ROLE OF NIGERIA DEPOSIT INSURANCE CORPORATION (NDIC) IN PROMOTING STABILITY OF THE FINANCIAL SYSTEM

BY

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BEING A RESEARCH PROJECT SUBMITTED TO THE POSTGRADUATE SCHOOL, AHMADU BELLO UNIVERSITY, ZARIA, IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTERS IN BUSINESS ADMINISTRATION (MBA) DEGREE

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DECLARATION

I do hereby declare that this project is wholly a product of my research findings and all sources of information used have been acknowledged accordingly. I should therefore, be held responsible for any error of omission or commission.

Usman Makama Umaru

15-02-13
Date

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CERTIFICATION

This is to certify that this research work titled "The Role of Nigeria Deposit Insurance Corporation (NDIC) in Promoting the Stability of the Financial System" has undergone the necessary supervisory process and is seen as a contribution to knowledge. Therefore, it meets the requirements for the award of Masters in Business Administration (MBA) Degree of the Department of Business Administration, Faculty of Administration, Ahmadu Bello University, Zaria.

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DEDICATION

This research work is dedicated to the loving memory of my late parent, Mallam Umaru Makama and Mallama Hauwa Aboki for their love, kindness, encouragement and support toward my educational pursuit. May Allah (SWT) forgive them, grant them eternal rest and reward them with Jannatul Firdaus. (Ameen)

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A research project of this nature can never be the sole effort of an individual. Several people contributed in one way or the other to the success of this project, such that it will be impossible for me to mention everybody's name in a brief acknowledgement like this. Therefore, I wish to use this opportunity to express my profound gratitude to everyone who has contributed in one way or the other to the success of this project.

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May the Almighty Allah bless and reward all of you in abundance. (Ameen)

ABSTRACT

Deposit Insurance Scheme (DIS) is a key component of most financial systems worldwide. It is an active component of the financial safety-net put in place by governments as a means of intervening in the financial system because of the important roles it plays in protecting depositors. This research work is an attempt to ascertain whether or not NDIC, which is the agency responsible for administering the DIS in Nigeria contribute to the stability of the financial system. The survey research method was used in this study, while data were collected from both primary and secondary sources and analysed by the use of simple percentage method. The results from the analysis revealed that NDIC has continued to play an important role in promoting financial system stability in Nigeria. Based on the findings, the researcher recommends that NDIC be given adequate enforcement powers by the government to ensure compliance with the NDIC Act and also aggressive public awareness campaign about the benefits of DIS should be undertaken by NDIC and other relevant stakeholders in order to reduce the misconceptions and confusions about the roles of DIS in financial system stability.

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CHAPTER ONE

1.0 INTRODUCTION

The role of banks and other financial institutions that accept deposits from the public is very important to the economy because of their involvement in the payments system, their role as intermediaries between depositors and borrowers, and their function as agents for the transmission of monetary policy.

By their nature, banks and other deposit-taking financial institutions are vulnerable to liquidity and solvency problems because they transform deposits into loans and investments. They also lend to a wide variety of borrowers whose risk characteristics are not always readily apparent. The importance of banks and other deposit-taking financial institutions in the economy, the potential for depositors to suffer losses when banks or such institutions fail, and the need to mitigate contagion risks, lead countries to establish financial safety-net. A financial safety-net is usually made up of three components: prudential regulations and supervision, lender of last resort and Deposit Insurance Scheme (DIS).

The distribution of powers and responsibilities between the financial safety-net participants is a matter of public-policy choice and individual country circumstances. For example, some countries incorporate all financial safety-net functions within the central bank, while others assign responsibility for certain functions to separate

entities. In Nigeria for example, prudential regulations and supervision is a joint responsibility of Central Bank of Nigeria (CBN) and Nigeria Deposit Insurance Corporation (NDIC), lender of last resort is the sole responsibility of CBN while DIS is the sole responsibility of NDIC.

This research study therefore, is an attempt to examine the role of NDIC in administering the DIS in Nigeria for the purpose of promoting stability of the Nigerian financial system. This chapter presents the general background to the study, the statement of the research problem, the objectives of undertaking the study, the research questions, the hypothesis of the study, the significance of the study, the scope of the study, the limitation of the study and the definitions of some key terms as used in the study.

1.1 BACKGROUND TO THE STUDY

Prior to the establishment of NDIC, there were only two (2) formalised financial safety-net components put in place by the government to ensure stability of the financial system. These were the lender of last resort facility and banking supervision which were all undertaken by CBN. The government, however, provided protection in a form of blanket insurance to depositors, creditors and shareholders by bailing out troubled deposit-taking financial institutions. Thus, there was no explicit DIS and the government used its discretionary powers to support any failing deposit-taking financial institution.

Under this implicit insurance scheme, there was no formal arrangement regarding how the implicit protection could be funded.

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Funding was largely provided through government budget, thus, the scheme was a contingent liability on the Federal Government budget and was characterised by uncertainties about the level and scope of coverage. The implicit insurance scheme could not therefore, provide the required public confidence. Other problems associated with the implicit scheme included slow response to crisis due to debate on required budgetary provision and government's sole burden to resolve banking distress.

In 1986, the Nigerian Government commenced the implementation of a Structural Adjustment Programme (SAP) which entailed liberalisation and deregulation of the Nigerian economy. As a result, the number of banks increased phenomenally from forty eight (48) in 1988 to one hundred and twenty (120) in 1990. The development triggered keen competition as well as increase in the risks to which banks and consequently depositors were exposed. An explicit DIS was therefore considered necessary to protect depositors, particularly the small ones, from the adverse consequences of risks being taken by banks and other deposit taking financial institutions in the process of competition.

The foregoing necessitated the introduction of an explicit DIS in Nigeria through the enactment of Act 22 of 1988, which established NDIC as the agency responsible for the implementation of the DIS in Nigeria and commenced operations in March, 1989. The DIS was introduced to provide a further layer of protection to depositors and complement the supervisory and regulatory activities of CBN in ensuring a safe and sound financial system. The DIS in Nigeria like

most other explicit schemes has specified maximum insured sum, a clearly defined ex-ante funding arrangement and a specified administrative structure. Participation in the scheme is compulsory for all licensed deposit-taking financial institutions while the implementing agency (NDIC) is owned by the government. NDIC has responsibilities for monitoring the health of insured institutions as well as the risk exposure of the Deposit Insurance Fund (DIF) and providing an orderly failure resolution mechanism as clearly enunciated in the NDIC Act. In effect, the DIS in Nigeria was designed as a risk minimiser rather than a pay box system.

1.2 STATEMENT OF THE PROBLEM

The recent global financial crisis brought to the fore the vital role of DIS in promoting financial system stability. Government in various countries were obliged to either increase deposit insurance coverage or declare temporary blanket guarantees to depositors of financial institutions in order to restore or sustain public confidence in their financial systems.

Deposit insurance may be justified on two (2) separate grounds, namely: the protection of depositors and the prevention of deposit runs thereby contributing to financial system stability. The former may be viewed as an aspect of consumer protection and is linked to the presumed inability of the ordinary small depositors to monitor the riskiness of financial institutions in which they place their funds as well as the potentially severe cost of deposit losses to small savers. The latter may be viewed from the perspectives of macro-economic

objective as a result of globalisation, advances in information and communications technology as well as inter-connectivity of financial systems, which made it necessary that DIS not only restrict its focus to protection of small savers only but also seek to contribute to stability of the entire financial system at all times.

The issue of concern in this research work is how NDIC as a DIS agency in Nigeria administers the DIS with a view to contribute to stability of the Nigerian financial system.

1.3 OBJECTIVES OF THE STUDY

The objectives of this research work are as follows:

To ascertain how NDIC contributes to stability of the Nigerian financial system.

To identify some of the challenges faced by NDIC in the discharge of its responsibilities and make recommendations on how to overcome some of these challenges.

To highlight some of the prospects for the effective discharge of NDIC mandates.

1.4 RESEARCH QUESTIONS

This study is an attempt to find answers to some of the following questions:

To what extent does NDIC contribute to financial system stability?

To what extent does NDIC encounter challenges in the discharge of its statutory mandate?

What are the prospects for the effective discharge of NDIC mandate?

1.5 HYPOTHESIS OF THE STUDY

The following hypothesis was formulated for the purpose of this research work:

Ho: NDIC does not contribute to stability of the financial system.

1.6 SIGNIFICANCE OF THE STUDY

The significance of this research work cannot be over-emphasised. The findings of this study would be of immense benefits to all relevant stakeholders such as government, banks and other deposit-taking financial institutions, deposit insurers like NDIC, other financial system supervisors, customers of financial institutions, the academia and the general public.

This study would be useful to the government in formulating and implementing policies on DIS in pursuit of the government desire to ensure a stable financial system. It would also assist in enlightening banks and other deposit-taking financial institutions on the need to co-operate with the government in ensuring the success of the scheme, thereby reducing resistance to the implementation of the scheme and also to avoid moral hazard in the course of their operations. The study would also help in building trust and fostering better relationships with the banking customers and the general public thereby enhancing public confidence in the banking system

and reducing confusion during banking crisis. To the academia, this research would serve as a foundation through which further researches on the importance of DIS in financial system stability could be built upon. The reputation of a deposit insurer (e.g. NDIC) would be improved from the research work by critically examining the vital roles it plays in contributing to financial system stability, and it would also enhance support and cooperation from other supervisors of the financial system.

1.7 SCOPE OF THE STUDY

This research work was designed to focus on the contribution of NDIC in promoting financial system stability in Nigeria. The researcher would examine the operations of NDIC in the Nigerian financial system and how it contributes to stability of the system.

1.8 LIMITATION OF THE STUDY

The major limitation of this study was the lack of basic knowledge of DIS by the public who were supposed to benefit from the scheme. This has created a lot of misconceptions by the public on the role of DIS in promoting financial system stability. Since most members of the public are not fully aware of the basic concepts of DIS, the benefits of the scheme would not be meaningful to them. Also, they may not believe that they have some protection against a failing depository institution, and this would erode their confidence in the ability of DIS to protect them thereby leading to deposit runs and the likelihood of systemic crisis in the financial system.

1.9 DEFINITION OF KEY TERMS

Some of the key terms used in this research study are defined by the researcher as follows:

Blanket Guarantee: A "blanket guarantee" is a declaration by authorities that in addition to the protection provided by limited coverage deposit insurance or other arrangements, certain deposits and perhaps other financial instruments will be protected.

Bridge Bank: It is a temporary bank established and operated to acquire the assets and assume the liabilities of a failed insured institution until final resolution can be accomplished.

Deposit Run: A rapid loss of deposits precipitated by fear on the part of the public that a bank may fail and depositors may suffer

e-FASS: Electronic Financial Surveillance System (e-FASS) is an automated process which provides a platform for the rendition of returns by banks and other financial institutions which can be accessed by the regulatory authorities immediately.

Financial System: A financial system is a set of rules, regulations, arrangements, institutions and agents that interact with each other in order to foster economic growth and development of a nation.

Financial Safety-Net: A financial safety-net is a set of crisis prevention and resolution arrangement put in place by the government to prevent banking crisis and ensure financial system stability. It encompasses prudential regulation, DIS and lender of last resort.

Liquidation Dividend: For depositors with credit balance in excess of the insured sum, liquidation dividend is also paid to them in addition to the insured sum based on the volume of proceeds realised by the deposit insurer from the sale of assets of the failed institution. After all depositors are paid, liquidation dividend will be paid to creditors and shareholders.

Prudential Regulation: Prudential regulation is the process of monitoring deposit-taking financial institutions to ensure that their *operations are conducted in a safe and sound manner and in* accordance with laid down rules, laws and regulations.

1.10 SUMMARY

The financial environment in recent times has witnessed increasingly rapid change brought about by globalisation, deregulation, liberalisation, internationalisation and competition with the resultant increase in the inherent risks in the financial systems which may lead to global financial crisis. The implication of this is the need for a DIS to be in place that will protect not only depositors of financial institutions but also contribute to stability of the financial system.

In 1989, the Nigerian government proactively reacted to the imperatives of the wave of globalisation and economic deregulation by putting in place a DIS as another component of the financial safety-net. NDIC was charged with the responsibility of managing the scheme and has spent the last twenty-two (22) years putting in place various measures designed to protect the economy from the risk of deposit runs thereby contributing to financial system stability.

CHAPTER TWO

2.0 INTRODUCTION

In this chapter, the issues highlighted include concept of DIS, types of DIS, core principles for effective DIS, design features of DIS in Nigeria, legal framework of DIS in Nigeria, establishment, mandate and functions of NDIC, contribution of NDIC to financial system stability, challenges faced by NDIC in the discharge of its mandate, and the prospects for the effective discharge of NDIC mandate.

2.1 LITERATURE REVIEW

The intermediation role of deposit-taking financial institutions between the surplus and the deficit units of the economy essentially entail risk-taking of different forms. The operations of these financial institutions affect all stakeholders including the general public and therefore, every government utilise various means, both direct and indirect, to minimise any damage to the interests of depositors as a result of failure of such institutions.

In the past, by closely supervising financial institutions and maintaining strict controls over the scope of their business operations, the government had implicitly safeguarded depositors' fund. However, with the increasing complexities in banking operations and the increasing inherent risks in the financial system, it became imperative for a DIS to be put in place to explicitly safeguard the interests of depositors, especially the small depositors in the event of

failure of a financial institution. By so doing, confidence in the financial system is engendered and the stability of the system facilitated.

2.2 CONCEPT OF DEPOSIT INSURANCE SCHEME

A Deposit Insurance Scheme (DIS) is a financial guarantee put in place to protect depositors in the event of a depository institution failure and also to offer a measure of safety for the financial system. It is a mutual insurance system supported by insured financial institutions and administered by a government or private agency. The agency insures deposits of depository institutions and guarantees prompt reimbursement of depositors in the event of failure of an insured depository institution. DIS developed as a result of the need to provide some form of protection to depositors who stand the risk of losing their hard earned money in the event of financial institution failures. In addition to this was the need to insulate the financial system from instability that could result from runs and loss of depositors' confidence (NDIC, 1999).

According to Ogunleye (2010), the practice of deposit insurance differs from one jurisdiction to another. However, some best practices have emerged over the years to guide countries that have established DIS or countries wishing to create DIS. Essentially, the practices of DIS deal with issues of ownership, administration, membership, funding, coverage, pricing and failure resolution which shall be discussed extensively in this study.

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Deposit insurance was first introduced by some states in the United States of America (USA) around the 1840s. However, Norway was the first country to establish a nationwide DIS for its savings and commercial banks in 1921 and 1938 respectively. Finland and the former Czechoslovakia established their DIS in 1924 while a nationwide scheme in the USA was established in 1933 following the great depression of that year and Canada adopted a compulsory DIS in 1967. In Asia, India was the first country to create a DIS in 1961 to be followed by the Philippines in 1963. In Africa, the first DIS was established in Kenya in 1985 and followed by Nigeria in 1988 (Ogunleye, 2010).

Deposit insurance is a safety-net vehicle designed to stabilise financial systems and safeguard the interests of depositors of financial institutions. It serves as one of the complementary supervisory agencies employed by the monetary authorities for effective management and orderly resolution of problems associated with both failed and failing depository institutions. In addition, the scheme also offers some form of deposit guarantee to depositors such that their confidence in the financial system is not eroded in situations where deposit-taking financial institutions fail. The scheme also provides government with a framework for intervention and sterilisation of disruptive effects on the economy following the failure of deposit-taking financial institutions (Ebhodaghe, 1997).

Deposit insurance guarantees that depositors will promptly receive at least a minimum amount of their funds in the event of a depository institution failure irrespective of the disposal prospects of the failed

institution's assets. However, despite the immense benefits of the scheme, it may increase the risks of moral hazard if poorly designed and managed. Moral hazard according to Ebhodaghe (1997) refers to the incentive for excessive risk taking by insured institutions or those receiving the benefit of deposit insurance protection. Such behaviour may arise in a situation where depository institutions, depositors and other creditors are protected, or believe they are protected from losses or when they believe that a depository institution will not be allowed to fail. In these cases, depository institutions and depositors have less incentive to access the necessary information to monitor their investments and deposits. As a result, depository institutions may become financially weak but still can attract deposits for high-risk ventures at a lower cost than would otherwise be the case.

Moral hazard can be mitigated by creating and promoting appropriate incentives through good corporate governance and sound risk management of individual depository institution, effective market discipline and frameworks for strong prudential regulation, supervision and laws. These elements involve trade-offs and are most effective when they work in concert. Specific deposit insurance design features can also mitigate moral hazard. These features may include: placing limits on the amounts insured, excluding certain categories of depositors from coverage, implementing differential or risk-adjusted premium assessment system, minimising the risk of loss through early closure of troubled depository institutions and demonstrating a willingness to take legal action where necessary against directors and others for improper acts (Ebhodage, 1997).

Deposit insurance is, however, not a panacea for resolving all failures in the financial 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. To be effective, a DIS needs a clear mandate to reinforce stability of the financial system. Other important factors that may affect the effectiveness of a DIS are macroeconomic stability, sound financial system, high standards of supervision and regulation, adequate legal framework and the structure of the financial system (NDIC, 2009).

2.3 TYPES OF DEPOSIT INSURANCE SCHEME

According to Ogunleye (2010), there are basically two (2) types of DIS, these are implicit deposit insurance scheme and explicit deposit insurance scheme. The implicit form is a discretionary approach adopted by government to prop up some failing deposit-taking financial institutions in the absence of an explicit statutory obligation on the part of government to protect depositors. The government is therefore, at liberty to decide whether or not to grant any relief to depositors and the amount of such relief. In other word, implicit deposit insurance depicts a situation where there is no formal system in place. Under such arrangement, there is neither a formal means of funding the system nor are there unambiguous commitments 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. The approach is not desirable because it creates uncertainty in the minds of depositors which in turn can intensify runs on depository institutions.

An explicit DIS on the other hand is created by a legislation or private contract which spelt out its mandates, powers and governance structure. The enabling legislation also states the objectives of the scheme and other operational guidelines relating to such issues as ownership, funding arrangement, extent of coverage and compensation limit, membership, rules and regulations guiding participation, supervisory powers of the insurer and resolution powers amongst others. Specifically, an explicit DIS provides a formal framework with a clear-cut rules and procedures for providing protection to depositors as well as for assessment and management of failed and failing deposit-taking institutions.

An explicit DIS can be designed as either a pay box or a risk minimiser. A pay box system is a deposit insurer with powers limited or confined to paying the claims of depositors after a depository institution has been closed. In addition, it may collect premiums from participating institutions if the system is contributory and also manage the deposit insurance funds. Accordingly, they normally do not have prudential regulatory or supervisory responsibilities or intervention powers. Nevertheless, a pay box system requires appropriate authority, as well as access to deposit information and adequate funding for the timely and efficient reimbursement of depositors when a depository institution fails (Ogunleye, 2010).

A risk minimiser is a deposit insurer with broad mandate and powers to reduce the risks it faces. It is logical for the deposit insurer to know and minimise the extent of risk it is exposed to and to monitor the changes in the composition and extent of such risk through close

supervision of the insured institutions. This is the risk minimisation responsibility of the deposit insurer. The statute establishing the scheme usually provides powers for supervision to the deposit insurer. These powers may include: the ability to control entry and exit from the deposit insurance scheme, the ability to assess and manage its own risks, and the ability to conduct examinations of depository institutions or request for such examinations, provision of financial assistance including open bank assistance, take enforcement actions against member institutions and control membership. Such systems also may provide financial assistance to resolve failing institutions in a manner that minimises losses to the deposit insurer. Some risk-minimisation systems have the power to set regulations, as well as to undertake enforcement and failure resolution activities. Therefore, whereas a pay box is a small organisation responsible for administering the DIS, a risk minimiser is a larger organisation responsible for managing the DIS such that it could minimise its losses (Ogunleye, 2010).

2.4 CORE PRINCIPLES FOR EFFECTIVE DEPOSIT INSURANCE SCHEME

In spite of the significant growth in the number of DIS worldwide, practices in different jurisdictions have varied though with convergence in some key areas. In an attempt to promote sound practices amongst DIS in all jurisdictions, the International Association of Deposit Insurers (IADI) had developed a set of core principles to guide the practice of an effective DIS. These core principles are reflective of, and designed to be adaptable to a broad

range of country circumstances, settings and structures. In developing these principles, IADI drew heavily on the practical experience of its members. Essentially, they were features and practices that were considered the best in terms of design and performance respectively. Thus, these principles provided a veritable platform to assess the effectiveness of any DIS. According to IADI (2009), the key elements of these core principles are as follows:

Public Policy Objectives

The first step in adopting a DIS is to specify appropriate public policy objectives that it is expected to achieve. These objectives should be formally specified and well integrated into the design of the DIS. The principal objectives for DIS are to contribute to stability of the financial system and protect depositors. The focus of protection should be on those depositors who are generally not in a position to make an informed assessment of the risk that the institution to which their funds are entrusted may fail.

Mitigating Moral Hazard

Ensuring that a DIS contains appropriate design features such as placing limits on the amounts insured, excluding certain categories of depositors from coverage and implementing differential or risk-adjusted premium systems can mitigate moral hazard. In addition to the design of the DIS, moral hazard should be mitigated through other elements of the financial system safety-net by creating and promoting appropriate incentives through good corporate governance and sound risk management of depository institutions, effective

market discipline and frameworks for strong prudential regulation, supervision and laws.

Mandate and Powers

A deposit insurer should have all powers necessary to fulfil its mandate and these should be formally specified. All deposit insurers require the power to finance reimbursements, enter into contracts, sets internal operating budgets and procedures, and access timely and accurate information to ensure that they can meet their obligations to depositors promptly.

Governance

The deposit insurer should be operationally independent, transparent, accountable and insulated from undue political and industry influence.

Relationships with other Safety-Net Participants

A deposit insurer's interrelationship management needs vary according to its mandate and powers. When a single organisation performs all of the safety-net functions, the smooth resolution of potential tensions is dependent on clarity of mandates and an adequate accountability regime among the relevant departments. However, when the functions are assigned to different organisations, issues related to information sharing, allocation of powers and responsibilities and coordination of actions among different functions are more complex and need to be addressed clearly and explicitly. A framework should therefore, be in place for close coordination and information sharing on a routine basis as well as in relation to

particular depository institutions among the deposit insurer and other financial system safety-net participants.

Cross-Border Issues

The close coordination and information sharing among deposit insurers and other financial system safety-net participants is also significant from a cross-border perspective on a routine basis as well as in relation to particular depository institutions. In circumstances where more than one deposit insurer provides coverage, it is important to determine which deposit insurer or insurers will be responsible for reimbursement and it is advisable to have in place appropriate bilateral/multilateral agreements. Care should be taken also to ensure that information provided to depositors on the reimbursement process (e.g. applicable coverage limits, claims procedures) in the jurisdictions affected is done so in a clear and easily understood manner.

Compulsory Membership

Membership in the DIS should be compulsory for all financial institutions accepting deposits to avoid adverse selection. Adverse selection is the tendency for higher risk depository institutions to opt for deposit insurance and lower risk depository institutions to opt out of deposit insurance when membership in a system is voluntary. Unless the depository institutions included in the DIS are subject to strong prudential regulation and supervision, the DIS will be exposed to unacceptable risk.

Coverage

Policymakers should define clearly in law, prudential regulations or by-laws what an insurable deposit is. The level of coverage should be limited but credible and be capable of being quickly determined. It should cover adequately the large majority of depositors to meet the public policy objectives of the system and be internally consistent with other DIS design features. Coverage limits may need to be reviewed and when necessary adjusted from time to time because of factors such as inflation, the growth of real income, the development of new financial instruments and the way in which these factors influence the composition and size of deposits.

Transitioning from a Blanket Guarantee to a Limited Coverage DIS

When a country decides to transit from a blanket guarantee to a limited coverage DIS or to change a given blanket guarantee to a limited coverage DIS, the transition should be as rapid as a country's circumstances permit. Blanket guarantees can have a number of adverse effects if retained too long, notably an increase in moral hazard. Policymakers should pay particular attention to public attitudes and expectations during the transition period. Some countries have introduced an explicit blanket guarantee during a financial crisis to fully protect certain bank depositors and possibly other creditors. The provision of such guarantees may be unavoidable in periods of extreme financial distress to maintain domestic and international confidence in the financial system.

Funding

Sound funding arrangements are critical to the effectiveness of a DIS. Policymakers can choose among ex-ante, ex-post and hybrid (i.e. combined ex-ante and ex-post) funding mechanisms. Ex-ante funding requires the accumulation and maintenance of a fund to cover deposit insurance claims and related expenses prior to a failure occurring. It is principally funded by its members through contributions, insurance premiums and other means. Ex-post funding system does not require accumulation of funds to cover deposit insurance claims but are only collected from member depository institutions when an insured institution fails and the need to cover claims develops. In order to be effective, ex-post systems require virtually immediate access to back-up funding since they have little or no funding of their own.

Public Awareness

In order for a deposit insurance system to be effective, it is essential that the public be informed on an ongoing basis about the benefits and limitations of the DIS. Public awareness of deposit insurance, its existence and how it works including the level and scope of coverage and how the claims process operates plays a significant role in underpinning a sound deposit insurance system.

All deposit insurers should promote public awareness about the DIS on an ongoing basis to maintain and strengthen public confidence. The objectives of the public awareness program should be clearly set

out and consistent with the public policy objectives and mandate of a deposit insurer.

Legal Protection

The deposit insurer and individuals working for the deposit insurer should be protected against lawsuits for their decisions and actions taken in "good faith" while discharging their mandates. Legal protection, however, should not extend to protecting individuals where they have acted in bad faith, for example, where they have acted fraudulently or maliciously. Legal protection must coexist in an environment where there is clear accountability. This means that while individuals should be legally protected, they must be required to follow appropriate conflict of interest rules and codes of conduct to ensure they remain accountable. The lack of legal or statutory protection can reduce incentives for individuals to be diligent in carrying out their mandates particularly in cases where deposit insurers and other financial system safety-net participants' mandates emphasise timeliness in the detection, intervention and resolution of troubled insured institutions.

Dealing with Parties at Fault in an Institution Failure

A deposit insurer or other relevant authorities should be provided with the power to seek legal redress against those parties at fault in an insured institution failure. For example, seeking legal redress from such parties as officers, directors, managers, auditors and related parties of the failing or failed insured institution can help improve

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recoveries for an insurer and can mitigate moral hazard problems by providing strong incentives against malfeasance.

Early Detection and Timely Intervention and Resolution

Regardless of the specific responsibilities of the deposit insurer in any particular country, the manner in which financial institutions are supervised and regulated and how troubled institutions are resolved has a major impact on the costs and other aspects of the DIS. Therefore, the deposit insurer should be able to determine earlier when a depository institution is in serious financial difficulty so that the intervention and resolution process be initiated on the basis of well-defined criteria by safety-net participants with the operational independence and power to act. This can help reduce the cost of resolutions and avoid unnecessary confusion.

Effective Resolution Processes

The resolution of troubled institutions involves some basic options: liquidation and reimbursement of depositors' claims which typically involves closing of the institution; purchase and assumption transactions which involves selling the institution; open bank assistance which involves provision of financial assistance; establishment of bridge bank which is a temporary bank established and operated to acquire the assets and assume the liabilities of a failed institution until final resolution can be accomplished; and assisted merger/acquisition. Effective failure resolution processes should facilitate the ability of the deposit insurer to meet its obligations including reimbursement of depositors promptly and

accurately and on an equitable basis, minimise resolution costs and disruption of markets, maximise recoveries on assets and reinforce discipline through legal actions in cases of negligence or other wrongdoings.

Reimbursing Depositors

The DIS should give depositors prompt access to their insured funds. Therefore, the deposit insurer should be notified or informed sufficiently in advance of the conditions under which reimbursement may be required and be provided with access to depositors' information in advance. Depositors should have a legal right to reimbursement up to the coverage limit and should know when and under what conditions the deposit insurer will start the payment process, the time frame over which payments will take place, whether any advance or interim payments will be made as well as the applicable coverage limits.

Recoveries

The deposit insurer should share in the proceeds of recoveries from the estate of the failed institution. The management of the assets of the failed institution and the recovery process by the deposit insurer or other party carrying out this role should be guided by commercial considerations and their economic merits.

This means consideration of factors such as the quality of the assets, the depth and condition of markets, the availability of expertise in asset management and disposition, legal requirements relating to the disposition of assets, and public policy objectives.

2.5 DESIGN FEATURES OF DEPOSIT INSURANCE SCHEME IN NIGERIA

According to Ogunleye (2010), the design features of DIS as being practised by NDIC in accordance with its enabling Act, in terms of ownership, governance, participation, insured deposits, level of coverage, funding and investment policy of the DIF are highlighted below:

Ownership

The DIS in Nigeria is wholly owned by the Federal Government through Central Bank of Nigeria (CBN) and Federal Ministry of Finance in the ratio of 60:40 shareholding structure respectively. Therefore, the DIS in Nigeria is publicly owned completely.

Governance

The governing body of NDIC is the Board of Directors responsible for policy formulation and oversight of its affairs. Members of the Board are appointed by the President and Commander-in-Chief of the Federal Republic of Nigeria.

Participating Institutions (Membership)

Participation in the scheme is compulsory for all licensed banks and other deposit-taking financial institutions in Nigeria. NDIC at inception *extended the deposit insurance coverage to licensed DMBs only.* However, with the licensing of other deposit-taking financial institutions such as MFBs and PMBs, NDIC had also extended the deposit insurance coverage to these deposit-taking financial institutions.

Insurable Deposits

All deposits of licensed banks and other deposit-taking financial institutions are insured, except the following:

Insider deposits, that is, deposits of staff and directors of a licensed bank or other deposit-taking financial institution.

Counter claims from a customer of a depository institution who maintains both deposit and loan accounts, the former serving as a collateral for the loan.

Such other deposits as may be specified from time to time by the Board of NDIC.

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Coverage Level

NDIC guarantees payment of the insured deposits up to a maximum of five hundred thousand naira (₦500,000.00) only to a depositor of an insured DMB and two hundred thousand naira (₦200,000.00) only to a depositor of an insured MFB or PMB in the event of failure of the institution. Coverage has to be limited to avoid moral hazard. While an unduly large coverage could encourage excessive risk-taking, a very low coverage could undermine the credibility of the scheme.

Funding

The discharge of NDIC mandates are funded with the DIF which is generated from the periodic premium paid by insured institutions. Premium was assessed on a flat rate basis in the past but changed to the differential or risk-adjusted premium basis. The operations of NDIC are, however, financed solely from the interest earned from the investment of the DIF in government securities such as treasury bills.

KASHIM IBRAHIM LIBRARY

The investment policy of NDIC is guided by the need to ensure safety and liquidity. It should therefore, be noted that NDIC is self-financing and therefore, does not receive budgetary appropriations for its operations.

2.6 LEGAL FRAMEWORK FOR DEPOSIT INSURANCE SCHEME IN NIGERIA

The repealed NDIC Establishment Act No. 22 of 1988 provided the mandate for the operating policies and procedures of NDIC in administering the DIS in Nigeria. The core functions of NDIC under the 1988 Act could be broadly classified into deposit guarantee, bank supervision, distress resolution and bank liquidation (NDIC, 2009).

However, some of the provisions of the Act were inadequate which posed a number of challenges to NDIC to effectively discharge its core functions, which led to the repeal of the Act. Most of the provision of the 1988 repealed Act were very rigid and gave no room for timely and appropriate responsiveness to stakeholders' needs. For example, premium payable by insured financial institutions and insured amount payable to depositors of a failed insured institution could not be varied without amending the Act. Apart from rigidity, some other observed inadequacies of the repealed Act include failure to recognise deposit insurance as an exclusive mandate of a deposit insurer; lack of explicit power of NDIC to serve as a liquidator of closed financial institutions but was subjected to the Companies and Allied Matters Act (CAMA) 1990 with long court processes; absence of protection for directors and staff of NDIC against adverse claims for actions taken in good faith; inadequacy of enforcement powers to

ensure compliance with the Act, etc. As a result of some of these deficiencies, the 1988 NDIC Act was amended in 2006 and some of the provisions of the new Act and their implications for the operations of DIS in Nigeria are highlighted below (NDIC, 2009):

Harmonization with Banks and other Financial Institutions Act (BOFIA) 1991

The 1988 Act was enacted when CBN was under the supervisory purview of Federal Ministry of Finance, hence the supervisory duties of NDIC with regard to banking issues was subject to the Honourable Minister of Finance oversights. However, following the enactment of BOFIA in 1991 which conferred autonomy on CBN in relation to banking issues, the powers of the Honourable Minister of Finance in the 1988 Act became ineffective. The new Act regularised the anomaly by substituting references to the Ministry of Finance with references to CBN in areas of banking supervision. The implication of this development was that NDIC would be able to collaborate effectively with CBN on issues relating to banking supervision.

Sole Mandate as Deposit Insurer

Section 3 of the new Act has recognised NDIC as the sole deposit insurer in Nigeria, hence it provided that no person other than NDIC shall insure the deposit liabilities or guarantee payment to depositors of insured institutions in Nigeria. This provision has clearly barred insurance companies from deposit insurance. Hitherto, it has been observed that some insurance companies had attempted to insure deposits of financial institutions by placing adverts in the media soliciting for depositors to insure their deposits with them.

Premium Rate

Under section 17 of the new Act, NDIC was empowered to vary the rate or introduce new basis of premium assessment whenever it is considered desirable to do so, unlike under the old Act where the rate was static and NDIC had no power to vary it. NDIC exercised its power in that regard by introducing the risk/differential premium assessment system in 2007 to replace the flat rate premium assessment system.

Maximum Insurance Claim

Section 20 of the new Act increased the maximum insurance claim payable to depositors from fifty thousand naira (₦50,000.00) only to two hundred thousand naira (₦200,000.00) only for DMBs while a maximum claim of one hundred thousand naira (₦100,000.00) only was prescribed for depositors of PMBs and MFBs. Furthermore, unlike in the old Act which did not empower NDIC to vary the maximum claim no matter how desirable, the new Act has empowered NDIC to increase the maximum claim whenever considered appropriate. NDIC exercised its power in that regard in 2010 by increasing the maximum insurance claim to five hundred thousand naira (₦500,000.00) only for DMBs and two hundred thousand naira (₦200,000.00) only for PMBs and MFBs. It is significant to note that only an upward review was allowed by the new Act.

The new Act also stated clearly that the insured claim was without prejudice to the additional payment which would be made to depositors by way of liquidation dividend as assets of the closed

financial institution were being realised by NDIC. This put to rest the wrong notion that it was only the insured claim that depositors could receive in respect of their deposits in a closed financial institution.

Power to Freeze Deposit Account

Section 22 of the new Act empowered NDIC to freeze the deposit account in a failed financial institution where it suspected that such account was connected with any criminal activity until after final determination by a court. This provision was part of the anti-money laundering measures being implemented by the government.

Termination of Insured Status

Although there were provisions on termination of insured status of insured financial institutions in the old Act, they were ambiguous. In Sections 23 – 26 of the new Act, elaborate provisions on the power of NDIC to de-insure a member institution were clearly made. The new Act also stated quite clearly the implications of the termination of insured status which could be a ground for the revocation of the banking licence of a financial institution.

Prompt Corrective Action

The new Act had made specific provisions in Section 32 empowering NDIC to take prompt corrective actions deemed necessary to address incidences of unsafe and unsound practices or violation of law or regulations by insured institutions.

Power to Manage and Restructure failing Financial Institutions

The Act had streamlined the provisions on the take-over of management of failing financial institutions and had made provisions in Sections 28 – 39 which would enable NDIC to restructure such

distressed financial institutions, especially through mergers/acquisitions, purchase and assumption as well as bridge bank transactions.

Power to Act as Liquidator

The new Act in Section 40 has made it very clear that upon the revocation of the banking licence of a financial institution by CBN, NDIC shall act as a provisional liquidator pending a winding-up order by the Federal High Court. With this, there would no longer any need for NDIC to apply to a Federal High Court for appointment as a provisional liquidator of a financial institution whose licence has been revoked, which indeed had frustrated the efforts of NDIC in the prompt payment of insured deposits.

It is also significant to note that the new Act has reduced opportunities for litigants to obtain frivolous court injunctions against NDIC while performing its role as a liquidator, particularly with regard to the payment of insured claims. Thus, whenever a litigation challenging NDIC as a liquidator is filed 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 sixty (60) days.

Right to Appear in Court

In-house lawyers of NDIC have been empowered by Section 47 of the new Act to represent NDIC in litigations involving insured financial institutions. This provision is very important because many debt recovery cases which external solicitors are reluctant to take due to

the difficulties associated with debt recovery as well as the nature of the cases, could be handled by the in-house lawyers.

Indemnity for Directors and Employees

In line with what is obtainable in most statutes establishing public institutions and consistent with best practice in deposit insurance, the new Act in Section 55 had provided protection to directors and employees of NDIC against personal liability for actions taken in good faith in the ordinary course of business.

2.7 ESTABLISHMENT, MANDATE AND FUNCTIONS OF NIGERIA DEPOSIT INSURANCE CORPORATION

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NDIC was established in 1989 following the passage of the enabling statute, the NDIC Act No. 22 of 1988 which was later repealed and replaced with the NDIC Act No. 16 of 2006. Several reasons led to the introduction of DIS in Nigeria and the subsequent establishment of NDIC. First, it was established to avoid the repeat of bitter experiences of banks and other financial institutions failures in the late 1940s to early 1950s when there was no formal mechanism for protecting depositors. The establishment of NDIC was also informed by lessons of the benefits of explicit DIS from other countries. The experience of the Federal Deposit Insurance Corporation (FDIC) in stabilising the financial system in the United States following major financial crises were quick reference points. There was also a deliberate change in government policy from protecting all financial institutions' 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. In

addition, government was determined to further protect depositors from the ensuing competition induced by the liberalisation of bank licensing in the late 1980s. Finally, it was also envisaged that the establishment of NDIC would relieve the Federal Government of the contingent liability of bailing out troubled financial institutions (NDIC, 2009).

NDIC commenced operations in March 1989 with the primary policy objectives of protecting the interest of small depositors by providing a mechanism for reimbursing them in case of imminent or actual failure of insured institutions, to promote financial system stability, to ensure safe and sound banking practices, to contribute to an orderly payments system and to also enhance fair competition in the financial system. NDIC right from inception was established as a risk-minimiser with core mandates to guarantee deposit of insured financial institutions, carry out supervision of insured financial institutions, partake in failure resolution of troubled financial institutions and liquidate failed insured financial institutions (NDIC, 2009).

Deposit Guarantee

Deposit guarantee or deposit insurance is a key and distinct role of NDIC. At inception, NDIC had the mandate to guarantee the payment of deposits up to a maximum of fifty thousand naira (₦50,000.00) only to depositors in the event of a failure of an insured institution. This maximum deposit insurance coverage limit has been on the increase to reflect economic condition and is presently put at five hundred thousand naira (₦500,000.00) only for DMBs and two hundred

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thousand naira (₦200,000.00) for PMBs and MFBs. NDIC finances the guarantee mainly from the yearly premiums collected from all insured financial institutions.

Banking Supervision

Financial institutions are supervised to protect depositors, ensure stability of the financial system, ensure effective and efficient payment system and also to promote competition and innovation in the financial system. Given its broad mandate as a risk minimiser, supervision comes naturally as a key mandate of NDIC. NDIC 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 oversights required to preserve the integrity of and promote public confidence in the system.

NDIC carries out its supervisory responsibilities through off-site surveillance and on-site examination of insured financial institutions' books and affairs from which exceptions are reported and recommendations made on how observed lapses should be corrected. Bank supervision is a joint responsibility of NDIC and CBN and the two institutions collaborate in the discharge of their supervisory duties by developing a comprehensive framework which eliminated role conflict and duplication of efforts. The involvement of NDIC in on-site examination has significantly shortened the examination cycle such that deposit-taking financial institutions are examined annually as against once in two (2) to three (3) years prior to the establishment of NDIC.

Failure Resolution

As a risk minimiser, one of the core mandates of NDIC is to ensure that failing and failed insured institutions are resolved in a timely and efficient manner. The essence is to avoid damage to public confidence in the banking system. A failing institution may enjoy financial/technical 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 insured financial institution or acceptance of accommodation bills. The technical assistance may include change in management, takeover, assisted merger/acquisition, purchase and assumption, bridge bank transactions etc.

The responsibility for distress resolution is also shared with the CBN. NDIC has over the years worked closely with CBN in resolving distress in the financial system. The Contingency Planning Framework for Banking System Crises introduced in 2002 by NDIC and CBN was expected to facilitate prompt resolution of problem institutions. The framework seeks to reduce the incidence of systemic distress by improving the supervisory processes, providing transparent and objective thresholds for regulatory intervention and promoting self-regulation among financial institutions.

Liquidation

Another core mandate of NDIC is bank liquidation. Section 40(1) of the NDIC Act states that, NDIC shall be appointed as the liquidator of a failed insured institution. Bank liquidation is always adopted by NDIC and CBN when found to be most effective when compared with

other distress resolution measures, and therefore, it is adopted as a measure of last resort. The liquidation process is preceded by revocation of licence of a failed insured institution by CBN. It involves orderly and efficient closure of the failed insured institution with minimum disruption to the banking system, cost-effective realisation 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.

In order to achieve these stated mandates, NDIC is empowered by Section 2 of the NDIC Act to perform the following functions:

Insuring all deposit liabilities of licensed banks and such other financial institutions operating in Nigeria so as to engender confidence in the Nigerian banking system.

Giving assistance in the interest of depositors, in case of imminent or actual financial difficulties of banks particularly where suspension of payments is threatened; and avoiding damage to public confidence in the banking system.

Guaranteeing payments to depositors, in case of imminent or actual suspension of payments by insured banks or financial institutions up to the maximum amount specified in the Act.

Assisting monetary authorities in the formulation and implementation of banking policy so as to ensure sound banking practice and fair competition among banks in the country.

Pursuing any other measures necessary to achieve the objectives of NDIC provided such measures and actions are not repugnant to the objectives of NDIC.

2.8 CONTRIBUTION OF NIGERIA DEPOSIT INSURANCE CORPORATION TO FINANCIAL SYSTEM STABILITY IN NIGERIA

The contribution of NDIC to stability of the financial system can be examined within the context of its activities in the discharge of its statutory mandate. The activities undertaken by NDIC with the aim of insulating the financial system from destructive runs and instability are as highlighted below (Ogunleye, 2010):

Deposit Guarantee

As at 31st December, 2011, NDIC had provided deposit guarantee to the depositors of all the twenty (20) DMBS, eight hundred and eighty (880) MFBs and one hundred (100) PMBs. The total amount of deposits held by insured institutions stood at ₦12.329 trillion only for a total number of 45.904 million depositors as shown in the table below:

TABLE 1: DEPOST INSURANCE COVERAGE

	2008	2009	2010	2011
Total Number of Depositors (Million)	30.332	40.127	44.439	45.904
Total Number of Depositors Fully Covered (Million)	26.885	36.071	41.927	44.509
Percentage of Fully Covered Depositors	88.64%	89.89%	94.35%	96.96%
Total Number of Depositors Partially Covered (Million)	3.447	4.056	2.512	1.395
Percentage of Partially Covered Depositors	11.36%	10.11%	5.65%	3.04%

Source: NDIC Annual Report, 2011

As shown in the table above, the percentage of total deposits fully covered increased consistently from 88.64% in 2008 to 89.89%, 94.35% and 96.96% in 2009, 2010 and 2011 respectively. This shows that a greater percentage of banks' depositors are fully protected or guaranteed by NDIC with only 11.36%, 10.11%, 5.65% and 3.04% of depositors partially covered under the DIS as at 2008, 2009, 2010 and 2011 respectively.

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Banking Supervision

As at 31st December, 2011, NDIC in collaboration with CBN carried out a joint examination of the twenty (20) insured DMBs, and solely conduct the routine examination of one hundred and ninety-five (195) MFBs and thirty-seven (37) PMBs operating in the system. The findings of the examination revealed some weaknesses in most of the banks such as weak corporate governance, inadequate capital, poor earnings, illiquidity, weak credit administration, poor assets quality, insider abuse, ineffective risk management practices, poor internal control, poor understanding of microfinance business, poor record keeping, etc (NDIC Annual Report, 2011).

During the period under review, the off-site surveillance activities of NDIC were carried out with a view to analyse or evaluate the financial condition and performance of insured institutions from the returns they rendered through e-FASS. Specifically, the evaluation involved ascertaining the adequacy of insured institutions' capital, the quality of their assets, the efficiency of management, the sufficiency of their earnings and liquidity. The evaluation of the financial condition of insured institutions enables the regulatory authorities to rate the

performance of each institution and such ratings forming the basis for remedial supervisory action and other recommendations that influenced banking policy (NDIC Report, 2011). The table below presents the number of the supervisory activities embarked upon by NDIC from 2008 to 2011:

TABLE 2: BANKING SUPERVISION

YEAR	NUMBER OF DMBs EXAMINED	NUMBER OF PMBs EXAMINED	NUMBER OF MFBs EXAMINED	TOTAL
2008	10	4	68	82
2009	24	9	124	157
2010	24	-	302	326
2011	20	37	321	378

Source: NDIC Annual Report, 2011

As shown in Table 2, the number of insured institutions examined by NDIC whether jointly with CBN or solely has increased by 91.46% in 2009 to 108.64% and 15.95% in 2010 and 2011 respectively.

Distress Resolution

Depending on the severity and peculiarity of the situation, NDIC in collaboration with CBN had over the years, successfully adopted a number of measures to address bank distress. The table below presents the number of the distress resolution activities embarked upon by NDIC:

TABLE 3: DISTRESS RESOLUTION

DISTRESS OPTION	NUMBER OF BANKS	PERCENTAGE
OPEN BANK ASSISTANCE	10	15%
ASSISTED MERGER/ ACQUISITION	7	10%
CHANGE IN MANAGEMENT	4	6%
TAKEOVER OF MANAGEMENT	28	42%
PURCHASE AND ASSUMPTION	15	22%
BRIDGE BANK	3	5%
TOTAL	**67**	**100**

Source: NDIC Annual Report, 2011

The above table shows that NDIC had applied the different distress resolution options on a total of sixty-seven (67) distressed banks. Open Bank Assistance had been given to 15% of the distressed banks, assisted merger/acquisition was applied on 10% of the distressed banks, the management of 6% of the distressed banks was changed, the management of 42% of the distressed banks was taken over, purchase and assumption was used for 22% of the distressed banks while bridge bank was used to addressed 5% of distress resolution.

Bank Liquidation

As at 31st December, 2011, NDIC had liquidated a total number of forty-eight (48) DMBs and one hundred and three (103) MFBs and had paid a total of ₦82.939 billion to depositors of these closed financial institutions as shown in the table below:

TABLE 4: BANK LIQUIDATION & DEPOSIT/DIVIDEND PAYOUT

	NUMBER OF VERIFIED DEPOSITORS	NUMBER OF CREDITORS	NUMBER OF SHAREHOLDERS	TOTAL
	2,788,319	417	451	2,789,187
AMOUNT PAID	₦82.939 billion	₦836.537 million	₦1.286 billion	₦85.062 billion
AMOUNT INSURED/ DECLARED	₦22.813 billion	₦1.540 billion	₦1.513 billion	₦25.866 billion

Source: NDIC Annual Report, 2011

As shown in the table above, the total number of depositors of the liquidated banks was 2,788,319 which were paid a total sum of ₦82.939 billion, while the actual insured deposit was only ₦22.813 billion or 27.51%. This shows that NDIC had paid a total sum of ₦60.126 billion in excess of the insured sum representing 72.49% of the total amount paid. Also, out of the total sum of ₦1.540 billion liquidation dividends declared for creditors, ₦836.537 million or 54.32% had been paid while the remaining balance of ₦703.463 million or 45.68% was yet to be claimed by some creditors. A total sum of ₦1.513 billion liquidation dividends had also been declared for shareholder while ₦1.286 billion or 85% had already been paid while the balance of ₦227 million or 15% was yet to be claimed.

2.9 CHALLENGES FACED BY NIGERIA DEPOSIT INSURANCE CORPORATION IN THE DISCHARGE OF ITS MANDATE

NDIC had in the last twenty-two (22) years faced numerous challenges in the course of discharging its statutory functions; some of these challenges are highlighted below (NDIC, 2009):

Legal Challenges

NDIC is faced with some legal challenges which had hindered the effective discharge of its mandates. For example, criminal prosecution of bank directors and officers suspected of committing banking malpractices had faced severe challenges. The proceedings at the Federal High Court were characterised 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.

Funding and Fund Management Challenges

NDIC is faced with some funding and fund management challenges such as limited investment outlets resulting in high risk exposure; impact of Fiscal Responsibility Act of 2007 which had impaired the growth of general reserve fund of NDIC and by extension the growth in the fund available for failure resolution; premium avoidance by insured institutions through under reporting their deposits at the end of the year; implementation of Differential Premium Assessment System (DPAS) which requires timely rendition of reliable and accurate data for the assessment of premium etc.

Bank Supervision Challenges

In the course of discharging its responsibilities as a supervisor in the banking industry, NDIC faced a number of challenges such as data integrity because most data submitted by insured institutions to regulatory authorities do not fully reflect their true financial conditions which in effect is capable of rendering supervisory actions ineffective; cross border issues which arises due to the fact that, in recent times,

many Nigerian banks established branches abroad and there is no doubt, the activities of these branches in their host countries could affect the parent banks in Nigeria; adoption of risk based supervision (RBS) which was a transition from the rule-of-thumb or compliance based system of supervision also posed certain challenges to NDIC in the area of inadequate requisite skills for NDIC examiners to implement the RBS framework; supervision of financial conglomerates is also a challenge because the recent bank consolidation programme increased the risk appetite of banks and their disposition for diversification which led to many banks opening subsidiaries in non-banking sectors, and the activities of these subsidiaries could affect the parent banks.

Failure Resolution Challenges

The effectiveness of the efforts of NDIC in failure resolution had been impaired by some constraints such as delays in granting approval for the revocation of the banking licenses of terminally distressed insured institutions which required CBN to obtain the approval of the president; cumbersome procedure for appointment of NDIC as liquidator which required NDIC to apply to the Federal High Court to be appointed as a liquidator upon the revocation of the license of a failed insured institution by CBN; delayed depositors reimbursement caused by poor state of records of a closed insured institution; poor debt recovery due to poor state of business of borrowers, protracted legal process, irregularly procedure for granting loans, unrealisable value of collateral security, unwillingness on the part of some debtors to honour their obligations etc.

2.10 PROSPECTS FOR THE EFFECTIVE DISCHARGE OF NIGERIA DEPOSIT INSURANCE CORPORATION MANDATE

Despite some of the challenges hindering NDIC from discharging its mandate effectively as discussed in this chapter, there are prospects for improved performance which are based on the following factors (NDIC, 2009):

Stable Political and Macro-Economic Environment

Worldwide experiences in depositors' protection through explicit DIS have shown that the existence of a stable political and macroeconomic environment is a sine qua non for the DIS to fulfill its public policy objectives. In an unstable political environment, public confidence and trust in government may be very low and such may affect all economic activities and institutions including depository institutions. Guaranteeing deposits under such conditions may not be sustainable as economy-wide distress may result from such instabilities.

In Nigeria, the observed stable political environment in the country since the advent of democracy in 1999 and coupled with the sustained efforts of the government towards achieving an enduring stable macro-economic environment have provided conducive environments for the smooth functioning of NDIC.

Improved Legal Framework

Inadequate legal framework had been a major issue that constrained the effectiveness of NDIC for many years. The NDIC Act of 2006 which replaced the 1988 Act had introduced some provisions that addressed some of the challenges of inadequate legal framework. In

particular, the flexibility in the determination of premium rate/approach as well as deposit insurance coverage has enhanced the responsiveness of NDIC to stakeholders needs. Also, the new Act has made the procedure for the appointment of NDIC as liquidator upon revocation of banking license of a failed insured institution by CBN less cumbersome.

Enhancement of the Supervisory Tool

The introduction of e-FASS has made the compilation of data easy, and makes information usually required by NDIC when closing an insured institution readily available. With such information, NDIC could undertake preparatory review of deposit liabilities held by insured institutions. In the event that an insured institution is closed, 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.

Availability of Framework for Early Intervention

Apart from the statutory criteria provided for in the Acts, the Contingency Planning Framework for Banking Systemic Crises introduced in 2002 if properly implemented will facilitate prompt resolution of problem institutions. The framework which seeks to reduce the incidence of systemic distress could also be found useful in promptly addressing isolated bank failures. This will assist in reducing failure resolution costs.

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 actualisation of public policy objectives. In

recent times, NDIC 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 DIS. This will help in correcting the wrong public perception of DIS as well as reduce the slow response by depositors of failed insured institution in making their claims.

The Fight Against Corrupt Practices

The fight against corrupt practices by the Federal Government through the Economic and Financial Crimes Commission (EFCC) and the Independent Corrupt Practices and other Related Offences Commission (ICPC) have sent correct signals to all citizens including the operators of financial services industry through whose institutions most financial crimes are committed. The activities of these agencies would reduce the occurrence of fraudulent practices particularly, in the financial services industry thereby reducing the risk of failures and their associated cost to NDIC. Similarly, the power granted NDIC 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.

Improved International Networking

In order to ensure a good grasp of international trends in DIS and promote cooperation and collaboration with deposit insurers in other countries, NDIC joined IADI as a founding member in May, 2002. In addition, NDIC continues to host visits by staff from foreign deposit insurers and sends its staff to economically advanced countries with DIS to learn from their experiences with a view to attaining

international standards for the implementation of the DIS in Nigeria. With its membership of IADI and other efforts at reinforcing cooperation and collaboration with other deposit insurers, NDIC is well positioned to partake in the sharing and exchange of expertise, knowledge and information on DIS. This has the effect of enhancing the effectiveness of DIS practice in Nigeria.

2.11 SUMMARY

DIS of the explicit type has become a permanent feature of the financial safety-net arrangements put in place by various countries to protect and stabilise their financial systems. This has become so because of the obvious advantages it has over other forms of depositors' protection. From less than ten (10) in the 1960s, the number of countries with one form of DIS or the other stood at one hundred (100) by 2008. At one extreme, some had narrow mandate of a 'paybox' while at the other extreme, some were designed as 'risk minimiser' with broad mandates and powers.

The phenomenal growth was ascribed to the frequent occurrence of financial crises in many countries during the 1980s to very recent times. The reactions of various countries to the recent global financial meltdown further amplify the increasing importance of DIS. To ensure sound practices amongst DIS worldwide, IADI had developed various guidance papers to encourage good practices in many jurisdictions.

As noted, a DIS requires the adoption of a legal framework to pilot its affairs and handle emerging issues relating to all stakeholders

particularly depositors and deposit-taking financial institutions. For many years, one of the challenges that confronted NDIC in its efforts to discharge its mandate since its inception had been the inadequacies of the enabling Act of 1988 that set up NDIC. That has been successfully remedied with the repeal of the Act and the enactment of a new Act in 2006.

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CHAPTER THREE

3.0 INTRODUCTION

This chapter presents the methodology used in the study. This includes the basic research design, the population of the study and the sampling design, the sources of data collected for the study and the tools for data collection, the presentation and analysis of the data collected and the test of hypothesis.

3.1 RESEARCH METHODOLOGY

Research is simply the process of arriving at a dependable solution to a problem through the planned and systematic collection, analysis and interpretation of data. It is the most important tool for advancing knowledge, for promoting progress and for enabling man to relate more effectively to his environment, to accomplish his purpose and resolve his conflicts (Asika, 2010).

Research methodology is the plan structure and strategies of investigating the relationship that exist among the phenomena of the world in which we live. It is a collective term for the structured process of conducting research and is usually considered to include research design, data gathering, data analysis and hypothesis testing (Asika, 2010).

3.2 RESEARCH DESIGN

This research adopted survey research design which is a very popular method that involves the systematic gathering of data from a sample of a population in order to discover meanings in the data collected, so that facts and events can be better understood, interpreted and explained (Yere, 2011). Accordingly, this study is concerned with the collection of relevant data for the purpose of explaining and interpreting the role of NDIC in promoting stability of the financial system.

3.3 POPULATION OF THE STUDY

According to Asika (2010), a population is made up of all conceivable elements, subjects or observations relating to a particular phenomenon of interest to the researcher. Therefore, the population of this study is drawn from the customers of DMBs, MFBs and PMBs who are protected under the DIS in Nigeria as administered by NDIC.

3.4 SAMPLE SIZE AND SAMPLING TECHNIQUE

However, due to the large size of the population, it would be difficult for the researcher to use the entire population but to draw a sample from the population to be used. A sample is precisely a part of the population (Asika, 2010). Therefore, the researcher used a sample size of three hundred (300) customers made up of one hundred and fifty (150) customers of DMBs, one hundred (100) customers of PMBs and fifty (50) customers of MFBs.

The process of drawing a sample from a population is known as sampling while the methods used for sampling could be seen as sampling techniques (Asika, 2010). There are different sampling techniques that can be used in a research ranging from probability (random) to non-probability (non-random) sampling techniques. For the purpose of this study, the researcher employed the use of the simple random sampling technique because it allows us to determine to what extent the sample drawn is similar to the population from which it was chosen. This is because every member of the population has an equal and independent chance of being included in the sample (Yere, 2011).

3.5 SOURCES OF DATA

Both primary and secondary sources of data were utilised by the researcher to gather data for the purpose of this study.

Primary data are data collected by the researcher in raw form and it is from the original source. Secondary data are the data that have been collected by other researchers and readily available for use by another researcher. Such data are cheaper and more quickly obtainable than the primary data.

3.6 TOOLS FOR DATA COLLECTION, PRESENTATION AND ANALYSIS

The instrument used for the collection of primary data for this study was the structured (closed-ended) questionnaire containing a set of questions relating to the objectives of the study which requires

respondents to choose from the options given, their opinions or feelings towards finding solutions to the problem. The data from the secondary source used in this study were gathered from text books, *journals, magazines, NDIC publications, NDIC annual reports, etc.*

Data presentation and analysis has to do with the ordering, manipulation and summarisation of data in order to obtain answers to the research questions. The researcher used tables for the presentation of data which is an array of data in rows and columns. Tabulation of data condenses a large mass of data and brings out the distinct pattern in a data in an attractive form. It enables comparison to be made easily among classes of data and takes up less space than data presented in narrative form (Asika, 2010).

Collected data needs to be summarised and interpreted through analysis. The goal of the analysis is to discover patterns, ideas, explanations and to gain insights. The researcher used the percentage method to analyse the data which is the proportion or rate of a particular value in relation to one hundred (100). It is used to convert values to a uniform standard for ease of comparison. It is also useful in getting the proportion of different characteristics of a variable (Asika, 2010).

The chi-square (X^2) was used by the researcher to test the hypothesis. It is a statistical test commonly used to compare observed data with data we would expect to obtain according to a specific hypothesis. This would enable the researcher to know the "goodness of fit" between the observed and expected data, whether

the difference between the observed and the expected data was significant or result of chance (Asika, 2010).

3.7 SUMMARY

The chapter examines the various research methods used in this study. The research design used for the study was the survey research while the study population was drawn from the customers of banks and other deposit-taking financial institutions licensed in Nigeria. A sample was drawn from the population due to the difficulty in using the entire population of the study and the sampling technique used was the simple random sampling technique. Data were collected from both primary and secondary sources through the use of structured (closed-ended) questionnaires, text books, journals and past records while tables were used to present the data and percentage method of data analysis was used in summarising and interpreting the data for meaningful information while the chi-square (X^2) was used to test the formulated hypothesis.

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CHAPTER FOUR

4.0 INTRODUCTION

This chapter focuses on the presentation and analysis of data gathered on the contribution of NDIC in promoting stability of the financial system. The data gathered through questionnaires were presented by means of tables and analysed by means of percentage technique. The data were condensed to suit the appropriate analytical tool. The hypothesis formulated for the study was tested by the use of chi-square (X^2).

4.1 DATA PRESENTATION AND ANALYSIS

This section presents the responses gathered from the questionnaires administered to the respondents. Three hundred (300) questionnaires were administered to the respondents, two hundred and ninety-three (293) were completed by the respondents and returned to the researcher while seven (7) were not returned. The responses on the questionnaires were presented and analysed as follows:

QUESTION 1

Do you think Deposit Insurance Scheme (DIS) is necessary in a financial system?

TABLE 1

CATEGORIES OF CUSTOMERS/RESPONSES	DMBs	PMBs	MFBs	TOTAL	PERCENTAGE (%)
YES	114	81	46	241	82
NO	20	2	1	23	8
NOT SURE	11	17	1	29	10
TOTAL	**145**	**100**	**48**	**293**	**100**

Source: Administered Questionnaire, 2013

The table shows that 82% of the respondents were of the opinion that DIS is necessary for the stability of a financial system, 8% of the respondents were of the opinion that DIS is not necessary for the stability of a financial system while 10% of the respondents were not sure whether DIS is necessary or not necessary for the stability of the financial system.

However, it can be seen clearly from the above responses that DIS is important for the stability of the financial system.

QUESTION 2

If yes, why do you think DIS is necessary in a financial system?

TABLE 2

CATEGORIES OF CUSTOMERS/RESPONSES	DMBs	PMBs	MFBs	TOTAL	PERCENTAGE (%)
To protect small depositors	16	3	1	20	8
To prevent deposit runs	5	4	3	12	5
To promote financial system stability	17	11	4	32	13
All of the above	76	63	38	177	74
TOTAL	**114**	**81**	**46**	**241**	**100**

Source: Administered Questionnaire, 2013

The table shows that 8% of the respondents who said that DIS is necessary in a financial system were of the opinion that DIS protect small depositors, 5% were of the opinion that DIS was necessary to prevent deposit runs, 13% said DIS was necessary to promote the stability of the financial system while 74% strongly believed that DIS

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was necessary to protect small depositors, prevent deposit runs and promote financial system stability.

Therefore, DIS is necessary in order to protect small depositors, prevent deposit runs and contribute to financial system stability.

QUESTION 3

To what extent are depository financial institutions covered or insured under the DIS in Nigeria?

TABLE 3

CATEGORIES OF CUSTOMERS/RESPONSES	DMBs	PMBs	MFBs	TOTAL	PERCENTAGE (%)
High	104	72	35	211	72
Moderate	26	18	9	53	18
Low	15	10	4	29	10
TOTAL	**145**	**100**	**48**	**293**	**100**

Source: Administered Questionnaire, 2013

Table 3 shows that 72% of the respondents were of the opinion that depository institutions are highly covered or insured under the DIS in Nigeria, 18% of the respondents were of the opinion that the coverage or insurance level for depository institutions under the DIS in Nigeria was moderate while the remaining 10% of the respondents were of the opinion that the coverage or insurance level for depository institutions under the DIS in Nigeria was low.

Therefore, it can be seen from the responses that the coverage level of DIS in Nigeria is high with about 97% of depositors fully covered as at 31st December, 2011.

QUESTION 4

What types of deposits are insured under the DIS in Nigeria?

TABLE 4

CATEGORIES OF CUSTOMERS/RESPONSES	DMBs	PMBs	MFBs	TOTAL	PERCENTAGE (%)
Current Account Deposits	8	10	5	23	8
Savings Account Deposits	6	12	0	18	6
Fixed Account Deposits	2	1	0	3	1
All of the above	129	77	43	249	85
TOTAL	**145**	**100**	**48**	**293**	**100**

Source: Administered Questionnaire, 2013

The table shows that 8% of the respondents were of the opinion that only current account deposits are insured under the DIS in Nigeria, 6% were of the opinion that only savings account deposits are insured under the DIS in Nigeria, only 1% of the respondents believed that only fixed account deposits are insured under the DIS in Nigeria while 85% believed that current, savings and fixed account deposits are all insured under the DIS in Nigeria.

This shows that all types of deposits held by depository institutions in Nigeria are insured or covered under the DIS.

QUESTION 5

How does NDIC protect depositors against loss?

TABLE 5

CATEGORIES OF CUSTOMERS/RESPONSES	DMBs	PMBs	MFBs	TOTAL	PERCENTAGE (%)
Deposit Guarantee	6	4	2	12	4
Bank Supervision	5	4	2	11	4
Failure Resolution	2	3	2	7	2
Bank Liquidation	9	7	6	22	8
All of the above	123	82	36	241	82
TOTAL	**145**	**100**	**48**	**293**	**100**

Source: Administered Questionnaire, 2013

The table shows that 4% of the respondents were of the opinion that NDIC protects depositors against loss of their deposits through

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deposit guarantee, another 4% of the respondents also were of the opinion that NDIC protects depositors against loss of their deposits through banking supervision, 2% of the respondents only believed that NDIC protects depositors against loss of their deposits through failure resolution, 8% of the respondents were of the opinion that NDIC protects depositors against loss of their deposits through bank liquidation and the remaining 82% of the respondents were of the opinion that NDIC protects depositors against loss of their deposits through the combined use of deposit guarantee, banking supervision, failure resolution and bank liquidation.

The NDIC is mandated under the DIS in Nigeria to protect depositors and contribute to financial system stability through deposit guarantee, banking supervision, failure resolution and bank liquidation.

QUESTION 6

Have you ever been reimbursed by NDIC for your deposits held with closed insured financial institutions?

TABLE 6

CATEGORIES OF CUSTOMERS/RESPONSES	DMBs	PMBs	MFBs	TOTAL	PERCENTAGE (%)
YES	94	38	36	168	57
NO	51	62	12	125	43
TOTAL	**145**	**100**	**48**	**293**	**100**

Source: Administered Questionnaire, 2013

The table shows that 57% of the respondents have been reimbursed by NDIC for their deposits held with closed insured financial institutions while 43% of the respondents have never been

reimbursed by NDIC because they did not have deposits with any closed insured financial institution.

QUESTION 7

If yes, what were the procedures for reimbursement?

TABLE 7

CATEGORIES OF CUSTOMERS/RESPONSES	DMBs	PMBs	MFBs	TOTAL	PERCENTAGE (%)
Completion of Claim Form	2	4	3	8	5
Submission of Unused Cheque Book/Pass Book/Fixed Deposit Certificate	1	3	1	5	3
Provision of Valid Means of Identification	5	0	3	8	5
All of the above	86	31	29	146	87
TOTAL	**94**	**38**	**36**	**168**	**100**

Source: Administered Questionnaire, 2013

Table 7 shows that 5% of the 168 respondents that have been reimbursed by NDIC said completion of claim form was the only procedure for reimbursement, 3% said submission of unused cheque book/pass book/fixed deposit certificate was the only procedure for reimbursement, another 5% said provision of a valid means of identification was the only procedure for reimbursement while the majority or 87% said completion of claim form, submission of unused cheque book/pass book/fixed deposit certificate and provision of a valid means of identification were all procedures for reimbursement.

All the processes mentioned above constitute the procedure for depositors' reimbursement by NDIC in the event of a closure of an insured financial institution.

QUESTION 8

What method does NDIC use in reimbursing depositors of a closed insured financial institution?

TABLE 8

CATEGORIES OF CUSTOMERS/RESPONSES	DMBs	PMBs	MFBs	TOTAL	PERCENTAGE (%)
Cash	16	4	5	25	15
Cheque	10	1	13	24	14
Deposit Transfer	12	2	1	15	9
All of the above	56	31	17	104	62
TOTAL	**94**	**38**	**36**	**168**	**100**

Source: Administered Questionnaire, 2013

The table shows that 15% of the respondents that have been reimbursed by NDIC said NDIC used cash to reimburse depositors of a closed insured financial institution, 14% said NDIC used cheque to reimburse depositors of a closed insured financial institution, 9% said NDIC used deposit transfer to reimburse depositors of a closed insured financial institution while 62% said NDIC used any of the different methods of cash payment, cheque issuance or deposit transfer to reimburse depositors of a closed insured financial institution as the situation warrant.

Depending on the situation, NDIC might reimburse depositors of a closed insured financial institution through cash payment, issuance of cheques to be cashed at designated banks or transfer of deposits to other functioning or healthy insured financial institutions.

QUESTION 9

Was there any delay in reimbursing depositors after the closure of failed insured financial institutions?

TABLE 9

CATEGORIES OF CUSTOMERS/RESPONSES	DMBs	PMBs	MFBs	TOTAL	PERCENTAGE (%)
YES	21	16	7	44	26
NO	66	21	26	113	67
NOT SURE	7	1	3	11	7
TOTAL	**94**	**38**	**36**	**168**	**100**

Source: Administered Questionnaire, 2013

The table shows that 26% of the respondents that have been reimbursed by NDIC were of the opinion that there were delays in reimbursing depositors after the closure of failed insured financial institutions, 67% were of the opinion that there were no delays in reimbursing depositors after the closure of failed insured financial institutions and only 7% were not sure whether there were or no delays in reimbursing depositors after the closure of failed insured financial institution.

NDIC ensures that depositors of closed insured financial institutions are promptly paid the guaranteed sum within 90 days of the closure of the failed insured financial institutions barring any litigation or court order.

QUESTION 10

How effective was the reimbursement process?

TABLE 10

CATEGORIES OF CUSTOMERS/RESPONSES	DMBs	PMBs	MFBs	TOTAL	PERCENTAGE (%)
Very Effective	6	0	1	7	4
Effective	60	21	25	106	63
Fairly Effective	7	1	3	11	7
Ineffective	21	16	7	44	26
TOTAL	**94**	**38**	**36**	**168**	**100**

Source: Administered Questionnaire, 2013

The table shows that 4% of the 168 respondents that have been reimbursed by NDIC were of the opinion that the reimbursement process was very effective, 63% were of the opinion that the reimbursement process was effective, 7% were of the opinion that the reimbursement process was fairly effective while the remaining 26% were of the opinion that the reimbursement process was ineffective.

Therefore, the process is not perfect and needs to be improved so as to overcome some of the observed lapses.

4.2 TEST OF HYPOTHESIS

The chi-square (X^2) was used to test the hypothesis formulated and it is expected to either reject or accept the null hypothesis (Ho). Chi-square (X^2) is a simple statistical method which is computed as follows:

$$X^2 = \frac{(fo - fe)^2}{fe}$$

Where,

fo = observed frequency

fe = expected frequency

The required number of chi-square (X^2) test statistics to reject or accept the null hypothesis (Ho) depends on the level of significance and the degree of freedom (df).

Using chi-square (X^2), the degree of freedom (df) is equal to the number of category minus one multiply by the number of parameters minus one.

That is,

$df = (C - 1)(R - 1)$

Where,

C = number of categories of data or columns

R = number of parameters value or rows

If the calculated value of chi-square (X^2) is higher than the table value, the null hypothesis (Ho) will be rejected implying that there was significant relationship between the variables while if the calculated value of chi-square (X^2) is lower than the table value, the null hypothesis (Ho) will be accepted implying that there was no relationship between the variables.

For the purpose of this research, the table value of chi-square (X^2) will be found at 90% confidence level.

Null Hypothesis (Ho): NDIC does not contribute to the stability of the financial system.

The researcher will use the last question on the questionnaire that was responded as shown in table below:

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QUESTION 11

Do you think DIS as administered by NDIC in Nigeria contributes to financial system stability?

TABLE 11

CATEGORIES OF CUSTOMERS	DMBs	PMBs	MFBs	TOTAL
YES	127	73	34	**234**
NO	14	20	10	**44**
NOT SURE	4	7	4	**15**
TOTAL	**145**	**100**	**48**	**293**

Using the figures in the above table as the observed frequencies (fo), the expected frequencies (fe) can be calculated using the following formular:

$$fe = \frac{R * C}{T}$$

Where,

R = Row total

C = Column total

T = Grand total

Therefore, to find the expected value (fe) for each cell, we multiply the row total of that cell by the column total and divide by the grand total.

The expected value (fe) for each cell is calculated as follows:

$$\frac{234 * 145}{293} = 116$$

$$\frac{44 * 145}{293} = 22$$

$$\frac{15 * 145}{293} = 7$$

$$\frac{234 * 100}{293} = 80$$

$$\frac{44 * 100}{293} = 15$$

$$\frac{15 * 100}{293} = 5$$

$$\frac{234 * 48}{293} = 38$$

$$\frac{44 * 48}{293} = 7$$

$$\frac{15 * 48}{293} = 2$$

TABLE 12: CHI-SQUARE TABLE

fo	Fe	fo – fe	$(fo - fe)^2$	$\frac{(fo - fe)^2}{fe}$
127	116	11	121	1.04
14	22	-8	64	2.91
4	7	-3	9	1.29
73	80	-7	49	0.61
20	15	5	25	1.67
7	5	2	4	0.80
34	38	-4	16	0.42
10	7	3	9	1.29
4	2	2	4	2.00
				12.03

Therefore, the calculated value of Chi – square (X^2) = 12.03

To find the table value of Chi – square (X^2):

Degree of Freedom (df) = (C -1) (R - 1)

The number of categories of data or columns (C) in Table 11 = 3

The number of parameters of value or rows (R) in Table 11 = 3

Therefore, df = (3 – 1) (3 -1)

df = (2) (2) = 4

Therefore, the table value of chi – square at 90% confidence level for a degree of freedom (df) = 4 is 7.78

DECISION RULE:

We therefore reject the null hypothesis (Ho) which states that NDIC does not contribute to the stability of the financial system and accept the alternative hypothesis (H_1) which states that NDIC contributes to

the stability of the financial system because the calculated value of chi-square (12.03) was greater than the table value of chi-square (7.78). This is also in line with mandate of NDIC which include deposit guarantee, banking supervision, failure resolution and bank liquidation in order to ensure the stability of the financial system.

4.3 SUMMARY

The chapter presented and analysed data collected for the study. The data were presented in tables and analysed by means of percentage technique. The hypothesis formulated for the study was tested by means of chi-square (X^2). Based on the findings of the study, the null hypothesis was rejected.

CHAPTER FIVE

5.0 INTRODUCTION

The previous chapter was devoted to the presentation and analysis of the data collected for the purpose of this research work. In this chapter, attention will be focused on the summary of findings, the conclusion drawn on the research based on the analysis of data and the recommendations advanced by the researcher which if effectively implemented will enhance the ability of DIS in contributing to financial system stability.

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5.1 SUMMARY

This study has clearly indicated that the ability of DIS to contribute to financial system stability is no longer in doubt. That ability however, depends on the DIS design features such as mandate and powers, funding, coverage, oversight, intervention and resolution. A broad mandate (essentially risk/cost minimisation), supported with operational independence enhances DIS ability to contribute effectively to financial system stability. Similarly, adequate funding and flexibility to access or to call upon a wide range of stabilisation tools such as authority to increase level of coverage and expand its scope would enable deposit insurers to react quickly to rapidly changing circumstances which are capable of threatening the stability of the financial system. In the same vein, adequate legal powers to intervene in troubled insured institutions as well as effective

resolution powers will enhance DIS contribution to financial system stability.

In addition to the design feature, a clearly defined framework for managing relationship amongst safety-net players would help minimise agency conflict as well as promote financial system stability. Finally, effective public awareness campaign and promotion of financial literacy would enhance appreciation of DIS benefits and limitations as well as promote rational consumer behaviour thereby enhancing financial system stability.

5.2 CONCLUSION

In 1988, the Nigerian government proactively reacted to the imperatives of the wave of economic deregulation by establishing a DIS in Nigeria as another component of the financial safety-net. NDIC, the agency charged with the responsibility of managing the scheme has spent the last twenty-two (22) years putting in place various measures designed to protect the economy from the risk of deposit runs and thus contributing to the stability of the financial system. Apart from insuring the deposit liabilities of all licensed insured institutions, the establishment of NDIC has no doubt generated the required stability and confidence through its activities.

However, the scheme is still being faced with many challenges which include inability to recover liquidated insured institutions' loans through the courts, wrong public perception of DIS, cumbersome judicial process, weak corporate governance in insured institutions which manifested in insider abuse and mismanagement, and inadequate legal powers for NDIC on failure resolution, among

others. In spite of the challenges, the prospects for a better and stronger DIS in Nigeria are quite bright. The prospects are hinged on the following developments, amongst others: the amendment of NDIC Act to increase DIS coverage, facilitate prompt corrective actions and ensure effective liquidation process; the bank consolidation programme of CBN; the current efforts of NDIC to enhance public awareness about its activities as well as the benefits of the scheme to the economy; and the commitment of the management and staff of NDIC in running an efficient institution that is responsive to the needs of the stakeholders in a bid to promote stability and confidence in the nation's financial system.

5.3 RECOMMENDATIONS

After analysing the data collected for the purpose of this study, the following recommendations are put forward by the researcher based on the findings of the study:

Participation in the DIS should be mandatory in all countries especially developing countries in order to mitigate the phenomenon of adverse selection which could manifest if only unhealthy financial institutions are covered by the scheme.

Data on financial products held by the public should be collated to determine number of accounts and their size distribution in order to set an appropriate coverage level and gauge its adequacy over time. Also, 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. In order to maintain confidence

among depositors, ensure sustained relevance, and the adequacy of the DIS coverage, periodic adjustments to the level of coverage may be necessary from time to time. The frequency of such adjustments will depend on many factors including the pace of developments in the macro-economy and in the financial system.

Public awareness campaign about the benefits and limitations of DIS should clearly define principal target audience group and sub-groups for it to be effective. There should be a periodic survey to gauge the effectiveness of the public awareness strategies being employed by NDIC. Furthermore, during bank failures, messages and instruction 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. Moreover, there is the need to actively involve participating institutions in the dissemination of information about DIS. In that regard, adequate training and education could be given to depository institutions staff.

The CBN in licensing of depository institutions should take cognisance of available managerial capacity in the industry. The licensing authorities should also have uninhibited powers to de-license. Delays in de-licensing illiquid and insolvent financial institutions may lead to contagion risk to other healthy institutions in addition to increasing the cost of failure resolution.

In case of a DIS that has the mandate to serve as a liquidator of failed institutions, there should be legal framework for an unambiguous procedure for the appointment of such deposit insurer

as liquidator. This will close the gate for prolong litigations; ensure prompt liquidation of failed institutions and ensure prompt reimbursement of depositors.

While a clear legal role delineation of safety-net participants is necessary to ensure effective supervision and facilitate failure 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 regulator and the deposit insurer is imperative especially where they have joint responsibilities in order to avoid needless duplication of efforts or role conflicts.

The existence of multiple regulators in the financial services industry for banking, insurance, pensions and capital market requires the establishment of a formalised framework for the coordination of supervisory activities.

The prosecution of managers and directors responsible for wrongdoing in financial institutions 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 financial system. In that regard, granting such powers to the DIS agency is necessary. In addition, a more critical condition is to make the judicial procedures for such prosecution less cumbersome and more expeditious.

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