

The Role Of Deposit Insurance Scheme In Promoting a Safe And Sound Banking System In Nigeria: A Comparative Analysis Of United States Of America And Kenya

Nwafor-Orizu Onyinye Ngozi

¹Phd Student Nile University Of Nigeria, Legal officer, Nigeria Deposit Insurance Corporation NDIC

Abstract

The Deposit Insurance Scheme (DIS) was established in Nigeria in 1988 and implemented by the Nigeria Deposit Insurance Corporation (NDIC) to safeguard depositors' funds, promote sound banking practices, foster depositor confidence, and contribute to financial system stability. As the Nigerian banking system serves as critical machinery for economic growth and development, there is a need for robust, effective and efficient DIS. The failure of Nigerian banks has been attributed to poor corporate governance and management, high number of non-performing loans, liquidity and capital inadequacy, among other things.[J. Donli, 'Causes of Bank Distress and Resolution Options' CBN Bullion. 28(1), 64-73 <https://dc.cbn.gov.ng/cgi/viewcontent.cgi?article=1234&context=bullion> accessed 22 August 2023] In addition the above factors, bank runs could serve as the final nail to the coffin of any bank that may be experiencing distress.[Bank run' or 'a run on the bank' is a term used to define a situation where a large number of depositors of a bank simultaneously make large withdrawals from a bank due to panic or fear that the bank would fail.] Bank runs pose a significant threat to the life of a bank or financial institution as where bank runs occur, there is imminent risk of the liabilities of the bank outweighing its assets. The paper uses doctrinal research method to analysis Deposit insurance practice in Nigeria vis-à-vis the United States of America and Kenya with a view of drawing lessons that would help improve the effectiveness of the scheme in Nigeria. United States and Kenya were chosen for the study due to their advancement in depositor protection and bank failure resolution mechanism which has helped in minimizing bank failures in those countries. The study proposed practical recommendation that would guide policy makers and regulators to improve the effectiveness of the scheme.

Keywords: Deposit insurance, financial system stability, depositor confidence

How to cite this article: Nwafor-Orizu Onyinye Ngozi. The Role Of Deposit Insurance Scheme In Promoting a Safe And Sound Banking System In Nigeria: A Comparative Analysis Of United States Of America And Kenya. *Int J Drug Deliv Technol.* 2026;16(83s):1497-1505. DOI: 10.25258/ijddt.16.83s.162.

Introduction

1.1 Background to the study

The establishment of NDIC in 1988 was a strategic response to the historical challenges and vulnerabilities that marred the banking sector, including the absence of a strong institutional and legal framework to protect depositors from losing all of their funds as a result of bank failure. The banking sector experienced numerous bank failures prior to the establishment of NDIC, resulting in the loss of all funds for customers, creditors, and shareholders. NDIC's emergence marked a significant milestone in strengthening the Nigerian financial system. Specifically, NDIC's creation aims to prevent a repeat of bitter bank failures from the 1930s–1980s, stabilize the banking industry, improve public confidence by providing a mechanism for depositor protection, strengthen the financial system, and relieve the government of the liability of bailing out distressed banks.

1.2 Statement of the problem.

Bank failure has continued to be one of the major financial system challenges all over the globe. In Nigeria, bank failures continue to pose a risk to the macro- and microeconomy. Its negative effects include lack of depositor confidence, disruption of the payment system, loss of depositor, creditors, and shareholders' funds, contagion on healthy banks, and bank runs, among others. The mechanisms in place for minimizing the impact of failure are not sufficient to ensure a stable and safe banking sector. Studies show that countries like the United states of America and Kenya have well-structured failure resolution mechanisms, which have helped in

minimizing bank failure in those countries and may benefit Nigeria if properly adopted and implemented.

1.3 Research questions.

- 1.How effective is Deposit Insurance Scheme (DIS) in Nigeria compared to more advanced frameworks like the US and Kenya?
- 2.What are the gaps in the DIS in Nigeria that hinders its effectiveness?
- 3.To what extent does the NDIC ensure effective implementation of the scheme?
- 4.What specific lessons and best practices may Nigeria Policy Makers and Legislators adopt from the US and Kenya to improve DIS effectiveness?

2.0 Deposit Insurance Scheme in Nigeria

The Constitution is the principal piece of legislation from which every other statute in Nigeria derives its authenticity. This is particularly so as the Constitution expressly provides that any other enactment that contains provisions contrary to that of the Constitution are invalid to the extent of their inconsistency with the Constitution. Therefore, no study of any legal framework in Nigeria can be undertaken without reference to the Constitution. The Constitution gives validity to the NDIC Act 2023 which provides for the establishment and implementation of DIS in Nigeria.

The NDIC Act, 2023 in its section 5 confers exclusive deposit insurance powers on the NDIC. The enabling Act, which explicitly stated its public policy object of protecting depositors and promoting financial system stability, established NDIC as a risk-minimize deposit

insurer. The Act explicitly sets out the corporation's public policy objectives. Subsection 2(a) of the Act states that the NDIC shall protect depositors by providing an orderly and effective means of compensation in the event of the failure of a bank and the inability of the failed bank to pay its depositors. In Subsection (b), the Act mandates the NDIC, as a participant in the financial safety net, to enhance public confidence and financial system stability by establishing effective surveillance mechanisms. Additionally, with the concurrence of the CBN, the NDIC must provide a framework for the resolution of distressed banks and other financial institutions in Nigeria.

NDIC's primary objective is the protection of depositors, particularly small savers, by providing a mechanism for reimbursement up to an approved amount in the event of bank failure. Other objectives of the NDIC include protecting the payment system by ensuring safe and sound banking practices and promoting order in the banking industry by encouraging fair competition. Section 3 of the Act outlines the main functions of NDIC to achieve these objectives.

The NDIC derives its powers from Sections 3 and 4 of the NDIC Act, 2023, to carry out the following mandate:

- a. Guaranteeing of deposit liabilities of licensed or authorised deposit taking financial institutions in Nigeria in consonance with the provisions of Banks and Other Financial Institutions Act (BOFIA).
- b. Supervising insured institution with the concurrence of the CBN to mitigate risk of failure
- c. Providing failure resolution mechanism for assisting failing insured institution in concurrence with the CBN.
- d. Ensuring prompt, efficient and orderly liquidation of failed insured institution.

The most fundamental, exclusive, and unique mandate of NDIC is deposit guarantee. This function is key to promoting financial system stability. The NDIC insures the deposit liabilities of DMBs, PMBs, MFBs, NIBs, MMOs, and PSBs. The insurable deposit includes all deposit liabilities, including savings accounts, time/fixed deposit accounts, current accounts, and domiciliary accounts. The NDIC does not insure the following categories of deposits:

1. Inter-bank takings (lending between banks).
2. Insider deposit. The term "insider deposits" refers to the deposits made by employees, including directors of the insured institutions.
3. Collateralized deposit. Deposits that serve as collateral for a loan are known as collateralized deposits.
4. Any other type of deposit. The board of the deposit insurer may determine any other type of deposit.

The rationale for bank supervision includes the protection of depositor, promotion of financial system stability, provision of effective and efficient payment system and promotion of innovation and competition in the banking system. NDIC status as a risk minimizer positions it as a supervisor considering that one of the core mandates of a risk minimizer DIS is supervision. NDIC supervises

insured institutions in order to minimize the potential risk of failure and ensure that banks and other insured financial institutions do not engage in unsafe and unsound banking practices. As risk is inherent in banking business, NDIC through supervision ensures that the rationale for bank supervision includes the protection of depositors, promotion of financial system stability, provision of an effective and efficient payment system, and promotion of innovation and competition in the banking system.

NDIC, as a risk-minimizer deposit insurer, plays a crucial role in preventing bank failures in Nigeria. Section 4(b) of its enabling Act provides one of its core mandates, which is to assist insured institutions in the interest of depositors in the event of imminent or actual financial or technical difficulties, particularly when the payment system is threatened. This mandate guarantees the prompt and efficient resolution of failing and failed insured institutions, thereby preserving public confidence in the banking system.

Banks and Other Financial Institutions Act BOFIA 2020 gives NDIC collaborative powers with the CBN to supervise banks and other financial institutions and provide financial and technical assistance to distressed banks and other insured institutions. Part IX of the Act and BOFIA provided for liquidation of insured institutions following the revoking of their operating license. In particular, Section 12 (2) and 55 of this Act stipulates that the NDIC assumes the role of liquidator for an insured institution, including a bank, when the CBN revokes its license, effective from the revocation date. *NDIC & Anor v Abia*. Since the law strictly governs liquidation, it must completely adhere to the applicable legal requirements. Under the new NDIC Act, the NDIC pays the insured depositors within thirty (30) days of the license revocation. The payment to depositors follows a priority order. The Act also grants the NDIC the right to receive liquidation dividends.

2.1 Failure resolution Mechanisms of NDIC

A bank or financial institution is described as "failing" when its capital to risk weighted assets ratio or regulatory capital is below the minimum prescribed by Central Bank of Nigeria in accordance with the criteria stipulated in the Prudential Guidelines issued for licensed insured institutions. The NDIC Act provides a number of options that are aimed at preventing failing banks from becoming failed and getting them back on their feet.

Illiquidity and financial constraints are primary factors leading to the failure of insured institutions, causing them to struggle with meeting obligations. The NDIC Act offers several financial assistance mechanisms for failing banks, including accepting short-term accommodation bills, purchasing equity or assets, issuing securities, and taking additional measures for support. Administrative issues can also jeopardize a bank's stability; thus, the NDIC Act allows for drastic interventions, including appointing new management, replacing key personnel, and staff layoffs, to avert imminent collapse.

Aside personnel changes, the Corporation is also empowered to take significant operational decisions affecting the institution aimed at optimizing performance. These decisions include but are not limited to; shutting down branches of the bank, sale of

subsidiaries or other businesses of the bank, requiring shareholders to recapitalize the bank, writing off assets of the banks, acquire, manage and dispose of impaired assets of the failing institutions.

While the above powers may seem wide and intrusive, they only represent the milder failure resolution options available to the Corporation. Where any of the above failure options are deemed insufficient to get a failing bank on track, the Corporation may employ corporate restructuring options that impact on the very structure and identity of the institution. The Corporation is empowered to induce or facilitate the restructuring, merger or acquisition of a failing financial institution with a healthy insured institution. The main objective of such a merger/acquisition is to ensure that deposits of the depositors of the failing banks are kept safe and are operated by the acquiring healthy institution or the new institution formed after the merger.

The Corporation utilizes the purchase and assumption method as a resolution option for failed banks, where a healthy bank or investors take on some obligations and acquire assets. It was applied to 11 out of 13 banks shut down in 2006. The Central Bank of Nigeria (CBN) assured depositors that none would lose their funds due to these closures, with the NDIC providing insured sums and the CBN compensating assuming banks for any shortfall. However, depositors at Fortune International Bank Plc and Triumph Bank Ltd did not receive this coverage due to ongoing litigations initiated by shareholders.

Bridge banks are a failure resolution option utilized by the Corporation in collaboration with the Central Bank of Nigeria. This arrangement allows a new bank to assume the deposits, assets, and liabilities of a failing institution, maintaining continuity and potentially retaining staff. Bridge banks benefit from statutory protections, such as exemptions from capital requirements and various fees, aimed at ensuring efficient resolution. This method has been applied in the liquidation of three failed banks—Afribank, Bank PHB, and Spring Bank—where their assets and liabilities were transferred to shell companies and then sold to healthy institutions.

Another available failure resolution option (and perhaps the most hands-on approach) is the assumption of control of the failing financial institution by the Corporation. Assumption of control entails carrying on the business of the bank in its name and doing with the aim of getting the bank back on its feet and on track to thriving and then handing over control to new management or take action as deemed necessary to ensure the bank does not fail. The Corporation may assume control of a failing bank when the Central Bank of Nigeria after exhausting measures prescribed to cure the distress position of a bank under the law decides to hand over control of the bank to the Corporation. The Corporation after prescribing measures aimed at resuscitating the bank including recapitalisation plan submission by the bank, prohibiting the bank from extending further credit and incurring additional capital expenditure without NDIC's approval, removal and appointment of the bank's management may opt to assume control of the bank as a last resort where the above measures are not effective to save the bank. Should this measure fail, the Corporation

would be left with no other option but to recommend that the licence of the bank be revoked by the CBN. The CBN in this instance may revoke the banks licence and NDIC transits from manager of the bank to its liquidator on applying to the Federal High Court for an order to wind up its affairs.

2.2 Challenges of DIS implementation in Nigeria.

NDIC collaborates with CBN in failure resolution and supervision of insured banks and other insured financial institutions. The NDIC Act 2023 used the word "concurrence" in the Act in sections 2, 3 and 28 among others to define the relationship of NDIC and CBN instead of "collaboration". The Act's Section 4 (a) stipulates that in the event of an actual payment suspension by an insured institution, the Central Bank must approve the payment of the insured deposit. This may go contrary to IADI's Core Principle on timely reimbursement of depositors in the event that CBN's concurrence is delayed. Additionally, it will hinder the trust of depositors in the banking system, potentially leading to bank runs in existing banks if the failed institution's depositors don't receive timely reimbursement. Section 4b and 49, which mandates the NDIC to provide financial assistance to banks in distress, may encourage moral hazard. Financial assistance to ailing banks may encourage some insider abuses, as these banks may continue to take unnecessary risks and engage in financial malpractices, hoping that the NDIC would always come to their rescue.

The 2023 Act composition repealed the provision of 2006 Act that provided a 12-man board members drawn from the six (6) geopolitical zones in Nigeria and provided 7 members consisting the Permanent Secretary of Federal Ministry of Finance as Chairman of the Board, MD of NDIC and the two ED's, Director General SEC, a representative from CBN and one independent member. This provision, unlike the one in the repealed Act, does not comply with federal character requirements. This provision fails to provide equal access to public service representation, which is intended to minimize dominance by one or few sections, in accordance with section 14 (3) of the 1999 Constitution. Furthermore, the members are individuals who are already fully engaged in their positions within their respective organizations, which may prevent them from having sufficient time to oversee the affairs of the Corporation. NDIC plays a critical role in ensuring the stability of banks and the financial system as a whole; hence, there is a need to consider instituting enough strong, dedicated, and experienced hands as board members while considering the federal character principle.

Since the enactment of the 2023 Act, which altered the composition of the board and provided an interim management board under section 10, the Corporation has been operating under an interim management board that meets occasionally to discuss issues as they arise, unlike the statutory board that meets regularly to tackle issues before they arise. This provision may slow down the pace of decision-making, which is crucial given the NDIC's responsibility for maintaining a safe and sound banking system. The section failed to specify the duration of the interim management committee's operation. The

provision is ambiguous to the extent that an interim management committee may operate indefinitely. Section 22 of the Fiscal Responsibility Act, 2007, which requires each corporation, including the NDIC, to deposit one-fifth (1/5) of its operating surplus into the Consolidated Revenue Funds of the Federal Government, may impede the implementation of section 19 of the NDIC Act, which establishes the General Reserve Fund. Furthermore, section 76 of the Banks and Other Financial Institutions Act, 2020 mandated the NDIC to pay into the Resolution Funds created under section 74 of the Act, the sum of four billion naira (N4, 000,000,000.00) on the first business day of each year. These two laws will greatly impact the implementation of sections 18, 19, and 20 (2) of the NDIC Act, 2023, which provided for the operating funds, the general reserve funds of the NDIC, and incomes from investment, respectively. Section 22 of the NDIC Act in its subsection (a) excluded insider deposits comprising deposits of staff, including directors of the insured institution, from deposit insurance coverage. The aim of this provision is to deter bank officials and their directors from engaging in unwholesome activities that may lead to failure. Furthermore, it will instill in them a greater sense of responsibility and responsiveness toward the bank's operations, which, if improperly managed, could result in the bank's failure and the complete loss of their funds. The weakness of this provision lies in its exclusive application to the bank officials' accounts in specific banks where they work, thereby negating its intended deterrence effect. In the event of a bank failure, bankers may quickly withdraw every fund that enters their account at the bank where they work, leaving only minimal or zero amounts in the account. They would rather move their funds to other banks where they are sure of getting their insured sum than risk losing it to this section.

Section 23(7) stipulates that if the Corporation's funds are insufficient to assist financially distressed insured institutions, insured institutions may be obligated, in addition to paying the statutory annual premium, to make a special contribution from their profit before taxes to support the NDIC. This may put extra financial pressure on these institutions, which could affect how well they run and the payment system, which could be bad for the financial system. Banks may resort to withholding information or altering their statements and returns filed with the NDIC under section 36 and 39 of the act, thereby providing the Corporation with misleading information about their financial state. The Board of the NDIC has since reviewed the maximum claim as provided under section 25 of the act. This act still carried the old maximum insurance claim, which may be misleading to the public who may not be aware of the review. There is a need to amend this provision to reflect the current maximum claim. The weakness of Sections 41 (3) and 43 is that they only allow the NDIC to issue warnings to an insured institution that has violated any rules or prudential guidelines, or engaged in unsafe and unsound practices, after the institution has undergone any of the examinations provided under the act. The NDIC, by virtue of these provisions, can only notify and recommend to the CBN, who is not under any obligation

to act on the recommendation. The effectiveness of this provision is weakened by the NDIC's inability to sanction a defaulting institution even after establishing prima facie proof against it.

One of the tools for resolving bank failures is Bridge Bank. The NDIC implements it in collaboration with the CBN. Section 54 (1) of the NDIC Act empowers the NDIC in concurrence with the CBN to incorporate one or more banks as a bridge bank, assume such bank's liability, purchase such bank's assets, and perform any other function as the Corporation may decide. Subsection (5) of the section stipulates that bridge banks must operate for a minimum of two years from the license issuance date and a maximum of three additional one-year periods, up to a maximum of five years. Cumbersome court cases and the bank bad assets and liabilities prior to the bridge limit the implementation of this provision, making it unattractive to buyers who prefer to cherry-pick the good assets and abandon the liabilities. This could potentially result in a shortage of buyers, which could lead to a prolonged bridge extension beyond the prescribed maximum period, thereby adding to the financial burden on the NDIC.

The inclusion of dispute resolution mechanisms in laws has gained credence over the past decades because the clause, when inserted in a law, helps parties to resolve their dispute timely and in a more economical way as well as reduce the burden on court, save litigation costs, and preserve relationships. The Act clearly did not make provision for a dispute resolution mechanism, ADR. The absence of ADR in the Act connotes that the court can only decide on matters between the NDIC, insured institutions, and the customers. Most of the time, these court processes are lengthy, causing delays in the payment of deposits and debts for both depositors and creditors. These protracted court cases may lead to loss of depositor confidence and increased financial burden on the deposit insurer.

3.0 Deposit Insurance Scheme and Practice in the United States (U.S)

The United States Deposit insurance Scheme (DIS) is one of the oldest and the most encompassing in the world hence, their vast experiences and innovation in strengthening their financial system through deposit insurance will provide a rich source of lesson for Nigeria. DIS in the U.S is implemented by the Federal Deposit Insurance Corporation (FDIC). Established in 1933 following the great depression that rocked the U.S financial system, the FDIC has been one of the pillars of financial system stability in the U.S. The creation of FDIC was part of the direct responses to the devastating bank runs and widespread financial panic that followed the Great Depression, which resulted in the collapse of thousands of banks. During that period, depositors of the affected banks experienced a loss of their deposits, leading to a decline in public confidence in the banking system. The Banking Act of 1933 (also known as the Glass-Steagall Act) established the FDIC with the primary goal of safeguarding depositor funds through insurance and preventing bank runs.

FDIC's operation, strategies, policies, resolutions and enforcement mechanisms have been instrumental to maintaining financial stability, protecting depositors,

promoting public confidence and fostering economic growth in the U.S. Their operations also have indirect positive impact on the global financial system. Over the decades, the FDIC has continued to evolve and improve through adapting to changing economic landscape, technological advancement, and lesson learned from financial crises that rocked the nation.

The FDIC is a risk minimizer deposit insurer and an independent agency of the U.S federal government, managed by a five-member board of directors appointed by the President and confirmed by the Senate. Its mandates comprises deposit insurance, bank supervision and regulation, and resolution of failed banks.

As a deposit insurer, the FDIC provides deposit insurance coverage to depositors in an insured bank up to a specified limit. This insurance coverage guarantees that depositors will receive their insured sums in the event that their bank fails and is unable to meet its obligations. The current deposit insurance limit is \$250,000 (two hundred and fifty thousand dollars) per depositor, per insured bank, for each category of account ownership. Its supervisory and regulatory measures ensure the prevention of unwholesome activities in the banking sector. The FDIC, in collaboration with other federal and state regulatory agencies, oversees and regulates insured banks to guarantee their safety and soundness. The FDIC conducts an on-site examination using a risk-focused approach to assess the safety and soundness of banks, consumer protection, Community Reinvestment Act (CRA) 1977 performance, and banks' adherence to prudential laws and regulations. The examination also affords the FDIC the opportunity to review banks financial statements and evaluate their risk management practices through its off-site analysis and monitoring.

FDIC is required by law to resolve failed institutions by applying the least-cost resolution mechanism to minimize losses to the deposit insurance funds. It assists distressed deposit-taking institutions to resolve problems that may lead to failure on their own by seeking a merger partner or capital. This mandate enables it to act as the receiver of failed banks and also assist in returning assets to the private sector in an orderly and efficient manner while minimising the impact on communities affected by the bank failures. The FDIC's resolution planning ensures that the resolution process is seamless for bank customers.

Since its establishment, the FDIC has continuously improved its effectiveness in protecting depositors, promoting public confidence, and stabilizing the financial system through policy reforms and implementations. Following the financial crises that rocked the U.S. pre- and post-2008, development in technology, diversification in banking and financial products, and the fast-growing financial system, the FDIC has drawn valuable lessons, particularly from the bank failures, to further strengthen the financial system. In line with current financial realities occasioned by inflation and other changes in the financial sector, the FDIC has gradually enhanced the insurance coverage limit to protect depositors. Presently, the insurance coverage limit is \$250,000. The global financial crises that shook the financial sector in 2008 led to this enhancement.

Another notable achievement of the FDIC is the adoption of a risk-based premium assessment system, which allows the FDIC to charge bank premiums based on the quantum of risk a bank exposes itself to. While banks have the right to take risks, excessive risk-taking could jeopardize the funds of depositors. The risk-based premium assessment known as differential premium assessment (DPAS) prevents moral hazard and also serves as a deterrent, as banks with a high risk profile pay a higher premium compared to others. This encourages banks to adopt sound risk management practices, which allow them to identify the risks they take, measure them, monitor them, and control them in the interest of the depositors.

Another highlight of the FDIC reforms is the adoption of risk-based supervision. As a risk minimiser, the FDIC's role is to mitigate risk, not to avoid it. Through risk-based supervision, the FDIC scrutinizes banks' risk profiles and guarantees their adherence to prudential guidelines and regulations on credit disbursement. They also ensure that banks avoid taking risks they cannot control, avoid credit concentration, and avoid other unhealthy practices that could put the bank in distress. In terms of financial resources, the FDIC ensures the mandatory participation of banks in the scheme. The participating banks contribute to the FDIC funds by paying premiums, thereby bearing the cost of bank resolution.

The FDIC also plays an important role in ensuring the orderly liquidation of failed banks. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 empowers the FDIC to orderly liquidate failed and systematically important banks, preventing their bailout with taxpayer funds and preventing bank runs and other financial crises. FDIC's success have been commendable as it has continues to ensure that no depositor loses his/her money deposited in any bank in the U.S due to bank failure. Through its supervisory role, the FDIC has minimized the incidences of bank failure. It has continued to ensure that depositors of failed banks are timely reimbursed their insured sums to promote public confidence.

Its achievements notwithstanding, the FDIC has not completely prevented bank failure. In 2023, one of the biggest banks in the U.S., the Silicon Valley Bank (SVB), collapsed. On Friday, October 18, 2024, the U.S. witnessed another bank failure, the First National Bank of Lindsay, Oklahoma. Aside from bank failures, the FDIC continues to grapple with the rapid speed of technological advancement, which also comes with new risks. The rapid adoption of financial technology (fintech) and digital banking, such as blockchain, crypto currency, and electronic transactions, among others, continues to pose new challenges for the FDIC, including sophistication in cybercrime and other electronic frauds. The complexities of fintech impose an additional supervisory and regulatory burden on the FDIC, increasing the risk of banks losing money due to a decline in customer patronage to regular banking, which could potentially impact premium collection from these banks. Furthermore, the growing complexity and interconnectedness of the global financial system have heightened the likelihood of systemic risk, necessitating

ongoing revisions to the FDIC's risk management and resolution mechanisms. This imposes an additional financial, regulatory, and manpower burden on the FDIC. In conclusion, the U.S. Deposit Insurance Scheme has continued to provide valuable lessons for countries across the globe, and their scheme and its practices align with the IADI Core Principles for Deposit Insurance. The NDIC can learn from the FDIC's experience, particularly its failure resolution mechanisms, orderly liquidation of failed banks, and prompt payment of depositors, to further enhance its effectiveness in Nigeria.

4.0 Deposit Insurance in Kenya

Kenya was the first African country to implement the Deposit Insurance Scheme in 1985. Compared to developed countries like the US and some in Asia and Europe, the Deposit insurance system in Africa is relatively new and still evolving. Countries in Africa are still considered developing countries, although in the past three decades, a number of African countries, including Kenya, have implemented successful deposit insurance programs. Despite historical shortfalls in financial sector development, political instability, corruption, and weak institutional capacity, these countries have continued to adopt financial stability mechanisms to promote economic growth and financial system stability. With more African countries adopting the scheme, the financial system has stabilised and public confidence has increased.

The adoption of the Deposit Insurance Scheme became prominent in Africa following the prevalence of financial crises resulting in bank failures, and the scheme gained growing acceptance globally due to its documented effectiveness. In recent times, there has been heightened demand for financial inclusion, with the Deposit Insurance Scheme playing a crucial role in onboarding the unbanked and ensuring the availability of safe and affordable banking services in Africa. The key features of DIS in African countries are similar to those of the U.S., Asian countries, and Europe. Some of the common features include coverage levels, funding mechanisms, institutional arrangements, and resolution mechanisms.

The DIS coverage limit in African countries differs from country to country. While some of the countries provide relatively low levels of coverage, others offer higher coverage to depositors of insured institutions. The determining factors for the coverage limit include the country's per capita income, the size and complexity of the banks, including their risk profile, and the level of financial development in the country. The Kenya Deposit Insurance Corporation (KDIC) provides deposit insurance coverage of up to Ksh.500, 000 for each member institution's depositor, covering all deposit accounts. Safeguarded payment is limited to one depositor per institution. This coverage covers over 99% of Kenyan bank accounts.

Funding is crucial for effective deposit insurance. Countries in Africa that have DIS in place operate different funding mechanisms. Some countries rely on ex-ante funding, which is based on collecting premiums; others use a mix of ex-ante and ex-post, which lets them collect premiums from banks and get extra money in the form of government guarantees or loans after a bank fails to bail out these banks. KDIC funds its ex-ante deposit

insurance scheme through annual premium contributions from member institutions, with major sources of funding being member contributions and income from government securities investments.

Implementation of the scheme is usually the responsibility of an institution which may either be established by Act of parliament with mandate and powers to implement the scheme or the central bank or any other agency conferred with such authority to provide deposit insurance services. The choice of the institutional framework for DIS in Africa depends on each country's legal and regulatory frameworks and its level of commitment toward stabilizing the financial system through deposit insurance schemes. The KDIC implements the Deposit Insurance Scheme in Kenya.

Resolution of failing banks is one of the key functions of DIS. In Africa, the resolution frameworks are still developing. However, Kenya has made significant progress in implementing various resolution mechanisms, including purchase and assumption, bridge banks, open bank assistance, and merger and acquisition, among others. Some countries have also adopted the prompt corrective action approach, while others have resolution agencies to manage the liquidation of failed banks.

The stability of the financial system since its inception demonstrates the success of DIS in African countries. The public's confidence in the system has increased to the extent of guaranteeing their insured sum in the event of bank failure, making bank failure less significant. The DIS has helped prevent bank runs, enhanced public confidence, and facilitated the orderly resolution of failed banks. However, these systems are equally confronted with a number of challenges, such as inadequate funding capable of undermining the effectiveness of the scheme, insufficient resources and experienced manpower, weak governance practices and political interference, moral hazard and a large unbanked informal sector.

5.0 Analysis of the Comparative framework for Deposit Insurance Schemes

The comparative analysis identified the common features of DIS across the reviewed jurisdictions, such as coverage limits, funding mechanisms, institutional frameworks, and resolution mechanisms. The U.S. experience showed consistency in the FDIC's role in promoting financial system stability through continuous adaptations and innovative reforms for the effective implementation of the scheme. The study found that DIS implementation differs from country to country according to each country's needs and circumstances however, there are prospects for improving collaborations and risk-sharing among member countries. Despite facing various challenges, the successful implementation of the scheme in the US and Kenya highlights the need for political commitment, implementation of sound and robust resolution mechanism and enhanced public awareness.

According to the comparative analysis, the study observed that the success of deposit insurance schemes lies in their well-designed structure and proper implementation. This ultimately depends on how countries design and implement their respective schemes. IADI has provided the benchmark for effective deposit insurance, which subscribing countries are expected to

adopt as their guideline in designing their own schemes. However, best practice shows that tailoring the scheme to fit each countries circumstances; both political, economic and institutional structure serves better purpose. Lessons from the comparative analysis also underscored the significance of funding in the Deposit Insurance Scheme (DIS). Funding arrangements need to be well-structured and implemented to ensure the availability of funds for the deposit insurer to meet its obligations as they fall due. The analysis also showed the importance of strong governance and the need for the deposit insurer to be independent, transparent, accountable, and collaborate with other relevant institutions to gather and share information to strengthen the financial system.

Some of the key takeaways from these countries that may benefit Nigeria include strong political commitment; this can be achieved through adequate funding, ensuring institutional independence, and inclusive public awareness programs. Another takeaway is improved capacity-building programs for the board, management, and staff of the deposit insurer; improved financial inclusion such as the M-pasa, which is successfully being implemented in Kenya; more robust collaboration with other safety net participants; and proper enforcement of the provisions of the relevant laws. By leveraging these lessons, the NDIC's will strengthen its operations and improve its mandate delivery while acting as a pillar of financial stability.

In conclusion, the analysis has identified best practices, discussed the need for convergence and unification of the best practices among countries implementing the scheme and the need for collaboration to maximise the efficacy of the scheme. However, it is observed that achieving a totally unified DIS may be daunting due to political, economic, social, and cultural differences; the burden of ensuring the efficacy of the scheme falls heavily on each participating country. In other words, adopting successful practices will go a long way in improving the scheme.

Bibliographic References:

1. J. Donli, 'Causes of Bank Distress and Resolution Options' CBN Bullion. 28(1), 64-73 <https://dc.cbn.gov.ng/cgi/viewcontent.cgi?article=1234&context=bullion> accessed 22 August 2023
2. Bank run' or 'a run on the bank' is a term used to define a situation where a large number of depositors of a bank simultaneously make large withdrawals from a bank due to panic or fear that the bank would fail.
3. Aldunate Felipe, 'Deposit Insurance, Bank Risk-Taking and Failures: Evidence from Early Twentieth-Century State Deposit Insurance System' Review of Corporate Finance Studies [2019] (8) (2) 261-301 Saleh, H.M.; Moussa, H.R.; El-Saied, F.A.; Dawod, M.; Bayoumi, T.A.; Abdel Wahed, R.S. Mechanical and Physicochemical Evaluation of Solidified Dried Submerged Plants Subjected to Extreme Climatic Conditions to Achieve an Optimum Waste Containment. Prog. Nucl. Energy 2020, 122, 103285.
4. s 251 (d) CFRN 1999 (as amended)
5. The Nigeria Deposit Insurance Corporation Act, 2023 s1 (1) – (5). The section establishes the Nigeria Deposit Insurance Corporation as a body corporate with perpetual succession, a common seal, and the legal capacity to sue and be sued in its corporate name. Its purpose is to exercise its functions in accordance with the provisions of this enabling act, enter into contracts, acquire movable and immovable properties, maintain independence in carrying out its functions, and establish rules, regulations, codes, guidelines, and procedures for the conduct of its business. The corporation must implement this provision by conducting its business in a manner that promotes the financial system, fosters accountability and good governance, promotes transparency and consistency, and operates ethically. It also requires the corporation to comply with global best practices and corporate governance codes.
6. NDIC Act, 2023 Section 2 (a) and (b)
7. Ibid s 3
8. Ibid s 3 (a)
9. Ibid s 3 (b)
10. Ibid s 3 (c)
11. Ibid s 3(d)
12. Babarinde F. Gbenga and 3 ORS, 'Deposit Insurance: A Review of Concepts, Principles, and Implications on the Nigerian Financial System Deposit Insurance.' ResearchGate [2020] (2) 55-67
13. NDIC Act 2023 s 22 (a)-(d)
14. Aliu Momodu Mohammed, Micah Ezekiel Elton Mike & Seini Odudu Abu, 'Does the Forensic Examination of the NDIC's Role in the Nigerian Banking Industry Protect and Secure Depositors' Fund against Fraudulent Accounting Practices' Global Journal of Accounting and Economy Research [2023] [4] [2] 170-190
15. Nwanyanwu H Denis, Felix Igbara, & Njoku Kevin, 'NDIC Operations and Bank Performance: the Nigeria Experience' International Journal of Advanced Academic Research/Social and Management Sciences [2020] (6) (3) 84-100
16. Echeboba F N, 'A Review of Central Banks' Role as a Prudential Regulator in Nigeria: An Analysis of a Separate Supervisory Agency' Scientific Research Journal (SCIRJ) [2017] (V) (XII) 42
17. The NDIC Act, 2023
18. BOFIA 2020
19. Ibid note 98
20. (2024) LPELR-61974(CA); s 62(1) (h) NDIC Act 2023
21. s 99 NDIC Act 2023
22. s 50 (1) NDIC Act 2023
23. s 50 (1) NDIC Act 2023
24. s 51 NDIC Act 2023
25. S.I. Ucherwuhe, 'Mergers and Profitability of Money Deposit banks in Nigeria' AKSU Journal of Management Sciences (2024) (9) 154-184
26. Central Bank of Nigeria, 'Re: Resolution of Recapitalisation through Bridge Banks' (2011) <https://www.cbn.gov.ng/Out/2011/pressrelease/gvd/Bridge%20Bank%20Press%20Statement%20by%20CBN.pdf> accessed January 15 2025
27. s 50(1)(a) NDIC Act 2023
28. s 37 BOFIA 2020
29. s 34(4) BOFIA 2020

30. The NDIC Act, 2023
31. *ibid*
32. Constitution of the Federal Republic of Nigeria, 1999 (as amended)
33. The Fiscal Responsibility Act, 2007
34. Alley I, 'BOFIA 2020 and financial system stability in Nigeria: Implications for stakeholders in Africa's largest economy' *Journal of Banking Regulation* (2023) 24(2), 184–205 <<https://doi.org/10.1057/s41261-022-00192-w>> accessed March 10 2026
35. *ibid*
36. *ibid*
37. 30 Years of Deposit Insurance System in Nigeria 142-150
38. Chinwe Egbunike-Umegbolu, Contemporary Overview of Appropriate Dispute Resolution (ADR) in Comparative Perspectives: Nigeria, the UK, and the US (Springer Cham 2024) 13 1-28
39. The US Congress passed the Glass Steagali Act of 1932 as a banking reform law to stop financial collapses similar to those that happened at the start of the Great Depression.
40. Calomiris C W & White E N, The Origins of the Federal Deposit Insurance in the Regulated Economy: A Historical Approach to Political Economy (University of Chicago Press 1994) 145-188
41. FDIC official website <<https://www.fdic.gov/resources/deposit-insurance/faq#:~:text=Deposits%20are%20insured%20up%20to,through%20the%20date%20of%20de fault>> accessed November 6 2024.
42. FDIC Supervisory Insights, (summer 2013) 21-27 <<https://www.fdic.gov/regulations/examinations/supervisory/insights/sisum13/sisummer13-article3.pdf>> accessed November 6 2024
43. FDIC Examination Processes and Procedures <<https://www.fdic.gov/banker-resource-center/examination-processes-and-procedures>> accessed November 6 2024
44. The FDIC Risk Management Manual of Examination Policies, 2024 <<https://www.fdic.gov/resources/supervision-and-examinations/examination-policies-manual/risk-management-manual-complete.pdf>> accessed November 6 2024
45. The FDIC Failing Bank Resolution <<https://www.fdic.gov/resolutions>> accessed October 6 2024. Some of FDIC's resolution mechanisms include Bridge bank/Conservatorship, Open Bank Assistance, Purchase and Assumption. From 1987-1984, the FDIC conducted bridge bank failure resolution mechanism on 32 banks. FDIC Managing the Crises <<https://www.fdic.gov/bank/historical/managing/documents/history-consolidated.pdf>> accessed November 6 2024.
46. 'Insured Institution Performance' The FDIC Quarterly, [2024] (18) (3) 3-44 <<https://www.fdic.gov/quarterly-banking-profile/quarterly-banking-profile-second-quarter-2024#page=1>> accessed November 6 2024
47. Federal Deposit Insurance Corporation Act (12 U.S.C. § 1821(a))
48. FDIC Act, 1950 Section 1818(b) of 12 U.S.C. <<https://www.fdic.gov/federal-deposit-insurance-act>> accessed November 8 2024
49. FDIC Portal 'Overview of Resolution Under Title II of the Dodd-Frank Act' [2024] pp 5-45 The FDIC is continuously strengthening its contingency plans to address these large and complex financial institutions, which are subject to constant changes due to the introduction of new business lines, product risks, and the establishment of subsidiaries.
50. (Remarks by FDIC Chairman Martin J. Gruenberg to the Center for Financial Studies and Goethe Frankfurt: A Tale of Two Unions- Deposit Insurance in the United States and Europe on October 9, 2024) <<https://www.fdic.gov/news/speeches/2024/remarks-fdic-chairman-martin-j-gruenberg-center-financial-studies-goethe>> accessed November 6, 2024
51. From 2020 to 2024, 10 banks failed in the U.S including Silicon bank. <<https://www.fdic.gov/bank-failures/failed-bank-list>> accessed November 6 2024
52. The FDIC official website, 'Failed Bank Information for the First National Bank of Lindsay, OK <<https://www.fdic.gov/bank-failures/failed-bank-list/first-national-bank-lindsay>> assessed November 6 2024. On Friday 18 October 2024, the First National Bank of Lindsay collapsed. The FDIC was named the Receiver and the bank's insured deposits were transferred to First Bank and Trust Co., Duncan OK.
53. Joop Adema, Christa Hainz, Carla Rhode, 'Deposit Insurance: System Design and Implementation Across Countries' DICE Report [2019] (17) (1) 42-51
54. Panshak Ephraim Haggai, 'Deposit Insurance in Africa: A Veritable Mechanism for Depositor Protection' *Journal of Comparative Law in Africa* (2015) 2 (1) 101-110
55. James R Barth, Nguyen Nguyen and Jiayi Xu, 'Deposit Insurance Schemes' *Encyclopedia of Finance* [2022] 511-527
56. Kenya Deposit Insurance Corporation Act, 2012
57. Kenya Deposit Insurance Corporation Portal <<https://kdic.go.ke/deposit-insurance>> accessed April 15 2025
58. Deposit Insurance in South Africa is implemented by the Corporation for Deposit Insurance (CODI), a subsidiary of the South African Reserve Bank (SARB). The Corporation was established in 2018 as a risk minimizer DIS.
59. KDIC Annual Report of June 2018 <<https://kdic.go.ke/sites/default/files/2020-07/Annual%20Report%20and%20Financial%20Statements%20as%20at%20June%202018.pdf>> accessed April 15 2025
60. Beck T and Cull R, 'Banking the Unbanked: Formal versus Informal Financial Services in Africa' *Journal of Financial Economics* [2014] (114) (1) 125-145
61. *Ibid* n 536

62. Egbuna E & 3 Ors, 'Does Deposit Insurance Promote Moral Hazard and Adverse Selection? Evidence from Sub-Saharan Africa' *International Journal of Managerial Finance* [2018] (14) (2) 160-169
63. Hebert Kawadza, 'The South African Financial Safety Net: In Support of the Proposed Deposit Protection Framework' *South African Law Journal* [2018] 135 (3) 524-546
64. Malikha Shambe, 'An Investigation into the Role of Deposit Insurance in Kenya Banking Sector Stability' (A Management Research Project submitted at the University of Nairobi Kenya) [2003] 18-48
65. Leo Van Hove and Antoine Dubus, 'M-PESA and Financial Inclusion in Kenya: of Paying Comes Savings?'. *MDPI Sustainability Journal* (2019) 11 (568) www.mdpi.com/journal/sustainability accessed November 7 2024. M-PESA is a digital payment and value storage system introduced by Vodafone and Safaricom in 2007 in Kenya as one of Kenya's financial inclusion strategy. Customers subscribe at an authorised retail establishment and are allocated an electronic money account associated with their phone number. The M-Pesa enable subscribers to deposit and withdraw cash at retail establishments, compensated by Safaricom. They may execute financial transfers, settle invoices, and acquire mobile airtime credit, all sanctioned and documented in real time by secure SMS.