Bank Distress in Nigeria and the Nigeria Deposit Insurance Corporation Intervention

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Abstract
The Banking Sector has been relied upon by many household, small savers and industrialists to provide their financial assistance at one time or the other. While it is expected that they do this very well, banks have fallen short-off expectations in this respect due to fraud, mismanagement, inexperience and the initial absence of regulatory laws and authorities. People lost their trust and confidence in the banking system, which the government couldn?t afford. The government desirous to instill confidence on the banking system by the public put the Nigeria Deposit Insurance Corporation (NDIC) in place. The objective of this project work is to see how the NDIC through its various activities have been able to restore confidence in the banking system. Secondary data were primarily used for this work because of the peculiar nature of the research work. Correlation coefficient and r-test were used to test the relationship between the variables. It was discovered that due to the increase in deposit guarantee, there is an increase in deposit mobilization. It was also discovered that the NDIC has transmitted from the flat rate premium assessment system to a differential premium assessment system. It is therefore recommended that from time to time, the deposit cover should be reviewed in conformity with the happenings in the economy.

Index terms— bank failure, deposit guarantee, supervision, liquidation, public confidence, regulatory authorities.

1 Introduction a) Background to the Study

The Banking industry is so strategic to the economy that virtually everybody is a stakeholder. Banks act as lubricants of the economy and the custodians of the payment system. They therefore impact on every sector of the economy. Banks with high capital base perform their traditional role of banking by financing capital projects that is in the oil and gas sector.

Banks help in mobilizing savings through a network of branches. By mobilizing savings, the bank channels them into investments. Thus, they help in capital formation. Other roles performed by the banks in the economy include financing trade, agriculture, industry, consumer activities and they help in the implementation of monetary policies.

Despite the fact that there are so many sectors in the economy that depend on banking, banks in Nigeria are yet to realize their full potentials. Likewise the banking sector has a long way to go in playing its expected roles in development and growth of the economy. Despite the fact that the banking industry recorded a strong second fastest growing sector in the economy, the banking industry has not been performing their traditional role of banking but have been engaged in bad ways of practicing banking.

The importance of the financial sector of an economy, which comprises banks and non bank financial intermediaries, regulatory framework and ever increasing financial products in stimulating economic growth is widely recognized in the literature on development economics.

A banking system that is in crisis cannot therefore, carry out its intermediation role effectively as new lending comes to a halt, which is known as credit crunch. Two mechanisms can act; low capital adequacy ratios of banks and shortfall of liquidity.

b) The Rationale for the Establishment of NDIC The birth of NDIC was one of adverse circumstance like the much copied scheme in the United States of America, the Federal Deposit Insurance Corporation (FDIC), which started in 1993 following the banking crises that engulfed the American banking system. The crises led to the declaration of a banking holiday and severe disruptions of economic activities.

In the early 1980's assessment of the World Bank, seven Nigerian banks were found to be insolvent. Yet, the country had no mechanism to see to the orderly exit of the insolvent banks. The need to have a government agency to guarantee deposits of the failed banks and to handle the liquidation of such failed banks so as to avoid banking crises and instability led to the establishment of the NDIC in 1988.

Specifically, the reasons for the establishment of the NDIC are:

i. The lessons of history connected with the experience of prior bank failures in Nigeria. ii. The establishment of the NDIC was also informed by the approaches adopted in other countries to ensure banking stability. For example, Czechoslovakia which was the first to establish a nationwide deposit scheme in 1924 used the scheme to revitalize the country's banking system after ravages of the First World War. In addition, the scheme served to encourage saving by increasing the safety of deposits and ensuring the best possible development of banking practice in that country. Other countries that had deposit insurance schemes to protect depositors which Nigeria learnt from are India (1961/62), Phillipines (1963), United Kingdom (1979), France (1980), **??**enya (1985) and Sri Lanca (1987). iii. The Structural Adjustment Programme was introduced in 1986 with the aim of deregulating the economy. Since deregulation involved the liberalization of the bank licensing process, there was substantial increase in the number of licensed banks to be supervised by the Central Bank of Nigeria (CBN). The establishment of an explicit deposit insurance scheme with supervisory power over insured institutions was expected to complement the supervisory efforts of the CBN. iv. Prior to the establishment of the Corporation, government has been unwilling to let any bank fail, no matter a banks financial condition and/or quality of management. Government feared the potential adverse effects on confidence in the banking system and in the economy, following a bank failure. Thus, government established the corporation to administer the deposit protection scheme on its behalf and to serve as a vehicle for implementing failure resolution options on its behalf and to serve as a vehicle for implementing failure resolution options for badly managed insolvent banks. The functions of NDIC include the following-; i. Insuring all deposit liabilities of licensed banks and such other deposit taking financial institutions operating in Nigeria so as to engender confidence in the Nigerian banking system. ii. Giving assistance in the interest of depositors, in case of imminent or actual financial difficulties of banks particularly when suspension of payment is threatened and avoiding damage to public confidence in the banking system. iii. Guaranteeing payment to depositors, in case of imminent or actual suspension of payments by insured banks or financial institutions up to the maximum amount as provided for in section 20 of the Act. iv. Assisting monetary authorities in the formulation and implementation of banking policies so as to ensure sound banking practice and fair competition among banks operating in the country. v. Pursuing any other measures necessary to achieve the functions of the corporation provided such measures and actions are not repugnant to the objectives of the corporation.

2 c) Statement of Problem

The history of bank failure in Nigeria dates back to 1930 when the Industrial and Commercial Bank failed. Thereafter, the Nigerian Mercantile Bank failed in 1936 while the Nigerian Penny Bank failed in 1946 **??**Foluso, 1985). It is instructive to note that 21 out of the 25 indigenous banks that were established collapsed in quick succession due to bad management, inadequate capital, inexperienced personnel, excessive branch expansion, lack of banking regulation and unfair competition from foreign banks (Ajayi and Ojo 1981). Others included outright fraud, lack of acceptable prudential guideline and lack of right banking orientation among the operators. Most of the bank failures were resolved mainly through self liquidation.

These bank failures led to a significant loss to depositors, loss of confidence by the public in the Nigerian banking industry, loss of confidence also in the ability of Nigerians to manage banking business. The government was therefore apprehensive of banking operations. The Paton Commission of inquiry set up in 1948 by the government on the need and form of control required in the banking sector further exposed the precarious position of Nigerian banks.

This subsequently led to the first banking regulation in 1952 and the establishment of the Central Bank in 1958 to regulate and supervise the activities of banks in Nigeria. The emergence of the CBN introduced a regulatory framework into the financial system as part of the efforts by the government at promoting a sound financial structure and monetary stability in Nigeria.

The reforms introduced into the banking system from 1986(i.e the structural adjustment programme) generally led to a banking boom. This culminated in the establishment (proliferation) of new commercial and merchant banks, finance houses, primary mortgage finance institutions, and community banks. For example, at the beginning of the reforms in 1986, there were a total of 29 commercial banks and 12 merchant banks. Coincidentally, by 1994, there were a total of 66 commercial banks and 54 merchant banks. There was also an upsurge in the number of other financial institutions. By 1994, there were 752 registered finance houses, 879 community banks, 252 primary mortgage institutions and 271 people's bank branches in Nigeria (CBN1993, 1994). The above scenario resulted in increased and unhealthy competition in the industry, the discarding of all norms of prudent banking and the emergence of other destabilizing factors. The regulatory authorities were overstretched and distress set in, in the banking industry.

Due to the banking failures and distresses, public confidence in the banking sector waned with attendant comments like-"I will never keep my money in the bank again" "The CBN is not doing its work properly" "Is this how we are going to continue?" "This work is too much for the CBN alone" "ALL my hard earned money must not go like this". These and many more, governments concern for the protection of public deposit, the restoration of confidence in the banking sector and the financial Has the NDIC justified its existence-to restore, enhance public confidence in the banking sector? This is the crux of this research work.

3 d) Objectives of the Study

In the light of the above the objectives of the study include: i. To examine the situation of the banking system in Nigeria precedent to the establishment of NDIC. ii. To identify the causes of bank distress in Nigeria and its impact on the Nigerian economy through its four mandates. iii. To examine the roles/impact of the Nigeria Deposit Insurance Corporation in the reduction of bank crisis in the country.

4 e) Statement of Hypotheses

Three hypotheses were formulated to be tested:Ho 1 :

The NDIC through its deposit guarantee has not significantly enhanced public confidence through deposit mobilization in the banking industry.

Ho 2 : The NDIC through its supervisory and distress resolution functions has not significantly enhanced public confidence through deposit mobilization in the banking industry.

II.

5 Literature Review a) Introduction

A Deposit Insurance Scheme (DIS) is an arrangement whereby a designated agency (usually government owned) guarantees deposits in insured financial institutions. The guarantee is usually limited to discourage moral hazard, a situation where the financiers and depositors would care little about the safety of the deposits because such deposits are fully insured. Also, most DIS act as liquidators of failed insured institutions whilst some in addition act as supervisors of the insured institutions as well. It is noteworthy that in a DIS unlike in ordinary insurance, the insured institution pays the premium for the benefit of the depositors.

6 b) What is Bank Distress?

A bank is distressed when it cannot meet its commitments as they fall due. Such a bank either experiences illiquidity or insolvency. A bank is illiquid when it can no longer meet its liabilities as and when due; whereas a bank becomes insolvent when the value of its realizable assets is less than the total value of its liabilities. In such a case, owners' capital becomes negative. An illiquid bank may not be insolvent immediately. However, both illiquidity and insolvency are sources of worry for owners, management and the monetary authorities (Jimoh, 1992).

-Gross undercapitalization in relation to the level and character of business. -High level of non performing loans to total loans. -Illiquidity as reflected in a banks inability to meet customers cash withdrawals and/or a persistent overdrawn of position with the Central Bank. -Low earnings resulting in huge operational losses; and -Weak management as reflected by the poor asset quality, insider abuse, inadequate internal controls, fraud, including unethical and unprofessional conduct, squabbles, and a high level of staff turnover, among others.

In ordinary parlance, 'distress' connotes being in danger or difficulty and in need of help. It is a state of 'inability' or 'weakness' which prevents the achievement of set goals and aspirations. Distress can also be associated with a cessation of independent operations or continuance only by virtue of financial assistance from the banking system's safety net such as the supervisory regulatory agency or a deposit insurer. CBN / NDIC (1995) describes a distressed financial institution as 'one with severe financial, operational and managerial weaknesses which have rendered it difficult for the institution to meet its obligations to its customers, owners when due. c) Symptoms of Distress Ogunleye, (1993) cited in Donli, (2004) gives the most common symptoms of bank distress in Nigeria as follows: Late submission of returns to regulatory authorities, falsification of returns; rapid staff turnover; frequent top management changes; inability to meet obligations as and when due; persistent adverse clearing position; borrowing at desperate rate; persistent contravention of laid-down rules; use of political influence; petitions / anonymous letters; and overdrawn current account position at the CBN.

According to Kama, (2010) the features of bank distress includes: i. Bad Debt/Loan When banks or a bank begin to have more irrecoupable loan popularly called bad debt, it is a sign of bank distress. And if the bank allows the percentage of the irrecoupable loan to increase, then such bank goes distress. All the banks should watch out when giving out loans.

ii. Loss of Customers (Patronage) When a bank on a continual basis keeps loosing its customer, it is a sign of distress for such a bank. For example, any customer that leaves a bank (i.e. closes his/her account with the bank), the liquidity of such banks reduces and if the bank allow the According to Alashi, (2002) a bank is said to be in severe crisis when a bank shows most or all of the following: percentage of loosing customer to be great, it may be named a distressed bank.

iii. Going to the capital market more than once in a year All things being equal, a bank should not go to the capital market more than once in a year, so as to give investors and customers a great deal of confidence in the bank. Going to the capital more than once a year shows that banks do not have effective management and it is a sign of being distressed.

7 iv. Loss of Good Staff

For any organization to strive well, it must be equipped with good working staff. Therefore, if a bank lacks good staff there is the possibility of an improper search before facility is given to any customer.

8 d) Causes of Banking Sector Distress

Various authors like Ojo (1994), Olugbon (1994), Ebhodaghe (1993 ??bhodaghe (, 1994)), ??anusi (1997), CBN/NDIC (1997), amongst others, have clearly articulated various factors responsible for the high level of distress in the banking sector which came to a climax in 1998 with the liquidation of 26 commercial / merchant banks in one fell swoop.

Prior to the liberalization of the financial sector in 1986, the Nigerian banking industry was highly regulated. Banks were expected to perform developmental roles by the CBN through the provision of subsidized credit to the priority sectors which some of them were ill equipped to perform. Moreover, most of the loans granted to the priority areas were not repaid; there fore, this worsened the liquidity position of these banks (Ebhodagbe, 1997). In addition, the series of government monetary policy measures in 1988 and 1989 respectively coupled with government directives on the withdrawal of public sector deposits from commercial and merchant banks to the Central bank led to the liquidity crises in 1989.The implementation of the withdrawal of public sector deposits resulted in about N8.27billion deposit loss to the banking system (NDIC 1989). This consequently exposed the weak banks and exacerbated their liquidity problems. These policy measures were counter productive and consequently led to the collapse of many banks in 1994, 1995 and 1996 respectively.

A dramatic increase in uncertainty in the banking sector, due largely to the failure of a prominent bank or non-financial institution, a recession, political instability, rumors of instability in the sector or stock market crash, makes it difficult for lender to separate good from bad risk. The rise in uncertainty therefore is capable of making information in the banking sector even more asymmetric and may worsen the adverse selection problem and these will make lenders unwilling to lend thereby precipitating to a decline in lending, investment and aggregate economic activity.

Poor risk management procedures, ignorance and noncompliance with rules, laws and regulations, technical incompetence, violation of regulations, policies, procedures guidelines, unhealthy competition and weak internal control and operational procedure lead to banking crisis. Banks that have proper risk management and internal controls as well as a well focused strategic objective are likely to operate normally even in the face of turbulent situation.

Weak corporate governance, particularly insider abuse and contravention of supervisory regulatory provisions and overbearing directors' interest in loans and advances or any credit facilities are major causes of banking crisis, especially in a developing country like Nigeria.

Fraud refers to an act of dishonesty, deceit and imposture. It includes embezzlement, theft or an attempt to steal or unlawfully obtain, misuse or harm the asset of the bank (Bank Administration Institute, (1989) cited in Ogunleye, (2000).

Bank frauds vary in nature, character and methods of perpetration. Fraud can be perpetrated by employees, customers or others operating independently or in conjunction with others, inside or outside (see Ogunleye, 2000 and NDIC Quarterly, 1991 for causes and types of fraud).

Emperical evidences have shown that many of the banks in liquidation have suffered a great deal of fraud. Some banks recorded monumental losses due to fraud, which rocked the foundation of these banks. For example, the sum of N8.2billion was involved in bank frauds between 1991 and 1996 (Umoh, 1997). In 1999 alone, the sum of N7.4billion was the reported fraud, while an actual loss of N2.7billion was expected (Ogunleye, 2000). A great deal of the frauds perpetuated in 14 liquidated banks were due to insider abuse (Afolabi, 2002).

Political interference and ownership structure is another source of distress in the banking industry. Ownership structure of a bank has a direct bearing to its survival. The overbearing influence of particular director of the board and management of a bank could result in frequent boardroom crisis and the breakdown of internal controls precipitation to banking crisis and may eventually lead to the failure of the bank (Kama 2010).

e) The Nigerian Experience Two broad types of resolution options have been adopted in Nigeria so far by the regulatory/supervisory authorities to resolve the distress:

? Outright liquidation (deposit pay-out) and ? The Purchase and Assumption (P&A) options (assisted mergers and acquisitions). Other resolution options adopted in Nigeria will also be discussed. Under this option, the entire assets and liabilities of the affected banks are placed under the control of the liquidator (NDIC) who would arrange to physically close the bank. NDIC then verifies the assets and liabilities of the bank and exercises control over all its moveable assets. Under Nigeria's deposit insurance scheme, each customer's account is insured up to a maximum N200.000 (two hundred thousand naira) between 2006 and 2009. In 1998, 26 banks with 347 branches spread over 32 states and Abuja were closed down and faced liquidation under the NDIC.

9 ii. Purchase and Assumption (P&A) Model

The basic characteristics of this option is the purchase of the whole or part (cherry-picking) of the assets of a failed bank by a healthy (assuming) bank and the assumption of the deposit liabilities of the failed bank by the same bank. The P & A option has featured prominently in the history of bank failure resolution in Nigeria. Following the conclusion of the bank consolidation exercise at end -December 2005, 13 banks that failed to make it were handed over to the NDIC for liquidation. The P&A model has since been adopted by the corporation for their liquidation. As at end-December 2009, 11 out of the 13 affected banks had been assumed by some healthy banks.

Other bank resolution options adopted in Nigeria included:

iii. CBN Bail-Out using Guarantees This option was applied by the CBN during the late 1990s for some of the ailing banks. For instance, at the inauguration of one of the affected bank's new board and management, the CBN gave a commitment that it was fully behind the bank and would honour all cheques drawn on it. Further guarantees were given to other healthy banks, which enabled those banks to provide life-boat facilities to the affected banks. Unfortunately, this option did not stop the run on these banks.

10 iv. CBN/NDIC Controlled Restructuring (Open bank assistance)

This option implies taking over the board and management of a bank by the CBN and NDIC in order to restructure the bank and run it profitably. The hope is that the cream of professionals selected jointly by the CBN and NDIC would be able to turn the bank around within a short period of time and return the bank to the owners. This was variously used by the Bank in the late 1990s and recently when about eight (8) banks had problems. In most cases, this option worked out as some of the affected banks were resuscitated, while in other cases the resuscitation efforts proved abortive. In most of the failed cases, the banks had forwarded falsified financial reports to the regulatory authorities to cover up its fraudulent practices which were already beyond redemption.

One of the recent policy actions taken to strengthen the reform process was the creation of Asset Management Corporation of Nigeria (AMCON). The AMCON as a resolution vehicle is to soak the toxic assets of the CBN-intervened banks and provide liquidity to them as well as assist in their capitalization process.

11 III.

12 Research Methodology

Secondary data were used mostly for the study. This is because the issue of discussion covers the entire nation. It might be difficult to generalize, using Anyigba or even Kogi State. As such, data will be sourced from the annual report and statement of Accounts of the Nigeria Deposit Insurance Corporation (NDIC), News paper publications, Business magazines, textbooks e.t.c. This is considered averagely sufficient to produce robust results.

The four mandates of the corporation were covered. While the years 2001 -2009 were covered for mandate 1, the years 2007 -2009 were covered for the mandates 2-4. This is to make for easy generalizationsince the result obtained will be sufficient to draw up conclusions which can be used for generalization. Not only that, in any year, cumulative figures of previous years used. So in the three years used, we are able to get the figures for the previous years.

13 a) Methods of Data Analysis

In this research, two data analysis methods will be employed; inferential statistics and descriptive method. In literature, the parameters that are relevant in explaining public confidence in the relevant in Nigerian Banking system covered the four mandates of the Nigerian deposit insurance corporation (NDIC). These include:? Deposit guarantee ? Bank Supervision ? Distress Resolution ? Bank Liquidation

To achieve this, quantitative analysis involving the use of sample linear regression analysis, were timeseries and cross-sectional observations will be combined to generate the coefficients of each relevant explanatory variables.

Key indicator or relevant variable in explaining Bank public confidence is Total Deposit of Banks (TDB) and its relationship with NDIC Insurance cover i.e (it examined to see the effect of the insurance cover on public confidence in the Nigerian banking industry.

Thus, based on the above theoretical underpinnings, the estimating Bank public confidence equation is expressed as follows: Coefficient of correlation will be used to ascertain the strength of the relationship between the dependent and independent variables.

T-test will be used to best whether the relationship between the dependent and the independent variables are statistically significant or not. (i.e Hypothesis Testing).

Moreso, Analysis of variable (ANOVA) inferential statistical techniques will also be used to test the hypothesis postulated for the study.

14 b) Data Presentation and Analysis

NDIC has four mandates. The data presented and analysed are along the mandates given to the corporation in order to know whether through their mandates, they have been able to enhance public confidence in the banking system. The four mandates are: i. Deposit Guarantee This is perhaps the most significant and distinct activity of the corporation. As an insurer, NDIC guarantee the payment of deposits up to the maximum limit in accordance with its statute in the event of failure of an insured financial institution ii. Banking Supervision The Corporation supervises banks so as to protect depositors; foster monetary stability, promote an effective and efficient payment system, promote competition and innovation in the banking system.

iii. Failure Resolution This is to ensure that failing and failed institutions are resolved in a timely and efficient manner. In other words the corporation provides financial assistance to deserving failing participating institutions in the interest of depositors.

15 iv. Bank Liquidation

The institution is responsible for the orderly and efficient closure of failed institutions. The closure is done with minimal disruptions in the banking system. After closure, the assets of the failed institutions are realized in the most cost effective manner and the proceeds appropriated among the various claimants in accordance with the relevant laws.

16 c) Deposit Guarantee

In 1988, when Deposit Insurance scheme (DIS) was established in Nigeria, the Maximum Deposit Insurance Cover (MDIC) as specified in the enabling statute was N50, 000 per depositor. Then, that amount covered more than 90% of the total number of depositors and was 28times the prevailing per capital GDP. **??**NDIC, 2007). In 2004, a study was done to review the adequacy of the initial MDIC. The result showed that the average deposit per account in the 89 banks in operation stood at N115, 136. In addition, the deposit profile of the banks showed that the MDIC would have to be increased to N200,000 per depositor in order to achieve the generally accepted coverage of 90% total number of accounts. Then, the statute establishing the NDIC was amended in 2006 with a new MDIC of N200,000 (Universal Banks) while depositors of other insured banks will enjoy MDIC of N100,000 per depositor. The deposit cover has been increased to N500,000.

When it was N200, 000, about 89% of the total number of depositor or (23,403,774 depositors) were covered as against 77.6% or 16,971,986 depositors under the older MDIC of 50,000.

Effective 2008, microfinance banks were also brought under the deposit insurance scheme to effectively cover the small or micro savers. As seen from chart 1 above, at the limit of N200,000, about 23million depositors were covered as against 17 million depositors under the old MDIC of 50,000.00. (Bank public confidence equality) From the result of the bank public confidence equality above, it revealed that change in the dependent variable (Total Deposit of Banks) wish respect to change in the independent variable (NDIC insurance cover) is positive. This is stated below:?TDB = 36.4 ?IC

This means that the dependent variable (Total deposit of Banks) is directly related to the independent variable (NDIC Insurance cover).

The pearson product moment coefficient (r) is 0.842. This means that there is strong positive relationship between the dependent variable (Total deposit of Banks) and independent variable (NDIC Insurance cover).

The coefficient of determination (R-squared) is 70.8%. This means that 70.8% variation in the dependent variable (Total Deposit of Banks) is explained by the independent variable (NDIC Insurance cover) and only 29.2% of the variable in the dependent variable is explained by disturbance term or error term. This disturbance or error terms are global economic meltdown, low liquidity of banks, bank distress, small size of some commercial banks e. t. c.

The adjustment R-squared of 67.2% also high and very close to the original R-squared of 70.8%. f) Testing For The Statistical Significance At 5% H0 : bB = 0 Hi : bB ? 0 Ho : There is no significant relationship between Total deposit of Banks and NDIC Insurance cover.

From the result in bank public confidence equation above, the t calculated = 4.41.

IV.

17 Decision

t0.05 at (10-2) 8 degrees of freedom = 2.306 t-calculated is greater than t0.05. The deference is significant, therefore H0 is rejected and H1 is accepted, meaning that bB is not equal to zero. This means that there is significant relationship between Total Deposit of Banks and NDIC Insurance cover.

In addition, Analysis of variance (ANOVA) shows that there is significant relationship (p-value < 0.05; p=0.002) between Total Deposit Banks and NDIC Insurance cover. a) Banking Supervision Banks are supervised to protect depositor, ensure monetary stability and promote an effective and efficient payment systems. It provides the oversight required to preserve the integrity of, and promote public confidence in the banking system (Table2).

18 Discussion of Findings

From the data analysis and the narrations to the data and other activities undertaken by the NDIC, there were many findings as seen in the summary of findings in chapter four. We shall now go ahead to discuss the findings as outlined. a) Maximum insurance coverage was fixed at N50,000 at inception in 1988. It was however increased to N200,000 in 2006 and N500,000 in 2010.

At the limit of 200,000 in 2009, about 89% of the total number of depositors or 23,403,774 deposited were covered as against 77% or 16,971,986 depositors under the old MDIC of N50,000.

The increase in the deposit cover can be said to have enhanced confidence in the banking sector. When the amount was N50,000, the average total deposit of banks between 2004-2005 and 2005-2006 rose by 37%. When the rate was increased in 2006 to 200,000 average total depositors of banks was 59.5%. This has gone a long way to show peoples enhanced confidence in the banking system i.e through increased total deposit of banks. b) The purchase and assumption mechanism was introduced to lessen the consequence of outright liquidation on the depositors. Under the P and A arrangement the corporation had disposed off 10 out of the 11 banks for which it had been appointed liquidator. In 2008, the corporation had resolved all the eleven banks for which it had been appointed liquidator. c) As at the end of 2009, NDIC had paid the sum of N84,249,699,499.93 to both insured and uninsured depositors of the 49 banks in liquidation. This amount would have been lost if not for the insurance activities of the corporation. This money has found its way to the economy and productive use is being made of it in the form of investment to generate employment and income. d) Many examinations were carried out by the NDIC on the universal banks. They included routine target special examination; special investigation, joint CBN/NDIC investigations were also carried out. The examinations revealed many things including the following: inaccurate finance reporting, deliberate falsification of income, failure to implement effective risk management framework, inadequate provisioning for bad quality assets, excessive insider dealing and abuse, reckless and fraudulent management, extremely weak boards that lacked proper understanding of what was happening in their respective banks. e) The findings of the joint special examination gave rise to unprecedented regulatory intervention which included, among others, the removal of the executive management in 8 of the 24 banks and the appointment of new ones, the injection of liquidation support in the sum of N620 billion to strengthen the liquidity position of the banks, in order to meet their obligations to their depositors and the by enhance public confidence. There was also order on two banks to recapitalize by June 2010.

VI.

19 Summary of Findings

From the data analysis and the narrations to the data and other activities undertaken by the NDIC, there were many findings as seen in the summary of findings in chapter four. We shall now go ahead to discuss the findings as outlined.

20 Conclusion

Nigeria experienced bank failures starting from as early as 1930 when the industrial and commercial banks failed. Subsequently, many other banks failed. In 1954 alone, 17 banks failed. The reasons for the failures are not far fetched. They included unfavourable competitive environment, the absence of a supervisory and regulatory authority, outright fraud etc. These led to the loss of confidence in the banking system and the monetary authorities because people lost their hard earned money.

The government, in an attempt to restore the people's confidence in the banking system introduced a deposit insurance scheme, the Nigeria Deposit Insurance Corporation (NDIC) in 1988. The scheme was to give relief to depositors in case of the unexpected failure of a bank.

The NDIC worked through four mandates in order to achieve its objective properly i.e. protection of depositor's funds. They are deposit guarantee, bank supervision, distress resolution and bank liquidity / claim settlement. Even though these were the broad mandates, the NDIC engaged also in various publicity activities to enhance public confidence in the banking system.

There is no doubt that the NDIC has enhanced people's confidence in the banking system. The parameter used (-bank deposit) shows a positive correlation between deposit guarantee and bank Because, there is deposit guarantee, there's increase in bank deposit and when the deposit guarantee increased, bank deposit also increased. This can be explained by the fact that the DNIC pays not only the insured depositors, it also pays uninsured depositors.

21 VIII.

22 Recommendations

It is an indisputable fact that the NDIC has contributed immensely to restoring public confidence in the Nigerian banking sector it has also paid depositors of insured deposit their claims in the events of bank failures. Not only that, it has also paid uninsured depositors their claims -thereby bringing stability to the financial system. These are (no doubt) commendable achievement -as money that could have been lost is paid to their owners.

22 RECOMMENDATIONS

These not withstanding, the NDIC could do more. The job of efficient deposit guarantee is not only the duty of NDIC. Everybody is an active participant. For the NDIC to perform its duties more efficiently and be relevant to all the stakeholders, the following are recommended-: -Depositors should file their rightful claims as at when due in case of banking failure. This will assist the corporation to process their claims and pay them on time. -There is also the perennial issue of unreliable returns being received from the supervised institutions. These returns are obviously rendered to hide whatever difficulties the banks might have. Banks should render the correct return so that the corporation can detect and help them solve their problems before it becomes unresolvable. The correct returns will also help detect early warning signals through an analysis of such returns.

-Every bank should also undertake (as a matter of necessity) to update their data providing mechanisms. This is because there were breakdown of servers containing database of the closed banks which constrained access to vital information when the need arose after the bank failures. -NDIC should also undertake to employ more supervisory staff. This is necessary because of the complexity of the job of supervision and the need to do it more regularly. If this is not done, billions of depositor's funds could be lost in just a day or two due to inadequate supervision. [1]

Figure 1:

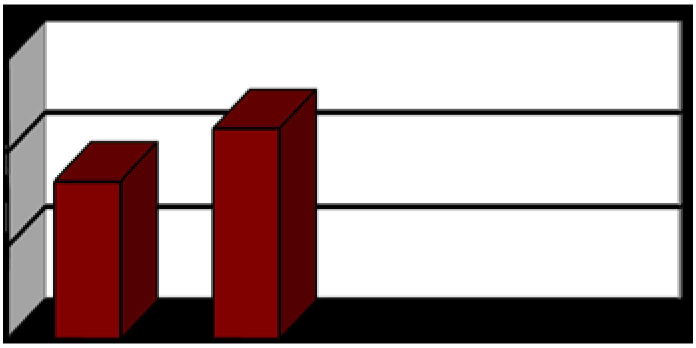

Figure 2: Global

2

Year	Routine Examination	Target Examination	Special Examination	Special Examination	Joint CBN/ND Investigat
2006	6	-	11	14	-
2007	10	-	20	1	1
2008	2	6	25	-	1
2009	-	-	28	24	-

Table 3 : Microfinance Banks (MFBs) & Primary Mortgage Inst

Year	No. of CBs/MFBs Examination	No. of PMIs Examination	TOTAL
2005	67	47	114
2006	110	22	132
2007	95	30	125
2008	68	4	72
2009	124	9	133

CBs -Community banks, MFBs -Microfinance banks

Source : NDIC Annual Report and Statement of Accounts,

In 2009, NDIC continued to monitor the insured financial institutions, through both on-site examination and off-site surveillance procedures. During the year, NDIC Jointly conducted the special examination of 24 deposit money banks with the CBN to ascertain their true financial condition and to enable the regulatory authorities adopt necessary supervisory measures that would RESTORE AND SUSTAIN PUBLIC CONFIDENCE IN THE BANKING SYSTEM.

Figure 3: Table 2 :

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