Deposit Insurance: A Review of Concepts, Principles and Implications on the Nigerian Financial System

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Abstract

A deposit insurance scheme is a vital element of any financial safety net in financial system. And for the scheme to attain its objectives, it should be properly designed, well implemented by regulators and properly comprehended and digested by the public. Hence, the need for the paper to review concepts, principles and implications of deposit insurance on the Nigerian financial system. The paper highlighted the fundamentals of deposit insurance scheme with an emphasis on the Nigeria Deposit Insurance Corporation (NDIC). Using desk research method, it was found that an effective deposit insurance scheme plays a significant role in contributing to the stability of financial system and the protection of depositors. Furthermore, both explicit and implicit deposit insurance schemes usually co-exist, most especially in times of financial crisis. Consequently, the third kind of deposit insurance scheme may be inferred to exist in reality. This third type could be termed hybrid deposit insurance scheme. The study, therefore, suggested that government should encourage hybrid deposit insurance system, a system where both governments allow the financial system to operate explicit deposit insurance scheme without neglecting the vital role of the implicit system of deposit insurance. Similarly, the government should place premium and continue to intensify efforts at creating an enabling environment not only for the deposit insurer to strive but for other elements of financial safety net.

Keywords: Deposit Insurance, Financial System, NDIC, Financial safety net and Regulators

Introduction

The financial intermediation activities of banks and other deposit-taking institutions involve various risks. For instance, the hard-earned savings of depositors with banks may be lost in case of financial crisis and distress of a bank as well as the entire banking system. To counter this phenomenon, a system, called Deposit Insurance System (DIS) has been put in place by the government to avert this financial loss, instil public confidence in the financial system by promoting financial soundness and stability. It has been noted (Nolte and Khan, 2017; Bretschneider and Benna, 2017), that an effective DIS constitutes a vital element of the financial sector. This is because it ensures the safety of the entire banking system and its deposits as well as inspires confidence in the system by providing safeguards against any shock in the system. According to Nolte (2016), a DIS is an integral part of the financial safety net designed to protect depositors against the loss of their insured deposits in the event that a bank is unable to meet its obligations to its depositors, and also promotes financial stability by preventing bank runs. Bank runs, being a feature of banking crisis, refers to situations which arise when a large number of banks' customers voluntarily and hurriedly withdraw their deposits with the banks, with the conviction that the banks will fail (Igoni, 2013).

The introduction of DIS can be more successful when a nation's banking system is healthy (Financial Stability Board[FSB], 2001). However, bank failures have been caused by factors such as mismanagement, inadequate capital, fraud and corruption, political interference, bad loans, lack of regulation and unfair competition, macro-economic instability, lack of deposit insurance, lack of transparency, lack of skillful and experienced personnel **(**Babalola, 2011; Egbo, 2012; Abe, 2012). Other reasons for bank failures, advocated by Ademola et al (2013) include outright fraud, lack of right banking orientation among the operators and lack of acceptable prudential guidelines. It is evident that one of the cardinal reasons for bank failures documented in pieces of literature (Egbo, 2012; Abe, 2012; Marshall, 2017), is a dearth of adequate regulation. According to Hirshleifer (2007)'s psychological attraction theory of regulation, as a reaction to public outcry for more regulations and the simultaneous reaction by the government, various regulations were put in place and current ones strengthen, to avoid financial instability occasioned by bank failures. One of these regulatory/supervisory tools is the deposit insurance system. As documented by FSB (2001), for a DIS to be credible, it should be properly designed, well implemented and understood by the public. It also needs to be supported by strong prudential regulation and supervision, sound accounting and disclosure regimes, and the enforcement of effective laws.

Various studies have revealed the positive impact of deposit insurance scheme on bank stability (Nwakoby, Onwumere, Ibe and Okanya, 2016; Wilson and Ogar, 2018). However, in real life, there are still cases of bank runs/ distress and instability. There may be many reasons that account for this ugly scenario. But looking at from the perspective of regulatory tool employed, especially as relating to Deposit Insurance (DI), do we say the issues arise from the design or implementation or understanding by the public? It can be said that if there is a knowledge gap on the part of the general public on the designed, proper implementation and clear understanding of DIS, definitely, the DIS may not be able to achieve the objectives of its creation. Hence, the scheme, which plays an important role in the framework for managing bank failures (Baudino, Defina, Real, Hajra, and Walters, 2019), needs to be properly understood, digested and applied by the financial community, most especially the general public. An attempt in demystifying deposit insurance is considered necessary so to educate the financial community, especially the public in a bid to closing any knowledge gap. Thus, the kernel of this study is to review concepts, principles and implications of deposit insurance on the Nigerian financial system. The review highlights grey areas that will further bridge the gap between theory and practice. Similarly, it provokes further theoretical and empirical investigation concerning DIS. The rest of this paper is further divided into five sections as follows: conceptual issues, Nigeria Deposit Insurance Corporation (NDIC), principles of effective deposit insurance, implications of deposit insurance on the Nigerian financial system, and finally, conclusion and policy suggestions.

Conceptual Issues

Deposit insurance system: Deposit insurance is a financial guarantee scheme put in place as a measure of safety and protection for the banking system as well as for the protection of individual depositors (Demirguc-Kunt and Detragiache (2002), as cited in Wilson and Ogar (2018). In addition, Nolte and Khan (2017) and International Association of Deposit Insurers [IADI] (2014) also defined deposit insurance as a system of insurance put in place to protect depositors against the loss of their insured deposits in the event of a bank's failure to honour its obligations to the depositors.

According to IADI (2014), a deposit insurance system means the deposit insurer and its relationships with the financial safety-net participants that support deposit insurance functions and resolution processes. In other words, a DIS refers to the suite of specific functions which entails the provision of protection to bank depositors, and their relationship with other financial system safety net participants, geared towards financial stability. An effective DIS is an important pillar of the financial safety net and plays a key role in contributing to the stability of the financial system and the protection of depositors. A financial safety net typically consists of prudential regulation and supervision, the emergency lender of last resort, problem bank insolvency frameworks, and deposit insurance (FSB, 2012). The financial safety net is normally composed of the deposit insurance function, prudential regulation and supervision, and the lender-of-last-resort function (FSB, 2001). In its basic form, the financial safety net could be depicted as in figure 1.

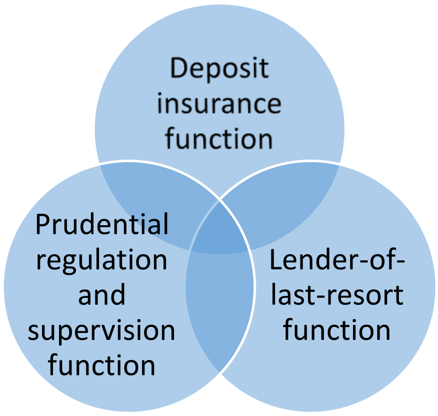

Figure 1: Basic Elements of the Financial System Safety Net

Source: *Authors' compilation from the literature, (2020).*

In Nigeria, the deposit insurance function is the sole prerogative of the NDIC, while the lender-of-last-resort function rests solely on the Central Bank of Nigeria (CBN). The prudential regulation and supervision roles are shared between the CBN and the NDIC. The diagram in Figure 1 depicts the safety net in its simple form. Other two functions included by Bernet and Walters (2009) in their models, are the bank insolvency/resolution law and, cooperation and resolution processes. While the former provides the framework for insolvency as well as a resolution of distressed banks, the latter entails efficient communication and cooperation among members of financial safety net. However, that a safety net can only deliver its protective function if every element carries out its functions efficiently, and ultimately, the financial safety net is only as strong as its weakest element (Bernet and Walters, 2009).

Types of Deposit Insurance: Basically, there are two kinds of deposit insurance schemes a country can embrace, namely, explicit deposit insurance and implicit deposit insurance. More so, Izaguirre, Lyman, McGuire and Dave (2016), explain that explicit deposit insurance is a system, where the cost of protecting deposits is largely borne by the financial industry and its customers. The government gives only back-up guarantee to make such protection credible and reliable. As asserted by FSB (2001), the law formally specifies explicit deposit insurance systems and there are specific rules governing insurance coverage limits, the types of instruments covered, the methods for calculating depositor claims, funding arrangements and other related issues.

Implicit deposit insurance, on the other hand, refers to a system where there is an implicit expectation that the government will step in to protect all depositors or even all creditors of a depository institution (Izaguirre *et al*, 2016). Implicit protection that arises when the public, including depositors and even other creditors expect some form of protection in the event of a bank failure. Implicit protection is not formally specified but is expected by the public as a result of the government's past behaviour or statements made its officials (FSB, 2001).

Differentiating between the two, Bernet and Walters (2009) explained that, an explicit deposit insurance scheme is formal deposit insurance scheme where the guarantee promise is always explicit, usually secured by contract, and guarantee promises are often based on governmental declarations unlike in implicit deposit insurance where guarantee promises are based on the public assumption, without any formal codification and explicitly stated terms of contract.

In actual fact, and most especially in times of financial crisis, both explicit and implicit deposit insurance schemes usually co-exist (Bernet and Walters, 2009). Consequently, the third kind of deposit insurance scheme may be inferred to exist in reality. This third type may be termed hybrid deposit insurance scheme. Figure 2 depicts the three types of deposit insurance systems.

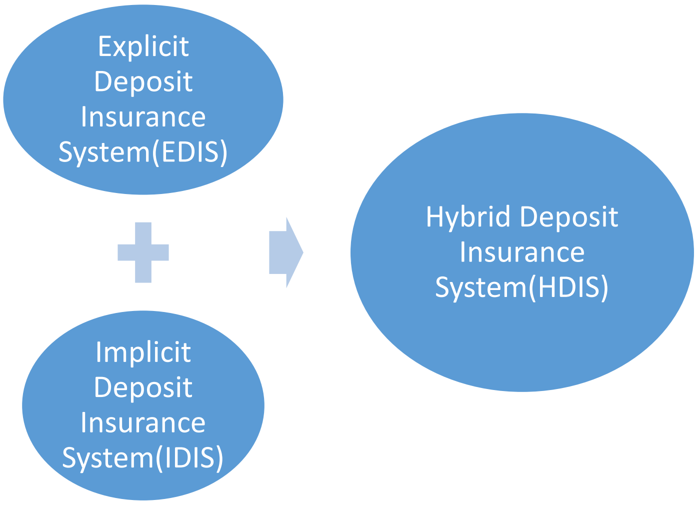

Figure 2: Types of Deposit Insurance Systems

Source: *Authors' formulation from the literature, (2020).*

Figure 2 depicts that, in addition to the two popular forms of deposit insurance (explicit and implicit), a third type, which combines the features of two, which could be termed 'hybrid deposit insurance' exists. The Hybrid Deposit Insurance System (HDIS) involves the operation of both implicit and explicit DIS, simultaneously. In practice, Bernet and Walters (2009) argued that, with explicit guarantee systems, implicit guarantee promises are also usually present. Therefore, three types of DIS, which exists in the financial system, are explicit deposit insurance (also called formal deposit insurance), implicit deposit insurance (otherwise known as informal deposit insurance) and hybrid deposit insurance (a fusion of both formal and informal deposit insurance system).

General Characteristics of Deposit Insurer: Presented in table 1 are general characteristics of deposit insurer.

Table 1: General Characteristics of Deposit Insurer

S/N	Concepts	Characteristics
1	Mandate	The mission of a deposit insurer is to protect bank depositors upon a bank failure
2	Liabilities	The deposit insurer remains a creditor of the failed bank's estate for years. Additionally, a deposit insurer may be called to finance the use of other resolution tools, as long as its contribution does not exceed the net cost of reimbursing depositors.
3	Funding	A robust funding structure (internal funding from premiums collection, and investments, as well as and external funding like borrowing from the government, capital market,) is key for any deposit insurer.
4	Internal funding	IADI Core Principles recommends ex-ante funding also called pre-funding for an effective deposit insurance system. Pre-funding here means the regular collection of premiums with the aim of accumulating a fund to meet future liabilities. Ex post-funding (or post-funding) on the other hands, refers to collecting extraordinary premiums from surviving banks after a bank failure.
5	Taxation	Taxation of the revenues of a deposit insurer (whether they are premiums or investment income) is generally not recommendable and it is absolutely necessary.

6	Investment activities	Deposit insurance funds (DIF) are generally held in low-risk, highly liquid assets and marketable securities in order to preserve capital and ensure the liquidity of the investment
7	Monopoly	There is usually only one deposit insurer in a country. Multiplicity is not desirable.

Source: *Authors' compilation from the literature, (2020).*

How a Deposit Insurance System Work: The *modus operandi* of a typical DIS is explained by Nolte (2016). This is depicted diagrammatically in figure 3 as follows:

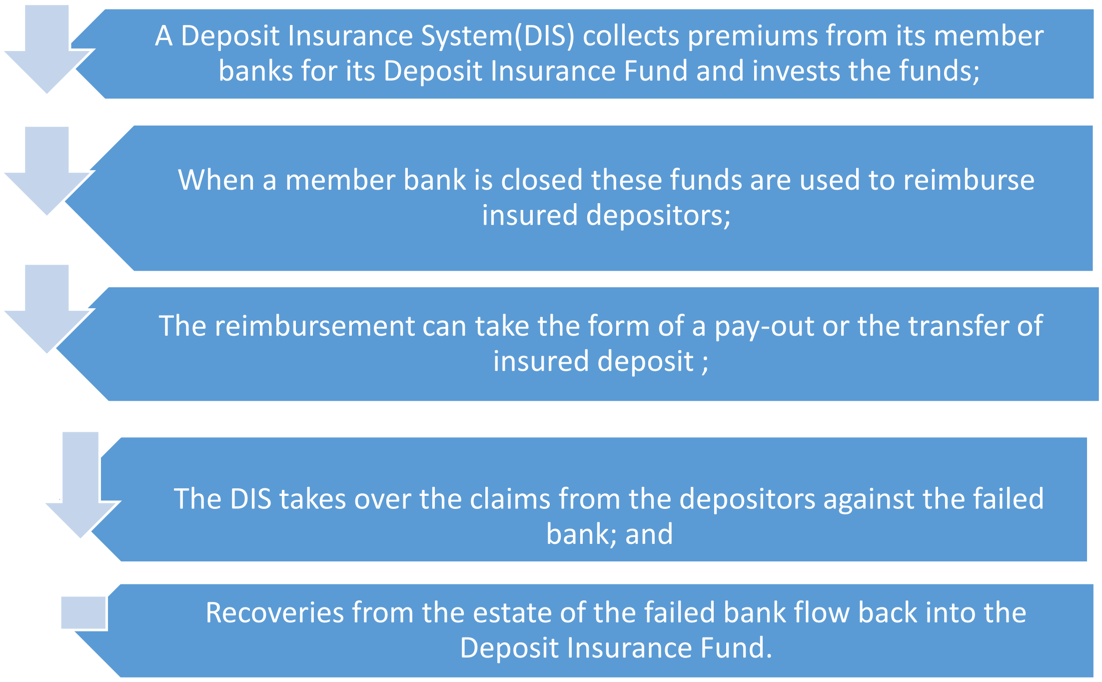

Figure 3: Workings of a Deposit Insurance System in Nigeria

Source: *Adapted from Nolte (2016).*

The above scheme of activities does not work as simple as the design, there is a complex web of factors and requirements needed for effective deposit insurance. Bernet and Walters (2009), pinpointed some of the requirements to include: financial stability, fair competition, originator orientation, incentive compatibility, regulation of powers, simplicity and transparency, cost-efficiency, independency, responsibility/accountability, and reasonability. If this system (DIS) will work, it, therefore, means that the government should place premium and continue to intensify efforts at creating an enabling working conditions/environment not only for the deposit insurer to strive but for other element s of the financial safety net.

The Nigeria Deposit Insurance Corporation

A deposit insurer is being defined as the specific legal entity responsible for providing deposit insurance, deposit guarantees or similar deposit protection arrangements (IADI, 2014). Historically**,** the practice of deposit insurance system, in Nigeria commenced with the promulgation of Decree No. 22, of 1988, now repealed and replaced with NDIC Act No.16 of 2006, which established the corporation. The NDIC is a federal government agency in Nigeria vested with the responsibility of implementing the DIS. The NDIC started operations in March 1989 with the primary mandate of deposit guarantee. Additionally, the corporation undertakes the supervision of insured financial institutions to ensure their safety and soundness. Similarly, it handles the failure of a distressed insured institution in a manner that it does not have adverse effects on the operations of healthy banks (NDIC, n.d.).

Reasons for NDIC: Literature revealed that the basic two public policy objectives of deposit insurance are consumer protection and promotion of financial stability (Isaac, 1984; FSB, 2001; Bernet and Walter, 2009; Izaguirre *et al*, 2016; O'keefe and Alexander, 2017; Bretschneider and Benna, 2017; Baudino *et al*, 2019). Consumer protection objective is concerned with protection banks' customers from the negative consequences of bank failure by reimbursing them of the insured deposit. Financial stability objective of deposit insurance relates to the protection of the whole communities, states, and the nation against the negative economic effects of wide-spread bank failure. However, Ademola *et al* (2013) stated that generally, the four mandates of NDIC are deposit guarantee, bank supervision, distress resolution, and bank liquidation.

Specifically, the NDIC was established for the following specific reasons as submitted by Ademola et al (2013) as follows:

i). to counter the historical experience of bank failures in Nigeria;
ii). to follow the pattern in other countries to ensure banking stability.
iii). To complement the supervisory efforts of the CBN.
iv). to administer the deposit protection scheme on its behalf and to serve as a vehicle for implementing failure resolution options on its behalf in order to restore public confidence in the banking system.

Functions of NDIC: The functions of NDIC, as enshrined in Section 2(1) of the NDIC Act 2006, are as follows:

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 the 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 in order to ensure sound banking practice and fair competition among the various banks operating in the country, and

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

Furthermore, Bernet and Walters (2009) group these functions into five, namely, confidence function, protection function, a security function, financing function and Support function.

In terms of funding, source of finance for NDIC are basically from premiums paid by insured institutions; income from the investments of the corporation; monies borrowed from any source with the approval of the Board; and monies from any other source as may be approved by the corporation. The Corporation, has the power to establish a separate Deposit Insurance Fund (DIF) for each category of the insured institution in which all assessed premiums paid shall be deposited and which fund the Corporation shall utilize for the respective insured institutions (NDIC Act 2006, S.10(1).

Deposit Insurers' Mandates: A mandate, according to FSB (2001), refers to a set of official instructions or statement of purpose of a firm. NDIC as a firm has different mandates. Typically, mandates can be broadly classified into four categories: pay box; pay box plus, loss minimizer, and risk minimizer (Nolte and Khan, 2017). The classes of deposit insurers' mandates are described in table 2 as follows:

Table 2: Classification of Deposit Insurers' Mandates

Mandates	**Tenets of the Mandates**
Loss minimizer	The insurer actively engages in a selection from a range of least-cost resolution strategies.
Risk minimizer	The insurer has comprehensive risk minimization functions that include risk assessment/management, a full suite of early intervention and resolution powers, and in some cases, prudential oversight responsibilities. The deposit insurer has the powers to reduce the risks it faces.
Pay box plus	The deposit insurer has additional responsibilities such as certain resolution functions, e.g. financial support.
Pay box	The deposit insurer is only responsible for the reimbursement of insured deposits.

Source: *Authors' compilation from the literature, (2020).*

Models of Deposit Insurance Scheme: A model is an abstraction of reality. It is a simplified representation of a system, activity, object and real-life situations in general. A typical deposit insurer usually has a mandate. The following types of models of deposit insurance scheme are identified by Bernet and Walters (2009), the supervisor model, the resolution facilitator model, the cost reducer model and the pay-box model. Figure 4 depicts these models.

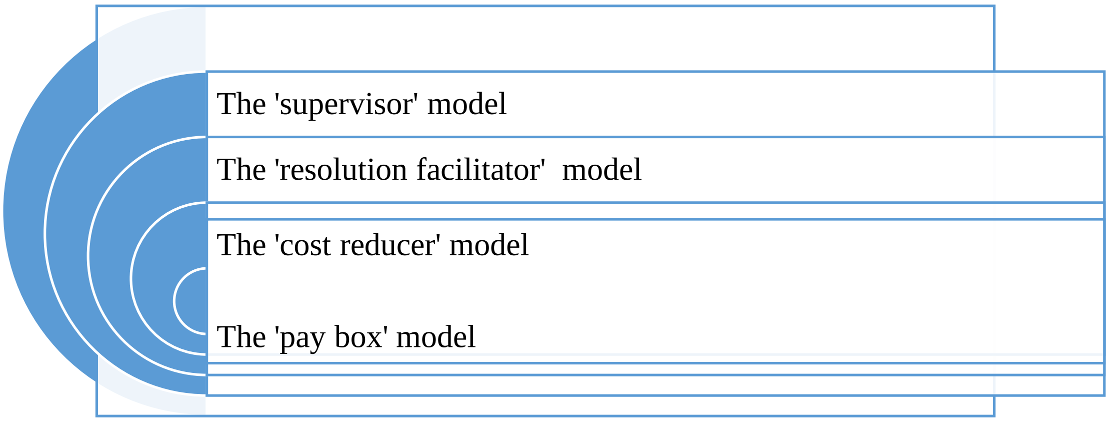

Figure 4: Models of Deposit Insurance Scheme

Source: *Adapted from Bernet and Walters (2009).*

In the pay box model, the role of the deposit insurance institution is restricted to paying out on the covered deposits in favour of the eligible deposits. In the case of a claim, the deposit insurance fund receives a corresponding instruction from the bank supervisors and ensures an orderly settlement of all claims. However, in the cost reducer model, adding to the settlement function, the deposit insurer also handles any occurrence of insolvency in an insured institution with the lowest possible costs and externalities for the financial intermediation system. In the 'resolution facilitator' model, there is an expansion in the powers of deposit insurance. This enables it to use its capital not only to settle deposit shortfalls that have occurred but also proactively to support a bank that has got into difficulties (but is not yet illiquid or even insolvent). The 'supervisor' model, is the model with the broadest portfolio of powers. Here, the deposit insurance institution itself becomes part of the supervisory system. It exercises direct supervisory functions and has a corresponding influence over the financial institutions associated with it (Bernet and Walters, 2009).

Membership and Coverage of NDIC: According to NDIC Act, 2006 (S.15(1), all licensed banks and such other financial institutions in Nigeria that engages in the business of receiving deposits shall be required to insure their deposit liabilities with the NDIC. Specifically, the participants include financial institutions such as deposit money banks, non-interest banks, primary mortgage banks; and Microfinance banks (NDIC, 2016).

NDIC as the insurer of all licensed deposit-taking institutions provides a guarantee against insured deposits, which are savings accounts, current accounts deposits, term deposits and foreign currency account deposits in Nigeria (NDIC, n.d.). However, specifically, NDIC exempts from its coverage the following types of deposits: inter-bank deposits, insider deposit like staff, director deposits, deposits held as collateral for loans, investment in stocks, bonds, mutual funds, annuities, commercial papers and debentures; and federal government treasury bills, bonds and notes. “Deposits”, according to NDIC Act 2006, refers to monies lodged by depositors with any insured institution for safekeeping or for the purpose of earning interest, premium or dividend, whether or not repayable on demand, upon a given period of time, or upon a fixed date, or at a time or in circumstances agreed by or on behalf of the depositor making the lodgment and the insured institution receiving it except as otherwise extended under the Act.

In addition to that, Section17 of the NDIC Act (2006) provides for the assessment of insured institutions and special contribution. It states that every insured institution (licensed bank or deposit-taking financial institution) to which this Act relates, shall be obliged to pay to the Corporation, a premium which shall not exceed (15/16) fifteen-sixteenth of one per cent per annum for licensed banks and (8/16) eight-sixteenth of one per cent per annum for other deposit-taking financial institutions of the total deposit liabilities standing in its books as at 31st December of the preceding year. The annual premium shall be payable not later than 2 months from the date of the demand notice.

In terms of maximum claim, the Act went further to state that a depositor shall receive from the Corporation as provided under section 2 (1) *(c)* of the Act, a maximum amount of N200,000 from the Deposit Insurance Fund of licensed banks or N100,000.00 from the Deposit Insurance Fund of other licensed deposit-taking financial institutions in the event of the revocation of operating license of that bank or other deposit-taking financial institution.

Functionally, NDIC is involved in bank distress resolution, three basic resolution options exist, namely, liquidation and reimbursement of depositors, claims, purchase-and-assumption transactions (sales) and open-bank financial assistance (FSB, 2001). In liquidation and reimbursement of depositors’ claims, the failed bank is closed and the assets and uninsured claims are transferred to a receiver/liquidator for liquidation and settlement. Reimbursing claims may be accomplished by directly paying depositors or by transferring their insured deposits to another bank. Purchase-and-assumption transactions (sales) is a resolution method in which a healthy bank or group of investors assume some or all of the obligations, and purchase some or all of the assets of the failed bank. A bridge bank is a typical form of variants of the purchase-and-assumption method, where the responsible safety-net participant takes ownership or control of the failed bank and operates it for a period of time (FSB, 2001). Moreover, the FSB (2001) went further to explain that in open-bank financial assistance, an insured bank in danger of failing receives assistance in the form of a direct loan, an assisted merger, or a purchase of assets, financial assistance may be provided to an operating bank that is in danger of failing. This option is provided to banks when it is believed that closing them would pose significant risks for the stability of the financial system.

Principles of Effective Deposit Insurance

Historically, the International Association of Deposit Insurers (IADI) and the Basel Committee on Banking Supervision (BCBS) issued the 'Core Principles for Effective Deposit Insurance Systems' in June 2009 (IADI, 2014). The Core Principles (CPs) were designed to be a voluntary framework; and are adaptable to a broad range of country circumstances, settings and structures (Nolte, n.d). The CPs are used in the International Monetary Fund (IMF)/World Bank (WB)'s Financial Sector Assessment Program (FSAP) and as a benchmark in technical assistance projects. The CPs with their compliance assessment methodology is used by jurisdictions as a benchmark for assessing the quality of their DIS and for identifying gaps in their deposit insurance practices and measures to address them. They are also used by the IMF and WB in the context of the FSAP to assess the effectiveness of jurisdictions' deposit insurance systems and practices (IADI, 2014).

Principles do not work by itself, they are certain pre-conditions that will enhance its workability. Nolte (2016) listed them as including the sound banking sector, prudential regulation, supervision and resolution; legal and judicial framework and, accounting and disclosure framework. The CPs is reflective of and designed to be adaptable to, a broad range of jurisdictional circumstances, settings and structures. They are intended as a framework supporting effective deposit insurance practices. However, national authorities are free to put in place supplementary measures that they deem necessary to achieve effective deposit insurance in their jurisdictions (IADI, 2014).

There was a review of 2009 CPs because of the feedback experience from its usage. Consequently, the IADI established an internal Steering Committee to review and update the Core Principles and develop a proposed set of revisions in February 2013. Consequentially, the number of Core Principles has decreased from 18 to 16, encompassing 96 assessment criteria. Six additional criteria from the existing assessment methodology have been upgraded to essential criteria (IADI, 2014). The Core Principles (updated in 2014) cover a wide range of issues but specifically, the 16 CPs are presented in table 3 as follows:

Table 3: Core Principles of Effective Deposit Insurance Systems

CPs	Concepts	Principles
1	Public Policy Objectives	The principal public policy objectives for deposit insurance systems are to protect depositors and contribute to financial stability. These objectives should be formally specified and publicly disclosed. The design of the deposit insurance system should reflect the system's public policy objectives
2	Mandate and Powers	The mandate and powers of the deposit insurer should support the public policy objectives and be clearly defined and formally specified in legislation.
3	Governance	The deposit insurer should be operationally independent, well-governed, transparent, accountable, and insulated from external influence
4	Relationships with Other Safety-Net Participants	In order to protect depositors and contribute to financial stability, there should be a formal and comprehensive framework in place for the close coordination of activities and information sharing, on an ongoing basis, between the deposit insurer and other financial safety-net participants.
5	Cross-Borders Issues	Where there is a material presence of foreign banks in a jurisdiction, formal information sharing and co-ordination arrangements should be in place among deposit insurers in relevant jurisdictions.
6	Deposit Insurer's Role in Contingency Planning and Crisis Management	The deposit insurer should have in place effective contingency planning and crisis management policies and procedures, to ensure that it is able to effectively respond to the risk of, and actual, bank failures and other events. The development of system-wide crisis preparedness strategies and management policies should be the joint responsibility of all safety-net participants. The deposit insurer should be a member of any institutional framework for ongoing communication and coordination involving financial

		safety-net participants related to system-wide crisis preparedness and management.
7	Membership	Membership in a deposit insurance system should be compulsory for all banks
8	Coverage	Policymakers should define clearly the level and scope of deposit coverage. Coverage should be limited, credible and cover the large majority of depositors but leave a substantial amount of deposits exposed to market discipline. Deposit insurance coverage should be consistent with the deposit insurance system's public policy objectives and related design features.
9	Sources and Uses of Funds	The deposit insurer should have readily available funds and all funding mechanisms necessary to ensure prompt reimbursement of depositors' claims, including assured liquidity funding arrangements. Responsibility for paying the cost of deposit insurance should be borne by banks
10	Public Awareness	In order to protect depositors and contribute to financial stability, it is essential that the public is informed on an ongoing basis about the benefits and limitations of the deposit insurance system.
11	Legal Protection	The deposit insurer and individuals working both currently and formerly for the deposit insurer in the discharge of its mandate must be protected from liability arising from actions, claims, lawsuits or other proceedings for their decisions, actions or omissions taken in good faith in the normal course of their duties. Legal protection should be defined in legislation.
12	Dealing With Parties at Fault in a Bank Failure	The deposit insurer, or other relevant authority, should be provided with the power to seek legal redress against those parties at fault in bank failures.
13	Early Detection and Timely Intervention	The deposit insurer should be part of a framework within the financial safety-net that provides for the early detection of, and timely intervention in, troubled banks. The framework should provide for intervention before the bank becomes non-viable.
14	Failure Resolution	An effective failure resolution regime should enable the deposit insurer to provide should for the protection of depositors and contribute to financial stability. The legal framework should include a special resolution regime.
15	Reimbursing Depositors	The deposit insurance system should reimburse depositors' insured funds promptly, in order to contribute to financial stability. There should be a clear and unequivocal trigger for insured depositor reimbursement.
16	Recoveries	The deposit insurer should have, by law, the right to recover its claims in accordance with the statutory creditor hierarchy.

Source: *Authors' Compilation from IADI (2014).*

Implications of Deposit Insurance on Financial Stability

Theoretically, it has been noted that deposit insurance prevents the collapse of illiquid but fundamentally solvent financial institutions through appropriate bridging measures in coordination with the financial supervisory institutions and the central bank. It also ensures quick and full payout of covered deposits in the case of a claim and provides the financial market supervisory body with controlled liquidation or resolution of financial institutions that have become insolvent or are threatened with insolvency. Furthermore, deposit insurance increases the stability of financial intermediation system by means of a credibly communicated guarantee of short-term customer deposits with banks and other system-relevant financial intermediaries (Bernet and Walters, 2009). The conception of a modern deposit insurance scheme entails broader aims such as the competitiveness of banks, financial services consumer protection, economic growth policy and cost reduction (Bernet and Walters, 2009).

In the same vein, numerous empirical studies (Ademola et al, 2013; Nwakoby, Onwumere, Ibe and Okanya, 2016; Wilson and Ogar, 2018) show that a well-conceived deposit insurance scheme not only supports the stability of the financial system but can also contribute to achieving all of these aims of the scheme noted in the literature (Bernet and Walters, 2009; Ademola *et al*, 2013). Specifically, Nwakoby *et al* (2016) investigated the impact of deposit insurance scheme on bank intermediation in Nigeria for the period 1990 to 2012. Based on ex-post facto and analytical research designs, and using annual time series data. Findings from the results of analysis reveal that deposit insurance scheme has a positive and significant effect on deposits and assets of deposit money banks in Nigeria. Similarly, Wilson and Ogar (2018) also studied the effect of deposit insurance fund on the safety of bank deposit in Nigeria, for the period 1989 to 2016. The analysis of the study using the ordinary least squared technique revealed deposit insurance fund has a significant positive effect on bank deposit in Nigeria. This means that an increase in deposits insurance fund results in an increase in a bank deposit in Nigeria and vice versa. Similarly, in Ademola *et al* (2013) work on Bank Distress in Nigeria and the Nigeria Deposit Insurance Corporation Intervention, using correlation coefficient and r-test, 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. The NDIC has enhanced people's confidence in the banking system. Furthermore, Wilson and Ogar (2018) also investigated the impact of deposit insurance fund partially covered on the safety of bank deposit in Nigeria. The analysis of the study revealed that there is a significant positive effect of deposit insurance fund on bank deposit in Nigeria. Both theory and empirical results suggest that an effective DIS is a sine qua non for an effective financial system of any country, the Nigerian financial system, no an exemption.

Conclusion

The paper reviewed concepts, principles and implications of deposit insurance on the Nigerian financial system. It highlighted the fundamentals of deposit insurance system with an emphasis on the Nigeria Deposit Insurance Corporation. It is evident through the literature reviewed that an effective deposit insurance scheme is a vital part of the financial safety net and plays a significant role in contributing to the stability of the financial system and the protection of depositors. A financial safety net basically includes functions of prudential regulation and supervision, lender-of-last-resort, and deposit insurance. Both explicit and implicit deposit insurance schemes usually co-exist, most especially in times of financial crisis. Consequently, the third kind of deposit insurance scheme may be inferred to exist in reality. This third type may be termed hybrid deposit insurance scheme.

Recommendations

Based on the findings of this study, the following recommendations are suggested:

i. The government should encourage hybrid DIS, a system where both governments allow the financial system to operate explicit DIS without neglecting the vital role of the implicit system of deposit insurance;

ii. The government should place premium and continue to intensify efforts at creating an enabling working conditions/environment not only for the deposit insurer to strive but for other elements of the financial safety net;

iii. Government, through the Nigeria deposit insurance corporation, should evaluate its compliance with IADI's CPs and other world-class standards; and

iv. Furthermore, regularly, each of the core principles should be empirically tested by researchers for feasibility and degree of compliance in Nigeria.

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