt, gone a long way in engendering depositors' confidence in Nigeria's banking system.

b. Depositors' Protection through Supervision

The enhancement of supervisory capacity through focussed training and acquisition of relevant tools is being vigorously pursued by the Corporation. In that regard, more staff in the on-site and off-site supervision departments of the Corporation have been exposed to new techniques of banking supervision. Similarly, the existing tool for off-site surveillance, Bank Analysis System (BAS) which was jointly developed with the CBN, has been enhanced to mitigate some of the problems associated with off-site supervision in Nigeria.

The involvement of the Corporation in on-site examination has enhanced supervisory capacity such that licensed banks are examined on an annual basis.

c. Distress Resolution

The Corporation was established when some banks were identified to be technically insolvent. The NDIC was nevertheless statutorily required to insure all the banks as participation in the system is mandatory. 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 situation, NDIC in collaboration with the CBN, has, over the years, successfully adopted the following measures, among others, to address bank distress:-

- i) A N2.3 billion (US \$300.65 million) accommodation facility was granted to ten (10) banks which had serious liquidity crises in 1989 following the withdrawal of public-sector funds from commercial and merchant banks and the transfer of same to CBN during that year.
- ii) Take-over of management and control of twenty-five (25) distressed banks (in conjunction with CBN) to safe-guard their assets.

- iii) Acquisition, restructuring and sale of seven (7) distressed banks to new investors.
- iv) Closure of 36 terminally distressed banks that failed to respond to various regulatory/supervisory initiatives. Except for two banks that are contesting the withdrawal of their licenses in court, all the banks were closed with minimal hardship to their depositors.

The combined effect of these measures was a significant reduction in the level of distress in the banking system and an enhancement of public confidence in the system.

d. Payment of Liquidation Dividends

In addition to the payment of insured deposits of closed banks, depositors with credit balances in excess of the insured limit were paid liquidation dividends based on the volume of proceeds of the closed banks' assets that were realised by the Corporation. At the end of January, 2004, the Corporation had declared an aggregate dividend of N9.9 billion (US \$ 72.8 million) for 32 out of the 34 banks in liquidation.

Liquidation dividends had also been paid to the creditors and shareholders of some of the banks. It is important to point out that the role of the Corporation as a liquidator is separate and distinct from the other roles. The Companies & Allied Matters Act of 1990, as amended, regulates the duties of a Liquidator. To this end, separate accounts are kept for every bank in liquidation, independent external auditors are appointed to audit the accounts and regular statutory returns are sent to the Corporate Affairs Commission (CAC) and the CBN.

e. Bank Customers' Enlightenment

The Corporation has, since its establishment, been promoting public understanding of banking policies by providing financial information and analysis of insured banks to the general public. Such information which hitherto was not articulated has enabled the public to know the financial conditions of insured banks. The dissemination of financial information is done through the Corporation's Annual Reports; the NDIC Quarterly and other publication which are available to the public free of charge as well as its website, (www.ndic-ng.com). These publications are now being regarded by operators and academia as veritable sources of information on the nation's banking industry.

Challenges Facing the Corporation

While the Corporation has recorded reasonable achievements since it was established in 1989, the implementation of the system has not been without some challenges. Some of the challenges include poor public perception of the deposit insurance system; distress in other deposit-taking financial institutions; rendition of unreliable returns by some insured institutions; and inadequate legal provisions, among others.

What's New in Your World?

QUEBEC

On 1 February 2004, l'Autorité des Marchés Financiers was formed following the merger of five separate organizations. L' Autorité is the regulatory body that administers the regulatory framework governing Québec's financial sector. To this end, it has combined the operations and personnel of the following five organizations: the Bureau des services financiers, the Commission des Valeurs mobilières du Québec, the Fonds d 'Indemnisation des Services Financiers, the Inspecteur Général des Institutions Financières (financial institutions sector only), and the Régie de l'Assurance-Dépôts du Québec.

L' Autorité des Marchés Financiers is intended to be a single window for consumer information and complaint processing. A team of information officers is available to respond to all requests for information from consumers. L' Autorité is also charged with receiving and handling the complaints submitted to it. Furthermore, it was intended to streamline the regulatory framework governing the financial sector and thus simplify the administrative procedures of individuals and businesses practicing in the sector. Directed by a CEO, L' Autorité has more than 500 employees at its Québec City and Montréal offices. L' Autorité's headquarters are located in Québec City.

Website : www.lautorite.qc.ca

VENEZUELA

The Fondo de Garantía de Depósitos y Protección Bancaria (FOGADE)

Fogade has announced that Mr **Jesús Enrique Caldera Infante** has been appointed as it's President. Mr Caldera Infante's contact details are :

FOGADE, Esquina San Jacinto, Edf. FOGADE, Planta Alta

Catedral, Caracas 1010, Venezuela

Phone +58212 5460010

IADI

IADI Membership and Communications Committee

Roumyana Markova of the Bulgarian Deposit Insurance Fund, has been appointed by the Executive Council, as the Chair of the Membership and Communications Committee.

Head office

We are pleased to announce the appointment of **Kim Utnegaard** as Deputy Secretary General of IADI. In her new role, Ms. Utnegaard assumes responsibility for the day-to-day operations of the Association and a number of other activities such as the IADI Newsletter.

Ray LaBrosse will participate as a speaker at the upcoming **13th International Banking Congress on "Russia's Banking System in the Context with International Trends and Standards"**

which will take place from 2 – 5 June 2004 in St Petersburg, Russian Federation.

More information on this Congress can be obtained from **Ms Ekaterina Putyatina**, [\[mailto:mbk@mbk.spb.ru\]](mailto:mbk@mbk.spb.ru) Consultant at the Foundation for support of the IBC.

By phone: +7 (812) 320-34-32 or 320-34-31 or at their web-site: <http://mbk.spb.ru>.

PUBLICATIONS:

You may find the following articles of interest:

Bank for International Settlements:

[Villy Bergström: Monetary policy and economic stability \(Central Bank Articles and Speeches\)](#) (18.05.2004 14:24) – PDF. Speech by Mr Villy Bergström, Deputy Governor of Sveriges Riksbank, at a conference organised by the real-estate market magazine Fastighetsvärlden, Stockholm 12 May 2004. <http://www.bis.org/review/r040518f.pdf>

[Zeti Akhtar Aziz: Towards world-class banking - efficient, effective and resilient banking system \(Central Bank Articles and Speeches\)](#) (18.05.2004 14:24) - PDF, Keynote address by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the Malaysian Banking Summit 2004, Kuala Lumpur, 14 May 2004.

<http://www.bis.org/review/r040518e.pdf>

[T T Mboweni: Recent economic developments and monetary policy in South Africa \(Central Bank Articles and Speeches\)](#) (18.05.2004 14:24) - PDF. Address by Mr T T Mboweni, Governor of the South African Reserve Bank, at the Mercury/Safmarine Business Breakfast, Durban, 14 May 2004. <http://www.bis.org/review/r040518d.pdf>

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This newsletter was issued on 31 May 2004. Want to share your expertise? To submit articles or items for consideration for a future issue please send them to info@jadi.org by 15 June 2004.