BANK OF UGANDA

Regulatory Oversight and Reforms:-
How Regulation and Supervision is coping with fast paced changes in the Banking sector

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Mission: To Foster Price Stability and a Sound Financial System

Outline

- Introduction
- Regulatory Framework
- Supervisory Framework
- Changes in the Banking Sector
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Introduction

- The Banking sector is characterized by a dynamic environment, complex transactions and increased reliance on technology.

- The Banking sector Regulators and Supervisors need to retool their approaches in tandem with the changing trends.

Regulatory Framework

- The Bank of Uganda (BOU) Act, 2000
- The Financial Institutions Act, 2004 and amended by the Financial Institutions (Amendment) Act 2016;
- Micro Deposit Taking Institutions Act, 2003;
- The Financial Institutions Anti-Money Laundering Act, 2013;
- The Foreign Exchange Act, 2004;
- Implementing Regulations.

Supervisory Framework

- BOU uses the Risk Based Supervisory (RBS) methodology which is proactive and enables the supervisors to keep abreast of emerging banking risks.
- Supervision is both On-site and Off-site

Changes in the Banking Sector

- **Technological Change:-**

  Advancement in technology has transformed the financial services landscape (Electronic Banking, Mobile Banking, Mobile Money).

- **Social and Behavioural Change:-**

  Consumers demand ever higher levels of service and value which calls for more customer centricity from the Financial Institutions.

- **Heightened Competition:-**

  The threat from non-traditional players such as fintech firms has gained traction in the Financial Sector.

Challenges

- Information Technology Risks
- Cyber Threats
- Money Laundering/Terrorism Financing Risk
- Erosion of Comparative Advantage
- Global trends and its effects on the Macroeconomic environment.

Regulatory Reforms

- The FIA 2004 as amended in 2016 paved way for;

I. Agent Banking
II. Bancassurance
III. Islamic Banking

- An Independent Deposit Protection Fund was put in place and a fully fledged Board and Management were appointed.

- Bank of Uganda revised Capital and Liquidity Standards in line with Basel III requirements and introduced a framework for Domestic Systemically Important Banks.

Regulatory Reforms – Cont'd

- Capital and Liquidity Standards

Parameter	Current	New
Tier 1 Capital / Risk Weighted Assets	8%	10%
Tier 2 Capital / Risk Weighted Assets	12%	12%
Capital Conservation Buffer	-	2.5%
Countercyclical Capital Buffer	-	2.5%
Additional Capital Buffer for DSIBs	-	2.5%
Leverage Ratio		6 %
Liquidity Coverage Ratio		100%
Net Stable Funding Ratio		100%

Regulatory Reforms - Cont'd

- The Tier IV Microfinance Institutions and Money Lenders (Act), 2016 which mandates BOU to regulate these entities to protect depositors.
- Mobile Money Guidelines enable BOU oversee Mobile Money transfer services.
- Re-skilling of BOU supervisors through continuous capacity building in emerging regulatory issues.

Regulatory Reforms - Cont'd

- BOU now requires Independent system audits/Penetration tests by External Auditors of Financial Institutions.

- Enhanced Stakeholder engagements through Memoranda of Understanding signed with other Financial Sector Regulators.

Conclusion

Financial Services providers and regulators alike <u>must</u> get ahead of the challenges facing the Financial Services sector in order to effectively execute their respective roles.


Thank you