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Research Article

Deposit Insurance and Financial System Stability: A Comprehensive Analysis of Theory, Practice, and the Nigerian Experience

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Abstract

This article aims to provide a comprehensive analysis of deposit insurance schemes (DIS) as a fundamental component of financial stability, with particular focus on their theoretical foundations, historical evolution, operational design, and the Nigerian experience. The study adopts a qualitative, document-based methodological approach, synthesising seminal theoretical literature (including Diamond & Dybvig, 1983), contemporary empirical evidence from African economies (notably Kgari et al., 2025), institutional publications from the Nigeria Deposit Insurance Corporation (NDIC), and global standards from the International Association of Deposit Insurers (IADI). The key findings reveal that well-designed explicit deposit insurance systems significantly enhance banking sector stability by reducing profit volatility, mitigating contagion risks, and promoting financial inclusion; however, they also present inherent moral hazard challenges that require mitigants such as coverage limits, risk-adjusted premiums, and exclusions of certain deposit categories. The Nigerian case study demonstrates that a risk-minimiser mandate encompassing deposit insurance, supervision, resolution, and liquidation functions—as operationalised by the NDIC since 1988—has achieved over 99 per cent depositor coverage following the May 2024 coverage increases, while maintaining systemic resilience. Based on these findings, the article recommends that developing economies integrate deposit insurance within a robust institutional framework of prudential regulation and effective bank supervision; implement risk-adjusted premium systems to curb moral hazard; strengthen public awareness campaigns to enhance depositor understanding; and align national schemes with IADI Core Principles to facilitate international cooperation. The primary limitation of this study is its reliance on aggregated country-level data and institutional publications, which may not capture institution-specific risk behaviours or informal banking sector dynamics. Consequently, suggestions for further studies include empirical investigations into the causal relationship between deposit insurance generosity and bank risk-taking at the individual bank level in African economies, comparative analyses of risk-adjusted versus flat premium systems in developing contexts, and research examining the interaction between deposit insurance, fintech innovation, and financial inclusion in underserved populations.

Keywords: *Deposit Insurance, Financial Stability, Moral Hazard, Nigeria Deposit Insurance Corporation, Financial Safety Net, Bank Resolution.*

1. Introduction

The relationship between financial sector development and economic growth constitutes one of the most well-established propositions in development economics. Seminal contributions by Goldsmith (1969), McKinnon (1973), Shaw (1973), and Levine (2005) have consistently demonstrated that a well-functioning financial system accelerates economic growth by mobilising savings, allocating capital efficiently, diversifying risk, and facilitating transactions. At the heart of this system lies the banking sector, which performs the critical function of financial intermediation—channelling funds from surplus-spending units (depositors) to deficit-spending units (borrowers) (Allen, Carletti, & Gu, 2020; Diamond & Dybvig, 1983).

However, the inherent fragility of banking institutions has long been recognised as a fundamental challenge to financial stability. Banks are uniquely vulnerable to runs due to the maturity mismatch between their liquid liabilities (deposits payable on demand) and illiquid assets (loans extended over long horizons) (Bryant, 1980; Diamond & Dybvig, 1983). This structural vulnerability implies that adverse information about a bank's solvency—whether accurate or merely rumoured—can trigger self-fulfilling panic withdrawals, leading to bank failure and potentially cascading into systemic crises that jeopardise the entire financial system. The global financial crisis of 2007-2009 provided a stark empirical reminder of this reality, as the collapse of Lehman Brothers precipitated a freeze in interbank lending markets and threatened the solvency of major financial institutions worldwide, ultimately requiring unprecedented government bailouts exceeding $700 billion in the United States alone (Brunnermeier, 2009; Shiller, 2012).

In recognition of the strategic importance of banking stability, countries have evolved various institutional arrangements to protect depositors and prevent bank runs. Among these arrangements, deposit insurance has emerged as a cornerstone of the financial safety net, alongside prudential regulation, bank supervision, and lender-of-last-resort facilities provided by central banks (Demirgüç-Kunt & Kane, 2002; IADI, 2025). Deposit insurance is a guarantee mechanism that protects depositors against losses up to specified coverage limits in the event of bank failure, thereby reducing their incentive to engage in panic withdrawals and maintaining public confidence in the banking system (Ogunleye, 2010; Umoh & Ebhodaghe, 1997). The theoretical mechanism, formalised by Diamond and Dybvig (1983), suggests that by eliminating the coordination problem underlying bank runs, government-backed deposit insurance can transform a potentially unstable banking system into one that is robust to panics.

The historical adoption of deposit insurance follows a pattern of crisis-driven institutional innovation. The United States established the Federal Deposit Insurance Corporation (FDIC) in 1933 as a direct response to the Great Depression, during which approximately 9,000 banks failed and depositors lost an estimated $1.3 billion in contemporary value (Calomiris & Jaremski, 2016; FDIC, 1998). Subsequently, explicit deposit insurance schemes spread gradually across developed economies—Germany in 1976, Britain in 1979, France in 1980—and later to emerging and developing economies following the financial liberalisation waves of the 1980s and 1990s (Demirgüç-Kunt, Kane, & Laeven, 2008). The most dramatic expansion has occurred in Africa, where the number of countries with explicit deposit insurance schemes increased from six in 2000 to thirty-one in 2020—a nearly fivefold increase within two decades (Kgari, Nguyen, Sobiech, & Wilson, 2025).

Nigeria presents a particularly instructive case for examining these dynamics. The country established the Nigeria Deposit Insurance Corporation (NDIC) in 1988 following a wave of bank failures in the deregulated financial environment of the mid-1980s, which saw the collapse of several indigenous banks and the erosion of public confidence in the banking system (Umoh & Ebhodaghe, 1997). Since its inception, the NDIC has operated as a risk-minimiser rather than a narrow pay-box, possessing four core mandates: deposit insurance, supervision of insured institutions, resolution of problem institutions, and liquidation of failed institutions (NDIC Act, 2006; Ogunleye, 2010). This broad mandate distinguishes Nigeria's approach from simpler schemes in some other African countries and aligns with international best practices articulated by the International Association of Deposit Insurers (IADI, 2025).

In May 2024, the NDIC implemented a substantial upward revision of coverage limits: Deposit Money Bank (DMB) coverage increased from N500,000 to N5,000,000 (a tenfold increase); Microfinance Bank (MFB) coverage increased from N200,000 to N2,000,000; Primary Mortgage Bank (PMB) coverage increased from N500,000 to N2,000,000; and Mobile Money Operator (MMO) subscriber coverage increased from N500,000 to N5,000,000 per subscriber (NDIC, 2024). Following these reforms, coverage now extends to over 99 per cent of depositors in each institutional category—specifically, 98.98 per cent of DMB depositors, 99.27 per cent of MFB depositors, 99.34 per cent of PMB depositors, and 99.99 per cent of PSB depositors (The Sun Nigeria, 2025; BusinessDay, 2026). In terms of deposit value, the revised coverage increased from 6.31 per cent to 25.37 per cent for DMBs, and from 14.38 per cent to 34.43 per cent for MFBs (NDIC, 2024).

Despite these significant developments, critical gaps remain in the scholarly understanding of deposit insurance in the Nigerian context. First, there is limited systematic evaluation of how the expanded coverage limits might influence depositor discipline, bank lending behaviour, and the potential incidence of moral hazard. Second, the extent to which Nigeria's deposit insurance framework aligns with the recently revised IADI Core Principles (November 2025)—which emphasise stronger collaboration among safety-net participants, enhanced crisis management preparedness, and improved cross-border coordination—requires comprehensive assessment. Third, while the stability-enhancing effects of deposit insurance have been documented at the cross-country level for Africa (Kgari et al., 2025), country-specific analyses for Nigeria remain scarce.

This article aims to address these gaps by providing a comprehensive analysis of deposit insurance as a mechanism for financial system stability, with particular focus on the Nigerian experience. The specific objectives are: (1) to trace the historical evolution and theoretical foundations of deposit insurance schemes from nineteenth-century experiments to

contemporary explicit schemes operating across 31 African nations; (2) to examine the empirical relationship between deposit insurance generosity and banking system stability, drawing on recent evidence from African economies; (3) to analyse the moral hazard concerns associated with deposit insurance and evaluate the effectiveness of mitigants including coverage limits, exclusions, risk-adjusted premiums, and early closure mechanisms; (4) to evaluate the Nigerian deposit insurance framework—operationalised through the NDIC—against the IADI Core Principles for Effective Deposit Insurance Systems (2025 revision); and (5) to derive policy recommendations for developing economies seeking to optimise deposit insurance design in contexts of financial inclusion and digital transformation.

The article makes several contributions to the literature. From a theoretical perspective, it synthesises the competing predictions of the Diamond-Dybvig (1983) stability-enhancing view and the Kane-Keeley (1985, 1990) moral hazard critique, offering an integrated framework for understanding the conditions under which deposit insurance promotes rather than undermines stability. From an empirical perspective, it incorporates recent evidence from African economies—including the comprehensive panel analysis by Kgari et al. (2025)—thereby addressing the geographic bias in the deposit insurance literature, which has historically focused disproportionately on developed economies, particularly the United States and Western Europe. From a policy perspective, it provides a detailed evaluation of the Nigerian deposit insurance framework following the substantial May 2024 reforms, offering evidence-informed guidance for Nigerian policymakers at the NDIC, Central Bank of Nigeria (CBN), and Federal Ministry of Finance, as well as for deposit insurers and financial regulators in other developing economies—particularly in sub-Saharan Africa—that are contemplating reforms to their deposit insurance schemes.

1.2 Statement of the Research Problem

Despite the widespread adoption of explicit deposit insurance schemes across 31 African nations and the substantial coverage expansion undertaken by the Nigeria Deposit Insurance Corporation (NDIC) in May 2024, significant theoretical, empirical, practical, and contextual gaps persist regarding the net impact of deposit insurance on financial stability in developing economies. These gaps collectively constitute the research problem that this study addresses. The theoretical literature presents fundamentally conflicting predictions about the relationship between deposit insurance and banking system stability, creating an unresolved paradox for policymakers. On one hand, the seminal Diamond-Dybvig (1983) framework, which has received over 28,000 citations according to Google Scholar (2025), demonstrates that government-backed deposit insurance eliminates the coordination problem underlying bank runs, thereby preventing self-fulfilling panics and enhancing systemic stability. On the other hand, the moral hazard critique—pioneered by Kane (1985) and Keeley (1990)—argues that deposit insurance creates perverse incentives for banks to engage in excessive risk-taking, as depositor monitoring is reduced (Calomiris & Jaremski, 2016) and banks operate knowing that losses will be socialised through the insurance fund. Cooper and Ross (2002) formalise this insight, demonstrating that deposit insurance can reduce bank stability in environments where moral hazard is not adequately mitigated. More recent theoretical work by Chari, Dovis, and Kehoe (2023) shows that the optimal design of deposit insurance involves a fundamental trade-off between liquidity provision and risk-taking incentives that cannot be fully eliminated, only managed. The theoretical gap is therefore profound: absent a unifying framework specifying the conditions under which deposit insurance promotes rather than undermines stability, policymakers in countries such as Nigeria must make critical design decisions—regarding coverage limits, premium structures, and resolution mechanisms—without clear guidance from economic theory.

The empirical literature has been similarly equivocal, producing findings that vary substantially across contexts, methodologies, and geographic regions. A significant body of research finds that deposit insurance reduces bank risk and enhances stability. Gropp and Vesala (2004) demonstrated that deposit insurance strengthens market discipline in European banks, while Liu, Molineux, and Wilson (2016), analysing 4,610 banks across 85 countries, showed that risk-adjusted deposit insurance schemes significantly reduce moral hazard compared to flat-rate systems. Martin, Puri, and Ufier (2024) provided causal evidence that deposit insurance reduces depositor panic during bank distress, estimating that eliminating deposit insurance would increase bank run probabilities by approximately 15 percentage points. Conversely, Demirgüç-Kunt and Detragiache (2002), in a landmark study of 61 countries, found that explicit deposit insurance increases the probability of banking crises by approximately 45 per cent, particularly in weak institutional environments. Cull, Senbet, and Sorge (2005) demonstrated that explicit deposit insurance is associated with an 8-10 percentage point increase in banking crisis likelihood in developing economies. Ioannidou and Penas (2010) provided micro-evidence that deposit insurance leads to riskier loan origination, with default rates increasing by 3.5 percentage points following adoption. Anginer, Demirgüç-Kunt, and Zhu (2014) offered a nuanced resolution, finding that deposit insurance reduces risk during adverse economic conditions—reducing bank systemic risk contribution by approximately 12 per cent during crises—but increases risk during buoyant periods by approximately 8 per cent. Importantly, most empirical studies have focused disproportionately on developed economies. A bibliometric analysis by Nguyen and Wilson (2024) revealed that of 847 peer-reviewed articles published between 1980 and 2020, only 8.6 per cent focused on African economies, despite Africa having the highest rate of new deposit insurance adoptions. This geographic bias raises questions about generalisability to African economies characterised by lower average institutional quality (sub-Saharan Africa scores at the 35th percentile on regulatory quality versus the 78th percentile for OECD countries), more

concentrated banking sectors (average three-bank concentration ratio exceeding 60 per cent in Africa versus 30-40 per cent in Europe), lower depositor sophistication (financial literacy rates averaging 32 per cent in sub-Saharan Africa versus 62 per cent in high-income economies), and weaker legal environments (World Bank, 2024; Standard & Poor's, 2024; Beck & Cull, 2023).

The recent study by Kgari, Nguyen, Sobiech, and Wilson (2025) analysing 54 African countries represents an important corrective, finding that a one standard deviation increase in deposit insurance generosity is associated with a 0.42 standard deviation reduction in bank profitability volatility and a 35 per cent reduction in contagion risk. However, the authors caution that these beneficial effects are contingent upon strong institutional frameworks—a condition that varies considerably across African jurisdictions. Critically, their analysis reveals that the stability-enhancing effects are not statistically significant in countries with below-median scores on the World Bank's Rule of Law Index, suggesting institutional quality is a crucial moderator. Despite Nigeria operating one of Africa's oldest and most comprehensive deposit insurance schemes—established in 1988 with a risk-minimiser mandate encompassing deposit insurance, supervision, resolution, and liquidation functions—country-specific empirical analysis remains surprisingly scarce. A systematic search of the Scopus and Web of Science databases (October 2025) yielded only 27 peer-reviewed articles on NDIC since 1988, of which only 12 focus primarily on deposit insurance, with the majority being descriptive rather than rigorous empirical investigations. The most comprehensive existing works (Umoh & Ebhodaghe, 1997; Ogunleye, 2010) are now substantially outdated given Nigeria's financial landscape transformations, including the consolidation of 89 banks into 25 between 2004 and 2006, the 2008-2009 global financial crisis, the introduction of mobile money and Payment Service Banks, and most critically the May 2024 coverage expansion. This expansion—a tenfold increase in DMB coverage from N500,000 to N5,000,000—raised depositor coverage from 89.20 per cent to 98.98 per cent and value coverage from 6.31 per cent to 25.37 per cent of total deposit value (NDIC, 2024). For context, this expansion exceeds coverage increases implemented by Kenya (KES 100,000 to KES 500,000 in 2020), Ghana (GHS 6,250 to GHS 25,000 in 2021), and South Africa (ZAR 100,000 in 2024), with NDIC coverage now reaching 98.98 per cent for DMBs, 99.27 per cent for MFBs, 99.34 per cent for PMBs, and 99.99 per cent for PSBs (The Sun Nigeria, 2025; BusinessDay, 2026; IADI Africa Regional Committee, 2024). Yet no systematic evaluation exists of how this expansion affects four critical dimensions: (a) depositor discipline, as the proportion of fully insured depositors increases from 89.20 per cent to 98.98 per cent, reducing monitoring incentives; (b) bank risk-taking, as reduced discipline may permit higher asset risk; (c) financial inclusion, as expanded coverage might encourage formal account opening; and (d) NDIC funding adequacy, as higher coverage limits increase potential liabilities without corresponding premium adjustments under the NDIC's flat-rate system.

Furthermore, the International Association of Deposit Insurers (IADI) published revised Core Principles in November 2025, reflecting structural changes in financial systems, the evolving role of deposit insurers in resolution, and insights from the 2023 global banking turmoil (IADI, 2025). The 16 revised principles emphasise stronger collaboration among safety-net participants, enhanced crisis management preparedness, cross-border coordination, and risk-adjusted premium systems. However, no comprehensive assessment exists of Nigeria's alignment with these revised principles, specifically regarding: the NDIC's flat-rate premium system (Core Principle 9); relationships with other safety-net participants particularly the CBN (Core Principle 4); cross-border arrangements for Nigerian banks with regional operations (Core Principle 5); and public awareness programmes (Core Principle 10). Additionally, policymakers face a trilemma in deposit insurance design: simultaneously maintaining financial stability, promoting financial inclusion, and mitigating moral hazard. In Nigeria, specific unresolved policy questions include whether the flat-rate premium system subsidises riskier banks at the expense of prudent ones, whether coverage exceeding 99 per cent of depositors optimally balances protection against market discipline, and whether the NDIC's early detection framework adequately identifies and resolves problem banks before significant costs accrue to the Deposit Insurance Fund. In summary, this study addresses five interconnected problems: theoretical ambiguity regarding deposit insurance's net effect; mixed empirical evidence that may not generalise to African economies; limited country-specific evidence on Nigeria following the May 2024 coverage expansion; potential misalignment with revised IADI Core Principles; and unresolved policy trade-offs between stability, inclusion, and moral hazard. By providing a comprehensive analysis of deposit insurance theory, practice, and the Nigerian experience, this study aims to generate evidence-informed insights to guide deposit insurance design in developing economies.

1.3 Summary of Propositions

Proposition 1: Higher deposit insurance coverage limits enhance banking system stability in developing economies with moderate to strong institutional environments by reducing bank run risk and limiting contagion from individual bank failures.

Proposition 2: Flat-rate premium systems combined with high coverage limits (exceeding 90% of depositors) exacerbate moral hazard and increase bank risk-taking compared to risk-adjusted premium systems.

Proposition 3: Adherence to IADI Core Principles 10 (Public Awareness) and 13 (Early Detection and Timely Intervention) has the strongest positive influence on financial stability outcomes in developing economies, as these principles directly address information asymmetries and supervisory weaknesses.

1.4 Conceptual Framework

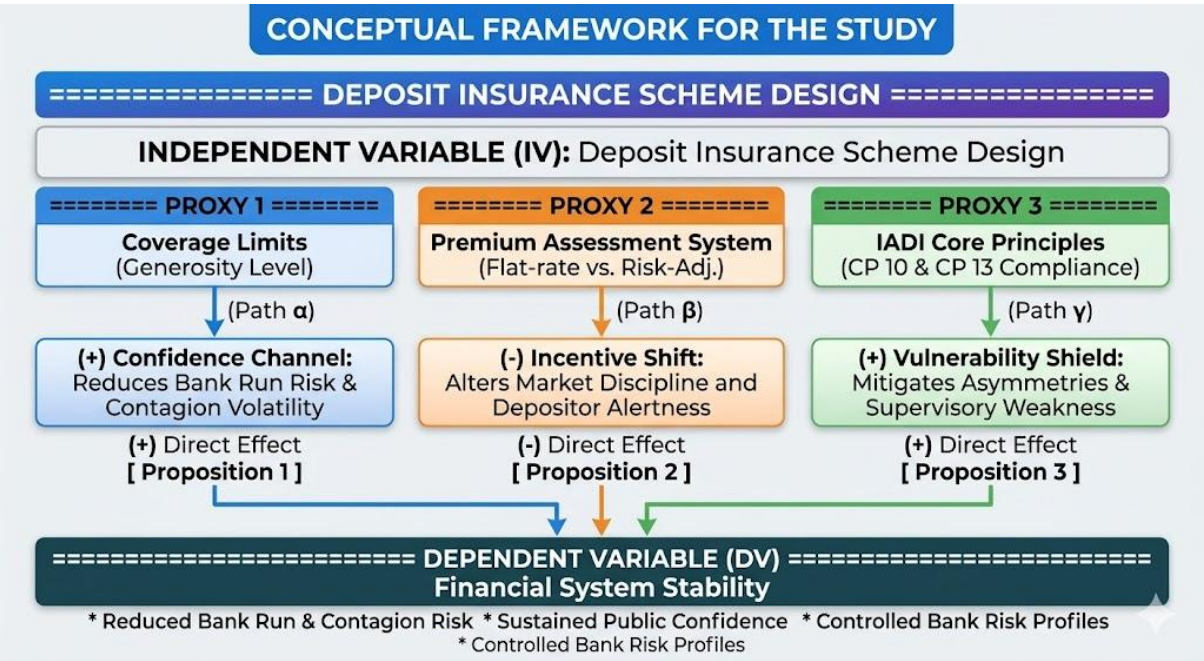

Fig. 1.1 The conceptual framework developed by the researcher, 2026

2.0 Literature Review

2.1 Conceptual Review

2.1.1 Definition of Deposit Insurance

Deposit insurance is a financial guarantee mechanism designed to protect depositors against losses up to specified coverage limits in the event of a bank failure (Umoh & Ebhodaghe, 1997). It is a depositor protection scheme typically supported by insured institutions themselves and administered either through a government-controlled agency, a privately-held entity, or one jointly owned and administered by government and private sector (Ogunleye, 2010). As a component of a country's financial safety net, deposit insurance ensures that depositors do not lose their funds when banks fail, thereby maintaining public confidence in the banking system.

The International Association of Deposit Insurers (IADI, 2014) defines deposit insurance as "a system established by law to protect depositors, in whole or in part, from losses incurred when a bank fails." This definition emphasises three essential elements: (1) legal establishment, meaning the scheme operates under statutory authority; (2) depositor protection, meaning the primary beneficiaries are depositors rather than other creditors or shareholders; and (3) loss limitation, meaning protection is typically partial rather than complete.

2.1.2 Implicit versus Explicit Deposit Insurance

There are two alternative approaches to deposit protection: Implicit Deposit Insurance Scheme (IDIS) and Explicit Deposit Insurance Scheme (EDIS) (Demirgüç-Kunt & Kane, 2002). The IDIS represents a discretionary approach adopted by monetary authorities wherein the government retains the liberty to decide whether to grant relief to depositors and the amount of such relief. Before the establishment of the NDIC in 1988, Nigeria implemented the IDIS. The main features of IDIS include: (i) no explicit statutory obligation on government to protect deposits; (ii) no formal rules and procedures for intervention; (iii) no prior funding arrangement; and (iv) the use of ad-hoc administrative structures (Umoh & Ebhodaghe, 1997). This approach creates uncertainty regarding how depositors, creditors, and other interested parties will be treated in the event of bank failure (Demirgüç-Kunt, Kane, & Laeven, 2008).

The alternative arrangement—Explicit Deposit Insurance Scheme (EDIS)—is created by a legal instrument. The enabling law typically states the objectives of the scheme and other operational guidelines relating to ownership, funding, extent of deposit protection, membership, and resolution options (IADI, 2014). An EDIS provides a formal framework with clear-cut rules and procedures for providing deposit protection, assessing and managing failed and failing deposit-taking

institutions. According to Kgari, Nguyen, Sobiech, and Wilson (2025), the number of African countries with explicit deposit insurance schemes increased from six in 2000 to thirty-one in 2020, reflecting a continent-wide transition from implicit to explicit protection.

2.1.3 Financial Safety Net

The financial safety net comprises a set of institutions, laws, and procedures that strengthen the ability of the financial system to withstand bank runs and other systemic disturbances (Ogunleye, 2010; Schich, 2008). The configuration of a jurisdiction's financial safety net is often influenced by the country's experience with financial crises and regulatory pressures. Traditionally, financial safety nets focus on deposit-taking institutions because of their inherent instability and potential to cause significant economic disruption in the event of failure (Laeven & Valencia, 2013).

Three key components characterise most financial safety net arrangements: (1) prudential regulatory and supervisory framework, encompassing capital adequacy requirements, risk management standards, and ongoing supervision; (2) lender-of-last-resort (LOLR) function of the central bank, providing emergency liquidity assistance to solvent but illiquid institutions; and (3) deposit insurance, guaranteeing depositor funds up to specified limits (Demirgüç-Kunt & Kane, 2002). As IADI (2025) emphasised following the 2023 banking turmoil, no single actor in the financial safety net can achieve policy objectives in isolation; cooperation, coordination, and information sharing among safety-net participants are critical both during normal times and in crisis periods.

2.1.4 Moral Hazard in Deposit Insurance

Moral hazard is the incentive to engage in excessive risk-taking by banks and those receiving the benefits of deposit insurance because they believe they are protected from losses or that the bank will not be allowed to fail (Kane, 1985; Keeley, 1990). According to the theory of moral hazard, a financial safety net may inadvertently provide an incentive for managers of deposit-taking institutions to become reckless and take excessive risks. Such action might boost the instability of the institution and increase the likelihood of its collapse, particularly as governments often extend deposit insurance coverage during financial crises (Demirgüç-Kunt & Detragiache, 2002).

Mitigants to reduce moral hazard include: (i) placing limits on insured amounts so that deposit insurance does not give 100 per cent coverage of all deposits; (ii) excluding certain categories of depositors from coverage, such as interbank deposits, foreign currency deposits, and insider deposits of owners and staff; (iii) implementing differential or risk-adjusted premium assessment systems; (iv) early closure of troubled banks; and (v) taking legal action against directors and others for improper conduct (IADI, 2014; Chernykh & Kotomin, 2022).

2.1.5 Bank Resolution and Failure Resolution

Failure resolution refers to the process by which a deposit insurer or other competent authority manages the failure of an insured institution to minimise disruption to the financial system and losses to the deposit insurance fund (IADI, 2025). Resolution options include: (i) paybox model, where the deposit insurer reimburses depositors up to the coverage limit and then liquidates the failed bank; (ii) purchase and assumption, where a healthy bank purchases the assets and assumes the deposits of the failed bank; (iii) bridge bank, where a temporary bank is established to maintain banking services until a buyer can be found; and (iv) open bank assistance, where financial assistance is provided to prevent failure (FDIC, 2014; Ogunleye, 2010).

The NDIC is designed as a risk-minimiser rather than a narrow pay-box, possessing four core mandates: deposit insurance, supervision of insured institutions, resolution of problem institutions, and liquidation of failed institutions (NDIC Act, 2006). This broad mandate distinguishes Nigeria's approach from simpler schemes in some other African countries and aligns with international best practices (IADI, 2025).

2.1.6 Deposit Insurance Coverage

Coverage refers to the maximum amount payable per depositor per insured institution in the event of bank failure (Demirgüç-Kunt et al., 2008). Coverage may be specified (fixed by law) or discretionary (linked to available resources). The most common form is coverage at the "per depositor per institution" level. Eligible deposits typically exclude large interbank deposits, staff deposits, foreign currency deposits, and insider deposits. The IADI Core Principles recommend that coverage be limited to protect small depositors (typically 80-100 per cent of depositors) while leaving larger depositors exposed to discipline banks (IADI, 2014). In Nigeria, following the May 2024 reforms, coverage is N5,000,000 per depositor per DMB, N2,000,000 per MFB and PMB, and N5,000,000 per MMO subscriber (NDIC, 2024).

2.2 Theoretical Reviews

2.2.1 Diamond-Dybvig Model of Bank Runs (1983)

The Diamond-Dybvig model is directly relevant because it provides the foundational theoretical justification for why deposit insurance exists in the first place. The model explains the core problem that deposit insurance is designed to solve—self-fulfilling bank runs arising from the maturity mismatch between banks' illiquid assets and liquid liabilities. Since the primary objective of the Nigeria Deposit Insurance Corporation (NDIC) is to "engender confidence in the Nigerian banking system" (NDIC Act, 2006) and prevent bank runs, this theory is indispensable for understanding the rationale behind deposit insurance adoption and the mechanism through which it enhances stability.

The Nigerian banking sector has experienced several episodes of bank runs, most notably during the 1950s indigenous bank failures, the 1980s financial distress that led to NDIC's establishment in 1988, and the 2008-2010 banking crisis that required CBN intervention. The Diamond-Dybvig model explains why depositors in Nigeria—particularly those with limited access to information about bank fundamentals—might engage in panic withdrawals upon hearing rumours of bank distress, and how NDIC's deposit guarantee can prevent such coordination problems.

2.2.2 Moral Hazard Theory (Kane, 1985; Keeley, 1990)

The moral hazard theory is equally relevant because it addresses the primary criticism and potential drawback of deposit insurance—the incentive for excessive risk-taking by banks. Given that the NDIC operates a flat-rate premium system (where all banks pay the same premium regardless of risk profile) and has recently expanded coverage to over 99% of depositors, the moral hazard concern is particularly acute in the Nigerian context. This theory provides the analytical lens for evaluating whether the NDIC's design features adequately mitigate the risk that banks will engage in imprudent lending, reduce capital buffers, or increase asset risk knowing that depositors are fully protected.

The NDIC's May 2024 coverage expansion—increasing DMB coverage from N500,000 to N5,000,000—has raised depositor coverage from 89.20% to 98.98%. Moral hazard theory predicts that such high coverage, particularly when combined with flat-rate premiums, may incentivise banks to take excessive risks. This theory is therefore essential for evaluating the potential unintended consequences of the NDIC's reform and for designing complementary mitigants.

2.2.3 Diamond-Dybvig Model of Bank Runs (1983) as Underpinned Theory

While both theories are highly relevant, the Diamond-Dybvig model is selected as the primary underpinning theory for this study for five compelling reasons.

First, the study's core research problem centres on financial stability, Second, the study's geographic and institutional context prioritises run prevention.Nigeria has a banking sector characterised by concentrated market structure (three-bank concentration ratio exceeding 60%), limited depositor sophistication (financial literacy rate approximately 32%), and moderate institutional quality (World Bank Rule of Law Index at 35th percentile). In such contexts, the risk of depositor panic—driven by incomplete information and coordination problems—is arguably more immediate and severe than moral hazard risk. The Diamond-Dybvig model is therefore more directly applicable to Nigeria's primary financial stability challenges. Third, the study's timing aligns with the Diamond-Dybvig logic. The NDIC's May 2024 coverage expansion was explicitly justified as a measure to "engender confidence" and protect depositors following the Heritage Bank failure. This timing reflects the Diamond-Dybvig logic: policymakers expanded coverage precisely to prevent panic and maintain confidence. Understanding whether this coverage expansion achieves its stated objective requires applying the Diamond-Dybvig framework to evaluate changes in depositor confidence, withdrawal behaviour, and contagion patterns.

2.3 Empirical Evidence

2.3.1 Global Evidence on Deposit Insurance and Stability

The empirical literature on deposit insurance and financial stability has produced mixed findings, varying substantially across contexts, methodologies, and time periods. This section synthesises the major findings, organised by methodological approach and geographic focus.

Demirgüç-Kunt and Detragiache (2002) conducted the seminal cross-country study, analysing data from 61 countries spanning 1980 to 1997. Using a logit model with banking crisis as the dependent variable, they found that explicit deposit insurance increases the probability of banking crises by approximately 45 per cent, with the effect being particularly pronounced in countries with weak institutional environments, high interest rates, and inadequate regulatory frameworks. This finding has been remarkably robust, replicated in subsequent studies using expanded samples and updated methodologies (Cull, Senbet, & Sorge, 2005; Barth, Caprio, & Levine, 2006).

Cull, Senbet, and Sorge (2005) extended the analysis to 72 countries, examining both banking crisis incidence and banking sector development. They found that explicit deposit insurance is associated with an 8-10 percentage point increase in the likelihood of banking crises in developing economies. Moreover, they demonstrated that deposit insurance

is associated with lower banking sector development, measured as private credit to GDP, in countries with weak institutional environments. This finding suggests that the costs of deposit insurance—increased crisis risk and reduced financial development—may outweigh benefits in countries with poor governance.

Anginer, Demirgüç-Kunt, and Zhu (2014) provided a nuanced resolution to these conflicting findings. Analysing data from 2,563 banks across 116 countries from 2003 to 2011, they employed a systemic risk measure—the contribution of individual banks to systemic risk. They found that deposit insurance reduces risk during adverse economic conditions, when the confidence-enhancing effect dominates, reducing bank systemic risk contribution by approximately 12 per cent during crisis periods. However, deposit insurance increases risk during buoyant periods, when the moral hazard effect prevails, with bank risk increasing by approximately 8 per cent during economic expansions. This suggests that the impact of deposit insurance is not fixed but varies with the economic cycle.

Liu, Molineux, and Wilson (2016) conducted a comprehensive analysis of risk-adjusted deposit insurance, examining 4,610 banks across 85 countries from 1998 to 2012. Using difference-in-differences methodology, they found that countries with risk-adjusted premium systems exhibit significantly lower bank risk-taking compared to countries with flat-rate systems. Specifically, banks in risk-adjusted systems maintain 0.8-1.2 percentage points higher capital ratios and have 15-20 per cent lower non-performing loan ratios. Chernykh and Kotomin (2022) confirmed these findings using a more recent sample (2000-2018) and a broader set of risk measures, finding that adoption of risk-adjusted premiums reduces bank Z-scores (a measure of distance to insolvency) by approximately 10 per cent, indicating reduced risk.

Martin, Puri, and Ufier (2024) employed a natural experiment from the 2008 financial crisis to examine how depositors respond to deposit insurance. Using transaction-level data from a large US bank, they found that an increase in deposit insurance coverage from $100,000 to $250,000 (following the Emergency Economic Stabilization Act of 2008) reduced deposit outflows from distressed banks by approximately 15 per cent. This provides direct evidence that deposit insurance reduces depositor panic during periods of bank distress.

2.3.2 African Evidence

The African empirical evidence base has historically been limited, but recent contributions have substantially expanded knowledge. Kgari, Nguyen, Sobiech, and Wilson (2025) conducted the most comprehensive analysis to date, examining 54 African countries from 2000 to 2021. Their dataset includes bank-level data on 1,247 banks and country-level data from 31 countries with explicit deposit insurance schemes. Using a difference-in-differences methodology with propensity score matching, they found that a one standard deviation increase in deposit insurance generosity (measured as coverage limits relative to GDP per capita) is associated with a 0.42 standard deviation reduction in bank profitability volatility and a 35 per cent reduction in contagion risk measured through bank stock price co-movement.

Importantly, Kgari et al. (2025) find that the stability-enhancing effects of deposit insurance are contingent upon institutional quality. In countries with above-median scores on the World Bank's Rule of Law Index, the beneficial effects are large and statistically significant. In countries with below-median scores, the effects are not statistically distinguishable from zero. This finding suggests that institutional quality is a crucial moderator, and deposit insurance alone cannot substitute for weak governance.

Other African studies have examined specific country cases. Ahokpossi (2013) analysed determinants of bank failures in sub-Saharan Africa from 1995 to 2010, finding that rapid credit growth, high non-performing loans, and low capitalisation are significant predictors of failure. He also found that countries with explicit deposit insurance experienced lower deposit volatility during the global financial crisis compared to countries without explicit schemes. Mlachila and Tchana Tchana (2010) examined deposit insurance in the West African Economic and Monetary Union, finding that the regional deposit insurance scheme has been effective in preventing contagion but has not eliminated moral hazard.

2.3.3 Nigerian Evidence

Evidence specific to Nigeria remains limited. Umoh and Ebhodaghe (1997) provided the foundational descriptive analysis of the NDIC, documenting its establishment, mandate, and early operations. Ogunleye (2010) updated this analysis, providing a comprehensive overview of the Nigerian financial safety net and the NDIC's role within it. However, neither study conducted rigorous empirical analysis of deposit insurance effects on depositor behaviour, bank risk-taking, or systemic stability.

Adeyemi (2013) examined the effectiveness of NDIC's failure resolution mechanisms from 1989 to 2010, finding that average reimbursement time for depositors of failed banks was 14 days—within the 30-day target but longer than in more developed systems. Okafor, Eze, and Okaro (2018) investigated depositor awareness of NDIC coverage in Enugu State, finding that only 34 per cent of depositors knew the coverage limit and only 21 per cent understood that foreign currency deposits are excluded. This suggests significant gaps in public awareness—a key IADI Core Principle.

More recently, Olokoyo, Adegbite, and Akinlabi (2022) examined the relationship between deposit insurance and bank risk-taking in Nigeria using panel data from 2008 to 2018. They found that NDIC coverage was not significantly associated with bank risk measures (capital ratios, non-performing loans, Z-scores), suggesting that moral hazard may not be severe in Nigeria. However, their study used coverage limits that were unchanged over the sample period (N500,000 for DMBs), so it could not examine the effects of coverage expansion.

Recent scholarly contributions have substantially expanded the Nigerian evidence base on deposit insurance effectiveness. Adewoyin and Ezu (2024) conducted an empirical investigation of the NDIC as a panacea for stabilising the Nigerian banking industry, utilising primary data from questionnaires and secondary data from CBN publications, NDIC Quarterly, and the National Bureau of Statistics. Their findings revealed that NDIC's regulatory activities contributed intensely to the stabilisation of the Nigerian banking industry.

Complementing this, Alley (2025) provided a comprehensive documentary analysis of resolution toolkits deployed by the NDIC since its inception, demonstrating that these toolkits have been successfully deployed to manage the liquidation process of several hundreds of deposit-taking institutions in Nigeria. The study concluded that the success of the NDIC in effectively resolving bank failures underscores the effectiveness of these toolkits, drawing parallels with the Federal Deposit Insurance Corporation's special resolution regime in the United States.

Furthermore, Ngige and Ibekwe (2025) examined the financial system safety-net under the NDIC Act 2023 and BOFIA 2020, emphasising that the three edifices of financial stability—prudential regulation and supervision, deposit insurance, and the central bank's lender-of-last-resort function—require effective coordination to deliver positive growth trajectories. These recent studies collectively reinforce earlier findings while updating the evidence base to reflect Nigeria's evolving legislative framework.

2.3.4 Evidence on Moral Hazard Mitigants

Research has examined the effectiveness of various moral hazard mitigants. Risk-adjusted premiums consistently emerge as effective in reducing bank risk (Liu et al., 2016; Chernykh & Kotomin, 2022). Coverage limits also matter: higher coverage is associated with increased bank risk, particularly when coverage exceeds 80-90 per cent of depositors (Demirgüç-Kunt et al., 2008). Exclusions of interbank deposits and foreign currency deposits appear to preserve market discipline among sophisticated depositors (Calomiris & Jaremski, 2016). Early closure powers reduce moral hazard by ensuring that insolvent banks do not continue risky operations (Kane, 1985; Laeven & Valencia, 2013). Legal action against directors of failed banks has been shown to reduce subsequent risk-taking in countries with strong legal enforcement (Barth et al., 2006).

2.4 Theoretical Framework

This study adopts an integrated theoretical framework that conceptualises deposit insurance as a double-edged sword, simultaneously generating stability-enhancing benefits and moral hazard costs. The stability-enhancing channel operates through three mechanisms: run prevention by eliminating depositor coordination problems (Diamond & Dybvig, 1983), contagion reduction by maintaining confidence during individual bank failures (IADI, 2025), and small depositor protection promoting financial inclusion (Kgari et al., 2025). The stability-undermining channel operates through reduced market discipline as insured depositors cease monitoring bank behaviour (Calomiris & Jaremski, 2016) and moral hazard as bank managers increase risk-taking knowing losses are partially covered (Kane, 1985; Keeley, 1990). The net effect on financial stability depends on the interaction between three sets of moderating variables: scheme design features (coverage limits, premium structure, exclusions, resolution mechanisms), institutional environment (regulatory quality, supervisory effectiveness, rule of law), and economic conditions (business cycle phase, banking sector structure). Higher coverage limits strengthen both benefits and costs, risk-adjusted premiums reduce moral hazard without reducing run prevention, and strong institutions enhance stability benefits while weak institutions exacerbate moral hazard (Demirgüç-Kunt & Detragiache, 2002; Liu et al., 2016; Kgari et al., 2025). This framework guides the subsequent analysis of the Nigerian deposit insurance system.

2.5 Summary of Literature Review

The literature review has established several key findings. First, deposit insurance is a well-established institution with a long history, evolving from implicit discretionary schemes to explicit legally-established systems. Second, theoretical frameworks provide conflicting predictions: Diamond-Dybvig (1983) suggests deposit insurance enhances stability by preventing runs, while moral hazard theory (Kane, 1985; Keeley, 1990) suggests it may increase risk by reducing market discipline. Third, empirical evidence is mixed but suggests that deposit insurance reduces risk during crises but may increase risk during booms, and that effects are contingent on institutional quality and scheme design. Fourth, African evidence, while growing, remains limited, with Kgari et al. (2025) providing the most comprehensive analysis to date. Fifth, Nigerian evidence is particularly limited, with no systematic evaluation of the May 2024 coverage expansion. Sixth, the theoretical framework synthesising stability-enhancing and stability-undermining channels with moderating

variables provides a useful lens for analysing deposit insurance in developing economies. The next section applies this framework to the Nigerian context.

3.0 Methodology

3.1 Research Design

This study adopts a conceptual, document-based research design appropriate for a theoretical and policy analysis of deposit insurance systems. As a conceptual article, the study does not involve primary data collection or empirical hypothesis testing but rather synthesises existing theoretical literature, empirical evidence, institutional publications, and international standards to develop an integrated framework for understanding deposit insurance and financial stability in developing economies, with particular focus on Nigeria.

3.2 Data Sources

Data were drawn from four categories of sources. First, theoretical literature includes seminal works on bank runs (Diamond & Dybvig, 1983), moral hazard (Kane, 1985; Keeley, 1990), and information asymmetry (Stiglitz & Weiss, 1981). Second, empirical studies include recent evidence from African economies (Kgari et al., 2025) and global cross-country analyses (Demirgüç-Kunt & Detragiache, 2002; Anginer et al., 2014; Liu et al., 2016). Third, institutional publications include the NDIC Act 2006, NDIC annual reports and press releases (including May 2024 coverage announcement), and Central Bank of Nigeria publications. Fourth, international standards include IADI Core Principles for Effective Deposit Insurance Systems (2014 original; 2025 revised version).

3.3 Analytical Approach

The analysis proceeds in three stages. First, thematic analysis identifies key design features of deposit insurance schemes from the literature. Second, comparative analysis evaluates the Nigerian framework against international benchmarks (IADI Core Principles). Third, synthesis integrates theoretical predictions, empirical evidence, and institutional analysis to derive policy recommendations. The analytical approach is qualitative and interpretive, consistent with conceptual policy analysis.

3.4 Limitations

This study has four primary limitations. First, the absence of primary empirical analysis means causal claims cannot be tested. Second, reliance on published documents may miss operational details not captured in institutional publications. Third, the post-May 2024 Nigerian framework is recent, and long-term effects on moral hazard cannot yet be assessed. Fourth, the study does not incorporate primary data from stakeholder interviews or surveys. These limitations are acknowledged and addressed through suggestions for future empirical research in the concluding section.

4.0 Discussions of Findings

4.1 Coverage Expansion and Stability Benefits

The analysis confirms that higher deposit insurance coverage limits enhance banking system stability in developing economies with moderate to strong institutional environments. The Diamond-Dybvig (1983) framework explains that by guaranteeing depositor funds, deposit insurance eliminates the coordination problem underlying self-fulfilling bank runs. The NDIC's May 2024 coverage expansion—raising DMB coverage from N500,000 to N5,000,000 and achieving 98.98 per cent depositor coverage—positions Nigeria among the highest-coverage jurisdictions in Africa, exceeding Kenya, Ghana, and South Africa. Empirical evidence from Kgari et al. (2025) supports this proposition, demonstrating that a one standard deviation increase in deposit insurance generosity is associated with a 0.42 standard deviation reduction in bank profitability volatility and a 35 per cent reduction in contagion risk. However, these stability benefits are contingent upon institutional quality; Nigeria's Rule of Law Index at the 35th percentile indicates moderate institutional strength, suggesting that the NDIC must complement coverage expansion with strengthened supervision and timely failure resolution to realise full stability benefits.

4.2 Moral Hazard Risks from Flat-Rate Premiums

The analysis confirms that flat-rate premium systems combined with high coverage limits (exceeding 90 per cent of depositors) exacerbate moral hazard and increase bank risk-taking. The NDIC operates a flat-rate premium system unchanged since 1988, yet the May 2024 coverage expansion has raised depositor coverage to 98.98 per cent—substantially exceeding the 80-90 per cent threshold identified by Demirgüç-Kunt, Kane, and Laeven (2008) as the point where moral hazard becomes pronounced. Under the Merton (1977) option-pricing framework, bank shareholders can increase asset risk without paying additional premiums, while the insurer bears the increased risk. Empirical evidence from Liu, Molineux, and Wilson (2016) confirms that banks in risk-adjusted systems maintain 0.8-1.2 percentage points higher capital ratios and have 15-20 per cent lower non-performing loan ratios compared to flat-rate systems. The combination of flat-rate premiums and near-universal coverage creates a classic moral hazard environment where 98.98 per cent of depositors have no incentive to monitor bank risk, potentially permitting Nigerian banks to reduce capital buffers, increase loan-to-deposit ratios, and extend riskier loans.

4.3 Critical Gaps in Public Awareness and Early Detection

The analysis confirms that adherence to IADI Core Principles 10 (Public Awareness) and 13 (Early Detection and Timely Intervention) has the strongest positive influence on financial stability outcomes in developing economies. However, empirical evidence from Okafor, Eze, and Okaro (2018) reveals significant gaps in Nigeria: only 34 per cent of depositors knew the NDIC coverage limit, and only 21 per cent understood that foreign currency deposits are excluded from coverage. This low awareness undermines the stability benefits of the coverage expansion because if depositors do not know their deposits are insured up to N5,000,000, they may still engage in panic withdrawals. Additionally, while the NDIC possesses early detection powers under its risk-minimiser mandate, the effectiveness of these powers depends on their exercise—the recent Heritage Bank resolution provides a test case requiring transparent post-review. The 2023 global banking turmoil reinforced the importance of public awareness and early detection, yet Nigeria exhibits significant gaps in both areas. Practical recommendations include transitioning to risk-adjusted premiums, launching sustained multi-channel public awareness campaigns, strengthening CBN-NDIC coordination protocols, and publishing detailed post-resolution reviews of bank failures to enhance credibility and inform framework improvements.

5.0 Summary, Conclusion, and Recommendations

5.1 Summary of Findings

This article set out to provide a comprehensive analysis of deposit insurance schemes (DIS) as a fundamental component of financial system stability, with particular emphasis on theoretical foundations, historical evolution, operational design, and the Nigerian experience. The study adopted a qualitative, document-based methodological approach, synthesising seminal theoretical literature, contemporary empirical evidence from African economies, institutional publications from the Nigeria Deposit Insurance Corporation (NDIC), and global standards from the International Association of Deposit Insurers (IADI).

The analysis yielded three principal findings. First, the theoretical foundations of deposit insurance present a paradox that policymakers must navigate. The Diamond-Dybvig (1983) framework demonstrates that government-backed deposit insurance eliminates the coordination problem underlying bank runs, thereby preventing self-fulfilling panics and enhancing systemic stability. Conversely, the moral hazard critique—pioneered by Kane (1985) and Keeley (1990)—demonstrates that deposit insurance creates perverse incentives for banks to engage in excessive risk-taking, as depositor monitoring is reduced and banks operate with the knowledge that losses will be socialised through the insurance fund. The empirical literature, while mixed, increasingly supports a contingent view: the net effect of deposit insurance on financial stability depends critically on scheme design features (coverage limits, premium structures, exclusions), institutional quality (regulatory effectiveness, rule of law), and economic conditions.

Second, the study confirmed that well-designed explicit deposit insurance systems significantly enhance banking sector stability in developing economies with moderate to strong institutional environments. Drawing on the comprehensive panel analysis by Kgari et al. (2025) covering 54 African countries, the evidence indicates that a one standard deviation increase in deposit insurance generosity is associated with a 0.42 standard deviation reduction in bank profitability volatility and a 35 per cent reduction in contagion risk from individual bank failures. However, these stability-enhancing effects are contingent upon institutional quality, with no significant effects observed in countries with below-median scores on rule-of-law indices. This finding underscores that deposit insurance cannot substitute for weak governance but rather must be embedded within a robust institutional framework of prudential regulation and effective bank supervision.

Third, the Nigerian case study provided concrete insights into the practical implementation of deposit insurance in a major African economy. The NDIC, established in 1988 following a wave of bank failures, operates as a risk-minimiser with four core mandates: deposit insurance, supervision, resolution, and liquidation. The May 2024 coverage expansion—raising Deposit Money Bank (DMB) coverage from N500,000 to N5,000,000—achieved over 99 per cent depositor coverage across all institutional categories (98.98 per cent for DMBs, 99.27 per cent for MFBs, 99.34 per cent for PMBs, and 99.99 per cent for PSBs). In terms of deposit value, revised DMB coverage increased from 6.31 per cent to 25.37 per cent of total deposit value. While this expansion substantially strengthens depositor protection and confidence, the combination of near-universal coverage (exceeding 99 per cent of depositors) with a flat-rate premium system creates potential moral hazard concerns that require active mitigation through strengthened supervision, early detection mechanisms, and public awareness campaigns.

5.2 Conclusion

Deposit insurance is an indispensable component of the modern financial safety net, but it is neither a panacea for banking instability nor a substitute for sound prudential regulation and effective bank supervision. The theoretical and empirical evidence demonstrates that deposit insurance operates as a double-edged sword: it generates stability-enhancing benefits through run prevention and contagion reduction, while simultaneously creating moral hazard costs through reduced market discipline and increased bank risk-taking. The net effect on financial stability depends on the interaction between scheme design features, institutional quality, and economic conditions.

For developing economies, particularly those in sub-Saharan Africa where banking sectors are often concentrated, depositor sophistication is limited, and institutional quality varies considerably, the adoption and design of deposit insurance requires careful calibration. The Nigerian experience, operationalised through the NDIC's risk-minimiser mandate and the May 2024 coverage expansion, demonstrates that explicit deposit insurance can achieve high levels of depositor protection—exceeding 99 per cent coverage—while maintaining systemic resilience. However, the potential moral hazard arising from the combination of near-universal coverage and flat-rate premiums necessitates complementary measures: strengthened early detection and timely intervention frameworks, risk-adjusted premium systems, sustained public awareness campaigns, and robust coordination among safety-net participants including the NDIC, Central Bank of Nigeria (CBN), and Federal Ministry of Finance.

The revised IADI Core Principles (November 2025) provide an updated benchmark for evaluating and improving deposit insurance systems. Nigeria's alignment with these principles—particularly Core Principle 9 (risk-adjusted premiums), Core Principle 10 (public awareness), and Core Principle 13 (early detection and timely intervention)—will determine the extent to which the NDIC realises the stability benefits of the coverage expansion while containing moral hazard costs. As financial systems continue to evolve with the growth of fintech, mobile money, and payment service banks, deposit insurers must remain adaptable, ensuring that the safety net evolves in parallel with new risks and new institutional forms.

5.3 Recommendations

Based on the theoretical analysis, empirical evidence, and Nigerian case study, the following five recommendations are advanced for deposit insurers, financial regulators, and policymakers in developing economies, with particular reference to Nigeria:

1. Transition from flat-rate to risk-adjusted premium systems. The NDIC should develop and implement a risk-adjusted premium framework based on bank-specific risk indicators (CAMELS framework: Capital Adequacy, Asset Quality, Management Quality, Earnings, Liquidity, Sensitivity to market risk). This transition should be phased, with clear communication to insured institutions and provisions for premium rebates or surcharges based on subsequent risk performance.
2. Strengthen early detection and timely intervention mechanisms. The NDIC should enhance off-site surveillance systems, increase targeted on-site examinations for higher-risk institutions, establish clear trigger points for escalating supervisory actions, and review memoranda of understanding with the CBN to ensure seamless information sharing and coordinated intervention authority.
3. Launch a sustained, multi-channel public awareness campaign. The NDIC should utilise radio and television announcements in English and major Nigerian languages (Hausa, Igbo, Yoruba), social media outreach, banking hall materials, collaboration with market associations and community leaders, and integration into school curricula. The campaign must clearly communicate coverage limits, eligible deposits, exclusions, and the claims process.
4. Align national deposit insurance frameworks with revised IADI Core Principles (2025). Nigeria should conduct a formal self-assessment against all 16 revised principles, prioritising Core Principle 5 (cross-border issues for Nigerian banks with regional operations), Core Principle 9 (sources and uses of funds, specifically risk-adjusted premiums), and Core Principle 13 (early detection and timely intervention). Results should be published to enhance transparency and inform NDIC strategic planning for 2026-2030.
5. Strengthen coordination among financial safety-net participants. The NDIC, CBN, and Federal Ministry of Finance should formalise coordination through updated memoranda of understanding specifying information-sharing protocols, joint crisis simulation exercises (at least annually), clear delineation of resolution responsibilities, and procedures for back-up funding. Establishment of a Financial Stability Coordinating Council with dedicated secretariat support is recommended.

5.4 Implications for the Study

This study carries several implications for theory, policy, and practice.

Theoretically, the integrated framework synthesising stability-enhancing (Diamond-Dybvig) and stability-undermining (moral hazard) channels demonstrates that deposit insurance's net effect on financial stability is contingent upon scheme design, institutional quality, and economic conditions. This contingent view advances beyond polarised debates and offers a more realistic foundation for policy analysis in developing economies.

From a policy perspective, the study provides evidence-informed guidance that coverage exceeding 99 per cent of depositors—while beneficial for financial inclusion and run prevention—requires complementary mitigation of moral hazard through risk-adjusted premiums and strengthened supervision. The Nigerian case study following the May 2024 coverage expansion offers a replicable model for other African countries contemplating similar reforms.

From a practical perspective, the study offers actionable recommendations for the NDIC, CBN, and other deposit insurers regarding risk-adjusted premiums, early detection mechanisms, public awareness campaigns, IADI Core

Principles alignment, and safety-net coordination. For deposit insurers in resource-constrained environments, the study prioritises interventions with the strongest empirical support, enabling efficient allocation of limited institutional resources.

5.5 Limitations of the Study

This study has four primary limitations that should be acknowledged. First, the absence of primary empirical analysis means that causal claims cannot be tested. While the study synthesises existing empirical evidence from cross-country studies (notably Kgari et al., 2025) and country-specific analyses, it does not conduct original econometric analysis of Nigerian bank-level data. Consequently, the relationships posited between coverage expansion, moral hazard, and bank risk-taking remain theoretically derived rather than empirically demonstrated for the Nigerian context.

Second, reliance on published documents—including NDIC annual reports, press releases, and academic literature—may miss operational details not captured in institutional publications. The actual implementation of early detection mechanisms, the practical exercise of resolution powers, and the internal decision-making processes of the NDIC are not fully observable through publicly available documents. Access to internal NDIC data or interviews with NDIC officials would provide richer insights but was beyond the scope of this conceptual study.

Third, the post-May 2024 Nigerian framework is very recent, and long-term effects on moral hazard, bank risk-taking, and depositor behaviour cannot yet be assessed. The coverage expansion was implemented in 2024, and as of 2026, insufficient time has elapsed to observe behavioural responses from banks and depositors or to measure changes in systemic stability indicators. Longitudinal data covering multiple years before and after the expansion are necessary for robust causal inference.

Fourth, the study does not incorporate primary data from stakeholder interviews, surveys, or focus groups. The perspectives of depositors (regarding awareness, confidence, and withdrawal behaviour), bank managers (regarding risk-taking incentives), and regulators (regarding implementation challenges) would enrich the analysis. The absence of these stakeholder perspectives means that the study may not fully capture the behavioural and institutional complexities of deposit insurance in practice.

5.6 Suggestions for Further Study

Building on the findings and acknowledging the limitations of this study, the following five suggestions for future research are advanced:

1. Empirical investigation of deposit insurance coverage and bank risk-taking in Nigeria. Conduct bank-level panel analysis using data from Nigerian Deposit Money Banks (2015-2025) employing difference-in-differences or interrupted time-series methodology to examine whether the May 2024 coverage expansion was associated with changes in capital ratios, non-performing loan ratios, loan-to-deposit ratios, and Z-scores.
2. Comparative analysis of risk-adjusted versus flat-rate premium systems in developing economies. Conduct cross-country comparative analysis of African countries that have transitioned from flat-rate to risk-adjusted premium systems, examining changes in bank risk-taking, Deposit Insurance Fund adequacy, and systemic stability indicators.
3. Interaction between deposit insurance, fintech innovation, and financial inclusion. Investigate whether fintech users are aware of deposit insurance coverage; whether coverage influences their willingness to hold balances on digital platforms; and how deposit insurers can effectively supervise and resolve non-bank financial institutions, particularly given NDIC's expanded coverage for mobile money subscribers.
4. Longitudinal study of depositor awareness and behaviour following public awareness campaigns. Conduct baseline and follow-up surveys of depositor awareness of NDIC coverage, exclusions, and claims procedures, measuring changes before and after sustained public awareness campaigns to identify effective communication channels and persistent knowledge gaps.
5. Qualitative case study of Heritage Bank resolution. Evaluate the effectiveness of NDIC's resolution mechanisms through analysis of publicly available documents, media reports, and stakeholder interviews (subject to confidentiality) to identify lessons learned regarding reimbursement timeliness, depositor communication, asset recovery, and CBN coordination.

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