BANK OF UGANDA

SUPERVISION OF THE FINANCIAL SECTOR AND RELATIONSHIP WITH OTHER REGULATORS:

Operational Synergies, Successes, Challenges and Emerging Issues

Workshop for Members of Parliament

December 10, 2021

Mission: To Foster Price Stability and a Sound Financial System

Why Supervise?

Mission:

Foster a sound and stable financial system

- Ensure & Enforce adequate Risk management frameworks
- Fragile capital structure of deposit taking FIs – "inverted Triangle"
- Critical for a smooth functioning economy – Bank dominated financial sector
- Protection of depositors' funds
- Ensure a stable & resilient banking sector
- Dampen externalities associated with Bank exit

What is Supervision?

Bank Supervision has two broad categories:

- **Macro-prudential supervision**: focus is safety and soundness of the overall financial system.
- **Micro-prudential supervision:** focus is the safety and soundness of *individual firms/ Banks*.

BOU Approach - Risk Based Supervision

- Identify & monitor risks inherent to FIs and their business
- Supervisory focus – FIs or sectors that pose the greatest risk to the depositor's funds and integrity of the entire financial system.
- The greater the risk of harm, the more intense the supervisory activities.

How do we Supervise?

- Licensing
- Fit & Proper Evaluation
- On-site Examinations & Off-Site surveillance
- Issue Guidance Notes, Circulars etc. for Regulatory compliance
- Develop & Enforce Regulations
- Resolution of "failed & problem SFIs"
- Oversight over Innovation(s) in Banking
- Evaluate policy and Advise on impact of systemic shocks to the financial sector

Who do we Supervise?

1. The Financial Institutions Act 2004 (As amended 2016)
   - ✓ *Commercial Banks (Tier 1) – 25*
   - ✓ *Credit Institutions (Tier 2) - 5*
   - ✓ *Credit Reference Bureau - 2 (with 2 applications)*
2. Micro Deposit Taking Institutions Act, 2003
   - ✓ *Micro Finance Deposit Taking Institutions (Tier 3) – 4*
3. Tier 4 Microfinance Institutions and Money Lenders Act, 2016
   - ✓ *Large SACCOs (Tier 4) – 42*
4. The Foreign Exchange Act, 2004
   - ✓ *Foreign Exchange Bureau (219)*
   - ✓ *Money Remitters (87)*

Supervision Legal Mandate

- The Bank of Uganda Act, 2000
- AML Act 2013
- The Financial Institutions Act 2004 (Amended 2016)
- Foreign Exchange Act, 2004
- Micro-Deposit Taking Institutions Act, 2003
- Tier IV Microfinance Institutions Money Lenders Act, 2016
- Implementing Regulations

Relationship with Other Regulators

Cooperation and coordination with other regulatory agencies, standard setting bodies, and government:

a) *Basel Committee on Banking Supervision (BCBS):* International standards setting body on matters of supervision.

b) *Association of African Central Banks (AACB):* Cooperation on monetary policy and financial sector supervision and policy issues on the African continent.

c) *East African Community Monetary Union (EAMU):* Integration and harmonization of financial sector policies and supervisory practices, towards achievement of EAMU.

d) *Financial Sector Stability Forum (FSSF) in Uganda*

- Financial sector Inter-Agency coordination body set up under an MOU in 2008 with **MoFPED**, Bank of Uganda (**BOU**), Insurance Regulatory Authority (**IRA**), Capital Markets Authority (**CMA**), Uganda Retirement Benefits Regulatory Authority (**URBRA**), Uganda Microfinance Regulatory Authority (**UMRA**), Deposit Protection Fund (**DPF**), Financial Intelligence Authority (**FIA**); as members.

e) *MOUs with financial Sector Regulators in Kenya, Tanzania, South Africa, Nigeria, ECOWAS region, Egypt, and UK;* For information Sharing & Consolidated Supervision of FIs across borders.

Operational Synergies & Successes - FSSF

a) Microprudential supervision and information sharing

- Joint/consolidated Supervision Scheduling
- Public awareness & Financial Literacy

b) Supervisory enforcement and compliance activities

- Licensing, Administrative Sanctions, Information sharing, Enforcement Actions etc.

c) Policy & Rule Making for financial sector and market development

✓ Mortgage Refinance company, Unclaimed financial assets, expansion of CRB coverage etc.

d) Analysis of systemic risks and coordination of mitigation measures

✓ Quarterly sector-wide risk assessments, Mitigation measures for Covid-19 etc

e) Crisis preparedness and Resolution

➢ Capacity to manage a systemic crisis has been enhanced.

➢ Drafting of a *financial sector crisis management plan* is in advanced stages.

f) Joint Capacity Building e.g. on crisis management.

Successes

- 80% compliance with EAMU convergence criteria
- Credit Relief Measures to lessen impact of COVID 19
- Banking sector that is resilient to economic shocks
- Problem Bank Resolution Policy & Manual
- Agency Banking - shared banking infrastructure
- Concluded liquidation of 5 out of 7 closed Banks
- Full BASEL II implementation by December 2021
- Exponential growth of financial services provided over digital platforms & Regulation of Mobile Money

Challenges

- Innovation vs Regulation debate coupled by slow & tedious regulatory reform processes
- Slow adoption of NIN as a unique identifier
- 4th Industrial Revolution (4IR) – FinTech vs TechFins vs Traditional Banking
- Lack of Regulatory framework on Consumer Protection
- AML/CFT risk – porous borders & cash based transactions
- Consumer ignorance about Rights & Obligations
- Regulator role & function in a dynamic evolving sector
- Evolving consumer expectations & needs – Instant, 24/7 etc

Emerging Issues

a) **Rapid Evolution of the Economy and financial sector**

b) **Operational Risk & Operational Resilience**: - Cybersecurity, jurisdiction issues, AML/CFT risks & external shocks to the economy e.g COVID.

c) **4th Industrial Revolution** - Fintechs vs TechFins & the role of supervisors.

d) **Uncertainty about duration and impact of COVID 19 pandemic**

e) **Inter-Agency conflict on Regulation of Tier 4 Institutions (Large SACCOs):** BOU versus Commissioner for Cooperatives.

f) **Climate Change risk to Financial institution business & financial sector stability**

g) **Low paid-up capital levels vs regional peers** – limited ability to meet the financing needs of a growing economy & mobilize savings.

Request to Parliament

BOU is responsible for maintaining "*trust*" and "*integrity*" in the financial system.

- Faster legislation making process for the Financial Sector
- Customer Protection & Competition Law
- Legal framework for faster resolution of disputes, contract enforcement & punitive penalties
- Ensure & Reinforce Independence & Accountability of BOU

Thank you for your time.

Any questions?

Rationale for increasing paid up capital

a) Alignment with regional peers like Rwanda, South Sudan, Ghana, Zambia, Kenya etc – minimize risks of regulatory arbitrage

b) Meet increased public & private sector funding needs using domestic savings – lessens reliance of external financing

c) Increasing costs of compliance due to global regulatory changes post 2008 GFC – BASEL II & III, IFRS 9 etc

d) Shareholder commitment to Uganda – “Skin in the Game”

e) Enhance SFI resilience to emerging risks from technology based innovations

f) Ensure protection of customer deposits, Creditors & financial system integrity

g) Build up a buffer to absorb shocks during periods of extreme stress