



DUALE, OVIA &
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Update on the Increase of Deposit Insurance Coverage for Fintech Companies

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Introduction

Deposit insurance is the cornerstone of a secure financial system. It entails safeguarding depositors' monies and fostering overall stability. As technological advancements reshape the financial sector, entrants like Financial Technology ("Fintech") companies are expanding the reach of financial services through digital platforms, offering increased convenience and accessibility. These companies include Mobile Money Operators (MMOs) and Payment Service Banks (PSBs). While these advancements offer significant benefits, unforeseen events like bank failures or economic downturns pose potential risks. Such events could erode depositor confidence and disrupt financial stability. This is where the Nigeria Deposit Insurance Corporation (NDIC) plays a vital role, acting as a critical line of defense by guaranteeing insured deposits.

Fintech companies engaged in providing deposit-related services to Nigerians are mandated to register with the NDIC. This regulatory oversight underscores the NDIC's commitment to extending its protective mandate to encompass the evolving digital financial landscape. The insurance mechanism provided by the NDIC acts as a crucial safety net, guaranteeing the repayment of deposits up to specified limits in the event of institutional insolvency, thereby mitigating potential losses for depositors and ensuring financial stability.



Considering the ongoing developments in the Fintech sector, the NDIC recently made significant adjustments to maximum coverage limits, reflecting its proactive approach to enhancing depositor protection and enhancing the resilience of the financial sector.

In today's #TMTThursday series, we explored the crucial role of the NDIC in insuring Fintech companies. We also examined the impacts of these revised coverage limits on Fintech users and Nigeria's financial ecosystem.

Fintech Companies Insured under the NDIC

To be eligible for insurance coverage by the NDIC during financial crises, a deposit-taking financial institution licensed by the Central Bank of Nigeria (CBN) must be duly registered with the NDIC. Fintech companies, leveraging technology to provide financial services, often engage in collecting deposits from the public, thereby exposing depositors to potential risks associated with the operations of the Fintech company. MMOs and PSBs as Fintech companies are classified as deposit-taking institutions.



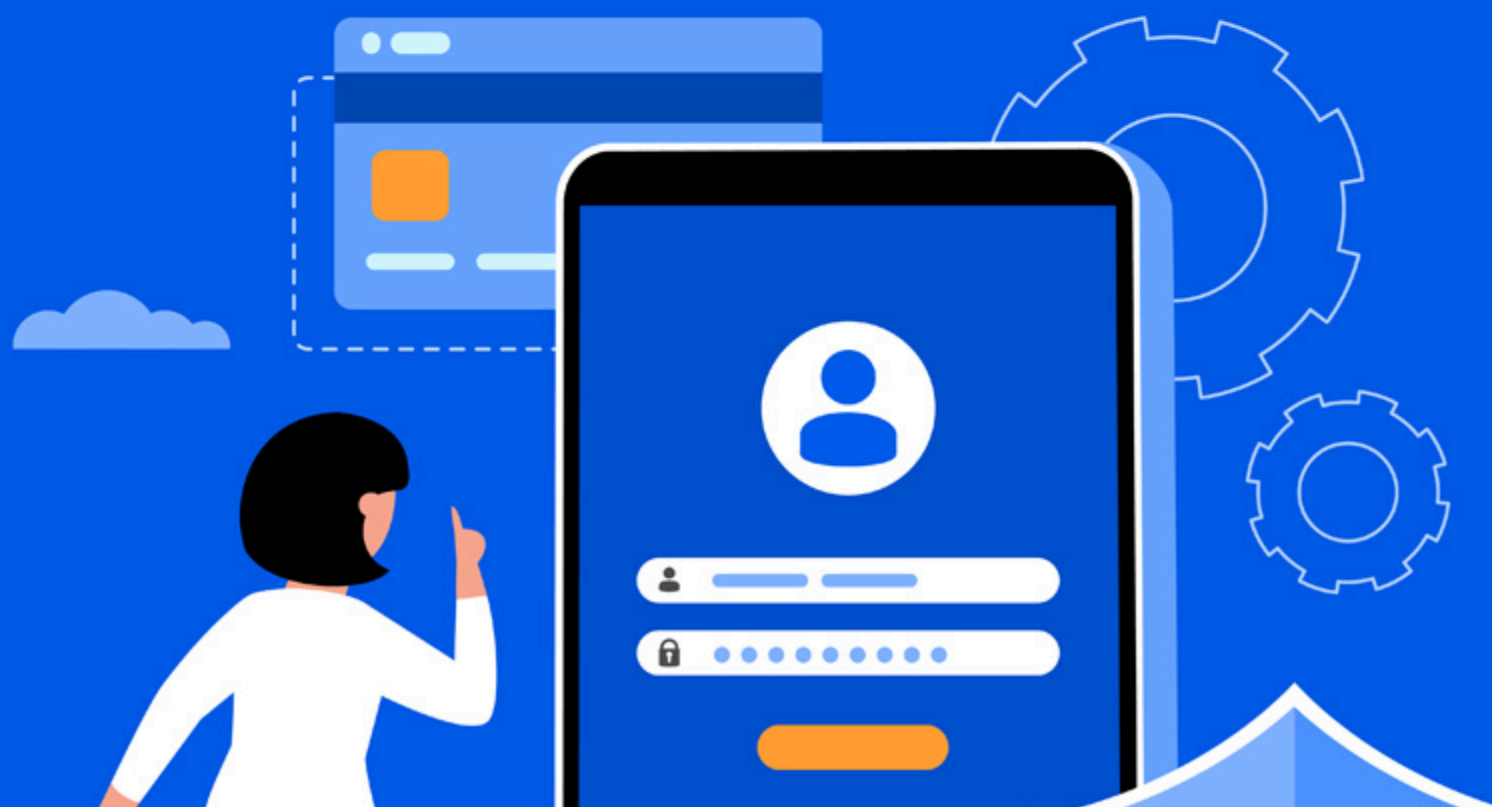
MMOs

MMOs are licensed mobile money service providers offering financial services through mobile phones and networks. They typically enable users to deposit money into an account stored on their cellphones, to send balances using PIN-secured SMS text messages to other users.

PSBs

PSBs are entities that are permitted to use technology and agency banking to mobilize deposits and facilitate transfers from unbanked consumers in rural regions and any other location in Nigeria where they exist.

This means that Fintech companies may be licensed to engage in banking activities such as savings, deposits, and withdrawals in rural areas or places with limited banking activities. Due to the nature of their operations, which involve collecting deposits from the public, MMOs and PSBs are required to register with and be insured by the NDIC. This registration and insurance serve to protect the interests of customers against potential losses in the event of operational failures or financial crises.



Fund Managers

Fund managers are regulated by the Securities and Exchange Commission (SEC) and may accept monies from the public for investment purposes. To safeguard consumers, the SEC mandates fund managers to maintain a fidelity bond equivalent to 20% of their minimum paid-up capital. This fidelity bond functions as an insurance policy, ensuring investor protection against potential losses. Fintech companies operating with a fund manager's license are required to comply with the fidelity bond before the commencement of operation.

Recent Changes in the Deposit Insurance Coverage Limit

In line with its mandate to safeguard depositors, promote confidence, and ensure stability in Nigeria's financial sector, the NDIC made recent adjustments to coverage limits in case of financial crisis. Changes pertaining to Fintech companies in this space are shown below:



S/N	DEPOSIT-TAKING INSTITUTION	PREVIOUS COVERAGE LIMIT	CURRENT COVERAGE LIMIT
1.	Payment Service Banks	NGN500,000	NGN2,000,000
2.	Mobile Money Operators	Not applicable	NGN5,000,000

The changes aim to extend protection to a larger percentage of the population, enhance financial inclusion, and mitigate the potentially destabilising effects of the financial crisis.

Impact of the Increase in Deposit Insurance Coverage

1. Enhances Depositor Protection

The primary aim of deposit insurance is to shield depositors from financial losses. By increasing coverage limits, the NDIC ensures that a larger portion of depositors' funds is safeguarded. Moreover, the augmented coverage offers depositors peace of mind, assuring them that their savings remain secure even in adverse circumstances.



2. Boosts Public Confidence

Confidence in the financial sector is paramount for its stability. When depositors have faith that their funds are protected, they are less inclined to engage in panic withdrawals during crises. Higher coverage limits serve as a tangible signal of the NDIC's unwavering commitment to depositor welfare, thereby reinforcing public trust in the financial sector.

3. Strengthens Financial Inclusion

Adequate deposit insurance coverage acts as a catalyst for increased utilization of banking channels among Nigerians. As coverage expands, individuals previously reliant on informal savings methods may transition to regulated entities. This transition not only fosters increased financial inclusion but also promotes savings, investment, and overall economic growth, benefiting the economy.

4. Ensures Stability in the Financial System

A robust deposit insurance framework plays a crucial role in maintaining overall financial stability. By mitigating the contagion effects of a financial crisis, it contributes to the sustenance of a healthy financial system. By bolstering confidence among depositors and financial institutions alike, higher coverage limits further reduce the potential for systemic instability, thereby ensuring the resilience of the financial system.



5. Risk Mitigation

Elevated coverage limits serve as a pivotal risk mitigation measure by alleviating the potential for depositor panic. This proactive approach helps to mitigate the risk of systemic instability, safeguarding the overall health of the financial system.

Conclusion

The recent adjustments to deposit insurance coverage by the NDIC aim to fortify Nigeria's financial sector by enhancing depositor protection, boosting confidence, promoting financial inclusion, and mitigating risks. These changes signal the NDIC's proactive commitment to ensuring the stability and resilience of the country's financial landscape.

