A CRITICAL EXAMINATION OF DEPOSIT INSURANCE COVERAGE IN SUB-SAHARAN AFRICA

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ABSTRACT

Most deposit guarantee schemes limit their protection to small depositors and leave large proportion of bank deposits unprotected in a bid to curtail moral hazard. The unprotected deposits largely belong to big depositors who are presumed to possess the resources to discern between good and weak banks and are expected to participate in monitoring banks. Yet these unprotected depositors have proven to be a source of financial instability which deposit insurance also seeks to guard against. This article critically examines the rationale for limited coverage in Sub-Saharan Africa. It analyses the peculiarities of this Region and questions the suitability of limited coverage in the Region. The study observed coverage levels among various countries and found that coverage levels are higher in developed economies than middle income countries, including SSA. Countries in SSA have weak regulatory institutions, poor data quality and low financial literacy which do not support private monitoring of banks. Accordingly, the capacity of depositors in this Region to monitor banks is diminished. It is pertinent to extend full coverage to all eligible deposits in SSA. This can encourage the growth of small scale deposit taking institutions, boost financial inclusion and reduce poverty. It can also reduce the risk of financial instability in the Region which large volume of uninsured deposits constitutes a threat to.

Key words: Limited coverage, full coverage, moral hazard, uninsured depositors, Sub-Saharan Africa, eligible deposits, total deposits.

1.0. Introduction

Financial stability is a condition precedent to sustainable economic growth and poverty reduction. This prompts jurisdictions to put in place a set of institutions, rules and procedures known as financial safety net to preserve financial system stability.[1] Deposit insurance is a major

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component of the financial safety net, as it seeks to improve financial stability by preventing bank runs.[2] It provides a measure of protection (coverage) to bank depositors by granting them quick access to limited portions of their deposits when banks fail, thereby reducing the propensity for bank runs. A cardinal principle of deposit insurance is that coverage should be limited and should leave substantial portions of bank deposits exposed to market discipline in order to curtail moral hazard.[3] Accordingly, the legislation establishing deposit guarantee schemes in many jurisdictions stipulate that protection should be limited to a segment of bank depositors classified as small depositors, while those regarded as big depositors are not protected, but expected to bear losses during bank resolution or liquidation.[4]

History has shown that financial crises have often given rise to establishment or reforms of deposit insurance systems because the role of deposit insurance have been found to be reconsidered and strengthened after each financial crisis.[5] For instance, 14 countries established explicit deposit insurance schemes while 96 percent of countries that already had explicit deposit insurance increased the statutory coverage limit in response to the 2008 global financial crisis (GFC).[6] In the same vein, the banking turmoil of March, 2023 in the United States and Switzerland tested the principle of limited coverage and ignited debates on whether provision of full coverage would be more effective in ensuring financial stability or it would encourage banks to engage in riskier activities.[7] This has resulted in calls for reform of the principle (limited

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[1] The World Bank Group. 2019. Financial safety nets: Key design considerations. The 1st IADI APRC study visit. Retrieved Jun. 9, 2025, from https://documents1.worldbank.org/curated/en/099346001292216472/pdf/P169414032e0db0b20a8d00ac6d4018fb3c.pdf.

[2] FDIC. 2023. Options for deposit insurance reforms. p.25. Retrieved Jun. 12, 2023, from https://www.fdic.gov/analysis/options-deposit-insurance-reforms/report/options-deposit-insurance-reform-full.pdf.

[3] IADI. 2024. Core Principle 8.

[4] Financial Stability Board. 2024. Key Attributes of Effective Resolution Regimes for Financial Institutions (Key Attributes). p. 4. Retrieved Jun. 9, 2025, from https://www.fsb.org/uploads/P250424-3.pdf.

[5] IADI. 2013. Enhanced guidance for effective deposit insurance systems: deposit insurance coverage. Guidance Paper. p.7. Retrieved Jun. 12, 2025, from https://www.iadi.org/uploads/IADI_Coverage_Enhanced_Guidance_Paper.pdf#:~:text=In%20turn%2C%20limited%20coverage%20would%20impose%20depositor,limit%20excessive%20risk%20to%20the%20financial%20system.&text=Traditionally%2C%20coverage%20limits%20in%20deposit%20insurance%20systems,creates%20for%20greater%20risk%20taking%20by%20banks.

[6] Deposit Insurance Database. IMF Working Paper 14/118. Jul. 2014. P. 14. Retrieved Sept. 21, 2025, from https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Deposit-Insurance-Database-41710.

[7] Centre for Global Development (CGD). 2024. Deposit insurance, bank runs and moral hazard. Retrieved Jun. 9, 2025, from https://www.cgdev.org/blog/deposit-insurance-bank-runs-and-moral-hazard.

coverage) at the global scene. Additionally, the peculiarities of Sub-Saharan African (SSA) countries put the traditional justifications for limited coverage to greater test. This paper examines the suitability of limited coverage in SSA, using Nigeria as a case study. The rest of the paper is divided into four main parts: the first part highlights the historical evolution of deposit insurance coverage and its application in selected jurisdictions; the second part examines the traditional reasons for limited coverage and their pitfalls; the third part advocates the extension of coverage to big depositors in SSA, while the last part concludes the paper with recommendations.

2.0. Analysis of the Concept of Coverage

The succeeding paragraphs provide a historical background of coverage and gives a brief overview of the concept. It also highlights factors that determine coverage levels in jurisdictions.

2.1. Historical Background of Deposit Insurance Coverage

Many banks failed as a result of the Great Depression of the 1930s which affected the global economy. This gave rise to establishment of deposit insurance schemes in some jurisdictions in order to protect depositors and promote confidence in the banking system. For instance, the United States Congress passed the Banking Act (Glass-Steagall Act) of 1933 which established a deposit insurance scheme and set the coverage limit at US$2,500. Since then, the coverage limit has been increased seven times in the United States.[8] The deposit insurance scheme in the United States which is one of the earliest in the world was established with the primary objective of protecting small depositors and contributing to financial system stability. At the debate for passage of the Glass-Steagall Act in 1933, Henry Steagall, who co-sponsored the legislation argued before the United States Congress that the savings of majority of citizens who could only afford to deposit funds in a single bank must be protected.[9] He emphatically advocated for protection of small savers who often times have all their life savings in a single bank. This has remained a cardinal principle of deposit insurance in most jurisdictions till date. For instance, after the United States experience, the Deposit Insurance Corporation Act of 1961 established deposit insurance in India.[10] The mission statement of the Deposit Insurance and Credit Guarantee Corporation which administers deposit insurance in India is:

[8] FDIC. 2023. Options for deposit insurance reforms. P. 14.
[9] FDIC. 2023. Options for deposit insurance reforms. P. 27.
[10] The scheme became operational in 1962

> To contribute to financial stability by securing public confidence in the banking system through protection of deposits, *particularly for the benefit of the small depositors*.[11]

Thereafter, more jurisdictions continued to establish deposit insurance schemes to protect depositors. The Canada Deposit Insurance Corporation (CDIC) Act of 1967 established deposit insurance in Canada and set the coverage limit at C$20,000 at inception.[12] Deposit insurance was also established in Japan in 1971 to provide limited coverage to bank depositors. Coverage in Japan is currently limited to ¥600,000 (Japanese Yen).[13] Furthermore, in the United Kingdom, the Banking Act of 1979 established a deposit guarantee scheme which provided limited cover for depositors who had 'protected' deposits in banks that became insolvent.[14] The scheme became operational in 1982 and is currently administered by the Financial Services Compensation Scheme which provides coverage to depositors up to £85,000.[15] Moreso, in Apr. 2014, the European Parliament and the Council of the European Union issued Directive 2014/49/EU[16] which mandates all EU member states to enact legislation establishing a minimum of one deposit protection scheme which all banks must participate in. Deposit guarantee schemes in EU member states currently protect depositors up to a maximum limit of €100,000.[17]

In Africa, deposit insurance was established in Nigeria by the Nigeria Deposit Insurance Corporation Degree No. 22 of 1988 and it became operational in 1989. The Decree set the

[11] Deposit Insurance and Credit Guarantee Corporation. Who we are. Retrieved Sept. 20, 2025, from https://www.dicgc.org.in/about-us.

[12] Canada Deposit Insurance Corporation (CDIC). 2016. An overview of CDIC's History and Evolution: 1967 -2015. Pp. 5-6. *EliScholar*. YPFS Resource Library. Retrieved Sept. 20, 2025, from https://elischolar.library.yale.edu/cgi/viewcontent.cgi?article=6238&context=ypfs-documents2.

[13] Deposit Insurance Corporation of Japan. 2024. Annual Report 2023/2024. Apr. 2023-Mar. 2024. P. 2. Retrieved Sept. 20, 2025, from https://www.dic.go.jp/happyo/content/annual_Report_2023-2024.pdf.

[14] Maude, D. & Perraudin, W. 1995. Pricing Deposit Insurance in the United Kingdom. Bank of England Working Paper No.29. Mar. 1995. Retrieved Sept. 20, 2025, from https://www.bankofengland.co.uk/-/media/boe/files/working-paper/1995/pricing-deposit-insurance-in-the-uk.pdf.

[15] FSCS. 2025. FSCS protects you when financial institutions fail. Retrieved Sept. 21, 2025, from https://www.fscs.org.uk/.

[16] European Union. 2014. Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee scheme. *Official Journal of the European Union*. Retrieved Sept. 20, 2025, from https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32014L0049%0A.

[17] European Commission. Deposit Guarantee Schemes. Retrieved Sept. 20, 2025, from https://finance.ec.europa.eu/banking/banking-regulation/deposit-guarantee-schemes_en.

coverage limit at N50,000 at inception which has been increased four times to date.[18] This coverage was specified in legislation and could not be increased without a legislative amendment by parliament. The coverage therefore subsisted until 2006 when the legislation was repealed and replaced with the NDIC Act No.16 of 2006 which increased the coverage limit from N50,000 to N200,000. A remarkable feature of the legislation was that it removed the power to increase coverage limit from the parliament and vested it in the Nigeria Deposit Insurance Corporation (NDIC). This made it possible for the coverage limit to be increased by the NDIC without the need for a legislative amendment.[19] By 2011, the coverage limit was again increased to N500,000. This coverage remained in place till 2024 when it was further increased to N5,000,000. This last increase was effected after a 2023 survey revealed that the coverage of N500,000 left a substantial fraction of the total value of bank deposits uninsured which posed a risk of bank runs.[20]

Deposit insurance scheme was also introduced in Kenya in 1989 to protect depositors in the event of bank failures.[21] It was subsequently replicated in other SSA countries like Uganda, Malawi, Rwanda and Ghana among others. Lately, the South African Parliament passed a legislation in 2022 to establish a deposit insurance scheme. The scheme became operational in 2024 and the coverage limit was set at R100,000.[22]

2.2. Overview of Coverage

It is important to reiterate that although depositor protection has remained a principal objective of deposit insurance to date, the scheme generally does not protect all bank depositors.[23] The International Association of Deposit Insurers (IADI) which is the global standard setting body

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[18] Katata, K. 2024. The path of NDIC deposit insurance coverage: the past, present & future. A paper presentation at a workshop for Finance Correspondents Association of Nigeria (FICAN) on Sept. 26, 2024 at Lagos.

[19] This position was retained in section 25(2) of the NDIC Act No. 97, 2023.

[20] NDIC. 2024. Address by the MD/CE Nigeria Deposit Insurance Corporation (NDIC) Mr. Bello Hassan at the press conference on the review of the maximum deposit insurance coverage level, Thursday, 2nd May, 2024. Retrieved Sept. 14, 2025, from https://ndic.gov.ng/address-of-the-md-ce-nigeria-deposit-insurancecorporation-ndic-mr-bello-hassan-at-the-pressconference-on-the-review-of-the-maximum-depositinsurance-coverage-level-thursday-2nd-may-2024/.

[21] KDIC. 2025. Deposit insurance. Retrieved Sept. 21, 2025, from https://kdic.go.ke/deposit-insurance#:~:text=Deposit%20insurance%20is%20designed%20to,Deposit%20Insurance%20Corporation%20(KDIC)

[22] The South African Reserve Bank. 2020. About the Corporation for Deposit Insurance. Retrieved Sept. 13, 2025, from https://www.resbank.co.za/en/home/what-we-do/Deposit-insurance.

[23] NDIC. 2019. 30 years of deposit insurance system in Nigeria. Abuja: NDIC. Pp. 9-10.

for deposit insurance released the Core Principles for Effective Deposit Insurance Systems (Core Principles) in 2014 which were reviewed in 2016. The Core Principles, which are considered best practice states that '… coverage should be limited, credible and cover a large majority of depositors…'.[24] Accordingly, many jurisdictions as shown below, limit coverage in line with this principle.

Table showing coverage limits in selected jurisdictions

S/N	Country	Coverage
1	United States	US$250,000
2	Canada	C$100,000
3	United Kingdom	GBP85,000
4	European Union	€100,000
5	India	500,000 Rupees
6	Japan	¥600,000 (Japanese Yen)
7	China	500,000 RMB (Chinese Yuan)
8	South Africa	R100,000
9	Saudi Arabia	SAR100,000
10	Nigeria	N5,000,000.
11	Kenya	KES500,000
12	Ghana	GHC1,250.
13	Rwanda	FRW500,000 (Rwanda Francs)
14	Malawi	MK3,000,000
15	Uganda	UGX10,000,000

Source: websites of the respective deposit insurers.

In addition, coverage is required to be credible in order to reduce the risk of bank runs.[25] Evidence suggest that deposit insurance had indeed deterred bank runs in the past, especially during the global financial crisis which saw more jurisdictions establish deposit insurance schemes, while others increased coverage limits because of the role that the scheme was

[24] IADI Core Principles for Effective Deposit Insurance Systems: Principle 8-Coverage. Nov. 2014. p. 27. Retrieved Sept. 1, 2025, https://www.iadi.org/uploads/cprevised2014nov.pdf.
[25] a situation where large number of depositors make sudden withdrawals of their bank deposits with the aim of securing immediate and full access to their deposits.

observed to have played in curtailing the crisis.[26] Thus, it has been empirically proven that a higher proportion of insured deposits in the funding structures of banks makes banks less susceptible to runs.[27] Specifically, available evidence indicate that awareness of deposit insurance reduces the odds of a bank run by about 65 percent during periods of financial stress.[28] Finally, coverage limit is required to be set at a level that fully protects a large number of depositors in a jurisdiction, but still leaves a substantial proportion of the value of bank deposits unprotected.[29] Accordingly, recent studies have shown that a very high number of depositors are covered under the deposit insurance schemes in most jurisdictions across the world. A 2023 study confirmed that coverage ratios consistently exceeded 95 percent across jurisdictions and median coverage ratios were found to be above 98 percent in both G7 and G20 jurisdictions.[30] The coverage limit in Nigeria covers 98.98 percent of depositors.[31]

However, in spite of these high coverage levels, a very high proportion of the value of bank deposits are not protected by deposit insurers globally. Evidence show that slightly more than 60 percent of total bank deposits are not insured by deposit insurers globally.[32] The coverage ratio is reduced in lower middle-income jurisdictions where only 26 percent of the value of total bank deposits are covered by deposit insurers. This aligns with IADI recommendation that a substantial proportion of the value of bank deposits should be left unprotected. The above statistics show that although deposit insurance covers a very large number of depositors, the bulk of the deposits that banks trade with belong to very few big depositors who are usually not protected by deposit insurance.[33]

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[26] Bank for International Settlement. 2011. Financial Crisis: the Role of Deposit Insurance. Retrieved Sept. 9, 2025, from https://www.bis.org/speeches/sp110609.pdf.

[27] FDIC. 2023. Options for deposit insurance reforms. pp.1 & 27. Retrieved Jun. 12, 2023, from https://www.fdic.gov/analysis/options-deposit-insurance-reforms/report/options-deposit-insurance-reform-full.pdf.

[28] Uninsured deposits: relevance and evolutions over time. IADI Policy Brief No. 8. June 2023. p. 3.

[29] Essential Criteria to Principle 8 of the Core Principles for Effective Deposit Insurance.

[30] IADI. 2023. Policy Brief No. 9: Global trends in deposit insurance coverage ratios. P. 2.

[31] NDIC. 2024. Address by the MD/CE Nigeria Deposit Insurance Corporation (NDIC) Mr. Bello Hassan at the press conference on the review of the maximum deposit insurance coverage level, Thursday, 2nd May, 2024. Retrieved Jan. 14, 2025, from https://ndic.gov.ng/address-of-the-md-ce-nigeria-deposit-insurancecorporation-ndic-mr-bello-hassan-at-the-pressconference-on-the-review-of-the-maximum-depositinsurance-coverage-level-thursday-2nd-may-2024/.

[32] IADI. 2023. Policy Brief No. 9: Global trends in deposit insurance coverage ratios. P.4.

[33] FDIC. 2023. Options for deposit insurance reforms.

2.3. Determinants of Coverage

Jurisdictions usually take a number of factors into account when deciding on the level of coverage to set. These include availability of funds for reimbursing depositors. The funds available to a deposit insurer plays a role in determining the coverage level in a jurisdiction. Deposit insurers usually set coverage levels at amounts that they can afford to pay when the liability crystallises. Secondly, the stage of economic development in a jurisdiction also determines the level of coverage in that jurisdictions. This explains why coverage levels are higher in wealthier economies than developing economies. Evidence shows that wealthier countries have higher coverage levels.[34] For instance, Europe and North America have the highest coverage ratios for eligible deposits, while median coverage ratios (per value of deposits) in G7 countries have been found to surpass coverage ratios in other countries.[35] Specifically, 70, 61 and 57 percent of eligible deposits are covered in Japan, Italy and France respectively.[36] On the other hand most countries in SSA are not wealthy and have very low coverage levels. Similarly, the economic environment in a country which is usually indicated by income level and income distribution determines coverage levels. A 2023 study revealed that coverage levels were set around twice the GDP per capita in almost half of the jurisdictions studied.[37]

Furthermore, history of banking crisis is also a determining factor in setting coverage in a jurisdiction. Countries with recurring banking crisis set coverage at levels that would mitigate recurrence of crisis. Moreso, exchange rate, inflation and the need to cover majority of depositors and substantial deposits are factors that are taken into account in setting coverage levels. Others include coverage levels in neighbouring countries, especially where there is easy flow of funds among the countries, financial system environment (usually indicated by deposit structure, financial instrument development); and lesson of experience from other jurisdictions with similar economics and financial system development phases.[38]

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[34] Roosebeke, B.V., & Defina, R. 2023. Global Trends in Deposit Insurance Coverage Ratios. IADI Policy Brief No. 9. P.1. Retrieved Aug. 29, 2025, from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4604882.
[35] Uninsured deposits: relevance and evolutions over time. IADI Policy Brief No. 8. June 2023. pp. 6 & 9.
[36] Uninsured deposits: relevance and evolutions over time. IADI Policy Brief No. 8. June 2023. p. 6.
[37] IADI. 2023. Global trends in deposit insurance coverage ratios. IADI Policy Brief No. 9. Oct. 1, 2023. P.2. Retrieved Sept. 9, 2024, from https://www.iadi.org/uploads/IADI_Policy_Brief_9.pdf.

[38] Katata, K. 2024. The path of NDIC deposit insurance coverage: the past, present & future. A paper presentation at a workshop for Finance Correspondents Association of Nigeria (FICAN) on Sept. 26, 2024 at Lagos.

3.0. Rationale for Limited Coverage

Various reasons have been advanced for limiting coverage under a deposit insurance scheme. Three of the reasons are discussed below.

3.1.1. Prevention of moral hazard

A principal reason for limiting coverage to small depositors and excluding big depositors is to guard against moral hazard. This refers to the likelihood of those receiving the benefit of deposit insurance to engage in excessively risky behaviour.[39] Majority of financial economists agree that deposit insurance and similar financial safety net elements have heightened moral hazard. This is because government protection through deposit insurance is believed to encourage excessive risk-taking by weakening the likelihood of stakeholders like depositors and shareholders to monitor risk-taking behaviours of their banks.[40] Similarly, a dominant view in the academic literature is that deposit insurance has the unintended consequence of encouraging both banks and their depositors to take on excessive risks.[41] It is believed that deposit insurance assures depositors that they would get back their money when their banks fail, thereby preventing bank runs. However, this assurance diminishes depositors' incentive to monitor the risk taking activities of their banks, which results in banks engaging in excessive risk taking ventures.[42] A safeguard against moral hazard therefore is to limit coverage, so that bank depositors would have the incentive to monitor banks too.

But another school of thought has argued that depositors are not effective bank monitors because they lack the wherewithal and resources to monitor banks and exercise effective market discipline.[43] Proponents of this view argue that there are other stakeholders that have proven to be more effective in curtailing moral hazard than depositors. These include non-depositor

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[39] IADI Core Principles for Effective Deposit Insurance Systems: Principle 8-Coverage. Nov. 2014. p. 27. Retrieved Sept. 1, 2025, https://www.iadi.org/uploads/cprevised2014nov.pdf.

[40] Pernell, K. and Jung, J. 2023. Rethinking moral hazard: government protection and bank risk-taking. Socio-Economic Review, 22.2: 625-653. Retrieved Jan. 13, 2025, from https://academic.oup.com/ser/article/22/2/625/7280452.

[41] Centre for Global Development (CGD). 2024. Deposit insurance, bank runs and moral hazard. Retrieved Jun. 9, 2025, from https://www.cgdev.org/blog/deposit-insurance-bank-runs-and-moral-hazard.

[42] Danisewicz, p., Lee, C.H., and Schaec, K. 2022. Private deposit insurance, deposit flows, bank lending and moral hazard. Journal of financial intermediation, 52. Elsevier. Retrieved Jun. 9, 2025, from https://www.sciencedirect.com/science/article/abs/pii/S1042957322000201.

[43] IADI. 2013. Enhanced guidance for effective deposit insurance systems: deposit insurance coverage. Guidance Paper. p. 3.

creditors and shareholders who can more effectively constrain the risk taking activities of banks than depositors.[44] For instance, a study of the American system where an industry sponsored deposit insurance scheme exists to provide coverage beyond the US$250,000 provided by the Federal Deposit Insurance Corporation (FDIC) showed that membership of the private deposit insurance scheme shifts monitoring incentive from depositors to member banks, thereby increasing the intensity of monitoring. The study revealed that the fact that the cost of paying out deposits of a failed member institution would be borne by other member institutions creates incentives for peer-monitoring by other member banks who possess superior monitoring technologies than depositors.[45] Earlier studies in Germany also showed that the existence of a private industry sponsored deposit insurance scheme provides enough incentives for banks to monitor each other.[46]

Furthermore, it has been argued that strong bank regulation and supervision are more effective ways of checking excessive risk taking in banks than depositors. This is because the propensity of banks to engage in excessively risky activities is higher when bank regulation and supervision are very weak. Accordingly, regulatory supervision, use of financial regulation, and risk-based differential deposit insurance pricing are considered more effective ways of curtailing moral hazard than limited coverage.[47] A 2021 survey revealed that 54 percent of IADI members used differential premium assessment to mitigate moral hazard while 44 percent used institutional safeguards to mitigate moral hazard.[48] It has therefore been argued that private and public monitoring of banks can only be effective in jurisdictions that have strong institutions and rule of law.[49] Other means of curtailing moral hazard while simultaneously providing full coverage for all eligible depositors include, early closure of troubled banks to minimising the risk of loss,

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[44]FDIC. 2023. Options for deposit insurance reforms. p.1.
[45] Danisewicz, p., Lee, C.H., and Schaec, K. 2022. Private deposit insurance, deposit flows, bank lending and moral hazard. Journal of financial intermediation.
[46] Jambhulkar, S. 2014. Depositors protection in Germany. SSRN. P. 5. Retrieved Aug. 31, 2025, from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2402725#:~:text=legally%20binding%2C%20guarantee.-,The%20Deposit%20Protection%20Fund%20of%20the%20Association%20of%20German%20Banks,depositors%20protection%20scheme%20in%20Germany .
[47] IADI. 2020. Evaluation of Differential Premium Systems for Deposit Insurance. Research Paper. p. 28. Retrieved Jun., 21, 2025. From https://www.iadi.org/uploads/DPS_Paper_final_16June2020_Final.pdf.
[48] Deposit Insurance Coverage Level and Scope. IADI Research Paper, Dec. 2021. P. 12. Retrieved Sept. 21, 2025, from https://www.iadi.org/uploads/IADI20Research20Paper20on20Deposit20Insurance20Coverage20and20Scope.pdf.
[49] Centre for Global Development (CGD). 2024. Deposit insurance, bank runs and moral hazard.

demonstrating a willingness to take legal action against erring directors and other officers who cause banks to fail and excluding certain categories of deposits (especially insiders) from coverage.[50]

3.1.2. Depositor Sophistication

Protecting the small depositor has been a primary objective of deposit insurance since its inception and has remained the main justification for subsequent increases in coverage limits. One of the reasons for protecting small depositors is that they do not possess the resources, expertise and information to monitor banks.[51] For instance, when Canada was considering establishing a deposit insurance scheme, the Minister of Finance explained the objectives of the scheme at the debates in the House of Commons in 1967 to include ensuring:

> '…the safety and soundness of those depositors who are usually not in a position to judge for themselves the financial soundness of the institutions holding their deposits…'[52]

Proponents of this position have argued that monitoring banks is expensive, time consuming and requires regulatory, legal and financial expertise, which small depositors do not have.[53] As a result, small depositors are protected while big depositors who are presumed to be sophisticated and able to discern between sound and unsound banks are left unprotected and expected to exercise market discipline.[54] It has also been argued that big depositors are better equipped to perform due diligence on banks than small depositors, and can use their resources to expand their deposit insurance coverage beyond the limit provided by deposit insurers. It is further argued that they can achieve this expansion through deposit services like sweep accounts, brokered deposits and reciprocal deposits. Proponents of this argument assert that the existence of these services

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[50] Katata, K. 2024. The path of NDIC deposit insurance coverage: the past, present & future. A paper presentation at a workshop for Finance Correspondents Association of Nigeria (FICAN) on Sept. 26, 2024 at Lagos.
[51]FDIC. 2023. Options for deposit insurance reforms. p.27.
[52] Canada Deposit Insurance Corporation (CDIC). 2016. An overview of CDIC's History and Evolution: 1967 -2015. P.5.*EliScholar*. YPFS Resource Library. Retrieved Sept. 20, 2025, from https://elischolar.library.yale.edu/cgi/viewcontent.cgi?article=6238&context=ypfs-documents2.
[53] FDIC. 2023. Options for deposit insurance reforms. p.1.
[54] FDIC. 2023. Options for deposit insurance reforms. P.1. Retrieved Jun. 12, 2023, from https://www.fdic.gov/analysis/options-deposit-insurance-reforms/report/options-deposit-insurance-reform-full.pdf.

demonstrate that big depositors are already protected under the subsisting deposit insurance system.[55]

However, even if the above argument can be tenable in developed economies like the United States and United Kingdom, it can definitely not apply in SSA that has very low level of financial literacy. Services like sweep accounts, reciprocal deposits and broker deposits are not common in this Region. In addition, the challenge of information asymmetry exists in the banking system. This refers to a situation where bank depositors are not aware of the financial health of a bank and risk losing their funds if the bank becomes illiquid or insolvent. The concept of deposit insurance in principle is meant to mitigate risks associated with information asymmetry.[56] However, when coverage is limited, uninsured depositors are deprived of this advantage that deposit insurance provides, on the ground that they are presumed to have the resources to ascertain the health of banks.

Moreso, the effort of depositors to assess the true financial status of banks is impeded by the quality of data that is made available to the public by banks in SSA. It is common knowledge that the quality of data that is made available to the public by banks has remained a major challenge even to bank supervisors in this Region. Central banks in SSA have confirmed that data integrity and quality remains the foremost challenge in the banking industry.[57] Deposit insurers have also lamented the poor quality of data that banks publish, which make them unreliable for purposes of bank supervision.[58] Banks are known to adopt different practices to conceal their precarious conditions from supervisors and avoid regulatory requirements. Data integrity therefore has remained a challenge to both supervisors and other stakeholders in the banking industry.[59]

Moreover, the situation of depositors is worsened by the fact that even when supervisors are able to use their intrusive powers, skills and other mechanisms to ascertain the precarious conditions of banks, such knowledge is treated with confidentiality and concealed from depositors in order

[55] FDIC. 2023. Options for deposit insurance reforms. p.27.
[56] Nyatanyi, G. & Tengera, G. 2024. Securing sound deposit protection in East Africa. Central Banking. Retrieved Jun. 22, 2025, from https://www.centralbanking.com/central-banks/financial-stability/7962553/securing-sound-deposit-protection-in-east-africa.
[57] CBN. 2018. Central Bank of Nigeria Annual Economic Report. p. 47. Retrieved Dec. 1, 2024, from https://www.cbn.gov.ng/Out/2021/RSD/Annual%20Report%202018combined.pdf.
[58] NDIC. 2019. 30 years of deposit insurance system. P. 107.
[59] Ogunleye, G.A. 2018. The embattled bank regulator. Lagos: Kachifo- Ltd. pp. 106-107.

to avoid panic in the system. In an effort to maintain calm in the financial system, supervisors often assure the public that all banks are sound even when some are not, thereby causing depositors to trust the assurances by supervisors and fail to take steps to protect themselves.

3.1.3. Coverage protects a large majority of depositors

Another reason that is proffered as justification for limited coverage is that it usually covers a large majority of depositors. IADI reports that globally, coverage limits cover over 95 percent of depositors in both developed and low income economies. This large coverage of depositors is believed to reduce incidents of bank runs and ensures financial system stability. However, the claim that coverage limits in most jurisdictions cover a very high percentage of depositors may be misleading especially in SSA. This is because a large proportion of the accounts that make up the percentage of covered deposits are dormant accounts that have long been abandoned by the account holders. A lot of such accounts have negligible balances and are no longer operated by the account holders. Some of them belong to deceased persons who have long died while others were opened for specific purposes like conditional cash transfers, credit schemes and transient youth development programmes, and abandoned as soon as the objectives for opening the accounts were achieved. This usually explains the inability of deposit insurers to pay a lot of insured deposits when banks fail because the account holders never show up to collect the mostly negligible sums in these classes of accounts.[60] Yet, these accounts are included in computing the percentage of depositors that are covered by the coverage limit. Also, this partly explains why the value of insured deposits pales into insignificance when compared to the value of uninsured deposits.[61]

Furthermore, the bulk of the funds that banks operate with belong to the few depositors that are not insured, which means that in reality, banks are largely funded by uninsured depositors. It was noted earlier that over 60 percent of total bank deposits globally belong to uninsured depositors. The percentage of uninsured deposits in lower income middle countries is about 74 percent. Additionally, uninsured depositors are not only critical to the survival of banks but the entire economy because banks engage in financial intermediation by using deposits to create loans in

[60] NDIC. 2019. 30 years of deposit insurance system. P. 127.
[61] NDIC Annual Report and Statement of Accounts for the Year Ended December 2023. P.28. Retrieved Aug. 30, 2025, from https://ndic.gov.ng/wp-content/uploads/2025/01/2023-NDIC-Operations.pdf.

the economy. It therefore follows that the bulk of the loans that banks give out are financed by uninsured deposits.

Similarly, the relevance of uninsured deposits extends to the funding of the deposit insurance scheme in most jurisdictions. Best practice requires that the deposit insurance scheme in a jurisdiction should be funded by the institutions that receive the benefit of the scheme.[62] Accordingly, deposit guarantee schemes in most jurisdictions are funded by premiums from banks. Jurisdictions adopt different methods of assessing deposit insurance premium.[63] While some jurisdictions charge premium on protected deposits only, others compute premium on insurable deposits and total deposits.[64] The later scenario means that a bank is meant to pay premium on its total deposit liabilities, including deposits that are not protected. For instance a survey of 16 countries in the Asian-Pacific region revealed that only 5 of the countries use insured sums as premium base[65] while 10 use insurable deposits and total deposits as premium assessment bases.[66] In the United States, banks pay premium not only on their insured deposits but on their total liabilities.[67] Furthermore, evidence show that many SSA countries use total deposits as the premium assessment base. For instance, premium is calculated with reference to total deposit liabilities in Kenya, Malawi, Uganda, Tanzania and Nigeria.[68] Furthermore, in Rwanda, premium assessment is based on eligible deposits.[69] The justification for this is that all

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[62] IADI Core Principle 9 provides that participating institutions should bear the cost of running the deposit insurance scheme in a jurisdiction.

[63] The premium assessment base is the foundation to determine what member institutions contribute to the deposit insurance fund. Insured deposits and total deposits are the most common forms of assessment bases that jurisdictions use. IADI. 2009. Funding of deposit insurance systems. Guidance paper. p. 15. Retrieved Jun. 22, 2025, from https://www.iadi.org/uploads/Funding-Final-Guidance-Paper-6_May_2009.pdf.

[64] Total deposits include insurable deposits, which are deposits that are in excess of the amounts that are covered. IADI. 2009. Funding of deposit insurance systems. Guidance paper. p. 15.

[65] Singapore, Hong Kong, Vietnam, Bangladesh, Malaysia.

[66] India, Azerbbaijan, Japan, Korea, Russia, Indonesia, Thailand, Kazakhstan, and Taiwan use insurable deposit as premium assessment base while the Philippines uses total deposit liabilities. IADI. 2011. Funding mechanisms of deposit insurance systems in the Asia-Pacific Region. Research Paper. p. 17.

[67] FDIC. 2024. Deposit insurance: assessment methodology & rates. Retrieved Jun. 22, 2024, from https://www.fdic.gov/resources/deposit-insurance/deposit-insurance-fund/dif-assessments.html. However, in Canada, premium is computed with reference to insured deposits only. CDIC. 2007. Consultation paper premium assessment base calculation of total insured deposits. Retrieved Jun. 22, 2025, from https://www.cdic.ca/wp-content/uploads/Premium-Assessment-Base-Consultation-Paper-Return-of-Insured-Deposits-June-2007.pdf.

[68] Nyatanyi, G. & Tengera, G. 2024. Securing sound deposit protection in East Africa. See also Section 23(2) of the Nigeria Deposit Insurance Corporation Act, 2023.

[69] However, premium is computed with reference to protected deposits only in South Africa and Burundi. Nyatanyi, G. & Tengera, G. 2024. Securing sound deposit protection in East Africa. Central Banking. However, Rwanda and South Africa use only covered deposits as premium assessment bases.

participating institutions benefit from the financial stability that the deposit insurance scheme provides.[70]

The above analysis shows that uninsured deposits in banks far exceed insured deposits and most jurisdictions charge premium on total deposits in a bank, which means that the bulk of the premium also come from unprotected deposits. It therefore follows that the bulk of the deposit insurance premium that is used to fund most deposit insurance schemes in most jurisdictions come from uninsured deposits. Accordingly, fairness requires extension of coverage to big depositors who contribute the bulk of the funds for operating deposit insurance schemes in many jurisdictions.

4.0. A Case for Full Coverage in Sub-Saharan Africa

This section canvases for extension of full coverage to all eligible deposits in SSA. The reasons are given below.

4.1. Poor Financial Literacy

The term, financial literacy refers to a situation where people have knowledge and skills to effectively manage their financial resources and improve their economic well-being.[71] Studies show that financial literacy levels in Africa is critically low, as a significant proportion of the population in Africa is not financially literate.[72] More than two-third of the population of Sub-Saharan Africa is not financially literate, compared to the OECD (Organisation for Economic Co-operation and Development) countries where more than 50 percent of the population is financially literate.[73] For instance a high percentage of the Nigerian population is not financially literate and cannot effectively utilise the diverse financial services and products to improve their economic status.[74] A financially literate population makes more informed decisions regarding

[70] IADI. 2011. Funding mechanisms of deposit insurance systems in the Asia-Pacific Region. Research Paper. p. 17. Retrieved Jun. 21, 2025, from https://www.iadi.org/uploads/APRC_2011_Funding_paper_final_clean.pdf.
[71] Central Bank of Nigeria. 2024. Financial Literacy: Overview. Retrieved Sept. 13, 2025, from https://www.cbn.gov.ng/FinInc/FinLit/.
[72] Edokpolo, A. L. The Role of Financial Literacy in Accelerating Economic Development in Africa. Business Day. Feb. 25, 2025. Retrieved Sept. 13, 2025, from https://businessday.ng/opinion/article/the-role-of-financial-literacy-in-accelerating-economic-development-in-africa/.
[73] CNBC Africa. 2023. Why it's time to ramp up financial literacy education across Africa. Retrieved Sept. 11, 2025, from https://www.cnbcafrica.com/2023/why-its-time-to-ramp-up-financial-literacy-education-across-africa/.
[74] Central Bank of Nigeria. 2024. Financial Literacy: Overview.

savings and investment than a population with a very low level of financial literacy.[75] A population with poor financial literacy is susceptible to making financial decisions that have grave consequences; such population can easily be taken advantage of by dubious financial agents.[76] The Central Bank of Nigeria noted that users of financial services in Nigeria have suffered unethical practices from financial institutions due to the low level of financial literacy in the Country.[77]

It follows that SSA countries are at a disadvantage when it comes to choosing which banks to deposit their funds with, and when to pull out funds from banks that are no longer sound. Their low level of financial literacy does not facilitate proper understanding of the financial performance of banks and making informed decisions. Accordingly, depositors in SSA are not alert to financial challenges in banks and do not act timeously to pull out their funds from banks that begin to display signs of insolvency. This is not the case in countries with highly financially literate populations where depositors follow developments in the financial system with keen interest and act timeously to protect themselves. A good example is the development in the United States in 2023 where a social media post that Silicon Valley Bank was having challenges sparked a flurry of withdrawals by uninsured depositors, leading to the failure of the bank within hours.[78] A further announcement that uninsured depositors of the bank would not be protected led to massive withdrawals from Signature Bank which also failed 48 hours later on March 12, 2023.[79] Regulatory authorities also got reports that other banks were experiencing massive withdrawals from their uninsured depositors and had to act fast to protect all depositors and provide financial assistance to banks to enable them withstand large deposit withdrawals.[80] This is a classic illustration of the fact that a financially informed society has access to information and possesses the capacity to understand the implications of regulatory decisions on their finances and can act swiftly to protect itself. Same cannot be said of depositors in SSA.

A specific aspect of financial literacy that is at a very low level in SSA is knowledge of deposit insurance and the extent of protection it provides for bank depositors. Awareness of deposit insurance and its limitations is very law in SSA. Although deposit insurers have made various

[75] Edokpolo, A. L. The Role of Financial Literacy in Accelerating Economic Development in Africa.
[76] CNBC Africa. 2023. Why it’s time to ramp up financial literacy education across Africa.
[77] Central Bank of Nigeria. 2024. Financial Literacy: Overview.
[78] FDIC. 2023. Options for deposit insurance reforms. p.6.
[79] FDIC. 2023. Options for deposit insurance reforms. pp.6-7.
[80] FDIC. 2023. Options for deposit insurance reforms. P.7.

effort to improve awareness of deposit insurance, public awareness remains very low and a major challenge to the scheme.[81] A 2013 survey revealed that most people perceived the deposit insurance scheme in Nigeria as a financial guarantee that protected all bank deposits in the event of a bank failure.[82] Specifically, less than 24 percent of members of the organisations[83] surveyed were aware of the fact that not all bank deposits in banks were insured.[84] Similarly, less than 20 percent of members of the organisations knew the insured status of the banks that their organisations banked with. Furthermore, less than 13 percent of members of the organisations were aware that additional payments could be made by the deposit insurer after the initial payment of guaranteed sums.[85] This poor level of awareness of the limitations of deposit insurance in SSA means that depositors are not likely to take additional steps to protect their interest during periods of banking stress. This therefore puts greater responsibility on regulators to protect depositors through other means like supervision as considered below.

Moreso, it is important to note that some banks in SSA have existed for over a century and their customers have maintained accounts with them all their adult lives. Such customers therefore cannot fathom that such banks can ever fail and can put all their life savings there. This belief is reinforced where bank failures are not common in a jurisdiction because regulators adopt alternative methods to liquidation in resolving banking distress.

4.2. Weak Regulation and Supervision

The challenge of weak regulation and supervision is more pronounced in low-income countries where regulatory and supervisory institutions trail behind their counterparts in developed economies.[86] Strong institutions and rule of law are still at their formative stages in SSA which is made up largely of low-income countries.[87] This raises concerns about limited coverage in this Region in view of the fact that weak regulation and supervision aggravate the challenge of

[81] 30 years of deposit insurance. p. 170.
[82] 30 years of deposit insurance. p. 166.
[83] Trade unions, student unions and media houses
[84] 30 years of deposit insurance. p. 170.
[85] 30 years of deposit insurance. p. 171.
[86] Sunusi, L.S. 2010. The Nigerian Banking Industry- What went wrong and the way forward. A paper delivered at Bayero University Kano, Nigeria on Feb. 26, 2010. Pp. 6-7. Retrieved Aug. 30, 2025, from https://www.bis.org/review/r100419c.pdf.
[87] Ghartey, K.N.O. 2023. Towards early intervention in the resolution of banks' financial distress in Ghana. *Bank insolvency law in developing economies*. Eds. Akinola, K and Adeyemo, F. Routledge: Abingdon. Chapter 4. Pp. 83&86.

excessive risk taking by banks.[88] The weak regulatory environment in the region does not provide the right environment for bank depositors to monitor banks. As such, refusing to provide full coverage for them on the ground that they are expected to monitor the risk taking activities of banks is untenable.

Moreover, the requirement for limiting coverage to small depositors is not an absolute one, because jurisdictions practicing deposit insurance have the option of providing coverage for substantial proportion of the value of deposits. IADI recommends that where jurisdictions choose to provide coverage for substantial proportion of the value of deposits, moral hazard should be curtailed by strong supervision, regulation, dealing with parties at fault and other design features of deposit insurance.[89] This shows that IADI Core Principle 8 makes allowance for jurisdictions to provide coverage for substantial value of bank deposits in deserving cases. Accordingly, SSA countries can provide full coverage for eligible deposits while laying greater emphasis on regulation and early intervention as measures to address market discipline.[90] Additionally, rather than limiting coverage, SSA countries can focus on deepening policies that encourage other market participants like shareholders and debt holders to constrain risk taking activities of banks as a way of mitigating moral hazard concerns linked to deposit insurance.

4.3. No Alternative Deposit Protection Schemes

Some jurisdictions allow more than one deposit protection scheme to operate within their territories. The reasons for this include, the need to give depositors the choice of putting their funds in banks that are insured by highly credible deposit insurers and promote competition among deposit insurers.[91] Furthermore, with more than one deposit insurer in a jurisdiction, banks can be allowed to obtain additional coverage from more than one deposit insurer.[92] For instance, Germany has a dual deposit protection scheme which provides comprehensive

[88]Anginer, D. & Demirguc-Kunt, A. 2024. 2024. Deposit insurance, bank runs and moral hazard. *Centre for Global Development.* Retrieved Aug. 30, 2025, from https://www.cgdev.org/blog/deposit-insurance-bank-runs-and-moral-hazard.

[89] IADI. IADI Core Principles for Effective Deposit Insurance Systems, Nov. 2014. P.27. Retrieved Aug. 30, 2025, from https://www.iadi.org/uploads/cprevised2014nov.pdf.

[90] IADI. 2013. Enhanced guidance for effective deposit insurance systems: deposit insurance coverage. Guidance Paper. p.3.

[91] IADI. Enhanced Guidance for Effective Deposit Insurance: Multiple Deposit Insurance Organisations. June 2015. P.10. Retrieved Aug. 31, 2025, from https://www.iadi.org/uploads/IADI_Enhanced_Guidance_on_Multiple_Deposit_Insurance_Org_June_2015.pdf.

[92]IADI. Enhanced Guidance for Effective Deposit Insurance: Multiple Deposit Insurance Organisations. P. 6.

protection for bank depositors. The statutory Depositor Protection Fund for Private Banks protects depositors up to €100,000, while the Association of German Banks-Depositor Protection Fund which is a voluntary scheme that is established by the banking sector provides coverage in excess of the €100,000 that the statutory scheme provides.[93] A similar situation exists in the US where an industry sponsored deposit insurance scheme operates to provide supplemental coverage beyond the US$250,000 provided by the FDIC.[94] Furthermore, in France, the State provides additional protection directly for certain savings accounts.[95] These accounts are safeguarded separately from the coverage limit of €100,000 provided by the FGDR which provides deposit and investments guarantee.[96]

Unlike these developed economies, depositors in SSA do not have the options of having alternative deposit protection. They are often restricted to the state run deposit insurance schemes and prevented from taking additional insurance for uninsured portions of their deposits.[97] It is therefore necessary for all eligible depositors in this region to be accorded full coverage.

4.4. To encouraging growth of small scale deposit taking institutions

The lack of adequate protection for depositors has stunted the growth of small scale deposit–taking institutions in SSA. These institutions have been failing rapidly in the region and causing depositors to lose their savings. For instance about 600 microfinance banks and primary mortgage banks have failed in Nigeria between 2010 to 2023,[98] while 29 deposit taking microfinance institutions failed between 2001 and 2011 in the West African Economic and

[93] Bankenverband. 2025. Deposit Protection. Retrieved Aug. 31, 2025, from https://bankenverband.de/en/topics/deposit-protection#:~:text=Germany%20has%20access%20to%20one,which%20offer%20even%20more%20protection.

[94] A 2022 study of the behaviour of depositors in the United States, revealed that the additional coverage provided by the private deposit insurance (DIF) may prevent depositors of banks that are members of the DIF from withdrawing their funds, while depositors of banks that are only insured by the FDIC may transfer their funds to banks that have 100 percent coverage during banking crises. Danisewicz, p., Lee, C.H., and Schaec, K. 2022. Private deposit insurance, deposit flows, bank lending and moral hazard. Journal of financial intermediation.

[95] LEP, LDDS, LIVRTA.

[96] Kumar, P. 2024. Bank deposit guarantee system in France: securing your bank deposit and investments. Retrieved, Apr. 21, 2025, from https://prasanthragupathy.com/2024/11/bank-deposit-guarantee-system-in-france-securing-your-savings-and-investments/#:~:text=Deposit%20Guarantee%3A%20Up%20to%20%E2%82%AC,covered%20up%20to%20%E2%82%AC100%2C000).

[97] For instance, section 5 of the Nigeria Deposit Insurance Corporation Act 2023 criminalises the operation of any other deposit insurance scheme beside the one run by the NDIC.

[98] NDIC Annual Report and Statement of Accounts for the Year Ended December 2023. P.63. Retrieved Aug. 30, 2025, from https://ndic.gov.ng/wp-content/uploads/2025/01/2023-NDIC-Operations.pdf.

Monetary Union and the Economic and Monetary Community of Central African States.[99] These failures affect public perception of these institutions and discourage citizens from patronising them.[100] Yet, they are very critical to the growth of small scale businesses, financial inclusion and poverty reduction in SSA.[101]

Extending full coverage to eligible depositors of licensed small scale deposit taking institutions would surely boost public confidence and attract funding to the sector. We make this assertion because of the experience of other jurisdictions. For instance, in the mid-60s, the thrift industry in the United States had difficulty getting funds from depositors to finance mortgages. The coverage limit was increased from US$10,000 to US$15,000 in 1966 and US$20,000 in 1969. These increases boosted confidence in the banking system and greatly assisted the thrift industry by attracting savings and supplying liquidity for mortgage.[102] Furthermore, in 2009, various arguments were canvassed before the United States Congress when it considered permanently increasing the coverage limit from US$100,000 to US$250,000. The banking industry in its presentation stated that the higher coverage limit assisted community banks in mobilising deposits and improved public confidence in the system.[103] These instances have been cited to support the argument that adequate coverage limit for small scale deposit taking financial institutions can help them in attracting deposits from the public and make them better capitalised. The importance of encouraging the growth of these institutions in SSA cannot be over-emphasised because of the pivotal role they can play in promoting financial inclusion and eradicating poverty.

4.5. Uninsured Depositors can jeopardise Financial System Stability

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[99] Moyo, Z., Mukorera, P. Nyatanga, P. 2022. Liquidity and deposit Insurance: the case of deposit-taking microfinance institutions in low income Sub-Saharan Africa. *Management and Economics Research Journal* 8.4: 1-10.

[100] World Bank Group. Ghana's Microfinance Sector: Challenges, Risks and Recommendations. April 2016. Paragraph 6, p. vi. Retrieved Aug. 29, 2025, from https://openknowledge.worldbank.org/server/api/core/bitstreams/d789f026-7961-5cfe-bbef-1594025a6f9b/content.

[101] Adebiyi, M.A., Olusegun, T.A. & Yakubu, J. 2022. *Microfinance Sustainability in a Digitalised Economy. Economic & Financial Review* 60.1: 53-65. Retrieved Aug. 29, 2025, from https://www.cbn.gov.ng/Out/2023/RSD/Microfinance%20Sustainability%20in%20a%20Digitalised%20Economy.pdf.

[102] FDIC. 2023. Section 6: Options for Increased Deposit Insurance Coverage. p. 15.

[103] FDIC. 2023. Section 6: Options for Increased Deposit Insurance Coverage. pp. 15-16.

Coverage levels in SSA is no longer consistent with the public policy objective of deposit insurance, which is to promote financial system stability. Limited coverage does not give big depositors confidence in the system and puts financial stability at risk. The large concentrations of uninsured deposits increase the potential for bank runs and can jeopardise financial stability which deposit insurance seeks to protect.[104] This is because the likelihood of a bank run by uninsured depositors is higher, compared to insured depositors.[105] For instance, over 94 per cent of the deposits in the US-based Silicon Valley Bank which failed in 2023 belonged to very few depositors who were not insured.[106] This shows that banks cannot survive without uninsured depositors' funds. Thus, full coverage would largely eliminate bank runs and enhance transparency by providing depositors with clear understanding of their insurance status.[107]

Although the incident cited above may not have occurred in SSA, they emphasis the danger of relying heavily on uninsured deposits,[108] a very common development in SSA. Studies have confirmed that SSA is among the regions with high volumes of uninsured deposits compared to more advanced economies in other regions. 74 percent of the value of total bank deposits are not insured in lower middle income countries, which include majority of SSA countries. Therefore, uninsured depositors in SSA equally constitute a threat to financial stability as they can cause bank runs and systemic bank failures.

5.0. Conclusion

Best practice recognises that coverage design needs to be jurisdiction specific and reflect the peculiarities of each jurisdiction.[109] Accordingly, we believe that there exist strong reasons for extending coverage to uninsured depositors in SSA because of the peculiarities of this region. It

[104] FDIC. 2023. Section 6: Options for Increased Deposit Insurance Coverage. *Options for Deposit Insurance Reforms.* P. 41. Retrieved Sept. 1, 2025, from https://www.fdic.gov/analysis/options-deposit-insurance-reforms/report/options-deposit-insurance-reform-section-6.pdf.

[105] FDIC. 2023. Options for deposit insurance reforms. p.1. Retrieved Jun. 12, 2023, from https://www.fdic.gov/analysis/options-deposit-insurance-reforms/report/options-deposit-insurance-reform-full.pdf.

[106] IADI POLICY BRIEF NO. 9. p.1

[107] FDIC. 2023. Options for deposit insurance reforms. p.4.

[108] Gruenberg, M.J. 2024. A tale of two unions-Deposit insurance in the United States and Europe. A speech delivered at the Center for Financial Studies Goethe University, Frankfurt on Oct. 29, 2024. Retrieved Sept. 1, 2025, from https://www.fdic.gov/news/speeches/2024/tale-two-unions-deposit-insurance-united-states-and-europe

[109] Deposit Insurance Coverage Level and Scope. IADI Research Paper, Dec. 2021. P. 12. Retrieved Sept. 21, 2025, from https://www.iadi.org/uploads/IADI20Research20Paper20on20Deposit20Insurance20Coverage20and20Scope.pdf.

is important to note that provision of full coverage in jurisdictions is not a strange phenomenon, as some jurisdictions have had course to do so for diverse reasons. For instance, Chile introduced full coverage for demand deposits in order to protect its payment system while Japan, Korea, Turkey Malaysia and other countries provided full coverage when they perceived financial stress in their territories.[110] Accordingly, we recommend that full coverage should be provided for total eligible deposits in SSA for the peculiar reasons discussed above. Alternatively, emphasis on coverage in this region should be on total deposits, not number of depositors. We recommend that deposit insurers in this Region should provide coverage for 70 percent of total bank deposits while alternative deposit insurance schemes should be allowed to exist to enable banks provide supplemental insurance for deposits that are not protected by state-owned deposit insurance schemes because of the advantages that this offers as experienced in Germany and the United States.

[110] Johnson, G.G. III A Survey of Deposit Insurance Practices. IMF eLibrary. Retrieved Aug. 31, 2025, from https://www.elibrary.imf.org/display/book/9781557759481/ch03.xml.