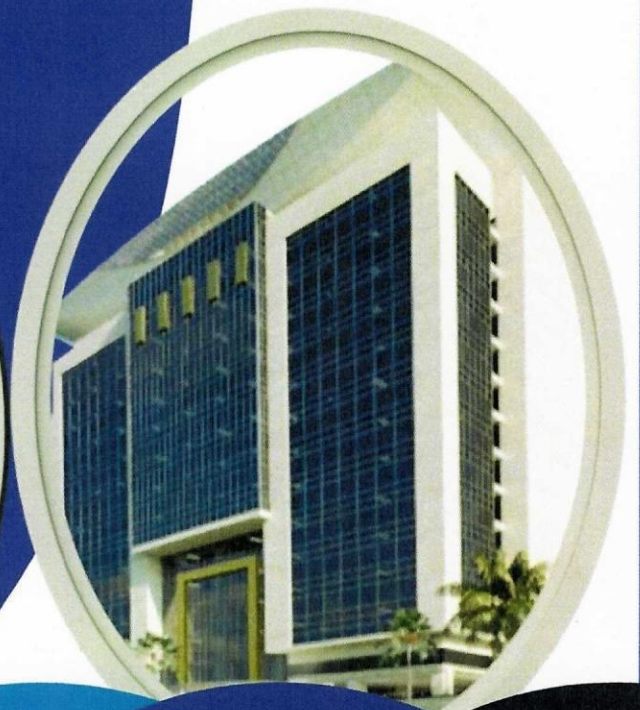


REVISED FRAMEWORK FOR DIFFERENTIAL PREMIUM ASSESSMENT SYSTEM OF NDIC 2025





Nigeria Deposit Insurance Corporation
Protecting your bank deposits

Revised Framework for Differential Premium Assessment System of NDIC

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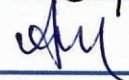
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1.0 Introduction

The adoption of the Differential Premium Assessment System (DPAS) by the Nigeria Deposit Insurance Corporation (NDIC) aims to distinguish premiums payable by insured financial institutions based on their respective risk profiles. Classifying banks into various risk buckets and applying different premium rates based on each bank's perceived riskiness forms the basis of a DPAS. Hence, an institution with a higher/lower risk profile would have a higher/lower premium rate.

Prior to the adoption of DPAS, the Corporation implemented a flat rate premium system from 1989 to 2007 for Deposit Money Banks (DMBs); from 2006-2016 for Primary Mortgage Banks (PMBs); and from 2006-2020 for Microfinance Banks (MFBs). The premium payable to NDIC was assessed at a uniform rate across all insured banks.

In 2008, the NDIC transitioned from flat-rate premium assessment to DPAS, which was applied to Commercial and Merchant banks (DMBs). Subsequently, it was adopted for Non-Interest Banks (NIBs) in 2012; PMBs in 2017; and MFBs & Payment Service Banks (PSBs) in 2021.

The Initial DPAS Framework of the NDIC was issued in 2007. This Revised DPAS Framework seeks to document the key elements of the NDIC DPAS which have been reviewed to make it more risk-sensitive due to significant changes that have taken place in the Nigeria banking system and conform to the recommendations of the International Association of Deposit Insurers (IADI) and other global best practices.

2.0 Objectives of the Framework

The specific objectives of risk-based pricing of deposit insurance and this DPAS Framework are:

- i. To introduce fairness into the premium assessment process;
- ii. To encourage effective risk management practice in insured institutions;
- iii. To apply a risk differential approach in the deposit insurance premium assessment of insured institutions;

- iv. To allow insured institutions in the lower risk categories to pay relatively lower premium rates;
- v. To charge insured institutions in the higher risk categories additional premiums for their extra risks;
- vi. To incentivise regulatory compliance; and
- vii. To mitigate moral hazard.

3.0 The Framework Principle and the IADI Essential Criteria

The NDIC risk-adjusted deposit insurance pricing is anchored on the premise that the cost of deposit insurance premiums and the coverage level should neither over-burden the banking system nor be largely subsidised by public funding (tax-payers' money).

IADI Core Principle 9 "Sources and Uses of Funds" provides that a deposit insurer should have readily available funds and all funding mechanisms necessary to ensure prompt reimbursement of depositors' claims and that the responsibility for paying the cost of deposit insurance should be borne by banks. The essential criteria recommended that if the deposit insurer uses differential premium systems:

- i. The system for calculating premiums is transparent to all participating institutions;
- ii. The scoring/premium categories are significantly differentiated; and
- iii. The ratings and rankings resulting from the system pertaining to individual banks are kept confidential.

4.0 Legal Basis of the Framework

- i. Section 22 of the NDIC Act 2023, provides that all deposits of a licenced bank or any other deposit-taking financial institution shall be insured with the Corporation with the exception:
 - a. Insider deposits, that is, deposits of staff including directors of the insured institutions;
 - b. Counterclaims from a person who maintained both deposit and loan account, the former serving as collateral for the loan;
 - c. Inter-bank Placements¹; and

¹ Inter-bank Placements implies Inter-bank Takings

d. Such other deposits as may be specified by the Board.

- ii. Section 23 (1) and (2) of the Act, requires every insured institution to pay to the Corporation an annual premium and subject to subsection (4) the assessment of premium shall be on a risk-based basis by reference to total deposit liabilities standing in its books as at 31st December of the preceding year. Hence, the adoption of the Differential Premium Assessment System in NDIC.
- iii. Furthermore, Section 23 (4) of the Act has given the Corporation the power to vary the rate or basis of assessment of the premium payable to the Corporation by insured institutions or to charge an insured institution or any class of insured institutions premium at a rate or rates as may be determined by the Board.
- iv. The rate or basis of assessment of the premium payable to the Corporation by insured institutions shall be published in the Federal Government Gazette, Section 23 (5).
- v. Sections 23 (11) and (12), where an insured institution is in default of premium or special contribution, empowers the CBN at the written request of the Corporation, to debit the account of DMB or cause the relevant correspondent bank to debit the account of other deposit-taking financial institutions, of the unpaid amount and accrued interest for the benefit of the Corporation.
- vi. In line with section 24, a premium due from an insured institution to the Corporation shall not be reduced, adjusted, or withheld on the basis of any set-off or claim that an insured institution may have against the Corporation.
- vii. Sections 32 (1), (3d) (4) and 33 empower the Corporation - where an insured institution is in default with its payment of annual premium or special contribution as provided in section 23 of the NDIC Act - to terminate the insured status (remove an institution from its register of insured institution) after a warning notice, with the concurrence of the CBN.

5.0 Scope of Application

The Revised Framework shall be applied to all insured banks in Nigeria which include Commercial Banks (CBs), Merchant Banks (MBs), Non-Interest Banks (NIBs) and Non-Interest Windows; Microfinance Banks (MFBs); Primary Mortgage Banks (PMBs); Payment Service Banks (PSBs), Non-Interest Microfinance Banks (NIMFBs) and such other deposit-taking institutions in Nigeria that may be licenced by the CBN.

6.0 Rationale for the Review of Extant DPAS Framework

The need to periodically review, up-date and fine-tune DPAS is to ensure the sustainability of the system and comply with best practices. Therefore, this review was necessitated by the need to address observed gaps in the extant DPAS framework, challenges of operationalizing the framework, align with Risk Based Supervisory Rating/Approaches and for a more robust calibration of a Risk-Adjusted Premium Assessment of the NDIC.

7.0 Methodology of the Framework

7.1 Assessment Model for the NDIC DPAS

IADI² recommended four models for pricing deposit insurance which include the Structural Option Pricing Model, Empirical Expected Loss Model, Bucketing Approach, and Fund Size Calculations. In the Revised Framework, the NDIC adopted the Bucketing Approach for its DPAS.

7.2 DPAS Structure

7.2.1 DPAS Template

The NDIC DPAS Template uses two primary stages of deposit insurance pricing (determination of premium rate), namely:

- i. Determination of a Base Premium Rate (Ro) for all banks; and
- ii. Determination of add-ons based on the individual bank's risk profile using both quantitative and qualitative factors. The add-ons are linked to the Composite Risk Score (CRS) of the individual insured financial institution.

² IADI. 2020. *Evaluation of Differential Premium Systems for Deposit Insurance*. Available at: https://www.iadi.org/uploads/DPS_Paper_final_16June2020_Final.pdf

The premium rate would be computed quarterly, and the average for the four quarters would be used to determine the premium payable by multiplying each institution's premium rate by its total assessable deposits reported in the external auditors' certified statement of total deposit liabilities or the returns as at 31st December of the preceding year.

The Template is based on the CAMELS parameters, with the quantitative criteria carrying 75% of the total add-ons score (0.30) or 0.225 of the add-ons and the qualitative criteria accounting for 25% or 0.075. The quantitative factors are Capital Adequacy, Asset Quality, Earnings & Profitability, Liquidity & Funds Management and Sensitivity to Market Risk; while the qualitative factor is Management & Corporate Governance.

Below is the summary of parameters and the accompanying weights as used in the CBN/NDIC Composite Bank Rating that is expected to feed into the DPAS Template:

Table 1: Composite Risk Rating Computation

Parameters	Weights (%)	Credit points	Weighted Credit Points
Capital Adequacy	20	CP1	$WCP1 = CP1 * WEIGHTS / 100$
Asset Quality	15	CP2	$WCP2 = CP2 * WEIGHTS / 100$
Earnings & Profitability	20	CP3	$WCP3 = CP3 * WEIGHTS / 100$
Liquidity & Funds Management	15	CP4	$WCP4 = CP4 * WEIGHTS / 100$
Sensitivity to Market Risk	5	CP5	$WCP5 = CP5 * WEIGHTS / 100$
Management & Corporate Governance	25	CP6	$WCP6 = CP6 * WEIGHTS / 100$
Total	100		$\sum WCP = COMPOSITE RATING$

Weighted Credit Points = component points x weights/100; *Composite Rating* = sum of weighted credit points = $\sum WCP$. *Ratings* (Low, Moderate, Above Average and High Risks) are assigned to banks based on the Total Composite Score, where *COMPOSITE SCORE* is the Summation of all the Weighted Credit Points for all items in the Bank Rating Computation.

Table 2: Composite Risk Rating Categorisation

S/No	Score	Risk Rating	Abbreviations
1	$80 \leq X \leq 100$	Low	L
2	$60 \leq X < 80$	Moderate	M
3	$50 \leq X < 60$	Above Average	AA
4	$0 \leq X < 50$	High	H

Rating L – Low Risk the highest (best) rating. It is an indication that the institution is very sound in all respects. **Rating H** – High Risk is the lowest (worst) rating. An institution rated in this category has high immediate probability of failure.

7.2.2 Premium Base Rate and Add-ons Computation for Different Categories of Insured Institutions

7.2.2.1 Premium Base Rate and Add-ons Computation for DMBs

The DPAS Template for DMBs is made up of the Base Rate (Ro) of 0.30% and maximum Add-ons of 0.35%. The estimated add-on for a DMB is dependent on the CRS of that individual insured DMB, as shown in Table 3. This section revises the previous the Base Rate (Ro) of 0.35% and maximum Add-ons of 0.30% as an incentive to encourage banks to embrace better risk management practices.

Table 3: Premium Base Rate and Add-ons Computation for DMBs

PARAMETER	FORMULA
BASE RATE (%)	=0.30
MAXIMUM ADD-ON (%)	=0.35
ESTIMATED ADD-ON PER DMB (%)	= $0.35 * [1 - (CRS/100)]$
PREMIUM RATE	= $\{0.30 + (0.35 * [1 - (CRS/100)])\} / 100$

NOTE: 1. Base rate is 0.30% irrespective of the DMB's Rating.

2. CRS – Composite Risk Score of individual DMB derived from the CBN/NDIC Bank Rating Matrix.

7.2.2.2 Premium Base Rate and Add-ons Computation for PSBs

The DPAS Template for PSBs is made up of the Base Rate (Ro) of 0.10% and maximum Add-ons of 0.10%. The estimated add-on for a PSB is dependent on the CRS of that individual insured PSB as shown in Table 4.

Table 4: Premium Base Rate and Add-ons Computation for PSBs

PARAMETER	FORMULA
BASE RATE (%)	=0.10
MAXIMUM ADD-ON (%)	=0.10
ESTIMATED ADD-ON (%)	= 0.10 * [1-(CRS/100)]
PREMIUM RATE	= {0.10 + (0.10*[1-(CRS/100)])}/100

NOTE: 1. Base rate is 0.10 irrespective of the PSB's Rating.
 2. CRS – Composite Risk Score of individual PSB derived from the CBN/NDIC Bank Rating Matrix.

7.2.2.3 Premium Base Rate and Add-ons Computation for PMBs

The DPAS Template for PMBs is made up of the Base Rate (Ro) of 0.30% and maximum Add-ons of 0.25%. The estimated add-on for a PMB is dependent on the CRS of that individual insured PMB as shown in Table 5.

Table 5: Premium Base Rate and Add-ons Computation for PMBs

PARAMETER	FORMULA
BASE RATE (%)	=0.30
MAXIMUM ADD-ON (%)	=0.25
ESTIMATED ADD-ON (%)	= 0.25 * [1-(CRS/100)]
PREMIUM RATE	= {0.30 + (0.25*[1-(CRS/100)])}/100

NOTE: 1. Base rate is 0.30 irrespective of the PMB's Rating;
 2. CRS – Composite Risk Score of individual PMB derived from the CBN/NDIC Bank Rating Matrix.

7.2.2.4 Premium Base Rate and Add-ons Computation for MFBs

The DPAS Template for MFBs is made up of the Base Rate (Ro) of 0.20% and maximum Add-ons of 0.25%. The estimated add-on for an MFB is dependent on the CRS of that individual insured MFB as shown in Table 6.

Table 6: Premium Base Rate and Add-ons Computation for MFBs

PARAMETER	FORMULA
BASE RATE (%)	=0.20
MAXIMUM ADD-ON (%)	=0.25
ESTIMATED ADD-ON (%)	= 0.25 * [1-(CRS/100)]
PREMIUM RATE	= {0.20 + (0.25*[1-(CRS/100)])}/100

NOTE: 1. Base rate is 0.20 irrespective of the MFB's Rating.
 2. CRS – Composite Risk Score of individual MFB derived from the CBN/NDIC Bank Rating Matrix.

However, because of the large number of MFBs and the challenges of the sub-sector, not all the MFBs are examined annually, which may impede the effective execution of the DPAS Framework. In such an instance, the rating of such MFB in its latest available examination report shall be used to compute the add-ons for that MFB in the premium assessment period.

7.3 Regulatory Returns and Reports

The following types of returns and reports, amongst others, are expected to be rendered by the insured institution for the determination of differential premium rates, assessment of financial conditions, determination of the Composite Risk Rating of insured institutions, and other purposes:

- i. Monthly and Quarterly Statutory Returns;
- ii. Approved Annual Audited Accounts and Reports;
- iii. Certified Statement of Deposit Liabilities;
- iv. Returns on Fraud and Forgeries; and
- v. Risk-Based Examination Reports from CBN/NDIC.

7.4 Filing of Returns by Insured Institutions

For the determination of applicable premium rate, every insured financial institution is required under this Framework to submit periodic returns in line with the Acts and circular below:

- i. **Section 36 (1) of NDIC Act 2023** requires every insured institution to submit to the Corporation such returns and information as may be required within the stipulated period.
- ii. **Section 24 (1) of BOFIA 2020** requires every bank to submit **not later than five days** after the last day of each month or such other specified interval, a Statements showing: (a) The assets and liabilities of the bank, (b) An Analysis of Advances and other assets. **Section 24 (2)** specifies that every bank shall submit such other information, documents, statistics or returns as the CBN may deem necessary. This is further clarified in the “iii” below.
- iii. **CBN Circular BSD/DIR/GEN/LAB/07/011** dated 10th April, 2014 requires all banks to submit Daily, Monthly, Quarterly, and Semi-Annual returns via FinA. The timelines for submission of statutory returns by reporting institutions through FinA are:

Table 7: Statutory Returns Submission Deadlines

Statutory Returns	Filing deadline
Daily Returns	To be submitted on or before 10.00 a.m. of the following working day.
Monthly, Quarterly and Semi-Annual Returns	To be submitted on or before the 5 th day after the month's end. Where the 5 th day happens to be a weekend or public holiday, returns should be submitted the previous day.

- iv. Where an insured institution fails to file returns as and when required, the NDIC shall assign the maximum premium rate applicable to that institution type in determining the premium payable by it.

7.5 DPAS Rating Reports

- i. Each insured financial institution, upon a written demand, would be provided with its risk rating and other relevant supporting documents employed in the determination of its risk rating. Such rating report would assist the insured institution to re-evaluate its current level of risk, strengthen risk controls and deploy appropriate treatments to improve its risk score.
- ii. Each insured financial institution, its director, officer, employee or agent shall maintain confidentiality of its institution's composite risk score, risk rating, premium rates, and are precluded from disclosing any of the confidential information to other insured institutions, unauthorised external parties and the general public. The confidential information shall not be published in any advertisement, annual report and prospectus so as not to cause disruption in the financial system or give an undue competitive advantage to any insured institution. However, as required by law, the amount of premium paid may be disclosed.

7.6 Premium Assessment Period

- 7.6.1 In line with Section 23 (1) (2) & (3) of the NDIC Act 2023, every insured institution is required to pay to the Corporation an annual premium and subject to subsection (4) the assessment of premium shall be on a risk-based basis by reference to total deposit liabilities

standing in its books as at 31st December of the preceding year in the following manner:

- i. The deposit liabilities shall be as certified by the approved auditor of the insured institution;
- ii. The certified deposit liabilities shall be forwarded to the Corporation on or before 31st January of every year; and
- iii. The annual premium shall be payable not later than two months from the date of the demand notice.

7.6.2 Section 23 (8) of NDIC Act, any premium payable by an insured institution and which remains unpaid for more than three months after a demand notice had been served on such institution, shall attract interest at a rate equivalent to the prevailing Monetary Policy Rate of the Central Bank of Nigeria or any other applicable rate as may be specified by the Board.

7.6.3 However, where an insured financial institution fails to render its certified deposit liabilities as and when due, the NDIC shall use the Statutory Returns for the determination of the deposit liabilities.

7.7 Review of Insured Institution's Premium Rate

- i. The assessed insured financial institution may seek in writing for clarification or review of its premium rate within 10 days on receipt of the demand notice if it is not satisfied with its risk rating. The NDIC shall review the rating to either confirm or revise it.
- ii. If not satisfied with the review, the assessed insured financial institution may request in writing for a further review of its rating by the Senior Management of the Corporation.
- iii. Regardless of the application for a review, each insured institution shall pay its annual premium not later than two months from the date of the demand notice in compliance with sections 23 (3c) and 24 of the NDIC Act 2023.
- iv. The Risk Rating Review at the instance of the assessed insured institution shall attract an administrative fee of ₦10,000,000 for DMBs and ₦1,000,000 for other deposit-taking insured institutions,

to cover associated costs. The fee is defrayed if the assessed insured institution's request is successful.

8.0 Compliance with Statutory and Regulatory Requirements

The Board and Senior Management of all insured financial institutions shall ensure compliance with all relevant statutes and regulations, such as NDIC Act 2023, BOFIA 2020, the CBN Supervisory Intervention Framework for the Nigerian Banking Sector, Prudential Guidelines, Corporate Governance Guidelines, and all CBN directives to avoid breaches of legal, statutory, regulatory obligations related to compliance with the requirement of the DPAS Framework.

Non-compliance with the provisions of this framework shall attract appropriate sanctions as may be determined by the NDIC in collaboration with CBN in accordance with the provisions of the NDIC Act 2023, BOFIA 2020 and CBN Act 2007.

9.0 Monitoring and Enforcing Compliance

The NDIC, in collaboration with the CBN, shall monitor and enforce compliance with the provisions of this Framework, and other extant laws & regulations and shall also establish appropriate processes and procedures in this regard.

10.0 Key Success Factors

The effective implementation of the framework is premised on the existence of the following factors:

- i. **Transparency and Confidentiality:** the system of differential premium determination adopted is transparent to insured institutions and the resulting risk rating of individual banks and premium rates are kept confidential by parties.
- ii. **Effective Supervisory Regime:** an effective on-site examination & off-site surveillance to ensure that an institution's risk profile is measured, monitored, and managed promptly, and where appropriate, supervisory intervention is swift.
- iii. **Availability and Quality of Data:** that insured institution renders timely, relevant, accurate and complete returns on their institutions

and regulators/supervisors make risk ratings and supervision reports available to enhance differential premium computation.

- iv. **Accounting and Disclosure Regimes:** the existence of laws and regulations requiring insured institutions to file periodic and on-demand financial and other information with deposit insurer and regulatory authorities. Also, the deposit insurer possesses statutory inspection powers to verify the accuracy of data and documents related to the risk indicators reported by insured institutions.
- v. **Strong Legal and Institutional Framework:** that is perceived as fair & open and allows for insured institutions to appeal or request for review of their risk classification and assessment without undermining the effectiveness of the DPAS itself.
- vi. **Financial Industry Structure and Performance:** The premium structure should continually consider significant changes in the structure and condition of the financial sector including its performance and risk profile.

11.0 Effective Date

The Framework shall take effect from the date approved by the Management/Board.

12.0 Review Cycle

The Framework shall be reviewed every three years or as directed by Management/Board.

13.0 Enquiries

For any further enquires on the Framework with respect to DMBs & PSBs the insured institution may contact the Director, Insurance & Surveillance Department (ISD) at 09-460-1050, isddpasframework@ndic.gov.ng. Similarly, for enquiries with respect to other deposit-taking financial institutions, the insured institution may contact the Director, Special Insured Institutions Department (SIID) on 01-271-2300, siiddpasframework@ndic.gov.ng.

Annexure

14.1 Definitions of Key Terms

The DPAS Framework has adopted the following operational definitions:

Terms	Definitions/Description
Add-on Premium Rate	Additional premium rate based on risk profile or risk rating of an insured financial institution.
Base Premium Rate	The lowest premium rate chargeable under a rating system to banks in the best (lowest) risk category.
Bucketing Approach	A model of pricing deposit insurance that allows a deposit insurer to follow a risk-weighting approach of bank's assets as the basis for setting premiums. It uses the examiner risk buckets as a metric for deposit insurance pricing.
CAMELS	CAMELS refers to Capital, Asset, Management, Earnings, Liquidity and Sensitivity to Market Risk. The (CAMELS) rating refers to the process of assessing the capital adequacy, asset quality, management efficiency, earning capability, liquidity sufficiency and sensitivity to market risk
Certified deposit liabilities	Statement of deposit liabilities certified by the approved auditor of the insured financial institution.
Composite Risk Rating	Represents the final" rating of the assessment of the safety and soundness of the institution by the supervisor.
Deposit Insurance	A system established to protect depositors against the loss of their insured deposits in the event that a bank is unable to meet its obligations to the depositors.
Deposit insurer	Refers to the specific legal entity responsible for providing deposit insurance, deposit guarantees or similar deposit protection arrangements.

Differential Premium Assessment System	An assessment system of classifying insured financial institutions into various risk buckets and apply different premium rates depending on the perceived riskiness of each risk bucket or a premium assessment system, which seeks to differentiate premiums based on criteria such as individual bank risk profiles.
Empirical Expected Loss Model	A model of pricing deposit insurance based on the principle that expected loss is a function of probability of default (PD), exposure at default (EAD) and loss given default (LGD) of failing insured institution.
Flat-rate Premium System	A system of assessing premium payable to a Deposit Insurer at a uniform rate across all insured institutions.
Fund Size Calculations	A model of pricing deposit insurance that applies differential pricing by allowing parameters of the model (loss severity, for example) to vary with bank characteristics such as size. This estimates bank-specific expected losses (fund's credit risk) for a period, usually one year, and then aggregates across the portfolio of banks and estimates a loss distribution for the fund.
Insured deposits	Eligible Deposits that do not exceed the Maximum Coverage Level provided by a Deposit Insurance System.
Premium	The amount that a Member Institution pays to the Deposit Insurer in the manner and time frames prescribed by legislation.
Structural Option Pricing Model	A model of pricing that view deposit insurance as a put option, where shortfall in the value of bank's assets over its liabilities is based on the deposit insurance funds (DIF). The put option gives the bank owners that purchased the option the right to exercise at a future time to surrender the remaining assets of the bank to the deposit insurer in exchange for payments to insured depositors.

List of Abbreviations

ACRONYM	FULL MEANING
BOFIA	Banks and Other Financial Institutions Act
CBN	Central Bank of Nigeria
CBs	Commercial Banks
CRS	Composite Risk Score
DMBs	Deposit Money Banks
DPAS	Differential Premium Assessment System
FinA	Financial Analysis Application
IADI	International Association of Deposit Insurers
MBs	Merchant Banks
MFBS	Microfinance Banks
NDIC	Nigeria Deposit Insurance Corporation
NIBs	Non-Interest Banks
PMBs	Primary Mortgage Banks
PSBs	Payment Service Banks
Ro	Base Premium Rate