

# **A BRIEF ON NIGERIA DEPOSIT INSURANCE CORPORATION (NDIC) TO THE HOUSE COMMITTEE ON BANKING AND CURRENCY**

## **1.0 INTRODUCTION**

The Nigeria Deposit Insurance Corporation (NDIC) Decree No. 22 of 1988 replaced by the NDIC Act 16 of 2006 established the Corporation to insure deposit liabilities of all licensed deposit-taking financial institutions in Nigeria. The Deposit Insurance Scheme (DIS) was introduced following the deregulation of the financial system under the Structural Adjustment Programme (SAP) in 1986, to provide a further layer of protection for depositors, promote financial stability by complementing the supervisory activities of the Central Bank of Nigeria (CBN) in ensuring a safe and sound banking system.

During the period of twenty-two years of its existence, the Corporation, working in collaboration with other safety net participants, made remarkable progress towards restoring stability and soundness to the Nigerian banking system. In order to facilitate the accomplishment of the Corporation's mandate, the Board approved the following vision and mission statements:

### **1.1 Corporate Vision:**

"To become one of the leading Deposit Insurers in the world".

### **1.2 Mission Statement:**

"To protect depositors and contribute to the stability of the financial system through effective supervision of insured institutions, provision of financial and technical assistance to eligible insured institutions, prompt payment of guaranteed sums and orderly resolution of failed insured institutions".

### **1.3 Core Values and Beliefs**

To be effective in the discharge of its mandate, NDIC is guided by some core values and beliefs. As articulated in its Strategic Plan (2007 – 2009) and recently fine-tuned in its current Strategic Plan (2011 – 2015), the four

core values and beliefs guiding NDIC employees as they strive to fulfill the Corporation's mission and vision are as follows:

- **Professionalism and Teamwork;**
- **Integrity;**
- **Transparency; and**
- **Discipline**

#### **1.4 Strategic Thrusts**

The 2011 -2015 strategy plan is articulated within four strategic themes/thrusts which represent the pillars of excellence or key areas in which the Corporation must excel in order to achieve its vision and mission and deliver value to its stakeholders within the planned period. The four strategic themes include the following:

- **Operational Readiness;**
- **Promoting public confidence in DIS;**
- **Building strategic partnership and ensuring effective collaboration;**
- **Implementing and sustaining a culture of continuous performance**

## **2.0 THE CORPORATION'S CORE MANDATE**

From its mission statement, the following mandate was derived for the Corporation.

- **Deposit Guarantee**

Deposit Guarantee is the sole responsibility of the Nigeria Deposit Insurance Corporation (NDIC). The Corporation guarantees payment to depositors of all participating institutions up to a maximum limit in accordance with its statute in the event of failure so as to engender confidence in the nation's banking system. The Corporation currently provides deposit insurance coverage to the twenty-four (24) banks and 882 Micro-Finance banks (MFBs) and 101 Primary Mortgage Institutions (PMIs). The limit currently stands at N500,000 per depositor of Deposit Money Banks (DMBs) and N200,000 per depositor for MFBs and PMIs. The N500,000 coverage level for DMbs fully covers about 90% of depositors

and about 30% of the volume of deposits in the banks. Similarly, the N200,000 coverage for MFBs fully covers about 99% of the depositors and about 51% of the volume of deposits in that banking sub-sector.

- **Banking Supervision**

The Corporation supervises banks to protect depositors, ensure monetary stability, promote an efficient payments system,, and promote competition/innovation in the banking system.

- **Distress Resolution**

The Corporation is empowered to provide financial and technical assistance to failing insured institutions, in the interest of depositors.

- **Bank Liquidation**

The Corporation is responsible for the orderly and efficient closure of failed institutions. Such closures are done with minimal disruption to the banking system.

## **2.1 GOVERNANCE STRUCTURE**

The Corporation has a 12-member Governing Board of directors appointed by the President of the Federal republic of Nigeria and confirmed by the Senate. The Board members consist of the following:

- a) The Chairman
- b) The Managing Director/CEO
- c) Two (2) Executive Directors
- d) Six (6) Non- Executive Directors from each of the six (6) geo-political zones
- e) A Representative of the Federal Ministry of Finance (FMF), and
- f) A Representative of the Central Bank of Nigeria (CBN).

The Corporation reports to the Executive Arm of Government through the Federal Ministry of Finance.

## **2.2 Divisions and the Office of the Managing Director**

The Corporation is divided into two main divisions and the office of the Managing Director/CEO. The two divisions are the Operations Division and the corporate Services Division.

### **2.2.1 The Operations Division**

The Operations Division, which is headed by an Executive Director, is made up of the following Departments:

- Bank Examination Department (BED)
- Insurance & Surveillance Department (ISD)
- Claims Resolution Department (CRD)
- Asset Management Department (AMD)
- Special Insured Institutions Department (SIID)
- Research, Policy & International Relations Department (RPID)

### **2.2.2 The Corporate Services Division**

The Corporate Services Division, which is also headed by an Executive Director, is made up of the following Departments and Units:

- Finance Department
- Human Resources Department (HRD)
- Information Technology Department (ITD)
- Admin Unit
- Performance Management Unit (PMU)

### **2.2.3 The Office of the Managing Director/CEO**

The Managing Director/CEO superintends the day-to-day running of the Corporation. The following departments and Units report directly to the MD/CEO:

- Strategy Development Department (SDD)
- Legal Department (LD)
- Internal Audit Department (IAD)
- Enterprise Risk Management Unit (ERMU), and
- Communications & Public Affairs Unit (CPAU)

### **3.0 ACHIEVEMENTS**

We present below the major highlights of the Corporation's activities and achievements from inception to date.

The achievements are as presented below.

**3.1 Banking Supervision** – To promote safe and sound banking practices and also engender depositor confidence in the system, the Corporation carries out its supervisory activities of insured institutions through routine and target examinations, among others. Supervision, which is a joint responsibility of both NDIC and CBN, is done through on-site examination and off-site surveillance. For the on-site examination, the Corporation conducts routine, special and target examinations. Since its inception in 1989, the Corporation employed compliance-based system of supervision before migrating to **Risk-Based Supervisory (RBS) Framework** in the Supervision of deposit money banks in Nigeria. The implementation of RBS commenced in 2010 with 12 banks which were jointly examined by CBN and NDIC. The Corporation led the examination of 4 banks while the CBN led the examination of the 8 remaining banks.

Following the steps taken to resolve the lingering distress in the banking industry a Target Examination of the 24 deposit money banks (DMBs) in the system was jointly carried out by the CBN/NDIC Examiners between

February and March 2010. NDIC led the target examination of 8 banks while CBN led the target examination of 16 banks. The target examination was sequel to the outcome of the Special Examination (SE) of banks conducted in June 2009 that resulted in regulatory intervention in 10 banks and the change of Managements of 8 of the banks and their replacement by the CBN. The target examination revealed that the financial condition of the intervened banks remained critical which made the establishment of AMCON and the Financial Stability Fund imperative. In addition, to promote financial system stability and restore confidence in the system, the Corporation has continued to collaborate with the CBN to monitor the financial condition of the ten (10) CBN-intervened banks.

**3.2 Target Examination of all Microfinance Banks (MFBs) and Primary Mortgage Institutions (PMIs)** - Consequent upon numerous petitions received by both the CBN and NDIC from depositors complaining about the inability to access their funds in some MFBs and other reports indicating that some MFBs had closed their doors, both the CBN and NDIC in February 2010, embarked on target examinations of all the MFBs in the system. The Corporation examined 302 MFBs while CBN examined the remaining 584 banks. NDIC Examiners' findings revealed that 72 MFBs out of the 302 examined by NDIC were found to be incapable of honouring their obligations to their customers as and when due. Eleven (11) out of the seventy-two (72) MFBs were found to have actually closed shop.

Furthermore, as at May 2011, the Corporation's supervisory activities revealed that out of 100 Primary Mortgage Institutions (PMIs), 22 were identified to be technically insolvent while another 16 had closed shop. Sequel to this discovery, the NDIC in collaboration with the Central Bank of Nigeria (CBN), is working to resolve the problems of these institutions in a manner that would be less disruptive to the larger financial system.

### **3.3 Distress Resolution through Bridge Bank Option**

On August 5, 2011, the Central Bank of Nigeria (CBN) revoked the operating licences of Afribank Plc, Bank PHB Plc, and Spring Bank Plc due their deteriorating financial condition and inadequate efforts on the part of

the former owners of the banks to recapitalize the banks on or before September 30, 2011 deadline given by the apex bank.

In the interest of depositors and to prevent outright liquidation which would have had dire consequences for depositors, employees of these banks and thus undermine public confidence in the banking system, the Corporation, pursuant to the provisions of the NDIC Act, and after due consultation with the CBN and the Federal Ministry of Finance, decided to resolve the problems through the Bridge Bank mechanism. Consequently, the banks were renamed as follows: Afribank Nigeria Plc was renamed Mainstream Bank Limited; Bank PHB Plc was renamed Keystone Bank Limited; while Spring Bank Plc was renamed Enterprise Bank Limited.

The Bridge Bank mechanism was adopted by the NDIC for the following reasons:

- a) To preserve and sustain daily operations of the failed banks by ensuring that all the 57 branches of the banks continue to function;
- b) To safeguard the banks' total deposit liabilities of N809.4 billion (US \$5.5 Billion);
- c) To safeguard 6,667 jobs in the affected banks;
- d) To enhance the confidence of both the depositors and creditors of the banks; and
- e) To prevent the systemic repercussions of the failure of the banks on the entire financial system thereby ensuring financial and macro-economic stability.

The three banks were acquired by the Asset Management Corporation (AMCON) the same day with an infusion of N678.8 billion (US \$4.526 Billion).

### **3.4 Update On the Operating Status of Savannah Bank of Nigeria (SBN) Plc and Societe Generale Bank of Nigeria (SGBN) Ltd**

Following the restoration of the banking licences of both Savannah Bank of Nigeria (SBN) Plc and Societe Generale Bank of Nigeria (SGBN) Limited in 2010 through court judgements, the NDIC, in close collaboration with the CBN, made strenuous efforts to get the two banks to resume operations in the interest of their depositors/customers who were complaining.

#### **a) Savannah Bank of Nigeria (SBN) Plc**

In order to enable SBN resume operations, the NDIC had earlier successfully handed over the 104 branches of Savannah Bank as well as released N405 million of its funds. The Corporation held several meetings with the Board/Management of Savannah Bank with a view to facilitating commencement of operations by the bank and minimising depositors' anguish. However, the bank was yet to take concrete steps to commence operations.

#### **b) Societe Generale Bank of Nigeria (SGBN) Limited**

The CBN had approved a waiver and write-off of N3.7 billion of its outstanding indebtedness to SGBN and had also approved loan facilities totalling N25 billion to facilitate IT acquisitions and the payment of existing depositors subject to the injection of fresh capital of not less than N12 billion by its core investor (International Energy Insurance Group Plc). The bank was yet to respond to the offer. In the mean time, the NDIC had commenced close interaction with the CBN with a view to decisively resolving the bank's problems.

**3.5 Liquidation of Microfinance Banks (MFBs)** - Following the revelation from the CBN/NDIC target examination of all licensed MFBs that 224 of the MFBs were terminally distressed or technically insolvent, the CBN, in September 2010, revoked the operating licences of 103 MFBs. As at July 2011, the Corporation had paid an aggregate sum of N2.024 billion to about 69,000 depositors of the closed MFBs. The amount paid

represents about 41% of total insured amount of about N4.94 billion. It is worthy of note that the payment was effected with minimum delay from the date of closure. It is noteworthy that the payment was effected with minimum delay from the date of closure.

### **3.6 Insured and Uninsured Depositors Paid For Banks Closed Before 2006**

The Corporation during the year, continued with the payment of insured sums as well as liquidation dividend to uninsured depositors of the banks closed before 2006. As at the end of July 2011, the cumulative insured deposits paid in the 35 banks in-liquidation stood at **N3.304 billion**. Also, the cumulative liquidation dividend paid to the depositors and other claimants of the affected banks was **N6.162 billion**. It is instructive to note that twelve (12) of the banks had declared a final dividend of 100 per cent of total deposits, indicating that all their depositors had fully recovered their deposits. The affected banks were:

- i. ABC Merchant Bank Limited (in-liquidation);
- ii. Amicable Bank of Nigeria Limited (in-liquidation);
- iii. Alpha Merchant Bank Plc (in-liquidation);
- iv. Continental Merchant Bank Plc (in-liquidation);
- v. ICON Limited (Merchant Bankers) (in-liquidation);
- vi. Kapital Merchant Bank Limited (in-liquidation);
- vii. Merchant Bank of Africa (in-liquidation);
- viii. Nigeria Merchant Bank Ltd(in-liquidation);
- ix. Pan African Bank Ltd (in-liquidation);
- x. Premier Commercial Bank Ltd (in-liquidation);
- xi. Rims Merchant Bank Ltd (in-liquidation); and
- xii. Ivory Merchant Bank Ltd

Apart from the 12 failed banks that had declared 100 per cent dividend to their depositors, many depositors of the remaining banks in liquidation had recovered as much as 90 per cent of their trapped deposits in some of the other closed banks.

### **3.7 Payment of Liquidation Dividend to Shareholders of Banks Closed Before 2006**

Apart from the payment of insured sum, the Corporation also has additional responsibility to settle claims of uninsured depositors, creditors and even shareholders of closed banks through liquidation dividends from the proceeds of realized assets of closed banks. The amount of liquidation dividends paid to shareholders of 35 banks-in-liquidation stood at N6.162 as at July 2011.

### **3.8 Insured Deposits Paid For Banks Closed in 2006**

It would be recalled that as a complementary measure to sustain public confidence under the bank consolidation programme, the Federal Government, through the Central Bank of Nigeria (CBN), provided full coverage to private sector depositors of those banks that were closed in January, 2006 due to their insolvency. Given the guarantee of full coverage to the private sector depositors, the NDIC adopted the Purchase and Assumption (P&A) failure resolution mechanism which entailed inviting the healthy banks to bid for the purchase of the assets and assumption of the deposit liabilities of the failed banks. The choice of the P&A was based on some public policy considerations which, among others, included giving depositors easy access to their funds without conditions; facilitating continuity of banking services in the same premises used by the failed banks; encouraging depositors to establish banker-customer relationships with the acquiring banks; and promoting banking culture which is critical to savings mobilization for economic development. The cumulative insured deposit paid to the depositors of the as at July 2011 amounted to **N3.289 billion**.

### **3.9 Dividend Payment to Uninsured Depositors in respect of the 11 Banks Closed in 2006**

The cumulative dividend paid to uninsured depositors of banks under the Purchase and assumption (P&A) arrangement as at the end of July 2011 was N66.757 billion as against N63.529 billion paid in December 2010, representing an increase of N3.228 billion (an increase of about 5.08 per cent). The P&A entailed inviting the healthy banks to bid for the purchase of the assets and assumption of the deposit liabilities of the failed banks.

Its choice was based on some public policy considerations which, among others, included giving depositors easy access to their funds without conditions and facilitating continuity of banking services in the same premises used by the failed banks.

### **3.10 Efforts Aimed at Eradicating the Activities of Illegal Fund Managers/Wonder Banks**

The activities of the illegal fund managers/wonder banks had been a source of concern to both the Regulatory Authorities and Government in recent times. In order to address this concern, the NDIC, in collaboration with CBN, SEC, CAC and EFCC, took the following initiatives:

- a. Set up an inter-agency committee with members drawn from CBN, SEC, CAC, EFCC and NDIC.
- b. The Committee had established that there were a total of 560,882 claims by members of the public against 440 Illegal Fund Managers/Wonder Banks amounting to a whopping sum of N106.94 billion and noted that the situation had implications for financial stability.
- c. The Committee further observed that 36 companies accounted for N104 billion or 98 % while Nospetco Oil and Gas Ltd alone accounted for 48%.
- d. With the efforts of the Committee, the Court had appointed a Liquidator to wind up **Sefteg Company Nigeria Limited**, one of the illegal fund managers. The Liquidator had realized about N500 million from the assets of the company and had commenced payment to verified investors of the company.
- e. Efforts are being stepped up to appoint **liquidators** by the court for other illegal fund management companies to accelerate payment to their respective affected investors based on the realized assets of the companies.

### **3.11 Review of Coverage Level**

The DIS coverage levels were increased from N200,000 and N100,000 to N500,000 and N200,000 for deposit money banks (DMBs) and Microfinance Banks (MFBs)/Primary Mortgage Institutions (PMIs) respectively. The new increase which took effect from November, 2010 was informed by the dynamics of the industry, developments in the economy and the need to address the public concern for increase in the limits. The ultimate objective was to enhance the confidence of the public in the financial system. It is noteworthy that the new coverage level was used to settle depositors of the MFBs closed in 2010. It would be recalled that the coverage level had earlier been reviewed upwards in 2006 from N50,000 to N200,000 DMBs.

**3.12 Deposit Insurance Premium-**The Corporation, in order to discharge its mandate and also fund its operations is statutorily empowered to periodically charge all insured institutions premium. The NDIC Act 2006 also empowers the Corporation's Board to alter the pricing method from time to time. There are two major approaches to assessment of premium – flat rate or differential (risk-adjusted). The Corporation since inception adopted and continued with the application of a flat rate to all the participating institutions up till 2007. The application of the flat rate for premium charged was found to be administratively convenient and easy to understand even by the insured institutions but has always been regarded as inequitable and does not promote sound risk management in banks. Hence, under its insurance activities and in line with the trend in other jurisdictions, the Corporation developed a framework for Differential Premium Assessment System (DPAS) in the country, which took effect in 2008. With the new framework, premium assessment now focuses purely on the risk profile of individual banks, as opposed to the flat rate system that the Corporation adopted right from its inception.

### **3.13 Reduction in Premium Payable By Banks To Support Financial Stability Fund (FSF)**

At the Bankers' Committee meeting of July 2010, the CBN and all deposit money banks unanimously agreed to establish a Financial Stability Fund in

which N1.5 trillion (about \$10 billion) would be contributed over the next 10 years. Under the initiative, the CBN would provide N500 billion, while banks would commit 0.3 per cent of the value of their individual balance sheets to the fund. As part of its contribution to making the Fund a reality, the NDIC had proposed a downward review in the premium payable by the banks by reducing the assessable base rate for premium computation from *50 to 40* basis points.

### **3.14 Debt Recovery**

The cumulative recovery for the banks in liquidation from 1994 to August 2011 was N22.158 billion. On the other hand, a sum of N8.33 billion had been recovered to date in respect of the closed MFBs. In an attempt to re-invigorate the recovery process, the Corporation had embarked on a number of aggressive debt recovery initiatives to facilitate recovery and enhance liquidation dividend being paid to depositors and other eligible claimants to boost public confidence in the banking system.

The Corporation had commenced discussion with the Asset Management Corporation of Nigeria (**AMCON**) to use its platform to dispose some of the risk assets as soon as possible. To facilitate this, the Corporation had completed the segregation of all accounts with outstanding balances of N100 million and above (174 Accounts in all) which would be off-loaded to AMCON as soon as it takes off. Also, the Corporation had appointed some **Debt Collection Agents** to enhance the pace of debt recovery/payment of uninsured depositors. In furtherance of this objective, plans had already been concluded to assign all accounts with balances of between N50million and N100million (205 in all) to lawyers (Debt Recovery Agents) due to potentials of litigation so as to expedite the process of recovery through the court processes. The Corporation had also concluded plans to assign all accounts below N50million to non-legal Debt Recovery Agents that were appointed by the Corporation.

### **3.15 Preparation for Extension of Deposit Insurance System to Non-interest Bearing Banks**

To support the new licensing regime and as part of its preparations to extend Deposit Insurance System (DIS) to non-interest bearing banks, the Corporation during the year developed a Draft Framework that would

enable it extend DIS to non-interest bearing financial institutions that would be licensed in due course by the CBN. The Corporation had also issued an Exposure Draft on Non-Interest Deposit Insurance Scheme (NIDIS) to all deposit money banks (DMBs) in the system. Comments received from some DMBs had been duly incorporated into the final document that would form the basis for the extension of DIS to non-interest financial institutions in Nigeria.

### **3.16 Public Awareness Initiatives**

To be effective in the discharge of its functions, enhance the effectiveness of the payment system and ensure that all its stakeholders were aware of its activities, the Corporation embarked on a number of public awareness initiatives which, among others, included the development of a new robust and interactive Website - [www.ndic.org.ng](http://www.ndic.org.ng), translation of NDIC pamphlets to 3 major Nigerian languages, NDIC various publications which were made available to the public free of charge, survey on the Effectiveness of Public Awareness Activities of the Corporation to determine awareness gap and the 2010 FICAN Workshop with the Theme: "The Role of Deposit Insurance in Promoting Financial Inclusion in Nigeria" which was organized to facilitate interaction with the media.

### **3.17 Establishment of a 24-hour Help-Desk**

As part of its public awareness and consumer protection initiatives, the Corporation in 2010, established a 24-hour Help Desk which was a robust and interactive toll-free platform for addressing enquiries and complaints from stakeholders.

### **3.18 Sponsorship of Sporting Activities**

As a means of enhancing public awareness of its existence and operational activities and as part of its corporate social responsibility, the Corporation has concluded arrangements to sponsor sporting activities in a state in each geo-political zone in the country, including FCT. The sporting activities were scheduled to commence on September 22, 2011. It is also expected that the initiative would lead to discovery of talented individuals who might in the future represent the country in global sporting events.

**3.19 Amendment to the NDIC's Enabling Act** - To make it more effective in the discharge of its mandate, the Corporation in 2010 held a Retreat with relevant Committees of the Senate and House of Representatives of the National Assembly. This was with a view to facilitating the process of amendment of the NDIC Act 2006 so as to further strengthen the Corporation's supervisory capacity.

**3.20 International Networking** - As part of its activities in 2011 and in order to encourage the introduction of explicit Deposit Insurance Scheme (DIS) and strengthen the existing DISs in Africa, the Corporation participated actively in the Africa Regional Committee of International Association of Deposit Insurers (**IADI**) and its world body's programmes in the year. The Corporation also provided training through **Attachment Programmes** to some staff of the **Central Bank of Gambia** in 2010.

### **3.21 ASSISTANCE FROM THE OFFICE OF TECHNICAL ASSISTANCE (OTA) OF THE UNITED STATES OF AMERICA, TREASURY DEPARTMENT**

As part of efforts to reposition the Nigeria Deposit Insurance Corporation (NDIC) and enhance its capacity to discharge its mandate of depositor protection, the Corporation is pleased to inform/notify the banking public that it has entered into a Technical Assistance Agreement with the Office of Technical Assistance (OTA) of the United State's Treasury Department. In line with this agreement, the OTA has since May 2011 deployed a Resident Technical Advisor in the Person of Mr. Phillip Morris to the NDIC to facilitate capacity building according to the agreed Terms of Reference (TOR). The agreement is for an initial period of two (2) years that entails a comprehensive review of the Corporations operations in banking supervision, deposit guarantee, bank failure resolution and closures. Specifically the assistance includes the following:

- Increased technical capacity of NDIC staff in the implementation of Risk Based Supervision (RBS) as it relates to deposit insurance
- Design and implementation of training programmes /methods to improve the capacity of NDIC staff in the prompt payment of claims to depositors and creditors

- Design and development of staff training modules and operations manual to enhance capacity in key areas of: Risk Assets valuation, Purchase & Assumption (P&A) transactions, Asset & Real estate management, Problem loan work out, other intervention techniques etc.
- Assist the corporation in transiting to the new International Financial Reporting Standards (IFRS) by providing appropriate training to Staff
- Provide general assistance in the development of core competencies in Enterprise wide Risk Management framework
- Provide general assistance to NDIC as requested and approved by the US Treasury Department during the period

In addition to the full-time Resident Advisor, the technical assistance agreement provides for periodic short-term missions by consultants with extensive experience and expertise in various aspects of Deposit Insurance/Banking Supervision.

### **3.22 The Implementation Of The Failed Banks' Decree**

The promulgation and implementation of the Failed Banks (Recovery of Debts) and Financial Malpractices Decree No. 18 of 1994 was to ensure speedy dispensation of justice. The main thrust of the Decree was to assist in the recovery of debts owed to failed banks and to punish individuals involved in the monumental incidence of financial malpractices in the distressed banks. The highly acclaimed implementation of the Failed Banks Decree which was facilitated by the NDIC was indeed a major plank in the resolve to contain distress and promote the soundness of the Nigerian banking system. Following the implementation of the Decree, a reasonable amount of recoveries had been made.

### **3.23 Inter-agency Cooperation and Collaboration**

Since it commenced operations in 1989, the Corporation has always recognized the need for an effective collaboration between it and other financial safety-net participants. Hence, it has sustained the cordial

relationship with the apex regulatory institution in the financial sector, i.e. the Central Bank of Nigeria (CBN). This has been done through planning and scheduling of bank examination, joint deliberation at both the technical and executive committee levels on how to evolve effective regulation of banks and other deposit-taking financial institutions. Similarly, the Corporation has continued to collaborate actively with other members of the Financial Services Regulation Coordinating Committee (FSRCC) like the Security and Exchange Commission (SEC), National Pension Commission (PENCOM) and National Insurance Commission (NAICOM), Nigeria Stock Exchange (NSE) and Federal Ministry of Finance so as to facilitate information sharing and harmonize standards of regulation.

### **3.24 Amendment of the NDIC Act**

The Corporation has already set in motion the process of reviewing its Act to accommodate provisions that would enhance its effectiveness. Included among the issues being proposed for review by the National Assembly are:

- ❖ Granting the Corporation powers to review books of subsidiaries of banks.
- ❖ Independent enforcement powers to deal with erring banks and their directors/ officials.
- ❖ Protection of the Corporation's assets against creditors who obtain judgment against closed institutions.
- ❖ Granting the Corporation powers to pay insured amount to depositors in the event of imminent or actual suspension of payment by an insured institution even before the revocation of its licence.

## 4.0 CHALLENGES

Although the NDIC had recorded modest achievements as highlighted in the preceding paragraphs, the exercise had not been without its constraints and challenges. The challenges confronting the NDIC in its dual roles of guaranteeing deposits and liquidator of failed banks are quite numerous and include the following:

### i) **Poor Public Awareness**

The level of awareness of the scheme is quite low. Despite the series of efforts made by the NDIC to reach out to the public through publications, seminars, workshops, press briefings and advertisement, the general public seem inadequately aware of the scheme. It is still common to find people confusing deposit insurance with the conventional insurance business. Public ignorance cuts across all sections of the populace including depositors, the primary beneficiary of the scheme. For the deposit insurance to be effective, it is important that the public is well and adequately informed of its benefits and limitations.

### ii) **Data Integrity**

Integrity of data is an essential ingredient of supervisory process. Often, data submitted by banks to the regulatory and supervisory authorities did not fully reflect the true financial condition of insured banks. The Corporation observed that, returns were either inaccurate or incomplete or outright misrepresentation. That, in effect, was capable of rendering supervisory actions ineffective. There were incidences of understatement of deposit liabilities as well as reporting of credit exposures as off-balance sheet engagements.

As part of the measures taken by the Corporation to address some of the challenges posed by data integrity, it, in collaboration with the CBN reviewed the banks' reporting formats several times as well as computerized the process of rendition of returns through the development of a bank analysis software, known as Bank Analysis System (BAS) in the first instance and later electronic Financial

Analysis and Surveillance System (eFASS) as earlier discussed.

ii) **Legal Actions By Owners of Closed Banks**

In spite of the forbearance of the Regulatory Authorities, suits have been brought by owners of banks against CBN/NDIC on the revocation of their banks' licences and appointment of liquidator. The trend if not checked, can threaten the stability of the banking system and erode confidence of the public in our banks. The damage that is associated with protracted litigation is incalculable.

iii) **Recovery of Debts Owed Failed Banks**

The Corporation is still faced with some constraints in its debt recovery efforts. Some of the constraints limiting against recoveries of debts include business failures, unwillingness to honour obligations and large volumes of unsecured/fraudulently granted loans. It is important to stress that unless debts can be expeditiously recovered, uninsured depositors and creditors cannot be paid most of their claims. This has serious consequences for public confidence in, and stability of, the nation's banking industry.

iv) **Disposal of Physical Assets**

NDIC had achieved appreciable success in the disposal of physical assets of closed banks. Nevertheless, there are a few prime-landed properties yet to be sold. The inability to dispose of these properties could be as a result of a few problems. The title documents on some of the assets are subjects of litigation while some of them are located in towns where there is low demand for such properties.

v) **Criminal Prosecution**

Criminal prosecution of bank directors and officers suspected of committing banking malpractices had faced severe challenges. Following the abrogation of the Failed Banks Tribunals in 1999, consequent upon the advent of democratic dispensation, the jurisdiction of the Tribunals was transferred to the Federal High Court. Since then, the prosecution of criminal cases had declined and convictions became rare events. The proceedings at the Federal

High Court were characterized 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.

**vi) Execution Of Judgment Against Assets Of The Corporation For Liability Of Banks In Liquidation**

The Corporation has been faced with attachment levied on its assets in execution of judgment obtained against banks in liquidation. That anomalous situation was the result of the Corporation's role as liquidator of failed banks in Nigeria. The courts have regarded that role as making the Corporation the successor-in-title to the failed bank, which should not be the case.

**vii) Limited Investment Outlets**

Limitation in terms of availability of investment outlets in Nigeria constitutes a challenge to the growth of the DIF. The limitation in the investment outlets reflects the fact that the Nigerian financial system is not deep enough as to provide diverse investment outlets as obtained in more advanced economies. The consequence of this is that the risk exposure of investing in a market with limited investment outlets would become higher than in a market where the investment outlets are many and varied, because of the advantage of diversification.

**viii) Impact of Fiscal Responsibility Act of 2007**

The NDIC's compliance with the Fiscal Responsibility Act has impaired the growth of its General Reserve Fund and by extension the growth in the fund available for failure resolution. This has posed a challenge to the Corporation particularly given the fact that the investment outlets are limited, the coverage levels have been increased and the premium rate reduced.

## **5.0 FUTURE PROSPECTS**

Notwithstanding the challenges facing the Corporation, there are prospects for the effective discharge of its roles in guaranteeing deposits and as a liquidator.

- i. Strong commitment of the Corporation to promote public awareness about its operations in order for stakeholders to understand and appreciate the benefits and limitations of the deposit insurance scheme.
- ii. The proposed amendment to the NDIC will grant the Corporation independent enforcement powers and make it more effective in the discharge of its mandate.
- iii. The use of e-FASS will ensure that required information will be available to NDIC to enable it assess financial condition of insured institutions, take prompt corrective actions and where necessary provide information usually compiled by NDIC when closing a bank. With such information, NDIC could undertake preparatory review of deposit liabilities held by problem banks. In the event that a bank 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.
- iv. The on-going review of the Contingency Planning for Banking Systemic Distress Framework would facilitate prompt resolution of problem banks. 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 banks.
- v. Measures being adopted by the Regulatory Authorities under the on-going reform of the financial system have the potentials of improving corporate governance in banks, improving asset

quality of banks, having well capitalized banks, enhancing risk management practices and boosting the disclosure regime. The cumulative effect of the reforms is enhanced confidence as well as stable and sound financial system.

- vi. The CBN recently approved the Revised Microfinance Regulatory and Supervisory Framework for Nigeria. Among other things, the policy which provides for categorization of MFBs based on capital base of N20 million, N100 million and N2 billion respectively, is expected to enhance the safety and soundness of institutions in that financial subsector.
- vii. The existence of the Economic and Financial Crimes Commission, the Independent Corrupt Practices Commission as well as other anti-corruption agencies and the high level of commitment of officials working in the agencies imply that the issue of financial crimes would be effectively addressed as offenders are being prosecuted and convicted.
- viii. With the NDIC's membership of the IADI and other efforts at reinforcing cooperation and exchange between deposit insurance organisations of different countries, the NDIC is well positioned to partake in the sharing and exchange of expertise and information on deposit insurance issues.
- ix. It is hoped that Government would sustain the efforts towards a more stable macro-economic environment and favourable business climate that would enable willing debtors to meet their commitment to banks.

## **6.0 SUMMARY AND CONCLUSION**

The Nigerian government reacted promptly to the imperatives of the current wave of economic deregulation sweeping through the world by establishing a deposit insurance scheme in the country. The

NDIC, an organisation charged with the responsibility of managing the scheme, has spent the last 21 years putting in place various measures designed to protect the economy from the risk of deposit runs. Apart from insuring the deposit liabilities of all licensed banks, 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 banks' loans through the courts, wrong public perception of the scheme and weak corporate governance on the part of operators, among others. In spite of the challenges, the various developments in the system as indicated in Section 5 of this paper have indeed given hope of a bright future for an effective DIS in Nigeria.

**NIGERIA DEPOSIT INSURANCE CORPORATION (NDIC)  
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