Cross-Border Banking in Nigeria: Any Role for Deposit Insurance Authorities?

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I. Introduction

Cross-border banking has long been an important part of the trend towards increased globalization and financial integration. However, it has recently assumed added importance partly due to the fact that over the past decades, the banking system has changed dramatically owing to the advances in technology, closer relations among economies, size and speed of financial transactions, liberalization, deregulation and consolidation.

Cross-border banking in the form of direct investment in physical facilities is increasing rapidly. Advances in telecommunications and computer technology permit more efficient operation of firms both in greater numbers and at greater distances, as countries dismantle their regulatory and legal barriers to such banking in order to enhance the competitive environment. It is argued that foreign ownership of banks increases competition and efficiency in the banking sector (Eisenbeis and Kaufman, 2006). Indeed, foreign entry through direct investment is widely recommended as a means of strengthening weak and inefficient banking structure, particularly in emerging economies. This is because banks that are willing and able to enter a foreign country, especially developing economies, through direct investment are generally larger, in healthier financial condition, more professionally managed, and more technologically advanced than the average host country banks, and may therefore be expected to raise the bar for all banks in the host country (Eisenbeis and Kaufman, 2006).

Cross-border banking, however, impacts financial stability in two important respects. The first is that, cross-border banking ensures that larger and more diversified banking systems are better equipped to absorb economic shocks. The second is that, cross-border banking

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opens up additional channels for the transmission of systemic risk across-borders, both via ownership links and credit exposures.

In spite of the benefits derivable from cross-border banking through either branching or subsidiaries, there are a number of policy issues that are of concern to the regulatory and supervisory authorities, particularly, in an economy where financial instability has manifested. The concerns are in the areas of provision of deposit insurance, the effectiveness of prudential regulation, the timing of declaring an institution officially insolvent and placing receivership or conservatorship, and the procedure for resolving bank insolvencies (Eisenbeis and Kaufman, 2006), among others. The recent global financial crisis has further underscored the need to pay more attention to cross-border banking issues.

The provision of deposit insurance, which is one of the critical issues to consider under a cross-border banking arrangement, is a component of the financial safety-net arrangement. Deposit insurance offers protection to depositors against bank failures and in the process helps boost confidence as well as promote financial stability in the banking system. Deposit insurance is increasingly becoming popular as it provides a formal mechanism for dealing with problem financial institutions. Deposit insurance also promotes financial system stability and contributes to the smooth functioning of the payment system. The recent global financial crisis is a clear testimony to the roles being played by deposit insurance in boosting confidence and promoting financial system stability in crisis situations.

Considering the preponderance of cross-border banking activities in recent times particularly among the Nigerian banks, this paper critically looks at the roles the deposit insurer could play where the banks in the country have opened subsidiaries or branches in other countries and where foreign banks have also opened subsidiaries in Nigeria. To achieve that, the rest of the paper is structured into four sections. Section two briefly discusses the concepts and practices of deposit insurance, while the establishment, main features and mandate of deposit insurance in Nigeria are highlighted in section three. Section four examines the link between deposit insurance and cross-border banking, while section five gives concluding remarks.

II Concepts and Practices of Deposit Insurance Scheme (DIS)

II.1 Types of DIS

There are basically two types of Deposit Insurance Scheme (DIS), viz, the **implicit deposit insurance** system and **explicit deposit insurance** system. The implicit type is a discretionary approach adopted by governments to prop-up failing deposit-taking financial institutions in the absence of an explicit statutory obligation on the part of government to protect depositors. The absence of any prior funding arrangement, lack of any formal rules and procedures for intervention and the use of ad-hoc administrative structures are some of the features of implicit deposit insurance system (NDIC, 1999).

An explicit DIS on the other hand is created by a legal instrument. The enabling statute usually states the objectives of the scheme and other operational guidelines relating to such issues as ownership, funding, extent of coverage, membership, supervisory and resolution powers, amongst others. Specifically, an explicit DIS provides a formal framework with clear-cut rules and procedures for providing protection to depositors as well as for resolving failed and failing deposit-taking institutions (NDIC, 1999). An explicit DIS can be designed as either a **risk-minimizer** or a **pay-box**.

II.2 Worldwide Practices of Deposit Insurance Systems (DIS)

Explicit Deposit Insurance Systems have developed and expanded rapidly in recent years. The main reason for the phenomenal growth experienced in the 1980s and 1990s was because of the various financial crises that occurred in different parts of the world. The introduction of explicit DIS in many jurisdictions was clearly part of the reaction to losses arising from such financial crises and, more particularly, as part of the drive for financial stability nationally and internationally (Allen and Wood, 2006).

The evolution of elaborate DIS can be traced to the United States through the creation of the Federal Deposit Insurance Corporation (FDIC) in 1933, following the Great Depression that was experienced worldwide between 1929 and 1933. Throughout the 1960s, 1970s and 1980s, there were only 3, 11 and 16 deposit insurance systems in existence, respectively, worldwide. However, from 1980 to 1990, the number of countries that had one type of explicit system or the other had more than doubled following the occurrence of financial crises in many countries. Caprio and Klingebel (2003) documented about 117 of such crises since 1980. The same factor was the principal determinant of the phenomenal growth in DIS from 1990s to the 2000s. As at the end of September 2008, there were 100 countries with one form of explicit system or the other in operation, 8 pending and 11 planned or under serious study (IADI, 2008).

Apart from the establishment of explicit DIS in many countries, a large number of countries had modified the existing systems by introducing significant changes. For example, there was significant modification to the system in the USA following the failure of several savings and loans banks and the subsequent collapse of the Federal Savings and Loans Insurance Corporation (FSLIC), which was the deposit insurer responsible for that sub-sector in the late eighties. In Germany, there had been two revisions of the system in 1969 and 1998 after its establishment. Since the European Union Directive of 1994, there had been various revisions to deposit insurance practice by the member countries. Mexico reviewed its system twice in 1990 and 1999, since its establishment in 1986. In Venezuela, a review was carried out in 2001 whilst Brazil also had a revision in 2002. In Nigeria, a complete overhaul of the statute was done in 2006 following noticeable inadequacies/weaknesses in the system. Lately in 2008, the importance of deposit insurance further manifested when several countries either had to increase their deposit insurance coverage levels and scope or introduce blanket coverage in order to restore public confidence and prevent bank run with its attendant adverse consequences, following the global financial crisis that shook the world.

The international community had also demonstrated its interest in the design of safety-nets arrangement in general and deposit insurance in particular, in countries around the world. This is done through sponsorship of workshops, seminars, conferences and studies by the International Monetary Fund (IMF), the World Bank and the Bank for International Settlement (BIS). Also, in recognition of the growing importance of the role of DIS in financial safety-net and the increasing number of systems around the world, the International Association of Deposit Insurers (IADI), with headquarters in BIS, Basle, was established in 2002 with the ultimate objective of contributing to the enhancement of deposit insurance effectiveness by promoting guidance and international cooperation.

Through the association, an internationally-accepted set of core principles for effective deposit insurance systems had been developed and issued, while collaborative seminars, workshops, conferences and symposia were organized for the benefit of member countries as well as for the development of deposit insurance system worldwide.

III. Establishment, Features and Mandate of Deposit Insurance in Nigeria

Deposit insurance in Nigeria is a component of the nation's financial safety net. It was established through the NDIC Act 22 of 1988 (now NDIC Act 16, 2006), primarily to protect small savers by insuring the deposit liabilities of banks. It commenced operation in March 1989. The type of deposit insurance system being practiced in Nigeria, which is a risk-minimizer, gives it an expanded mandate beyond the pay-box status being practiced in other African countries such as Zimbabwe, Tanzania, Uganda and Kenya. The mandate for NDIC in Nigeria, apart from deposit guarantee, includes bank supervision and resolution.

III.1 Design Features of DIS in Nigeria

Essentially, the practices of deposit insurance system deal with the issues of ownership/administration, membership, governance, funding, coverage and failure resolution. Some of these features are highlighted below:

III.1.1 Ownership

Ownership of a DIS could take any of these forms:

- Joint ownership by the private and the public sectors;
- Private ownership in which case, the scheme is solely owned by the private sector; and
- Public ownership where government holds sole ownership.

It is pertinent to note that public sector ownership of DIS is given more prominence than private and joint ownerships. In Nigeria, the NDIC is wholly owned by government through the Central Bank of Nigeria and Federal Ministry of Finance in the ratio of 60:40, respectively.

III.1.2 Membership

The issues to consider under membership include, participating institutions and whether the membership is compulsory or voluntary. Membership of a DIS is open to deposit-taking financial institutions usually licensed by the central bank or any other licensing authority. However, the membership of DIS could either be compulsory or voluntary. The stability of the system particularly during crisis is the major determinant of the nature of membership.

In Nigeria, membership of DIS is extended to universal banks, microfinance banks and primary mortgage institutions licensed by the CBN to take deposits. The nature of membership of these institutions is compulsory.

III.1.3 Coverage

A well-designed DIS must incorporate in its statute details relating to the coverage. The issues to consider under DIS coverage are maximum insurance limits and the types of deposits covered. In terms of amount covered, it could be limited or full coverage or blanket guarantee. The blanket guarantee is usually given during banking systemic crisis, just as was witnessed during the recent global financial crisis. As for the types of deposits covered, all deposits are covered apart from some exceptions, which are usually stated in the enabling statute. In some jurisdictions, foreign deposits of domestic banks and foreign currency denominated local deposits are exempted from the insurance coverage on the ground that such deposits may not affect the level of money supply of the domestic economy (NDIC, 1999).

In Nigeria, the maximum insurance limit is fixed at ₦200,000.00 per depositor per bank for universal banks and ₦100,000.00 per depositor per institution for other insured financial institutions. The NDIC Act 2006 clearly spelt out the type of deposits covered by the deposit insurance in Nigeria and the exemptions. The exemptions according to section 16 of the NDIC Act, 2006 include: insider deposits (that is deposits of staff and directors), counter claims from person who maintains both deposit and loan accounts, the former serving as collateral for the loan, inter-bank takings/placements and such other deposits as may be specified from time to time by the Board of the Corporation.

III.1.4 Funding

For DIS to be effective, it must have access to adequate sources of funding to meet its obligations when they fall due. A well-designed deposit insurance system should have in place mechanisms necessary to ensure that adequate funds are available to reimburse depositors promptly in the event of an insured institution's failure and to cover the operating expenses of the system. As the experiences of several countries have shown, inadequate funding could lead to delay in resolving failed institutions as well as significant increases in costs, with attendant consequences on the credibility and confidence in the system. A DIS should, therefore, be in a position to build a Deposit Insurance Fund (DIF) that is robust enough to effectively handle crisis situations when they occur, without recourse to government for financial assistance. Such situations exclude periods of systemic crisis, which no DIS is designed or capable of handling only by itself without government direct involvement.

The funding to a DIS could be derived from different sources, which include: initial capitalization by owners and subsequent funding through, periodic premium contribution by insured institutions, ex-post surcharge, periodic recapitalization and back-up funding arrangements. The funding through premium could either take the form of ex-ante funding or ex-post funding or a hybrid funding method. The ex-ante funding method is a case where a pool of funds is accumulated and maintained in advance for use in prompt reimbursement of insured deposits in the event of a failure of an insured depository institution. The ex-post funding method on the other hand is a case where the funds are sourced, usually from the participating institutions, when failures occur and the need to cover claims develops. The case of hybrid funding methods occurs where both the ex-ante and ex-post methods of funding are used to source funds by the deposit insurer. This usually occurs when large failures or wave of failures are witnessed.

The above mentioned sources of funds to a DIS also apply to the NDIC as clearly spelt out in section 10 of NDIC Act 16, 2006. However, of the sources of funds to a DIS, premium contribution by participating institutions constitutes the most significant source for the system in Nigeria like in all jurisdictions with explicit deposit insurance system. The premium contribution by participating institutions is usually derived through the use of an assessment rate, base and approach. At inception, the Corporation started with the use of flat-rate approach and the rate charged deposit money banks was 0.94 per cent, but later changed to the use of differential premium assessment system (DPAS) since 2007. With the DPAS, the premium charged by banks has been reduced to a maximum of 0.80 per cent. The other financial institutions are, however, charged 0.50 per cent. The base being used for the premium assessment is the total deposits standing in the books of the insured institutions as at December ending of the preceding year, as clearly spelt out in the enabling Act. The DIF is managed as provided for in section 13(1) of the NDIC Act 16, 2006 and based on the existing investment policy of the Corporation. Currently, the DIF in Nigeria is invested in federal government securities.

III.1.5 Governance Structure

The governance structure is important as it is considered to be a critical factor for the effectiveness of the system. The NDIC is governed by an independent governing Board. At inception and up till 1996, the Corporation had a Board of Directors made up of five members: the Governor of the CBN as chairman, representative of the Ministry of Finance not below the rank of a director and three executive members comprising the Managing Director and two Executive Directors. However, the structure was changed in 1997 following an amendment to the enabling law through Decree No. 5. The Board was enlarged from five (5) to nine (9) members. Under that dispensation, the CBN Governor ceased to be the Chairman of the Board, rather the CBN was to be represented on the Board of the Corporation by a representative not below the rank of a Director. In addition, the amendment provided for a part-time Chairman and three non-executive directors, in addition to the Managing Director, two Executive Directors and a representative each from the CBN and the Ministry of Finance.

Following the repeal of the first enabling act and the enactment of a new Act in 2006, the composition of the governing body was further enlarged from nine (9) to twelve (12). In addition to the membership from the previous enactment, three other non-executive directors are expected to come on board to make a total of six part-time directors. The six part-time directors are to represent the six geo-political zones of the country. The Board is appointed by the President of Nigeria, subject to the approval of the Senate (the upper legislative chamber) of the Federal Republic of Nigeria. The executive members of the Board comprising the Managing Director and two Executive Directors are also appointed by the President for a period of five years and renewable for another term of five years and also subject to the approval of the Senate of the Federal Republic of Nigeria. The governance structure of the NDIC could partly be explained by the growth witnessed by the system in Nigeria. It is gratifying to note that though the system in Nigeria was set-up after that of Kenya, it has surpassed that of Kenya and it is being regarded as the leading deposit insurer in the continent. \

III.1.6 Legal Statutes Backing DIS In Nigeria

In addition to the Act establishing the Corporation, there are other statutes that provide backing to the Corporation in the discharge of its mandates. Some of the legislations include the Central Bank of Nigeria (CBN) Act of 1991 (as amended); the Bank and Other Financial Institutions Act (BOFIA) of 1991 (as amended); the Companies and Allied Matters Act (CAMA) of 1990 (as amended); and the Failed Banks Act of 1994.

III.2 Mandate of the NDIC

The NDIC was established with a wider mandate of Deposit Guarantee, Bank Supervision and Bank Resolution. The provision of deposit guarantee is to help boost confidence in the system through prompt settlement of claims in the event of bank failure. The mandate of bank supervision is to ensure that necessary rules, laws and guidelines and best practices are complied with in the conduct of banking business in an effort to guard against excessive risk-taking by the insured institutions, as well as preserve the integrity of and promote public confidence in the banking system. The Corporation undertakes both off-site and on-site supervision of insured institutions. The bank resolution mandate of the Corporation is to ensure that failed and failing insured institutions are resolved in a timely and efficient manner so as to restore confidence and ensure the stability of the system. The Corporation employs different types of resolution mechanisms including liquidation, which is the last resort when all other measures have failed.

IV. Role of DIS in Cross-Border Banking

The general practice is that relevant laws, regulations and other provisions applicable to a bank, their customers and deposit insurers are those of the bank's country of charter or incorporation. However, the situation could change if a bank operates branches in other countries, or provides banking services on cross-border basis to customers in locations abroad, either through a branch or a subsidiary or e-banking. Depending on the volume of services being rendered by the banks across national borders, the implementation of appropriately adapted policies by home and host country deposit protection systems can, to a large extent, influence cross-border banking as well as effective operation of deposit protection arrangements.

Deposit insurance as a component of safety-net arrangement is concerned with the safety and soundness of insured institutions as well as the stability of the financial system, especially when the insured institutions are involved in cross-border banking. The source of concern to a deposit insurer when insured banks are involved in cross-border banking is the potential risk that could be transmitted across national borders, which is capable of undermining depositors' interest and/or threatening the stability of a country's financial system. Therefore, the role being played by DIS in cross-border banking as with other aspects of banking services being offered by insured institutions is basically deposit guarantee. In addition, however, DIS with wider mandate may be involved in supervision and bank resolution. It is, however, pertinent to note that, the nature and extent to which a deposit insurer plays these roles depends on the policies, rules and regulation governing banking business and deposit insurance in a country. These roles are analyzed in detail below:

IV.1 Deposit Guarantee

Deposit insurers as national entities are typically charged with the responsibility of protecting domestic deposits and not foreign deposits. However, while domestically incorporated or chartered banks are the principal members of most deposit insurance systems, some countries require foreign-bank subsidiaries and branches to participate in the system as well. Several arguments were made for their inclusion and these include (FSF, 2001): the stability of the domestic financial system; the goal of providing a minimum level of deposit insurance to all depositors; the notion that foreign banks benefit from a stable domestic financial system and should, therefore, participate in the deposit insurance system as part of doing business in a country; the desire to minimize competitive issues by placing foreign banks on the same footing as domestic banks; and the diversification that arises from wider membership and expansion of the funding base. This is the practice in most countries with explicit deposit insurance system except Japan, Morocco, Canada and Macedonia, where branches of foreign banks are not covered by the deposit insurance system of those countries.

The coverage of deposits of foreign branches that only participate in the host-country deposit protection system is, in general, determined by the host system's regulations. That does not rule out the fact that the scope and level of coverage may be fixed taking into cognizance the coverage provided in other countries, so that, in addition to domestic factors, external factors are taken into account. This is the case with European banks. Also, coverage that is comparable to that in competitors/neighbouring countries may be one element of an overall strategy to strengthen the financial system and to stop the outflow of deposits especially in weak banking systems and banking systems that have experienced recent crisis. This is also the case in economies that are closely linked, such as the European Union countries. However, it is important to avoid a competitive process in which national deposit insurance systems adapt to the ones with the most encompassing features and the lowest premiums or levies without taking due cognizance of the country's domestic situation. Such a process may have negative implications for the viability of the scheme and could jeopardize financial stability. However, in some jurisdictions such as Taiwan, branches of foreign banks covered by their home-country deposit insurance schemes can choose not to join the host-country DIS (Hoelscher, Taylor & Klueh, 2006).

The determination of an appropriate coverage policy could become more complex if the bank's home-country system also covers deposits raised by foreign branches in foreign jurisdictions. The coverage of deposits at foreign branches may be appropriate because the branch is a legal part of the bank and its solvency and liquidity cannot be separated from the soundness of the bank itself. In countries like Taiwan, it is only when an overseas branch of a domestic bank takes deposits in Taiwanese currency (NT Dollar deposits) in other countries that the Central Deposit Insurance Corporation (CDIC) will cover their deposits and that the same coverage as in the case of domestic deposits will apply to the deposits in the overseas branch. Furthermore, domestic customers of the bank doing business with its foreign branches might expect to be protected in the same manner as that provided when they deal with the bank's head office. If the coverage of the home-country system is lower or less encompassing than the coverage provided by the host-country system, the supplementary coverage could be provided by the host-country deposit protection system.

On the other hand, if the coverage of the home-country system of the branch is higher or of broader scope, the branch's customers would benefit from more-encompassing protection that is provided by the host-country system (IADI, 2007). However, the deposit insurer should exercise caution to avoid multiple coverage in situations where a branch that already benefits from coverage by its home-country system, is obliged or granted the right to join the host-country system. This might require appropriate provisions in contracts, statutes and laws, and possibly mutual agreements between the affected deposit protection systems. The European Union (EU) at one time implemented what could lead to a case of "multiple coverage" through one of its Deposit Insurance Directives in which a home-country deposit protection system could also cover deposits of a bank's branches that enjoy coverage in other EU jurisdictions. If the coverage of a host-country deposits protection system is higher or of broader scope, branches may choose supplementary coverage by this system, provided that they accept the membership conditions of the host-country system. This practice, however, no longer subsists in the EU.

Some possible consequences of intensified cross-border banking could be as follows:

- Through conversion into branch-office, big deposit insurance risk-burdens might move over from one country into another.
- The difference between the coverage level and the scope of coverage in the same market might become competitive factors among members, especially during crises.
- A new function might become important for the national deposit insurer in the future, which is, becoming the agent of foreign DIS.

In Nigeria, the deposit insurance enabling Act is very clear about the Corporation's responsibilities to insured institutions as far as deposit guarantee is concerned. Section 2 (1a) of the NDIC Act 16, 2006 states as follows:

> *"The Corporation shall have responsibility for:*
> *insuring all deposit liabilities of licensed banks and such other deposit taking financial institutions (hereinafter referred to as "insured institutions") operating in Nigeria within the meaning of sections 16 and 20 of this Act so as to engender confidence in the Nigerian banking system."*

From the above provision of the Act, it is clear that subsidiaries of Nigerian banks overseas are not covered by the NDIC. The banking laws in Nigeria do not allow the licensing of branches of foreign banks in the country. If any foreign bank wishes to establish its presence in the country, it has to do so through a subsidiary in the country. This is to ensure that the foreign banks are bound by all the laws, rules and regulations governing the banking system in Nigeria. In that regard, such subsidiaries of foreign banks that operate as banks incorporated in Nigeria enjoy the same DIS coverage rights as domestic banks enjoy.

IV.2 Bank Resolution

The insolvency resolution of any company is not an event but a process of continuing efforts over a period of time to stem the slide into financial bankruptcy. For banks and other financial institutions, the process will entail extensive efforts by bankers and supervisors to restructure, revitalize and recapitalize the institutions. These crisis intervention efforts may be undertaken under a relatively formal statutory process, such as the prompt corrective action or under more general supervisory powers. If the crisis intervention efforts are unsuccessful, then the supervisors face the question of whether the bank must be placed into a formal insolvency legal process or whether some form of supervisory forebearance should be exercised while the insolvent institution muddles along with or without government help. Even if a formal insolvency is chosen, there are many options for the resolution of the failed institution. The institution's assets could be liquidated or the banking operations could be continued by government or some other insolvency authority until a final sale or other resolution of the bank is effected. Deposit insurance agencies of the risk-minimizer type are usually given the responsibility for bank resolution in many jurisdictions. Different national laws approach insolvency issues in a number of ways with many national laws relying on variations of the normal company bankruptcy processes (Krimminger, 2005).

The choices among the various resolution options for responding to insolvency in financial institutions have clear consequences that could affect the public, the government and the national economy at large. A well-developed insolvency system must balance the need to avoid increasing moral hazard in the financial system by imposing losses on creditors, obviously starting with equity holders, who could have averted the failure while allowing for prompt protection of smaller depositors and facilitating the continued availability of credit in the economy. Flexibility for the insolvency authorities is crucial to strike this balance (Krimminger, 2005). The consequences of the domestic focus of most insolvency laws is that most countries seek to exercise authority for the resolution of a failing bank subsidiary or branch operating within their borders under their national insolvency laws (Krimminger, 2005). For subsidiaries, the host countries are the "home" country since the entities are incorporated under their laws. As for branches, most nations permit cooperation with foreign insolvency authorities within constraints imposed by the national insolvency policies, while reserving the right to conduct wholly separate insolvency proceedings to protect creditors of the branches' local operations.

The European Union (EU) has a slightly different arrangement as it adopted a common approach to cross-border crisis management and crisis resolution for EU banks. The home country's authorities will have primary responsibility for crisis management as the home country supervisor and, if appropriate, as provider of liquidity to the bank. Under the EU's Directive on the Winding-Up of Credit Institutions of 2001, the bankruptcy laws of the home country apply to the insolvency of an EU bank with branches in other member nations. The Directive confers on the "administrative or judicial authorities of the home member state" the authority to decide and implement "reorganization measures" or "winding-up (Liquidation) proceedings". If the foreign bank is a non-EU institution, the territoriality approach typically used under members' national laws will be applied because the insolvency regulation confines its scope to insolvencies within the EU (Krimminger, 2004).

In Nigeria, the national insolvency laws prevailing are applicable to both insolvent domestic and foreign banks that are licensed to operate in the country. The NDIC, set-up as a risk-minimizer with broad mandate, is charged with the responsibility for bank failure resolution. If any of the Nigerian Banks established a subsidiary or branch outside the country and such outlet fail, the NDIC does not get involved in the resolution of such failure. However, it collaborates with the supervisory authorities in the host country to the extent of information sharing. The NDIC uses the provisions of NDIC Act 16, 2006, CAMA 1991 and BOFIA 1991 in the exercise of this responsibility. Bank failure resolution entails deploying corrective measures by the supervisory authorities when the condition of the bank has started deteriorating. Such corrective actions include asking the shareholders to inject additional capital, providing the bank with financial assistance to address liquidity crisis through a bailout facility from the monetary authorities, among others. But when all these remedial actions fail, the supervisory authorities would then take-over the management of the bank with a view to turning its fortunes around. It is important to stress at this juncture that the NDIC has neither experienced the failure of a subsidiary of a foreign bank nor the failure of the branches/subsidiaries of its own banks in foreign countries.

IV.3 Supervision

Just as resolution and deposit insurance laws are typically applicable to domestic financial institutions, laws governing the supervision of banks are also applicable to nationally chartered or incorporated institutions. However, due to increased involvement of banks in cross-border banking, the need to extend supervision beyond the national borders, to cover subsidiaries and branches of the home banks overseas becomes more compelling. Such supervision arises when looking at the bank on a consolidated basis. There is the general belief that activities undertaken by subsidiaries or branches in host countries could affect the balance sheets of the parent banks in home countries. This means that crisis being suffered by a subsidiary or a branch in a host country, if not immediately checked and depending on the exposure to the parent bank, could negatively affect the financial health of the parent bank. There is, therefore, the need for supervisors in both the home and the host countries to collaborate, particularly through effective information sharing so as to ensure the attainment of common objective of maintaining stability in their respective financial systems.

It is in realization of this objective that the Basel Committee on Banking Supervision (BCBS) was created. The committee is expected to develop guidance on supervision for use by supervisors and in the process address the questions of information sharing between home and host supervisors across the globe, which was particularly done under the new

Capital Framework. The committee promoted supervisory cooperation through the issuance of successive principles governing cross-border supervision since 1975. Such principles include: principles for the supervision of banks' foreign establishments (1983), minimum standards for the supervision of international banking groups and their cross-border establishments (1992) and the supervision of cross-border banking (1996). A key feature of this framework is that international banking groups need to be supervised on a consolidated basis, covering all aspects of the business, domestic and cross-border (BCBS, 2006). Consolidated supervision of an international banking group requires effective cooperation and information sharing between home supervisors and host supervisors (BCBS, 2006).

In Nigeria, the extent of involvement of the deposit insurer in cross-border supervision is to the extent allowed by the Nigerian banking laws. The supervisory powers of the NDIC are limited to the insured financial institutions chartered in Nigeria and duly licensed by the CBN. This therefore means that subsidiaries or branches whose parent banks were chartered in Nigeria would not come under the supervisory purview of the NDIC. This is because they are under the supervisory purview of the supervisory authorities in their countries of operation. However, based on the platform established by the BCBS, which requires that banking group should be supervised on a consolidated basis, the NDIC may examine the books of the bank through its consolidated financial statement and effective information sharing so as to have a clearer picture of the overall health status of the parent bank. To ensure the realization of maximum benefit from the cross-border information sharing, the Corporation attends meetings of Committee of Bank Supervisors of West African Countries, set-up to enhance information sharing amongst supervisors within the ECOWAS member states. With regards to the branches and subsidiaries of Nigerian banks outside the ECOWAS, there is the need for the NDIC to establish an understanding between it and the supervisors in those countries, which should not be limited to only information sharing but also on-site examination where necessary, so as to enhance the effectiveness of its supervisory capabilities.

I. Concluding Remarks

From the above discussions, it is clear that cross-border banking has become increasingly popular amongst banks around the world, owing to globalization and integration of national economies. It is, however, largely governed by national laws. It is also clear that cross-border banking has the potentials for transmitting systemic risk across borders, both via ownership links and credit exposures. That is why, it has in recent times, more than any other time, attracted the attention of supervisory authorities as well as deposit insurance authorities. The concerns of the supervisory and deposit insurance authorities are related to, among others, deposit insurance, effectiveness of prudential regulation and supervision, the timing of declaring an institution officially insolvent and placing receivership or conservatorship, and the procedure for resolving bank insolvencies. To the extent that cross-border banking is largely governed by national laws and there is no international law developed and accepted by all countries, there is the need for greater reliance on effective information sharing among supervisors in different countries. This would facilitate the development of cross-border banking as well as ensure the stability of individual country's and global financial system.

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