ANNUAL BANKERS CONFERENCE

2018

Financial Sector Stability:
Managing Risk in a Growing & Fast Changing Environment

ANNUAL BANKERS CONFERENCE

UBA Executive **Committee** 2018-2019

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Managing Director Housing Finance Bank

Uganda Bankers Association
Wilbrod Humphreys Owor
(Executive Director)

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UBA Chairman **Foreword**

I welcome you all to the second Annual Banking Conference (ABC) 2018. I take this opportunity to thank all our partners, the members of UBA and all our stakeholders for efforts rendered in organizing and making this conference a success.

The context for our 2018 theme arises from trends in the recent past, where the banking & overall financial sector has witnessed a number of developments emanating from both domestic and external factors.

Externally, there is growing uncertainty arising from the shifting geopolitical agenda, skewed towards protectionism, creating an unpredictable environment for players in the financial sector who provide the much-needed financing for cross border operations of multinational companies. In addition, technological innovations have aided the creation of new digital platforms that present new opportunities, enable reach to previously unserved market segments, widen choices and are available 24/7, but equally present risks that exist in the ICT space. Financial Institutions are increasingly depending on ICT for critical aspects of their operations and risks in ICT therefore mean risks to the stability of the financial sector.

> Managing Risk in A Growing & Fast Changing Environment, is very relevant to industry especially now.

The Global Financial Crisis of 2008 proved to us how far reaching the consequences of instabilities in the financial sector can be. The subtheme, Managing Risk in A Growing & Fast Changing Environment, is very relevant to industry especially now.

The Fourth Industrial Revolution is upon us and technology is fundamentally altering the way people work, live and relate to one another. This is also altering the way we conduct business or deliver services to customers. Customer expectations have also been altered. Today's customers, not only expects a 24/7, efficient and reliable service, they also want re-assurance that the financial sector is sound, resilient, stable and safe.

Domestically, the financial sector has witnessed stress in the recent past leading to closure of some financial institutions. However, numerous other positive developments including the amendment of the Financial Institutions Act 2004 and other related legislation have strengthened risk management and provided the environment for the introduction of new products and services while increasing reach & penetration of financial services.

These developments create opportunities for growth as well as disruptions in different magnitudes. Instability in the financial sector can have far reaching consequences to the wider economy by negatively affecting investment, trade, incomes and has the potential of exacerbating poverty and income inequality.

It is my wish that through this conference, we will be able to come up with practical recommendations to enable us deliver stable growth for the sector anchored on positive innovations.

Allow me take this opportunity to thank the Central Bank of Uganda and Government of Uganda for providing the enabling regulatory as well as overall business environment for the sector to thrive. We count on and look forward to their continued support.

Patrick Mweheire
Chairman

UBA Executie Director **Foreword**

I take this opportunity to welcome you to our second Annual Bankers' Conference (ABC 2018). The theme this year "FINANCIAL SECTOR STABILITY: Managing Risk in a Growing & Fast Changing Environment" is at the core of UBA's mandate of fostering the growth of a strong, vibrant & respected financial services industry in Uganda.

The Annual Bankers Conference (ABC) now an annual UBA event, seeks to bring together regulators, practitioners & various industry experts from international, regional and national spheres involved in facilitating and delivering financial and banking services, to discuss issues, trends, drivers and the dynamics that are increasingly shaping sustainability strategies in banking, finance & the overall development eco system.
At our first conference last year 2017, we deliberated on the future of banking, noting that the emergence of Digital Financial Services *(DFS)* provide an effective and efficient platform for financial institutions to leverage on for growth.

DFS provides a game-changing environment that cuts across all the sectors of the economy and across market segments including the informal markets, most importantly aiding financial inclusion through improved access to financial services and lowering the cost of financial services.

The conference also discussed ways and means of addressing the gaps and shortages surrounding the much needed long term finance in our markets.

Sustainable and responsible banking was another key discussion area, where balancing financial, social and environmental issues, to ensure sustainable livelihoods for the communities from which we derive business was well highlighted.

The discussions noted that integrating social and environmental criteria into lending decisions, ensuring good governance, building more inclusive lending (especially supporting SMEs) protecting the environment, being transparent and acting with integrity are critical aspects of sustainable and responsible banking.

We convey our gratitude to the Vice President Republic of Uganda H.E Edward Kiwanuka Sekandi who presided over the opening of the Conference and the Minister for Finance, Hon Matia Kasaija for presiding over the closing.

We thank our 2017 Keynote Speaker Professor Njuguna Ndungu (Governor Emeritus), all the speakers, panelists, authors and moderators who anchored the conference.

This year's conference will aim to deliver constructive discussions and recommendations on a range of subject matters affecting the performance and stability of the banking industry at the global, regional as well as national level.

...balancing inancial, social and environmental issues, to ensure sustainable livelihoods for the communities from which we derive business...

We invite you to enrich this gathering by actively participating and contributing to the deliberations as we strive to build a strong and resilient financial services sector in Uganda.

I cannot conclude without conveying our deep gratitude to all the participants, stakeholders and sponsors who continue to support us in delivering this conference.

We look forward to a resourceful conference.

Wilbrod Humphreys Owor,
Executive Director

ABC **2018 Agenda**

8.00 AM

Registration Opens

8.50 AM

Welcome and setting the scene
UBA Chairman- Mr. Patrick Mweheire

9.00 AM

Remarks by BOU Governor
Proff. Emmanuel Tumusiime
Mutebile

9.30AM

Remarks by Guest of Honor
Prime Minister of the
Republic of Uganda

9.50AM

Keynote Address 1
Topic: Coping with the Risk Elements in dynamics driving change in the Banking & Financial Environment Globally

10.35AM

Coffee Break
Networking and Refreshments

11.00AM

Panel Session 1 and Q&A
Moderator

1.00PM

Lunch break
Networking and Refreshments

ABC **2018 Agenda**

2.30PM

Key Note Address 2
Topic: Recent Bank Resolution Experiences and Lessons Therein

3.00PM

Panel Session 2 and Q&A
Moderator

5.00PM

Conference Wrap up
Recognition and awards,
Recognition of Sponsors,
Awards to Authors, Photo session
ED UBA- Mr. Wilbrod Humphreys Owor

6.00PM

Closing Remarks
Mr. Robin Kibuuka- Chairman Standard Chartered Bank/Board Member PSFU

6.30PM

Evening Cocktail/ Entertainment

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Speaker & Presenter **Profiles**

Dr. Ruhakana Rugunda

Prime Minister,
Republic of Uganda

Dr. Rugunda was appointed as Prime Minister on 18 September 2014. A physician by profession, he has held a long series of Cabinet posts under President Yoweri Museveni beginning in 1986. He served as Uganda's Minister of Foreign Affairs from 1994 to 1996 and as Minister of Internal Affairs from 2003 to 2009. Subsequently, he was Permanent Representative to the United Nations from 2009 to 2011 and Minister of Health from 2013 to 2014.

Dr Rugunda joined the Makerere University Medical School and later the University of Zambia where he studied medicine, graduating with a Bachelor of Medicine and Bachelor of Surgery. He later studied at the University of California, Berkeley and obtained a Masters of Science in public health. Before joining Ugandan politics, Rugunda worked as medical officer in Zambia, as a physician at the District of Columbia General Hospital in Washington, D. C. and at Kenyatta National Hospital in Nairobi, Kenya

Proff. Emmanuel Tumusiime-Mutebile

Governor, Bank of Uganda

Emmanuel Tumusiime-Mutebile is a Ugandan economist and banker. He is the governor of the Bank of Uganda, the central bank of Uganda. He was first appointed to that position on 1 January 2001 and was re-appointed for a second five-year term on 1 January 2006. In December 2015, he was re-appointed for a fourth five-year term, effective 12 January 2016.

Tumusiime-Mutebile has held several government positions in Uganda ranging from deputy principal secretary to the president in 1979, to undersecretary in the ministry of planning in 1981, senior economist and then chief economist in 1984. In 1992, he was appointed permanent secretary to the newly combined ministry of finance planning & economic development, a merger that he had advocated while working under the then Minister of Finance.

He is the longest serving chief executive in the Bank of Uganda's history. He is credited with many of the sound economic policies adopted by the Uganda government at the urging of the central bank.

Tumusiime-Mutebile is the chancellor of the International University of East Africa, a private university established in 2011, with an urban campus in Kampala, Uganda's capital.

Mr.Raghav Prasad

Division President,
Sub-Saharan Africa,
Mastercard

In January 2018 Raghav took on the role of Division President for Sub-Saharan Africa based out of the regional headquarters in Dubai.

In this role Raghav will be focused on establishing the Mastercard brand presence in Africa, deploying innovative payment solutions and partnering with local governments and regulators. Focus is placed on advancing Mastercard's business in Africa, and the organisations goal of developing a world beyond cash.

Since joining Mastercard, Raghav has held a number of leadership roles at country, regional and global level, contributing significantly to various areas of the business. In early 2017 he held the position of President, Payment Gateway Services where he was responsible for the strategic direction and global end-to-end management of the business.

Raghav is not new to the Middle East and Africa region, he previously held the position of General Manager for the Gulf Countries, responsible for all aspects of Mastercard's business in the region giving him a solid foundation for his new role as Division President for one of the fastest growing divisions in International Markets (IMK) for the technology company.

With almost 30 years of experience in the financial sector, Raghav has previously held leadership positions at Citbank and RBS Group UK. During his six years at RBS he moved from being the Managing Director of Global Commercial Cards to serve as Managing Director of Global Merchant Services (WorldPay). During this time he was also a member of the global management committee of the Transaction Banking Group at RBS.

Raghav came to RBS from Citibank, where he spent 19 years running Cards, Retail Banking and Wealth Management businesses in the US, UK, Asia and North Africa. These roles included Global Product Lead for Core Products, Head of Cards Acquisition & Portfolio Management for EMEA, and Country Business Manager for Egypt. He also served on the Global Advisory Board of Commercial Payments International for a number of years.

Born in India, Raghav has an MBA from the Indian Institute of Management Calcutta, specializing in Marketing and Finance, and a First Class Honors degree in Mechanical Engineering from the University of Delhi.

Mr. John Mafungei Chikura

Chief Executive Officer Deposit Protection Corporation Zimbabwe from Chairman of First Mutual Management

Mr. John Mafungei Chikura is the Chairman of First Mutual Wealth Management, former Chairman of the Rainbow Tourism Group Limited (RTG), a stock exchange listed corporation. He is a Non-Executive Director of First Mutual Holdings board (also listed.) He is a former Director of FMRE Property and Casualty (Pvt) Limited and a former Chairman of FMRE Life & Health (Pvt) Limited. He is a non-Executive Director of the Zimbabwe Leadership Forum (ZIMLEF), a Non-Executive Director of the Zimbabwe Asset Management Corporation (ZAMCO). He is a non-executive Director of StarAfrica Corporation and a former Non-Executive Director of Eagle Insurance Company.

Mr Chikura is the Chief Executive Officer of the Deposit Protection Corporation, former Commissioner on the Securities Commission of Zimbabwe and current Chairman of the Africa Region, International Association of Deposit Insurers (IADI). He holds an MBA in Finance and Banking (Manchester University) and is a Fellow of the Institute of Chartered Secretaries and Administrators (FCIS).

His vast experience at senior management levels includes the post of Finance and Administration Manager for Cluff Resources (now Ashanti Gold Mining) and Lonrho Zimbabwe as well as General Manager – Finance and Company Secretary for Southern Africa Reinsurance Limited.

He is a former Chairman of the Board of Trustees of ZimRe group pension fund is a member of various associations including the Commonwealth Association of Corporate Governance (CACG), Institute of Directors of Zimbabwe (IODZ) and past Chairman of the Training and Development Committee. He is a certified Trainer of Trainers having attended the Commonwealth Association for Corporate Governance & the Global Corporate Governance (GCGF)/ International Monetary Fund (IMF) Train The Trainer training courses and facilitates on the Director Training programmes for these multilateral Institutions, Southern African Development Community (SADC), Institute of Directors of Zimbabwe (IODZ) and the Institute of Chartered Secretaries and Administrators.

He was a part time lecturer in Corporate Governance (MBA programme) at the Graduate School of Management (GSM), University of Zimbabwe.

He has spoken, & ran corporate governance workshops and consultancy work in various organisations in many countries around the world. John is married to Gee and they have five children

Mr. Fred K. Muhumuza

PhD
Development Economics

Muhumuza holds PhD (Development Economics) from the University of Manchester, a Masters in Economic Policy and Planning from Makerere University, and A Certificate in Development Evaluation from Carleton University/World Bank.

Dr. Muhumuza has been involved in development policy research, analysis, formulation and review for over twenty years, with a parallel teaching career at Makerere University, Nkumba University, and African Bible University. As a researcher and practitioner, he has undertaken assignments in public policy, institutional development, strategic planning, capacity building for Government, Parliament, Civil Society and Private Sector. He has worked as Economic Advisor to the Minister of Finance, Planning and Economic Development in Uganda. Prior to that, Muhumuza worked as a Research Fellow at the Economic Policy Research Centre. He has also worked as Senior Manager at KPMG Uganda and Research Specialist with the Financial Sector Deepening Uganda.

He has been involved in governance structures of financial institutions, development agencies and faith-based organizations. He is a Board Member for World Vision Uganda; Vision Fund Uganda, Council Member for Uganda Christian University, and Council Members for Scripture Union Uganda. He has previously served on the Board of Post Bank Uganda Limited and Bank of India Uganda Limited.

Mr. Pieter Van Heerden

Founding member
of Scoresharp

Pieter is one of the founding members of Scoresharp, a specialised credit risk management consultancy, which has been part of the Compuscan group of companies since 2011. As Head of Decision Analytics, he is responsible for unlocking the value of our credit services data assets and other data sources by applying analytical insight, scoring and software solutions to convert data into business solutions.

With more than 20 years' experience in the industry, he has extensive knowledge in scorecard development, risk management software applications, SAS, profitability modelling, pricing, Basel II and portfolio tracking.

Prior to founding Scoresharp, Pieter spent several years at Nedbank where he was recognised with the CEO Award in 2005. Pieter holds an MBA from Bond University and a BSc Degree in Mathematics & Mechanical Engineering.

Mr. Julius KIIZA

PhD (Sydney)

Julius Kiiza is an Associate Professor of Political Economy and Development in the Department of Political Science and Public Administration at Makerere University (Uganda). He holds a Bachelor of Arts (Honours) degree from Makerere University, a First Class Master of Public Policy from the University of Sydney (Australia), and a PhD from the same University. Julius was at The University of Cambridge Centre for African Studies for his postdoctoral research (Good Governance and Human Rights) in 2003. In 2014, he won a competitive Cambridge-Africa Partnership for Research Excellence (CAPREx), and used his visiting fellowship to conduct research on developmental state-building in post-genocide Rwanda. He has also been a visiting fellow at Dickinson College in Pennsylvania (USA), and the Washington-based Center for Global Development.

Julius has an active research and publications interest in the broad areas of institutional political economy; industrial policy; open government; local content in the oil sector (in Uganda/East Africa); economic nationalism; and the changing, but not ending developmental role of the state in an era of globalization. He was the lead editor of a book entitled: Electoral Democracy in Uganda: Understanding the Institutional Processes and Outcomes of the 2006 Elections (Fountain Publishers: Kampala).

Julius actively partners with civil society (NGOs) and state actors to promote evidence-informed policy analysis and advocacy. For example, he actively conducts research work with the Economic Policy Research Centre (EPRC), ACODE, Friedrich Ebert Stiftung (FES), Uganda Youth Network (UYONET), Program for Young Politicians in Africa (PYPA); the International Republican Institute (IRI) and other national and international NGOs.

Mr. Mathias Katamba

Managing Director of Housing Finance Bank

Mr. Mathias Katamba is the Managing Director of Housing Finance Bank. Prior to joining Housing Finance Bank he was the Co-founder and Managing Partner of Progression Capital Africa a US $ 40 million Private Equity Fund based in Mauritius set up to provide capital and technical support to microfinance institutions in Uganda, Kenya, Tanzania, Rwanda and Zambia. Before that he was the CEO of Finance Trust, now Finance Trust Bank a position he held for 5 years during which he transformed the institution from a deposit-taking MFI to acquiring regulatory approval for a Tier 1 Commercial Bank. He served as the Chairman/National President of the Association of Microfinance Institutions in Uganda (AMFIU), member of the investment committee of the Deutsche Bank Global Commercial Microfinance Consortium, member of the Steering Committee for Client Protection (SMART campaign) at the Center for Financial inclusion.

In a banking career spanning a decade and a half, he previously held various positions at Orient Bank Limited, Post Bank Uganda, Barclays Africa, Pride Uganda and Pride Microfinance Limited where he was instrumental in its transformation from an NGO into a Microfinance Deposit – taking Institution. He has advanced executive leadership training from Harvard Kennedy School (Harvard University) and Wharton Business School (University of Pennsylvania). He attended The Executive Director (TED) program and the Executive Leadership Program (ELP) both conducted by Strathmore Business School. He also holds a Postgraduate Diploma in Public Relations from the Chartered Institute of Public Relations, Master of Science in Financial Management from the University of East London and a Bachelor of Arts in Economics from the University of Greenwich.

He also serves as a Director at UAP Old Mutual Insurance Uganda Limited, Private Sector Foundation Uganda (PSFU) and the Uganda Institute of Banking (UIB).

Ms. Clara Mira

Resident Representative, Uganda

- **Current role;** IMF Resident Representative, Uganda
- **Formerly:** IMF Senior Economist Uganda, EAC, Niger; Advisor to IMF Executive Board; Bank of Spain; European Commission
- **Education:** College of Europe Masters, LLM Manchester University, University of Murcia. Law and Economics Degree.

Mr. Jibran Qureishi

Regional East Africa Economist at Standard Bank Group (Stanbic Bank).

Jibran Qureishi is currently the Regional East Africa Economist at Standard Bank Group (Stanbic Bank). Jibran is part of a larger team conducting macroeconomic research on African countries. The macroeconomic research is overlaid with fixed income and currency research to produce executable trade ideas in African fixed income and currency markets. In addition, the team's research is aimed at identifying potentially profitable trading opportunities in the growing African Eurobond market.

Jibran is regularly cited in newspaper articles and interacts extensively with the media including, CNBC Africa, Bloomberg, Reuters and local market reporters. He advises the banks clients and senior management in various in-country offices on East Africa strategy. He was ranked first by the Financial Mail top analyst awards for Sub Saharan Africa in 2016 and his team also emerged victorious in the Johannesburg Stock Exchange (JSE) Spire Awards in 2016 and 2017 for the best Africa research team.

Standard Bank Group was founded more than 150 years ago is Africa's largest bank by assets.

He joined the bank in 2012 and holds a BSc (Hons) in Economics and an MSc in Economics and Finance both from the University of Kent.

Euvin Naidoo

Head of Financial Institutions-
Africa at Thomson Reuters
South Africa

Euvin Naidoo is the Head of Financial Institutions-Africa at Thomson Reuters. He is responsible for driving the growth and retention plan for TR Africa, covering financial services institutions, central banks and major accounts within Finance and Risk cross 47 African countries.

Euvin leads the team based out of TR Africa's Head Office in Johannesburg, South Africa, supporting the business across West, East and Southern Africa with team members on the ground in Nigeria, Ghana, Côte d'Ivoire, Kenya, Mauritius and South Africa. Selected by Forbes.com as one of the African continent's Top 10 most 'Powerful and Influential Men' of his generation, Euvin has been engaged as an executive within financial services in both the USA and Africa for the past 15 years.

Prior to joining TR, Euvin was part of the African leadership team at the Boston Consulting Group, joining as the first South African Partner and Managing Director based out of the Johannesburg office, where he led the Africa Financial Institutions (Banking, Risk and Insurance) and Public Sector (DFIs, Treasury and Central Banks) Practices. In May 2017, he was part of the BCG team that led the release of a global report on financial inclusion, with a special focus on Africa. Selected as a Young Global Leader by the World Economic Forum (WEF), he was recruited to the Forum's Global Agenda Councils, where he served 2 terms on the United States Council. He is a current member of the WEF's Global Expert Network. In February 2017, Euvin was honored in Boston by receiving the Harvard Business School Africa Business Club Leadership Excellence Award.

Mr. Keith Muhakanizi

Permanent Secretary

Mr. Keith Muhakanizi serves as Permanent Secretary and Secretary to the Treasury, Ministry of Finance, Planning and Economic Development. Muhakanizi has served in different positions at the ministry for more than a decade, and has been instrumental in macroeconomics policy and planning, financial sector growth and private sector growth in Uganda. He served as the Chairman of East African Development Bank since May 25, 2013 and serves as its Director. He serves as the Chairman of Housing Finance Bank Limited and he is the chairperson of the Board of Management for the Economic Policy Research Centre.

Mrs. Ruth Sebatindira

With over twenty years' experience of credit/loans transactions advisory work and lender enforcement litigation, Ruth Sebatindira understands the business of lending. Ruth has successful commercial litigation experience in banking and finance especially in the areas of asset finance and leasing, insolvency and receiverships, defective securities claims and lender enforcement actions.

Ruth brings her Court experiences and perspective to the Boards and Board Committees that she advises when they are evaluating lending deals. She also advises on business deals and transactional work, from discussing the terms of the lending deal, drafting transaction/loan documents that mirror the terms of the deal to negotiating the terms of the deal agreeing financing or refinancing terms, restructuring/workouts as well as sale or purchase of assets or loans.

Ruth renders country regulatory advice to financial institutions and supports Bank compliance teams in this regard. She advises credit and risk Bank teams on how to mitigate and manage risks arising from lending; by identifying early warning signs and advising on remediation or what exit strategies the lender may use which may include liquidation of collateral, whether it is land, equipment, inventory, or accounts receivable. She also leads teams in security documentation and documents reviews, advising lenders on enforceability of securities and remediation of defective securities.

Ruth has an LLM from The University of Manchester, UK and is a member of Uganda Law Society, East Africa Law Society, International Bar Association, International Fiscal Association and Association of International Petroleum Negotiators (AIPN).

Ruth served as President of Uganda Law Society (2013-2016). She dedicated herself to defending and promoting the rule of law and access to justice in Uganda. She continues to take on assignments that promote the rule of law.

Ruth is a member of the Judicial Service Commission which advises the President of Uganda on the appointment of Judges and their terms and conditions of service; recruits and exercises disciplinary control over all Judiciary staff and advises on the administration of Justice in Uganda.

Ruth Sebatindira was granted the rank of Senior Counsel by the Chief Justice of Uganda on 28th March, 2018. She is the founding Partner of Ligomarc Advocates a Ugandan Financial and Corporate Law Firm.

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Statement from the Minister

Finance, Planning & Economic Development

I would like to commend the Uganda Bankers' Association for organizing this forum whose theme is very pertinent to the stability and future development of Uganda's financial system.

The financial system is critical to the functioning of the economy as a whole and banks are central to this. Commercial banks account for over 90% percent of the total private sector credit in our economy and play an equally important role of financial intermediation by mobilizing savings and facilitating trade. The combination of these activities fuel economic activity by allowing businesses to invest, facilitate household consumption and support public investments like infrastructure development through direct and indirect financing among others. The sector is key in collection of government tax revenue collection, in addition to providing employment to a substantial proportion of the labour force. Therefore, having a healthy and sound financial system is central to any economy.

Without doubt, financial sector stability remains a fundamental and critical issue around the world. This is especially true after the global financial crisis of 2008, which highlighted the vulnerabilities of the global financial architecture. Although this crisis had limited direct impact on Uganda's financial system, with the increasing exposure to international financial flows supported by the international, regional and local inter relatedness and connectivity of the banking system, resilience of our financial system to external shocks cannot be taken for granted.

Economic slowdown in developed countries like the US and Europe, naturally affect demand for Uganda's exports, disrupt commodity prices and reduces the flow of remittances to Uganda as well as Official Development Assistance (ODA). These developments can have adverse effects on our economy triggering slow growth of the economy and stress in the financial sector.

Domestically we have witnessed shocks that have threatened the stability of our financial sector. In the 1990s and early 2000s, Uganda's banking industry suffered a number of bank failures (eight in total), forcing the Central Bank of Uganda to intervene.

The primary cause of the bank failures at the time was poor corporate governance which among others created heavy losses due to pervasive insider lending. This called for strengthening banking regulation by enacting the Financial Institutions Act (FIA) in 2004. The Act raised minimum bank capital requirements, tightened restrictions on insider lending and mandated the Bank of Uganda to intervene promptly in failing banks before their capital is completely eroded. The main objective here was to safeguard depositors' funds in addition to preventing a systemic financial crisis. The act also imposed a ceiling of 49 percent on the share of a bank's equity which a single shareholder, or a group of related shareholders, can hold, in order to limit the influence of dominant shareholders.

Since the enactment of the FIA, there have been fewer bank failures in Uganda and better and timely resolution mechanisms applied when instances of Bank stress arise.

In all such recent incidences, the Bank of Uganda has intervened promptly in line with the mandatory corrective actions and has been able to transfer the deposits of such stressed financial institutions to other banks through Purchase of Assets and Assumption of Liabilities transactions, using the powers bestowed on it the FIA which ensured that depositors did not lose any of their money.

While we have so far been successful in safeguarding against losses of funds by depositors, the financial system today is operating in a fast-changing environment both externally and internally. Maintaining the stability of the financial system, will therefore require stringent enforcement of prudential regulations and robust banking supervision, both onsite and offsite as well as prudent management of the economy.

As a country, we must devote our minds and efforts to promoting and ensuring financial stability to safeguard macroeconomic stability and protect savers and investors to ensure sustainable economic growth. We should strive to minimize the vulnerability of the domestic financial system from externally induced financial crises as well as domestic shocks.

This responsibility lies not only with the government or Bank of Uganda but also the commercial banks and other financial institutions as well as the borrowers of funds.

Individuals, businesses and other corporate bodies who borrow funds from the commercial banks must adhere to the culture of paying back their debts. Commercial banks in turn should step up their credit risk assessment capabilities while the Central Bank of Uganda continues to perform their supervisory and regulatory role in accordance with internationally acceptable standards. On our side as the Ministry of Finance, Planning and Economic Development, among other initiatives, we are developing the Financial Sector Development Strategy which will facilitate the growth and development of a strong, sound and stable financial sector.

I am optimistic that this conference will provide all of us with additional useful insights to enable us pool efforts to continue strengthening and growing the financial sector which fuels the economy.

I wish you all very good deliberations.

For God and My Country

MATIA KASAIJA (MP)
MINISTER OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT
JULY 2017

Governor
Bank Of Uganda

Statement

Pending

UBA MANDATE

Vision, Mission, Values, Functions

Organization Profile.

Uganda Bankers' Association (UBA) is an umbrella body that was established in 1981. To date UBA membership consists of Uganda Development Bank, Commercial Banks and Financial Institutions licensed and supervised by Bank of Uganda.

A strong, vibrant and respected financial services industry in the East African region.

To promote a sound banking environment through research and innovation, advocacy, good governance and best practices.

The objectives of UBA include,

- Develop and maintain a code of ethics and best banking practices among its membership.
- To encourage & undertake high quality policy development initiatives and research on the banking sector, including trends, key issues & drivers impacting on or influencing the industry and national development processes therein through partnerships in banking & finance, in collaboration with other agencies (local, regional, international including academia) and research networks to generate new and original policy insights.
- To develop and deliver advocacy strategies to influence relevant stakeholders and achieve policy changes at industry and national level.
- To work closely with the regulator BOU and other non-bank financial institutions & organizations in promoting financial sector growth, through training, development of products, technologies & initiatives to promote financial sector growth.
- To promote and represent the professional interests of its members

UBA MANDATE

Research and Innovation

Stakeholder Engagement and Advocacy

Best Banking Practices

Sustainability

Financial Literacy and Education

UBA CORE VALUES

Integrity, Transparency, Professionalism, Good Governance, Team work and Service Excellence

UBA Management

Wilbrod Humphreys Owor:
Executive Director UBA

Mr. Owor holds an MBA in strategic Management (ESAMI/MSM) and Degree in Bachelor of Commerce (Finance) of Makerere University.

Wilbrod who has been in the banking sector rising to the rank of Managing Director/Chief Executive Officer, has 25 years of working experience spanning across key sectors of the economy including manufacturing, trade/commerce, International Development Agency/ NGO world as well as consulting & advisory services.

He has business development and management experience in financial and consumer services institutions with practical experience in financial management, business development, skills development and banking financial products/services.

Patricia Amito Lutwama:
Head Communications & Corporate Affairs

Ms. Patricia Amito Lutwama is an experienced program management professional with extensive experience in strategic communications management and development/management of grant proposals. She holds a Master's degree in Business Administration (ESAMI) and a Bachelor of Science degree in Quantitative Economics from Makerere University.

Patricia has over 10 years' work experience in program and financial management, partnership and business development, with a track record of professionalism and integrity.

She previously served as Head of Programs, Program Manager and Finance Officer at Straight Talk Foundation.

David Juuko:
Head Finance and Administration

Mr. David Juuuko is a finance & accounting professional with over 10 years of progressive experience. He has worked in different sectors; Education, Hospitality, Information Technology, Manufacturing and Transport & Logistics. This experience in different sectors and the ease with which he adapts makes him exceptional. He previously worked with Service and Computer Industries as Finance Officer and he joins UBA from Rift Valley Railways where he has been working as a Senior Accountant.

At Makerere University Business School, he pursued a Bachelor of Business Administration (Accounting) and currently on the brink of ACCA membership.

He has deep experience in preparation and interpretation of financial statements, working capital management, budgeting, implementing sound internal controls, general tax compliance and preparation of tailored management reports.

Musa Mayanja Lwanga
Head Research and Market Development

Mr. Musa Mayanja Lwanga is expert in financial sector economics with a wealth of experience of over eight years in designing and implementing large scale surveys and conducting policy relevant research in several fields of economics.

He has authored and co-authored a number of research articles published in both local and international peer reviewed journals including the African Journal of Economic and Management Studies, the Journal of Statistical and Econometric Methods, the Advances in Management & Applied Economics Journalthe.

Musa holds a Master's degree in International Economics from the Berlin School of Economics and Law (Hochschule für Wirtschaft und Recht, Berlin) and a BSc. degree in Quantitative Economics from Makerere University, Kampala.

He has previously worked with the Economic Policy Research Centre, Makerere University, Biz-Econ Consultancy, Buchwerk GmbH in Darmstadt Germany and as a Research Assistant to Dr Neil Kodesh.

He is a member of the African Econometrics Society and the Uganda Economists Association. He sits on a number of technical working committees including the Agriculture Finance working group at the Ministry of Finance Planning and Economic development and the GIS Financial services working group at the Financial Sector Deepening Uganda (FSDU).

UBA
Members 2018

1. ABC Capital Bank Ltd
2. Bank of Africa Uganda Ltd
3. Bank of Baroda
4. Bank of India
5. Barclays Bank
6. Cairo International Bank
7. Centenary Bank
8. Citibank
9. Commercial Bank of Africa Uganda Ltd
10. DFCU Bank
11. Diamond Trust
12. Eco Bank
13. Equity Bank
14. Exim Bank
15. Finance Trust Bank
16. Guarantee Trust Bank
17. Housing Finance
18. KCB Bank Uganda Ltd
19. NC Bank Uganda Limited
20. Orient Bank
21. Stanbic Bank
22. Standard Chartered Bank
23. Tropical Bank
24. Uganda Development Bank
25. United Bank for Africa Uganda Ltd
26. Pride Microfinance Uganda Ltd
27. Opportunity Bank Uganda Ltd
28. Post Bank Uganda Ltd
29. Finca Uganda Ltd
30. Mercentile Credit Bank

ABC 2017

Key Highlights

Issues and Actions

Uganda Bankers Association maiden Annual Bankers Conference was held on the 19th of July 2017 at the Kampala Serena Conference Center under the theme "the Future of Banking".

The opening was presided over by the Vice President of the Republic of Uganda, His Excellency Edward Kiwunuka Ssekandi (M.P).

The Vice President underscored the role of the finance and banking sector in any economy as the primary medium for transmission of monetary policy, being the custodians & lenders of money.

He reaffirmed the commitment of the Government of Uganda in ensuring sound economic policies to support the financial and banking sector to flourish.

He noted that the Government through regulation, legislation and policies had put in place a framework for growth & deepening of the financial sector and called for the vibrant participation, support and collaboration from private sector players and development partners alike to add their weight to this process of financial sector development.

ting. In the same vein, he urged the banking sector to find innovate ways of availing appropriate financing for private sector players with long term investments & projects as well as to increase appetite for lending to the agricultural sector which employs the majority of the Ugandan labour force.

The Governor Central Bank of Uganda Professor Emmanuel T. Mutebile noted that, bank lending expanded rapidly in the first decade of this century; in real terms the stock of credit expanded four-fold between 2001 and 2011, however since then, credit growth has slowed and that over the last two years it has stagnated in real terms. The Governor highlighted three major challenges that the banking industry in Uganda is facing. These are;

- *How to strengthen bank lending to the private sector*
- *Reducing lending interest rates in a financially sustainable*
- *how to reduce the high operating costs*

Strengthen bank lending to the private: The governor noted that while loan demand, as proxied by the value of loan applications received by banks, has grown robustly by about 17 per cent per annum in real terms since 2011, the value of loans actually approved by banks has grown much more slowly. In the first half of 2012, banks approved loans in value amounted to 70 per cent of the total loan applications that they received, that figure had fallen to 51 per cent in the first four months of 2017. He attributed the low supply of credit to mainly the rising non-performing loans and difficulties in realizing the value of loan collateral in property markets. This, he noted was making banks wary about the creditworthiness of loan applicants and as a result making them more reluctant to extend credit to them.

To mitigate against low credit supply to the private sector, while emphasizing the fact that the pool of prime borrowers (comprising of mainly large, well established companies) is small in Uganda, the Governor advised banks to expand their loan portfolios in a financially sustainable manner by bringing into the credit market more small and medium sized enterprises (SMEs). To do this, banks will need to strengthen their capacities for identifying and evaluating potential new loan customers and ensuring that the characteristics of the loan products on offer are suitable for the types of business undertaken by their customers, especially in aligning loan repayments with the future stream of business revenues. He stressed the need for banks to strengthen their risk management strategies, given that an expansion of banks' loan portfolios will almost inevitably involve banks being exposed to greater credit risk.

High lending interest rates, the Governor stressed that reducing lending interest rates in a financially sustainable manner is the second major challenge facing the banking industry. He noted that, the ability of borrowers to service their loans and, therefore, their creditworthiness, is not independent of the interest rates charged on these loans. The higher are lending rates of interest, the larger is the burden placed on the borrower to service his or her loans Ceteris paribus. Lower interest rates would, contribute to enhancing the capacities of borrowers to service their loans out of their business revenue and thereby help to alleviate credit risk.

ABC 2017 **Key highlights**

He noted that, high lending rates of interest are primarily the result of the high cost structure of banking in Uganda, and thus lending rates will not fall in a sustainable manner until banks have been able to bring down their operating costs. The average annual operating costs of Ugandan banks, as percentage of their income earning assets, is currently around 11 per cent, which is very high by international standards. He elaborated that, when the interest costs of deposits and provisions for bad debts are added to operating costs, banks' annual costs as a per cent of their income earning assets rises to almost 18 per cent, which obviously constrains the extent to which average lending rates can fall.

He cautioned the call for capping interest rates like was the case in Kenya, reminding the conference of the damage caused by similar efforts in the 1970s and 1980s. In that period, the banking sector shrank dramatically because many types of banking business, including lending to the private sector, were not financially viable. Uganda cannot afford to repeat the mistakes of the past; mistakes, which proved so ruinous to our economy.

He further stressed that, if lending rates were capped by legislation at levels below the real cost of lending, taking into account operating costs, provisions, and the costs of funds, banks would make losses on their loan portfolios. They would respond by curtailing their lending to those borrowers to whom lending involves the highest costs, in the form of high transaction costs for loan evaluation and monitoring, and/or because of higher credit risk premiums. The banks might also attempt to recover some of their losses by increasing the fees and charges levied on their customers. Capping lending rates would hurt the borrowers the most, in terms of losing access to credit, would be SMEs. This is because SMEs are both riskier and involve higher transaction costs for the banks as a share of the amount that they borrow than prime borrowers.

High operating costs; Governor informed the conference that reducing the high operating costs, without compromising service delivery or customers' access to services, is the third challenge facing the Ugandan banking industry. He noted that the large branch networks and the high cost of staff are major contributors to the high operating costs of banks.

He reiterated the need to embrace new technologies as key to lowering operating costs, highlighting cyber risks associated with digital financial services should not be overlooked as well as the importance of confidentiality and data privacy.

The keynote address for the conference was delivered by Professor Njuguna Ndungu, Governor Emeritus Central Bank of Kenya.

Key Highlights from the keynote speech:

Governor Njuguna noted that financial markets are critical for mobilizing savings and facilitating investments for asset accumulation and sustainable poverty reduction.

He dwelt on the emergence of Digital Financial Services as an effective medium for cost effective, efficient, safe, and transparent technological platform for banks & financial institutions to leverage on.

He demonstrated how Mobile Money and other digital platforms had provided a game-changing environment that cut across all the sectors of the economy and across market segments including the informal market segments aiding financial inclusion through improved access to basic financial services, lowering barriers to entry in the financial sector via lower transactional costs and ease therein, less time taken by way of physical distance where necessary to visit financial institutions, and support MSMEs and households through micro credit.

Prof Njuguna said financial Inclusion will facilitate the process of Financial Development and inclusive growth and vice versa; noting that, once the economy has embraced digitization, it becomes easier to focus on market structure, financial inclusion for households, SMEs and all the sectors of the economy and that individual banks must adapt and invest in these models with innovative products and services to benefit from these trends.
He encouraged Regulators to support Digital Financial Services.

He shared personal experiences as Governor of CBK; both successes and challenges, and highlighted successes in the areas of monetary policy design and formulation, controlling inflation & expectations therein; driving financial Inclusion, development of national payments and settlement systems, the bond market and other innovative domestic resource mobilization strategies for public investments; the need for development of strong institutions especially regulatory, and the need for collaborations with the judicial systems within a country.

He shared challenges including supply side driven inflation; lack of adequate buffers to protect the market from supply shocks; dominance of government in our economies; interest rate capping and its un-intended consequences among others.

The conference covered the following sub themes in the panel sessions:

- The Digital Finance Revolution: Trends & Insights and cyber risks therein.
- Addressing the challenges, gaps & shortage of long term financing
- Financing of the Agriculture Value Chain: How banks can be encouraged to play big time in this sector
- Responsible & Sustainable Banking.
- Regulatory Oversight and Reforms: How regulation and oversight supervision was coping with fast paced changes happening in the banking & financial sector.

Finance Revolution; Trends and insights for the banking and financial sector:
Key discussion outcomes were that

a) The digital revolution was a reality and the need for it to be embraced by banks and financial institutions would continue. co-existence and complimenting each other was the best way forward.
b) Strategic partnerships between FINTECHs and Financial Institutions will characterize the future of banking.
c) Cyber security in the digital finance era is very important to protect the banks and their clientele.

Addressing the gaps and shortages of long term finance.

Key discussion outcomes were that

a) Long term financing compliments short term commercial banking financing activities.
b) The ongoing pension reforms offer an alternative and viable option for providing long term financing.
c) Attraction of long term finance requires stability and predictability/ certainty in aspects like fiscal & monetary policies, tax regimes and an overall conducive political & investment environment.

Responsible and sustainable banking.

Sustainable and responsible banking was defined as balancing financial, social and environmental issues, to ensure the success of the company as well as the sustainable livelihoods of the communities.
This involves;

- Integrating social and environmental criteria into lending .
- Ensuring good governance.
- Building more inclusive lending (Supporting SMEs and the poor)
- Protecting the environment.
- Being transparent and acting with integrity.

ABC 2017 **Key highlights**

Key discussion outcomes were that

a) Driving financial inclusion to include the unbanked and vulnerable groups are important aspects that speak to the future of banking
b) Promoting financial literacy supports financial inclusion and empowers communities from which business is derived.
c) Financial Institutions need to proactively think about pooling resources to implement project and programmes that address structural rigidities that ultimately constrain/limit their business
d) Partnerships with impact organizations like CSOs make delivery of responsible banking easier.
e) Regulators need to remain alert and awake to consumer rights, privileges and safeguard mechanisms.

Regulatory Oversight and Reforms: How regulation and oversight supervision was coping with fast paced changes happening in the banking & financial sector.

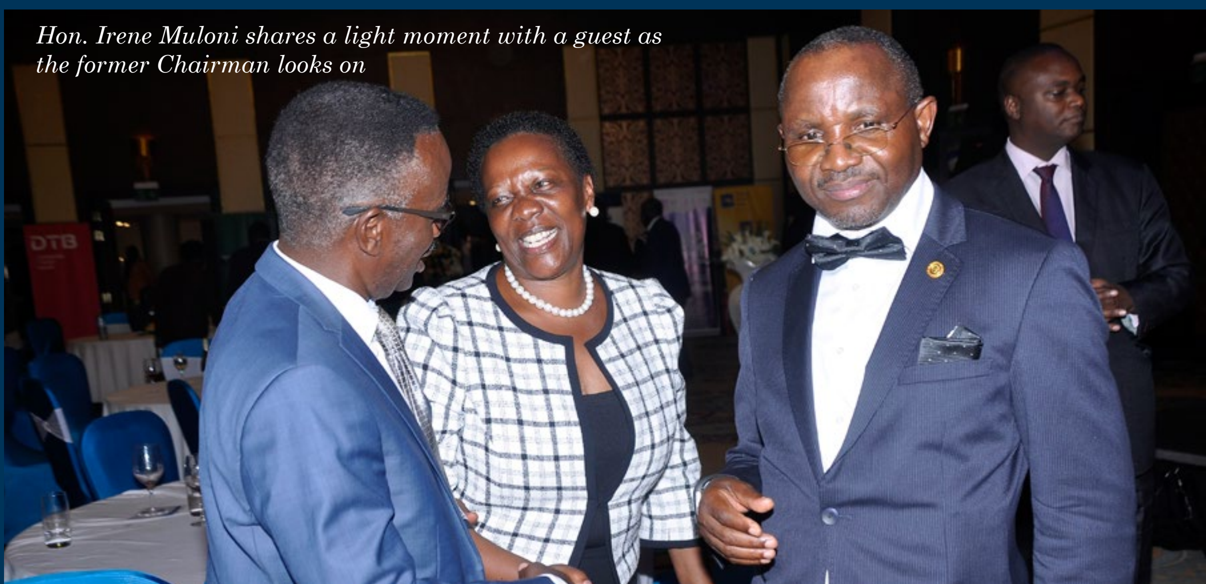
Key discussion outcomes were that

- Since the Banking sector is characterized by a dynamic environment and increased reliance on technology, Financial Sector Regulators and Supervisors need to retool their approaches in tandem with the changing trends driven by technology.
- Legislation cannot cover every aspect especially in the age of disruptive technology.
- Regulatory Sandboxes should be encouraged to test viability of the innovations and regulations to support new developments.
- Collaboration amongst stakeholders is the way to go supported by good Corporate governance.
- Informal sector regulation needs to be gradual to allow room for adjustments or else entrants get discouraged from the formal economy.
- There is need for capacity building in the area of IT system audits for the various digital banking platforms emerging.

The Conference was closed by the Minister for Finance Planning and Economic Development, Hon Matia Kasaija who applauded UBA, the participants, sponsors and all other stakeholders.

He noted the issues regarding the lending rates, and interest rate being the price of money. He also advised the audience that legislating on interest rates was not a policy approach Government would pursue, however Government would ensure the operating environment for business is made conducive.

The Minister highlighted other initiatives that Government was undertaking including expediting reforms in the pensions sector. He called upon UBA to provide their views on the process.



Hon. Irene Muloni shares a light moment with a guest as the former Chairman looks on

The evolution **of banking**

and how it will impact business and social conduct

It will come as no surprise that banking has changed dramatically: advancements in technology and increased uptake of mobile have seen us move to a world beyond cash, where the potential to create solutions that make payments faster, simpler and safer than ever before is massive. This is particularly true in Africa, where digital payments have acted as drivers of growth and financial inclusion.

The sheer value of digital and mobile solutions cannot be underestimated, both in terms of streamlining business processes and its ability to bring the continent's citizens into the financial mainstream for the first time in their lives. Research carried out by McKinsey, for instance, found that digital finance solutions have the ability to lower the cost of providing financial services in emerging economies by between 80 and 90 percent – illustrating the power of technology in overcoming social and economic challenges.

In order to unlock the full potential of digital solutions in driving inclusion and improving business and social conduct, Mastercard has partnered with governments, businesses, civil society organisations, merchants, developers and other pioneers to implement payment solutions that will make a real difference to businesses and their customers across Africa. The continent has seen the introduction of a broad range of new technology that has revolutionised the way they transact and use their money.

Masterpass QR, for instance, has been introduced across Africa and is expected to help bring millions of Africans into the formal economic fold. The solution has acted as an enabler of the biggest engines of development and growth in Africa: micro, small and medium enterprises (MSMEs). According to the Uganda Investment Authority, SMEs in Uganda make up over 80% of the economy and contribute above 20% of the GDP. This illustrates the importance of these types of businesses and the need to facilitate and streamline their operations – which is precisely what Masterpass QR was conceptualised to do.

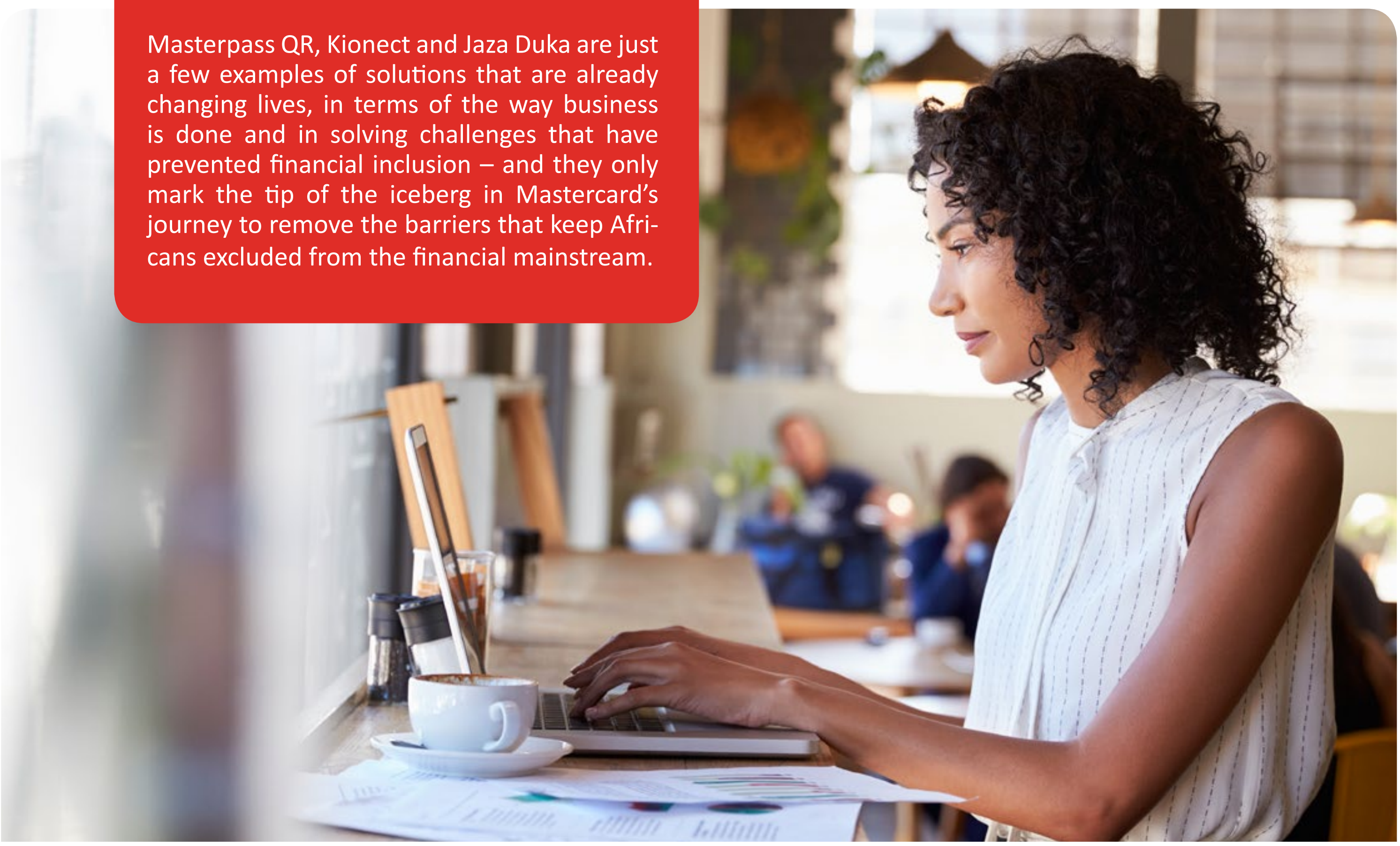
In Kenya, Mastercard is currently piloting Kionect, a digital ordering system that empowers small kiosk owners in Nairobi to order and pay for products from wholesalers via SMS. Orders submitted via a feature phone helps create a digital record for kiosk owners to get access to micro-loans to stock inventory and grow their business. This is one of several collaborations Mastercard has launched with public and private sector entities to bring the benefits and security of electronic payments to Africa and around the globe.

We have also partnered with Unilever in Kenya to help micro entrepreneurs in Africa overcome the cash constraints that limit their ability to buy and sell more products and ultimately grow their businesses. The Jaza Duka initiative combines distribution data from Unilever and analysis by Mastercard, on how much inventory a store has bought from Unilever over time. This creates an opportunity to set these businesses up for long-term growth by bringing together the tools and data from different industries to change the model of small business financing.

Masterpass QR, Kionect and Jaza Duka are just a few examples of solutions that are already changing lives, in terms of the way business is done and in solving challenges that have prevented financial inclusion – and they only mark the tip of the iceberg in Mastercard's journey to remove the barriers that keep Africans excluded from the financial mainstream.

As long as cash remains the biggest obstacle to financial inclusion, Mastercard will continue to partner with like-minded individuals, businesses and governments to introduce solutions that change that. It is only through collective action and a commitment to transformation that any difference can be made. Mastercard is well aware of this, and has dedicated extensive resources and time to ensure that measurable growth is achieved through consistent advancements in payments.

Africa is undoubtedly a continent of both challenge and opportunity: its people remain hindered by a lack of inclusion – the fact that only 43% percent of adults have an account is stark testament to this – but at the same time, companies have recognised the need for proactive change and are working to ensure that that statistic is brought down and that all citizens benefit from more accessible, effective and secure financial tools.



Tightening the Banking "Seatbelt"

Meaning to the Customer and Banks

There are many frauds out there and as their complexity increases, so does the pressure on the Bank of Uganda and financial institutions. As such the Central Bank and Ugandan banks have put in place measures to protect their customers. It is a foregone fact that the Central Bank is mandated to regulate, supervise and discipline financial institutions in order to maintain their safety and soundness. The financial system supports the economy since it is the vehicle through which savings are mobilized and then channeled to investment. This intermediation role can only be successful if the general public has trust in financial institutions, especially confidence in ensuring safety of the deposits

1. Regulatory Measures

In 2017, to avoid the possibility of being blacklisted by the Financial Action Task Force on money laundering (FATF), The Members of Parliament (MPs) swiftly passed amendments to the Anti-Money Laundering Act that requires disclosures to be made when transactions of Shs100m and above are being made. More importantly, the amendments also strengthened how Uganda can counter terrorism financing. The amendments were in line with proposals made by FATF.

Uganda has, over time strengthened the legal and regulatory framework, to avert money laundering and terrorism financing. Specifically, the Anti-Terrorism (Amendment) Act (2017) which aims to make changes to the definitions

of what constitutes "terrorism" and "an act of terrorism" under current law in order to ensure that the relevant Ugandan law is in keeping with "the revised international aspects envisaged by the United Nations Convention against Terrorism. A particular clause on The amendment expands the ban on terrorism financing by introducing language that criminalizes contribution of funds to or collection of funds in any context with the knowledge that it will be used by a terrorist person or organization for the purpose of committing a terrorist act.

The Anti-money Laundering Act (2013), the AntiTerrorism Act (2001), and the Financial Institutions (Amendment) Act (2016) have been enacted, along with other complimentary laws.

Furthermore, the Financial Intelligence Authority was also set up as part of the regulatory framework, to oversee and ensure financial integrity. Other financial sector regulators are also mandated to ensure that financial institutions comply with Anti Money Laundering/CFT requirements. In this regard, BOU continues to strengthen its supervisory framework in order to ensure that supervised financial institutions comply with the AML/CFT legal and regulatory framework, and international standards/requirements. In addition, BOU is enhancing cooperation with other regulatory authorities in Uganda, and in other jurisdictions, through memoranda of understanding (MOUs). Furthermore, BOU continues to refer to, and considerately enforce, standards, guidance and requirements by international institutions, especially the United Nations, FATF, CPMI, and the Basel Committee on Bank Supervision, among other authorities.

2.Impact of De risking

In the global financial system, traditional correspondent banks are increasingly becoming averse to smaller respondent banks, consequently isolating them – a process termed as de-risking. The Financial Action Task Force on Money Laundering (FATF) defines de-risking as a situation where financial institutions terminate or restrict business (correspondent banking) relationships with entire countries or classes of customers in order to avoid, rather than manage, risks in line with the FATF's risk-based approach.

Correspondent banking can be defined as an arrangement where one bank (the "correspondent") provides a current or other liability account, and related services, to another bank (the "respondent"), used for the execution of third-party payments and trade finance, as well as its own cash clearing, liquidity management and short-term borrowing or investment needs . Therefore, correspondent banking is an integral component of the global financial system. Crucially, by breaking correspondent banking relationships, de-risking threatens cross-border transactions and constrains access to financial services in different jurisdictions, consequently undermining international trade and cross-border financial transactions.

Moreover, de-risking threatens to push users of the formal regulated and supervised payments channels towards the alternative channels that may be riskier and harder to regulate and supervise, such as virtual currencies. De-risking in Uganda's banking sector Uganda and other countries in East Africa have been affected by de-risking, though at different scales.

Bank of Uganda (BOU) undertook an assessment to ascertain whether Uganda's financial sector had been affected. BOU established that in the recent past, three commercial banks had been affected by correspondent banks terminating their correspondent banking relationships. However, this had not materially impacted the banks involved, nor affected Uganda's financial system.

Similarly, the banking sectors in Kenya, Burundi, Rwanda and Tanzania had also been victims of de-risking, with some countries having a significant number of their banks affected. Generally, the reasons for the de-risking included: concerns about inadequate customer due diligence and risk assessment by respondent banks, posing risks of money laundering and financing of terrorism (ML/FT); heightened regulatory burden on the correspondent banks, related to anti-money laundering and counter financing of terrorism (AML/CFT) or the uncertainties related to the implementation of these requirements and the potential reputational risk in case of non-compliance; and unprofitable correspondent banking relationships, largely due to insufficient volume of transactions. Analysis conducted by different bodies, including the FATF and the Committee on Payments and Market Infrastructure (CPMI), confirms the aforementioned reasons. The analysis found that correspondent banks were de-risking due to AML/CFT concerns, including inadequate risk assessment of customers, associated with the respondent banks' business and/or jurisdiction. This was often compounded in cases where the respondent bank was located in a jurisdiction that was perceived to be too risky. Furthermore, the banks cited costs associated with implementing conflicting regulatory requirements, and consequent penalties imposed by their home supervisors and law enforcement, with potential reputational and liability risks, as another reason for de-risking. In other cases, correspondent banks were severing relationships that were not sufficiently profitable, due to insufficient volumes, with the banks unable to recover their compliance costs.

3.KYC; Know your customer

Know your customer (KYC) is an international convention practised by banks and other public companies to validate the identity of people and companies with whom they do business. The practice is in place to help prevent identity theft fraud, money laundering and financing of undesirable entities such as terrorist groups etc.

As a measure to a eradicate fraud and criminal activity banks are required to obtain proof of identity from all our clients. Whenever one transacts with the bank one will need to produce a valid driver's licence, national ID card or passport as proof of identity.

In some instances, such as when opening an account, one will also need to produce proof of residential address and source of funds. A public utility bill, issued no longer than six months prior to your application for a new account, will be accepted as proof of residence.

These measures are in place to protect both the bank and its customers.

4.Online Security fraud

Banks in Uganda use state-of-the-art technologies that provide a high degree of security. The security infrastructure comprises of firewall, intrusion detection systems (IDS), virus monitoring tools and many more. The security requirements have been implemented and audited by an international consulting firms, using internationally accepted standards and practices. Online Banking uses 128-bit digital certificate from VeriSign for encryption of the Secure Sockets Layer (SSL) session. SSL is the industry standard for encrypted communication and ensures that customers' interaction with the Bank over the Internet is secure. Besides technological solutions, Security is also built into the login process. Online banking enforces the use of a minimum 8-character password including alphanumeric plus special. Although no system is foolproof, there is vigilance and co-operation as an industry to bring culprits to book. Working alone is not enough. Ugandan bank have some of the best internal auditors, fraud examiners and internal controls in place. Nevertheless, these are not good enough for staff collusion and clandestine activities in the areas of the operation In such a case, the only best strategy you is effective whistleblowing system and training of staff about ethics and personal financial resilience.

5.ATM and Cheq ue Fraud

Perhaps the most reported type of banking fraud in Uganda involves ATMS, from outright thefts to forgeries and card swipping. Most are carried out by fraudsters who target vulnerable victims. Banks in Uganda on the regular advise their customers to keep their banking details and especially PIN number secret.

Cheques transactions constitute the largest form of settlement in the banking sector and the recent past reveals that cheque fraud is the fastest growing financial crime. Whilst cheque fraud statistics are scanty, the loss of funds as a result of well-organized fraud through the financial sector has been enormous. Global technological advancements has made it increasingly possible and easy for criminals to skim or clone realistic counterfeit and fictitious cheques, plastic cards as well as identification that can be used to defraud banks and bank customers.

The most common plastic cards in Uganda today is the Debit card e .g. ATM and point of sale cards. ATM and credit fraud occurs when a stolen or cloned card is used by criminals to withdraw cash from a customers' acc ount. The fraud takes various forms. A bonafide customer may be accompanied by a close friend or even a relative to an ATM point to withdraw cash. In the process the relative or friend may learn the PIN number of the card and subsequently steals the card and withdraws the money from the bank without the knowledge of the customer.

In more sophiscated cases, fraudsters mount cameras and other gadgets on ATMs and steal or capture the details of the card plus the PIN as it is entered, make a copy of the card and withdraw funds using the obtained details. These gadgets are cleverly disguised to look like normal ATM equipment or leaflet/brochure holders.

In other instances criminal gangs or employees obtain the particulars of a credit card through imaging techniques when being used to pay for goods and services and use the information to clone a fraudulent card which is then used to defraud the holder of the card. To protect against such frauds, customers are advised to memorise their PINs and never to write it down or share it with any other person. They should desist from the habit of giving cards and PINsto other people to withdraw money on their behalf.

Cardholders should never use a card in an ATM where they see suspicious equipment or people. Always insist that cashiers swipe customer's cards in a machine that should be well located at the counters in the site of the cardholder and not under the counters or back offices.

The Way Forward

There is no single known remedy of eradicating bank frauds. However, customers and banks must exercise due care whenever handling cheques. While the customers must exhibit due diligence, the banks too have robust systems / procedures, policies and guidelines in place to mitigate frauds

Bank of Uganda Initiatives and Uganda Bankers Association

In its resolve to maintain a safe and sound financial sector, the Bank of Uganda has strengthened the regulatory framework and strengthened the supervision of financial institutions. New laws have been enacted to strengthen the legal framework. The Micro Finance Deposit-Taking Institutions Act, 2003 (MDI), The Financial Institutions Act, 2004 (FIA) and the Foreign Exchange Act, 2004 (FEA) have all been enacted recently to ensure that financial institutions are managed within an appropriate and up to date legal environment. The MDI regulates micro finance institutions which take deposits from the public and Bank of Uganda has so far licenced three micro finance deposit-taking institutions.

The implementation of the law is expected to increase outreach of financial services especially in the rural areas. The FIA reflects best practices, standards and principles in supervision of financial institutions. It addresses among others aspects of licencing, corporate governance and prompt corrective actions against problems in licenced institutions. There are currently fifteen commercial banks and seven credit institutions licenced and supervised under this act. Implementing regulations have been gazzetted under these acts and supervision of the institutions has been strengthened through capacity building, and more frequent examination of institutions through on-site and off-site methodologies including risk-based supervision.

The FEA consolidates the law relating to foreign exchange in Uganda; to provide for the exchange of foreign currencies in Uganda and the making of international payments and transfer of foreign exchange. Foreign Exchange Bureaux are licenced under this act. The Anti Money Laundering Bill was passed. The enactment of this law will curtail the misuse of Uganda's financial system for money laundering activities, hence protecting the financial sector against the effect of money laundering.

Bank of Uganda regularly meets with the Uganda Bankers' Association to discuss the frauds and forgeries taking place in the financial sector. An Economic Intelligence Unit (EIU) has been established in the Bank of Uganda to handle the problems of fraud and forgeries taking place in financial institutions.

The payments system has been extensively modernized by the Central Bank in collaboration with the financial institutions. Improvements have introduced initiatives, which will reduce on incidencesof especially cheque fraud.

Implementation of a national cheque standard has ensured high quality cheques with reasonable security features. The use of risk-prone cheques will be reducedfurther with the introduction of electronic funds transfer systems (EFT), real time gross settlement system (RTGS), credit cards and electronic funds transfer atpoint of sale (EFTPOS).

The use of these settlement methodologies to effect both large volume payments (RTGS) and low value payments (EFTS) eliminate the use of cheques, and hence the incidence of cheque fraud.

By Leah Chirotich

Financial Sector **Stress**

Causes, Impact and Safeguards

Financial sector stability and stress

By Charles Augustine Abuka

Director Statistics, Bank

Maintaining financial stability and by implication avoiding system stress has grown in importance as one of the key roles of Central Banks. In East Africa, we look towards financial stability because it is associated with an environment in which large numbers of financial institutions are prevented from becoming insolvent or failing. We think of stability as the existence of conditions that would avoid significant disruptions to the provision of key financial services. It follows therefore that the process of financial development should be accompanied with the strengthening and diversification in the provision of financial services to meet the requirements of our citizens in an efficient manner. There are two main reasons why policy makers in East Africa should be interested in the stability of the region's financial sector. The first relates to the now widely accepted view that a stable and well-developed financial system is critical to the health and growth of the economy. The second, arises due to the fact that policy makers are becoming increasingly convinced that macroeconomic stability is intricately related to financial sector stability and soundness.

In the recent years, the world has also witnessed an increased awareness of the importance of macro-financial linkages. On the one hand, macroeconomic shocks to variables such as GDP growth, unemployment, housing prices, equity prices, interest rates and the exchange rate may be amplified and protracted by financial factors due to these linkages. The theoretical economic literature also points to several roles for financial factors. First, negative macro shocks will lower the amount of internal funds that households and firms can devote to their investment projects, thereby increasing their demand for and the costs of external sources of funding. Second, macro shocks are also likely to lower the value of collateral, which will increase the cost of external financing. Third, adverse shocks to goods prices shift purchasing power from debtors to creditors. If the debtors in an economy consume more than creditors, aggregate demand could contract. Finally, exchange rate shocks can also change the net worth of households and firms – if there is a deterioration in balance sheets this can have adverse wealth effects - increasing the likelihood of debtors being unable to meet their loan obligations.

The financial sector itself is a source of shocks that can spill over to the macroeconomy. For example, a reduction in the perceived strength of a bank or a group of banks can result in bank runs. An increase in the cost of wholesale funds, a loss in equity capital and forced asset sales can also lead to a sharp reduction in the supply of bank credit. The contraction in bank lending could be especially pronounced, if banks are closely inter-connected via the interbank lending market and banks begin defaulting on their obligations to other banks.

Causes of financial system stress and vulnerability

Financial system stress and vulnerability is closely linked to the concept of systemic risk. Systemic risk can be conceptualised in two dimensions. The first is the cross sectional dimension which arises because different financial institutions within the financial system may have common exposures to risk that could result in the joint failures of these institutions. Such common exposures could arise from intermediation between institutions, such as interbank borrowing or counterparty risk. They could also arise because the asset portfolios of individual institutions share common exposure to a specific sector for example real estate. The second dimension of systemic risk is the time dimension. The build-up of systemic risks and subsequent realisation of losses often follows a procyclical sequence, which has self-reinforcing effects. Risks build up during economic booms, when typical features are rapid credit growth, asset price bubbles, increased competition in financial markets, and in some cases macroeconomic imbalances; these risks are often masked by the good performance of the economy. These vulnerabilities can materialise into system-wide losses when asset prices fall or because of some other trigger, such as a downturn in the economy or a Balance of Payments crisis.

> Capital structure mismatches result from relying too much on debt inancing rather than equity.

Economies are always faced with a number of macroeconomic risks. In the event of a large macro shock, the effect on the financial system will depend on several factors: the magnitude of the macro shocks, the vulnerability of the financial system to macro shocks, and the extent to which the macroeconomy and the financial system are inter-linked. Changes in the macro environment naturally lead to changes in the balance sheets and profitability of financial institutions. There are a number of ways to categorize these types of risk in the financial system. The main types of financial sector risk include interest rate risk, exchange rate risk, credit risk, rollover risk, liquidity risk, capital requirement risk, and solvency risk.

Financial institutions are also likely to have a number of mismatches associated with their balance sheet positions. These mismatches in turn create increased exposures or vulnerabilities to particular types of financial risk. There are three general types of balance sheet mismatches that might indicate important vulnerabilities namely: maturity, currency, and capital structure. Maturity mismatches occur when the average maturity of assets does not match that of liabilities. Banks typically have assets that have longer maturities than their liabilities, while insurance companies usually have the opposite situation, where liabilities are often longer-term than their assets. Maturity mismatches can arise in either domestic or foreign currency. Maturity mismatches can expose financial institutions to several types of risk such as interest rate, rollover and liquidity risk.

Currency mismatches materialize when foreign denominated assets are greater or less than foreign denominated liabilities and create exposures to exchange rate risk. A net positive foreign exchange position in which assets are greater than liabilities means that a sharp appreciation will result in the domestic-currency value of assets falling more than the domestic-currency value of liabilities. Conversely, a net negative foreign exchange position creates a vulnerability to exchange rate depreciations. Currency mismatches are usually more pronounced in emerging economies, because households, companies, and governments are often forced to borrow abroad in foreign currency rather than in domestic currency. In some cases, they might even be forced to borrow domestically in foreign currency.

Capital structure mismatches result from relying too much on debt financing rather than equity. Equity values can be quite volatile, especially during times of uncertainty. Payments from equity are state-contingent, with profits and dividends falling in bad times. In contrast, debt-service payments generally remain unchanged in bad times. Therefore, insufficient equity buffers – high debt-to-equity ratios – can lead to liquidity risk and solvency risk. Excessive reliance on debt financing can be the result of weak corporate governance or tax and regulatory distortions.

Beyond mismatches on banks' own balance sheets, banks can also be exposed to indirect exposures and financial risks, because of their links to other sectors of the economy. For example, consider the case of a banking sector with currency mismatches. Banks may reduce their direct exposure to foreign exchange risk by borrowing in foreign currency and on-lending to domestic agents in foreign currency. But, households are more likely to have assets and income denominated in domestic currency, so banks may have elevated credit risk to the extent that households could become unable to meet their obligations to banks after a currency depreciation. Similarly, if corporations are not hedged, their net open foreign exchange positions may also translate into an indirect foreign exchange exposure for banks. These indirect risks might also lead to indirect liquidity and solvency risks, as well as the inability to meet minimum regulatory capital risks.

The impact of financial stress and instability
Financial crises and instability generate negative effects not only on the financial sector, but also on the entire real economy. They could reduce investment incentives, lower product demand and increase uncertainty about the returns to capital. This means that firms could be faced with less favourable conditions for financing investment due to more stringent standards regarding the rising costs of borrowing and the limited supply of credit. Financial shocks are costly in terms of annual losses because they could lead to reduced GDP per capita growth rate and lower levels of employment. Indeed, the channels through which financial crises can affect the growth of the economy negatively are many.

Financial instability makes banks more vulnerable, leading them to adopt more stringent approaches in granting loans. Credit selection could limit access to most of the small and medium enterprises (SMEs). Financial crises invariably lead to decreased consumption which results from a decline in lending to individuals and which is an important component of demand and growth. Financial stress can increase investment costs especially in environments in which high interest rates are binding. Financial instability can also lead to risk aversion which leads to an increase in the risk premium. In addition, exchange rate volatility and capital flow reversals that are associated with financial stresses could impact negatively on the volume of trade. In a nutshell, the collapse of confidence among consumers and investors that are associated with financial instability can lead to a contraction of their activities and hence economic growth.

Lessons and Safeguards

The East African banking system is growing rapidly, and is becoming more sophisticated and integrated with financial systems at both the continental and global levels. These developments pose a number of challenges going forward and regulation will be required to respond in a number of areas. For example, it requires the implementation of critical aspects of Basel III regulatory framework. The East African countries, have following the recent global financial crisis, adopted several reforms approved by the Basel Committee on Banking Supervision (BCBS). These reforms aim to strengthen banking systems and improve their resilience to shocks. These reforms include among other things the strengthening of bank capital and liquidity buffers as well as supervisory measures to reduce the externalities created by systemically important institutions.

Following, recent concerns with the financial stability mandate, a lot of interest has been generated in the area of macroprudential regulation. As a result, East African Central Banks are already examining a number of possible macroprudential instruments that could be implemented with the aim of reducing the severity of future systemic financial crises. The central banks are designing appropriate macroprudential approaches that will help to shield our financial sector from systemic threats.

Financial Sector **Stress**

The approach favored by countries in East Africa includes measures to curb excessive credit growth during upswings of the economic cycles, it includes the monitoring foreign liabilities of banks and capital flows, especially portfolio flows which are very volatile and can exacerbate risks to banks arising from exchange rate volatility. In addition, it includes measures to identify and strengthen the supervision of systemically important banks. Finally, because of increasing interconnectedness and complexity within the financial system the approach also has implications for payments system infrastructure. The adopted macroprudential approach to supervision is expected to be attentive to risks that may impair the payments, clearing and settlement systems. This is because break downs in these systems could relay and amplify systemic risk. East African Countries have already taken steps to enhance systemic risk monitoring through establishment of Units to monitor and undertake financial stability analysis.

Finally, cross-border regulation has become an increasingly important means of ensuring financial system stability. A number of pan African banks are entering the East African Region – reflecting a strategy by banks to leverage a regional footprint, particularly within the African Continent. As a result, East African Central Banks are working with other regulators to implement regulations and procedures to appropriately monitor banking groups on a consolidated basis. Additionally, formal relationships with home regulators of these institutions have been established to ensure effective supervision of these institutions.

The Executive Director Supervision, Bank of Uganda Dr. Tumubweine Twinemanzi chats with bank heads after the meeting

Government on
Digital Infrastructure

Government of Uganda keen to anchor the growth of Electronic Financial Services through Digital Infrastructure

With the Information Technology wave underway, there is no doubt that the future of Financial institutions is digital. Banks and other financial institutions will have to invest more in digital financial services that have the potential to break down barriers of access to finance and open up opportunities for the unbanked and underserved segments of the population especially in the remotest areas of Uganda. However, digitizing the financial sector requires one crucial ingredient; the internet. Where financial services do not exist or penetration is low, the internet can act as the conduit that takes them to those places.

The good news is that the Government of Uganda through The National Information Technology Authority Uganda (NITA-U) has completed the implementation of all the three phases of the National Backbone Infrastructure (NBI). The NBI is an optical fibre cable that aims to connect the entire country to the internet. Phase four has commenced and will extend the ICT backbone to the Northern and Eastern districts of Pakwach, Nebbi, Arua, Yumbe and Koboko, Adjumani, Katakwi and Moroto. The NBI aims to connect all major towns within the country, all Ministries, Departments and Agencies (MDAs) as well as Local Governments onto an optical fibre-based network.

Government on **Digital Infrastructure**

Currently, 2400 Kilometres of fibre cables has been laid across the nation connecting 33 major towns, 344 MDAs, Local Government (LG) sites and Government service centers (Hospitals, universities). This infrastructure has facilitated connectivity especially in areas that are not commercially viable for the private sector, creating potential for the use of electronic banking channels such as ATMs, Mobile Phones and Point of Sale machines in such areas.

Yet the story doesn't end with connectivity, internet has to be affordable. The Government of Uganda has made deliberate efforts to reduce the cost of internet. Government has realized a reduction of internet costs from US $ 1,200 in 2012 to the current US $70 per Mbps. It has triggered a drop in Internet bandwidth prices across the market within the country which is fundamental in promoting online financial services.

More so, the government is in the process of integrating information systems so that data can seamlessly be shared across Government systems in a rational, secure, efficient and sustainable manner. This has already taken off. NITA-U has already for example embarked on the integration of five Pubic Finance Management Systems through the Integrated Financial management system (IFMS) with 43 local governments already utilizing centralized IFMS. The strategy is to ensure that all districts and municipal councils in the country are connected on the IFMS.

This integration will include key financial sector systems such as the Credit Reference Bureau (CRBs) to foster secure, convenient but most importantly rational sharing and re-use of data among information systems of financial institutions. Know Your Customer (e-KYC) will become a shared service at the National Systems Integration Platform which will lower operational cost of financial institutions and financial technology companies.

The Minister at the Centenary Bank Stall during the launch

In relation to this, is the Implementation of Mobile ID to enable strong authentication of users when accessing particular services of banks such as internet banking and mobile banking. Mobile Electronic Identity (Mobile ID) is a solution that allows a user to prove their identity over the internet using a mobile phone. The mobile ID is a key component of any digitized society. It involves a mobile authentication and signature. Mobile authentication enables a user to identify themselves in the cyber space with a cell phone while the mobile signature enables the user to sign online documents such as declarations, reports, deeds, contracts and any other document in electronic form. The same service will help to improve operations and reduce costs of the financial institutions by facilitating digital signature, enabling them to go paperless.

Government of Uganda is implementing the Government e-Payment Gateway, using services of existing payment service providers such as banks and mobile network operators, as a platform for electronic payments. The Gateway is anticipated to facilitate the transition to less cash or a cashless economy which will benefit a majority of financial institutions, meaning, the more digital the payments, the less the operations costs for banks and other financial institutions.

But all this cannot exist without an environment that is conducive to a digital economy.

The government is ahead of these developments. There are several laws that have been enacted to cater for electronic transactions of every kind. The Electronic Transactions Act, among other laws is a clear and detailed guide for the electronic transactions sector. With the Computer Misuse Act acting a strong for defender of all actors in cyber space.

It doesn't end with the laws. The government has set up the National Information Security Framework (NISF) through the Ministry of ICT & National Guidance through NITA-U. The NISF serves as a conceptual structure for guiding information security activities in Uganda in addition to presenting a common approach for addressing information security issues both within and outside the government of Uganda. The NISF requires implementing institutions to ensure that security measures implemented address the peculiar threats, risks and vulnerabilities that their operations face appropriately.

The National Information Security Framework (NISF) works to implement its objectives through a body called the National Information Security Advisory Group (NISAG). Banks are considered as national critical information infrastructure (NCII) and as such represented at NISAG by the Uganda Bankers Association.

De-risking "Cloud Banking" **in Uganda**

Opportunities and Challenges

Silver Kayondo

The banking sector in Uganda has grown in size, coverage and complexity over the last decade. This growth has attracted high operation costs in installations, maintenance and upgrading of core bank IT infrastructure. Furthermore, increased data collection and processing requirements for regulatory compliance, business planning, marketing, and managerial oversight have also increased due to enhanced legal and regulatory obligations placed on banks since the 2008 Global Financial Crisis.

The above developments have necessitated banks to adopt innovative and cost-effective information management systems. Cloud computing, which involves using a network of remote servers hosted on the internet to store, manage, and process data is expected to be one of the fastest-growing technologies in the coming years because of the development of the digital economy, proliferation of big data, and increased demand of innovative digital banking solutions that meet customers' needs. With consumer-facing companies such as Amazon, eBay, Netflix, etc offering seamless digital experiences, bank customers will also expect their financial institution to offer the same innovative, fast and personalized service and seamless consumer experience. This will drive banks to leverage cloud banking in order to accelerate innovation, mitigate IT and data protection risks, and enjoy the costs benefits of reducing the initial capital expenditure investment required for traditional IT infrastructure.

Research by IBM indicates that an effective cloud strategy can reduce a bank's infrastructure and software application costs by 40 percent.

Cloud computing facilitates the capacity to handle an increased transactional volume without impacting on the banks' IT system performance. It also offers significant virtual computing capability and economies of scale that might not otherwise be affordable to small and medium banks that may not have the financial and human resources to invest in the traditional IT infrastructure. According to the International Data Corporation, banks globally are projected to spend more than $12 billion on public cloud infrastructure and data.

However, according to 2017 research by PwC, relative to other sectors, the financial services sector has been slow to adopt cloud computing for core operations due to the vast and uncertain regulatory landscape. For instance, in the UK, the British Bankers Association recently observed challenges in cloud adoption due to inconsistency in regulatory approaches and interpretation. Due to increased privacy and security challenges and the introduction of cross-border data transfer and localization requirements for international banks, there is need to demonstrate a clear understanding of how policies and regulations influence the development and execution of cloud contracts and service level agreements between cloud companies and the banks. Financial firms must have a clear understanding of the risk exposure under which they are operating and how to mitigate the same under evolving data protection, privacy and cyber security regulatory requirements. Duties and responsibilities of the various role-players should be well defined as regulations evolve with cloud utilization and adoption in Uganda.

Silver Kayondo receives an award from UBA delivered by the former Chairman Mr. Fabian Kasi, MD and CEO Centen for his paper published in the Annual Bankers' Conference Magzine

Internationally, the European Banking Authority (EBA) launched guidance for use of cloud service providers by financial institutions in December 2017. The recommendations will apply with effect from 1 July 2018. They address data security and systems; location of data and data processing; access and audit rights; chain outsourcing; and contingency plans and exit. The recommendations attempt to draw a balance between allowing financial institutions to leverage the benefits of cloud financial technologies (fintech) and ensuring that necessary risk control management and regulatory compliance obligations are met by the financial institutions. The Monetary Authority of Singapore (MAS), the UK's Financial Conduct Authority (FCA), and the Australian Prudential Regulation Authority (APRA), have issued guidance and checklists aimed at clarifying the regulatory requirements for outsourcing to the cloud or using other third-party IT services by financial institutions operating in their respective jurisdictions.

In August 2017, the Central Bank of Kenya (CBK) exercised its regulatory authority under section 33(4) of the Kenyan Banking Act to issue a Guidance Note on identifying and mitigating cyber risk. Specifically on outsourcing, the Guidance Note highlights the risks arising from use of third-party service providers, such as cloud providers. The CBK advised financial institutions to have in place adequate cloud outsourcing agreements, robust due diligence procedures for prospective cloud service providers, and monitoring and evaluation systems for cloud service delivery. This advice is applicable to Ugandan banks for integrity of their core banking systems and the financial sector as a whole.

By and large, cloud banking is evolving at a very fast pace and offers numerous opportunities for the banking sector in Uganda as articulated above. However, this process needs to be augmented by Bank of Uganda's guidance in order to create regulatory certainty and a compliance framework for the industry.

Mr. Kayondo is a lawyer specializing in technology law, innovation and regulatory compliance.

Banking Sector Skills and Training

Investing in Human Capital for Private Sector Growth.

Proff. Samuel Sejjaaka
(PHD)

Globally discussions around economic growth have emphasized the need for countries to ensure that their population is productive and actively involved in contributing to growth and development of their economy.

Uganda is one of the countries with a very young population and as such, it is important to explore the full potential of this group and ensure that their productivity especially through job creation is addressed. The rate of change in the productivity and efficiency of this population are key to development and growth of the economy.

However, it is critical to note that Organizations are finding it hard to attract and retain talent and skill, which ultimately leads to high personnel costs paid for the limited pool of skill and talent available.

Building human capacity for private sector growth, requires having right skilling and mentorship programs for graduates on professional practices, for quality and productivity in the labour market.

Like any Industry, the Banking industry cannot overlook the power of human capital and therefore needs to strategize as an industry how to grow its skill base considering that the world today is characterized by VUCA defined as;

- ***Volatility_*** *Rate of Change*
- ***Uncertainty_*** *Unclear about the present*
- ***Complexity_*** *Multiple key decision factors*
- ***Ambiguity_*** *Lack of clarity about meaning of an event*

A world of VUCA is a world of disruptive technology. Examples such technology includes;

- ***Bitcoin-*** *The world's biggest bank with no actual cash*
- ***Uber****- The world's largest tax company that owns no vehicles*
- ***Facebook****-The world's most popular media owner, creates no content*
- ***Alibaba****- The world's most valuable retailer but has no inventory*
- ***Airbnb****-The world's largest accommodation provider but owns no real estate*

The world as we knew it, is increasingly becoming obsolete; steadily moving into the 4th generation of industrialization which is about robotics, computing and artificial intelligence and change is the only permanent thing. To say it plainly, Robotics are taking over jobs that were initially done by humans. But what does this mean for the banking sector? Some of the implications of this are highlighted below;

1. Banks must recreate the models they are using every day. Yesterday's solutions cannot effectively solve today's problems.
2. Volatility must be replaced by the Vision of leaders
3. Uncertainty must be replaced by Understanding of the conditions of industry
4. Complexity must be replaced by Clarity
5. Ambiguity must be replaced by Agility

It is no longer enough for banks to just be profitable but must be seen to meet the needs of the society.

Banks need to be cognizant of and proactive about emerging disruptive technology in the sector. For example the emergence of mobile money services by telecom's, which are competing in the same space yet do not have the same costs of operations like bank branches.

Guests at the symposium

Therefore, to remain relevant the banking industry must take certain bold steps and game changer decisions. Specifically;

- The skill set to be competitive in the world today has to change. The traditional skill sets (Accountants, bankers) are not sufficient in themselves to sustain people in the world today.
- Data is the new oil. How much data do Banks's have on their customers? Bank's need to develop data centres in order to effectively work alongside Fintech's.
- Assess the effectiveness of brick and mortar branches in delivery of banking services.
- Understand the mega trends. These are macro-economic forces that are shaping the world. These are factual and often backed by verifiable data.

Companies that are going to survive tomorrow must understand and harness the power of the following Mega-trends shaping the world;

- ***Demographic & Social Change****: We need to be prepared for the expected world population growth.*
- ***Shift in Global Economic Power:*** *We should position ourselves to maximize the industrial revolution and the upsurge of robotics.*
- ***Rapid Urbanization:*** *We need to prepare ourselves for the new growing subset*
- ***Climate change & Resource Scarcity:*** *We need to be able to deal with floods, hurricanes among others since they pose a risk of strife for the few resources.*
- ***Technological breakthroughs****: In light of the increased competition for fewer jobs, the how skill sets must remain relevant. Implying that the education structure must shift to match the needed skill set.*

Thus Institutions must invest in developing the following critical skill set (both soft and hard) for their employees that cannot be imitated by computers.

Critical soft skills

- The Ability and willingness to learn
- Team work
- Communication
- Critical thinking, specifically one must be able to effectively evaluate situations, be problem solvers, have a good reasoning capacity, be good decision makers, have good analytical skills

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Grooming Character in employees is key and requires continuous capacity development outside the lecture room

Hard Skills

- Data literacy skills
- ***Skills that computers will never master _*** how can we turn obstacles into opportunities? These are conversations that need to be having
- ***Transferable skills _*** people who can increase the productivity of others
- ***Entrepreneurship_*** Being Imaginative, Creative and adding value

To survive in the fast changing environment, employees must stay creative, curious, network, make peace with uncertainty and play well with others.

Grooming Character in employees is key and requires continuous capacity development outside the lecture room and as such education Institutions need to also ensure their students interface with the relevant industries in the course of their study to prepare them for the “working world”

There is need to strengthen the Public Private Partnerships to close the gap between what is taught at the universities and what is practiced at the industry level.

Virtual Currencies:

benefits, risks, and policy considerations

By Charles Augustine Abuka
Director Statistics, BOU

What are Virtual Currencies, and how are they operated?

There is growing interest in the area of virtual currencies around the world. Uganda has not been left out of this surge in interest. What is a virtual currency? A virtual currency is a digital representation of value that can be digitally traded and functions as a medium of exchange, a unit of account or a store of value, but does not have legal tender status in any jurisdiction.

In terms of legal status, virtual currencies do not have legal tender status. This also differentiates virtual currencies from fiat currency – which is a real currency (notes & coins) and with legal tender status – which circulates and is accepted as a medium of exchange in the issuing country. For instance, the Uganda shilling (a fiat currency) is Uganda's legal tender, solely issued by Bank of Uganda. It should also be pointed out that e-money is not a virtual currency. E-money, such as mobile money operated by mobile telephone networks and value held on credit cards, is a digital representation of fiat currency used to electronically transfer value denominated in fiat currency.

The terms virtual currency and digital currency should not be confused, as the later can be used to refer to either a virtual currency (non-fiat) or e-money (fiat currency), or both.

Virtual **Currencies**

Virtual currencies can be either convertible or non-convertible. A convertible or open virtual currency, such as the Bitcoin, has an equivalent value in real currency and can be exchanged for real currency, subject to private participants' willingness to exchange. This notwithstanding, convertibility is not guaranteed at all by law. On other hand, a non-convertible or closed virtual currency, such as Q-coins, is intended to be used within a strictly limited or particular virtual domain, and therefore cannot be exchanged for fiat currency.

In respect to an issuing authority, non-convertible virtual currencies are centrally issued by a central authority that establishes the rules for use; maintains a central payment ledger; and has authority to redeem the currency. In contrast, convertible virtual currencies may be either centralized or decentralized. Decentralized virtual currencies, such as Bitcoin and Lite-Coin, are not centrally administered, monitored, nor overseen. In fact, decentralized virtual currencies, also known as crypto-currencies, are distributed, in that; transactions in these open-source peer-to-peer virtual currencies are validated by a distributed proof-of-work system, supported by math-based cryptography.

Most virtual currencies ride on Distributed Ledger Technology, which is a combination of components, including peer-to-peer networking, distributed data storage, and cryptography that, among other things, facilitates data storage, recordkeeping, electronic transactions, and transfer of a digital asset.

A. Benefits and Risks associated with Virtual Currencies

Virtual currencies, coupled with the distributed ledger technology, are envisaged to enhance efficiency is payments, for peer-to-peer exchange, especially across borders. They can significantly reduce transaction costs and delays, which are often associated with payments and funds transfers done through the conventional banking system. With further development, these technologies are seen to have the potential to deepen financial inclusion and promote international remittances, by offering faster, secure and lower-cost payments and value transfer options.

Specifically, Distributed Ledger Technology arrangements consisting of tailored functionality (or components), can be adopted to address specific friction or inefficiency within the payments, clearing and settlement processes, in various ways. This means that some components of this technology can be adopted to enhance the existing technical systems operated by the conventional financial intermediaries. On the other hand, extreme arrangements of the technology could also be implemented to entirely replace or overhaul the payment, clearing, and settlement functions of the existing financial intermediaries; effectively changing the architecture of the financial system.

However, the potential benefits need to be carefully analyzed, including whether the claimed efficiency advantages will remain if virtual currencies are subsequently subjected to regulatory requirements similar to those that apply to other conventional payments methods. Furthermore, consideration should be made for potential concerns – exchange costs with fiat currency, price volatility, consumer protection, impact on other financial services like credit and insurance – which may materialize with the use of virtual currencies.

By operating in a virtual world, with no specific jurisdiction, virtual currencies can capitalize on potential regulatory arbitrage and consequently pose a number of risks in the economies within which they are used.

At the forefront of concerns about virtual currencies, is the that they can potentially be misused to facilitate money laundering, terrorist financing, tax evasion, and other forms of illicit activity. For instance, in May 2017, perpetrators of malicious code ('ransomware') that affected multiple computer infrastructures across the world extorted ransom payments by Bitcoins. Virtual currencies can facilitate such vices because they allow greater anonymity, where participants, sources and beneficiaries of funds, do not have to be precisely identified – with real world identity. Moreover, there is no central oversight authority, regulatory and legal frameworks to effectively regulate and oversee the virtual currencies' domain, enforcing principles of safety, anti-money laundering and countering terrorism financing, and legal compliance.

Threat to price stability is another concern. As they eventually get widely adopted, virtual currencies will affect the conduct of monetary policy; by substantially modifying the quantity of money, influencing money velocity and use of cash, and impact the measurement of monetary aggregates. Even in cases where the central bank opts to issue its own virtual currency, as legal tender e-currency, it could have significant implications for the central bank's liabilities and open-market operations.

Furthermore, financial stability risks may eventually emerge as virtual currencies and distributed ledger technologies get widely adopted, and get integrated in the real economy and the conventional payment systems. In particular, the anonymity of participants and transactions and inadequate liquidity management could pose risk to settlement finality. Then, price volatility and lack of transparent price formation mechanism can fuel instability. Furthermore, the susceptibility of virtual currencies to use in illicit activities, such as money laundering and financing of terrorism, could easily prompt disruption to their use as medium payments and value transfer, potentially causing instability in the financial system.

There are also concerns that virtual currencies could gradually challenge the business models of the conventional financial system, depriving the banking system of deposits. This may impact other financial services such as intermediation of credit and insurance, affecting general economic growth.

Way Forward

> These innovation promise improved eficiency in payments and funds transfer, and deepening inancial inclusion.

While the development and use of virtual currencies and distributed ledger technology is still at an early stage, it is expanding, though it is still difficult to predict how they could shape the future of payments and the wider economy. These innovation promise improved efficiency in payments and funds transfer, and deepening financial inclusion. However, they also pose concerns or risks, as highlighted above, especially in the absence of appropriate oversight and regulation.

Mindful of the foregoing benefits and risks, different jurisdictions have taken disparate responses. Some are embracing the technology while others are still skeptical, with the choice largely dependent on the trade-off between the risks and benefits to the jurisdiction, and their capacity to avert the associated risks. For instance, in a press release (February 2017), Bank of Uganda warned the public against participation in virtual currency schemes.

However, there is on-going interest in the operation of virtual currencies and distributed ledger technology, among researchers, international authorities and policy makers. Priority is to study the implication of the technology on financial stability, financial integrity, monetary policy and the wider economy. It is envisaged that this effort will help to coordinate and develop appropriate oversight and regulatory framework for these technology innovations.

It is hoped that that the formulated oversight and regulatory framework shall be well considered to appropriately address the risks posed, without stifling the innovation from virtual currencies. Such framework may deviate from those applicable to the conventional financial systems. For instance, the decentralized nature of virtual currencies may imply that there is no central institution (similar to an RTGS in the conventional models) to target, and instead, the regulation could target participants.

In conclusion, virtual currencies and distributed ledger technology continue to evolve. Most authorities, including Bank of Uganda, continue to monitor and analyze the evolution these innovations in the light of benefits that could accrue and risks may be posed.

The Rise of **FinTech**

A Driver of Financial Inclusion and Financial Stability in Uganda's Financial Markets

Joseph Lutwama, Rashmi Pillai and Jacqueline Musiitwa

With a financial sector that only accounts for 17% of the Gross Domestic Product (GDP) , Uganda's financial markets can be regarded as nascent and developing. However, despite the low levels of financial market development, the emergence of Financial Technologies ("FinTechs") has allowed for the growth of a more inclusive financial market. A market where increasingly more Ugandan's have a diversity of both products and services, and service providers (both traditional and non-traditional) to choose from. Technology led innovation has led to efficiency gains, cost-reduction and expansion of financial service points resulting in both increased access and usage of financial services.

The emergence of mobile money is a prime example. Mobile money is a form of FinTech which leverages mobile telecommunications technology to deliver faster, efficient and affordable payment services. Latest FinScope findings show that 58% adults in Uganda are included in the formal financial system compared to only 28% in 2006, a remarkable achievement in a 12-year timespan. Majority of these gains in formal financial inclusion came from mobile money

Today, mobile money continues to drive the growth of financial inclusion with 1.2 billion transactions registered in 2017 up from just 84 million registered in 2011 . These transactions generated a value of Ushs 63.1 trillion in 2017 up from just Ushs 3.8 trillion generated in 2011 .

Uganda's track record mirrors global trends. FinTechs globally have experienced exponential growth attracting close to US$ 31 billion in investments in 2017, from only $15 billion in 2010 -- a signal of the value Fintechs are adding to the financial sector and the role they will play in the delivery of financial services in the coming future.

In multiple African countries, mobile telecom companies or third party mobile money solution providers have paved the way for a Fintech revolution either alone or through partnerships with commercial banks, micro-finance institutions, insurance companies and more. FinTechs are disrupting the financial markets at four levels, both regionally within African and globally:

- Disaggregation or unbundling of the financial services value chain to perform functions previously provided by financial institutions
- Opening up of platforms and Application Programming Interfaces (APIs)
- Using alternative information for client identification and credit risk assessment and
- Data analytics to better understand and profile consumers of financial services.

Achievements and positive disruptions by Fintechs aside, this article argues that the benefits outweigh the risks and regulators should look at FinTechs more as an enabler than a disruptor to the stability of the financial system

What do the developments mean for financial stability?

Financial stability can be analyzed at two levels; at a micro-level within the financial institutions and at a macro-level within the broader financial system. At a micro-level the central bank and other financial sector regulators seek to mitigate against and minimize the risks inherent within large financial institutions that could destabilize the financial system. Example: a credit product offered by a financial institution based on credit scoring algorithms of a third party provider. If the algorithm is a weak predictor of defaults, the financial institution might face a high percentage of non-performing loans, and depending on the size of the financial institution pose a systemic risk. At a macro-level, financial sector regulators seek to mitigate against and minimize the risk contagion among the different financial institutions and across the financial system.

Critical to maintaining financial stability at both the micro and macro level is the availability of information of these risks and the ability of regu-

lators to individually and collectively respond in timely fashion. Despite the complexity, and the fear of the unknown, the power of financial technologies can be harnessed to do more good than harm:

(i) Driving access and usage of formal financial services: By driving greater financial inclusion, FinTechs can bring a greater proportion of the population into the formal financial system. A large informal economy means a higher number of transactions occurring outside the formal systems, giving the central bank poor visibility and leaving the broader financial system open to unidentified risks. The more formalized the financial system the greater the capacity of the central bank and other financial sector regulators to monitor and ensure the stability of the financial system.

(ii) Predicting transaction flow patterns: Beyond formalizing the financial system FinTechs make it possible to collect information on different market participants in quantities and level of quality unimagined before. This data can be then harnessed to develop predictive power to highlight current and future risks by profiling different market participants and their transaction patterns. With this knowledge the regulators and industry are in a better position to plan for and manage the risks in the financial system.

(iii)Supervisory Technology: Furthermore, FinTechs in the form of Supervisory Technology (SupTech) can add immense value to the regulatory and supervisory capacity of financial sector regulators, thereby strengthening their capacity to maintain stability in the financial system. Technology is going to become a crucial enabler with the adoption of a risk-based supervision framework by financial sector regulators in Uganda.

The risk-based approach to supervision requires financial sector regulators to become more effective at capturing and analyzing data to build an evidence base for informed and timely decision-making. The future of financial supervision lies in using technology and data to improve the speed, quality and comprehensiveness of information in support of targeted, risk-based decision-making.

Conclusion

FinTechs bring a lot of advantages as demonstrated by this article. These advantages can be leveraged by policy makers, regulators and industry to increase the financial inclusion frontier while maintaining financial stability. However, the full benefit of these advantages can only be realized if regulators and policy makers take proactive steps towards understanding FinTechs and putting in place an enabling policy, legal and regulatory environment for the FinTech industry to thrive and grow in Uganda.

Lounch of **Agent Banking**

Hon. Matia Kasaija, Minister of Finance, Planning and Economic Development unvails the Agent Banking Logo

Hon. Matia Kasaija, Minister of Finance, Planning and Economic Development commissioning the ABC offices in Muyenga

Mathias Katamba, MD and CEO of Housing Finance Bank chats with a guest at the launch

The Executive Director Supervision, Bank of Uganda Dr. Tumubweine Twinemanzi during the Agent Banking Launch

The Minster visits the Bank of Africa stall at the Agent Banking launch

The Minster visits the Equity Bank stall at the Agent Banking launch

Hon. Matia Kasaija, Minister of Finance, Planning and Economic Development takes part in a live demo at an agent point

Identifying the Sources of Commercial Bank Risk in Uganda Using the BASEL-3 Framework

Full Draft Submitted to Uganda Bankers Association (UBA) on 3rd, June, 2018 for the Annual Bankers Conference 2018

Corti Lakuma, Ronald Ochen, Job Lakal and Gayathry Venugopal

1. Context

The commercial banking industry has evolved over time with a loan portfolio of more than Shs11 trillion and deposits of more than Shs15 trillion (BoU, 2017). This portfolio has supported economic growth by providing liquidity for businesses and jobs amongst other benefits. However, Uganda's banking industry grapples with challenges such as the low level of diversification, external and domestic shocks e.g. the path through effects of global financial crisis, and recent spikes in commodity prices, which have heightened the vulnerability of the financial system. The vulnerability is manifested in, among other variables, the increasing rate of non-performing loans (NPLs), nominal depreciation of the domestic currency, and high cost of credit. Overall, the rate of NPL was at 5% in 2017, the domestic currency depreciated by 4% and bank lending rate for shilling dominated loans in April 2017 was 20.5% (BoU, 2017). In addition, banks in Uganda are facing competition driven largely by changes in technology, particularly mobile money that provide a novel regulatory challenge (Mawejje & Lakuma, 2017). The elevated vulnerability is of particular concern to regulators given the limited policy space and instruments available to mitigate the ensuing volatility.

2.Objective

This paper aims to widen the lens through which supervision is conducted in Uganda to better account for financial sector health, as recommended in the Basel-3 framework. Reflecting the inherent risk, the paper seeks to shed light on the variables that influence the effectiveness of bank supervision (Georg, 2011). The paper focuses on indicators that act as early warning signs, facilitating risk mitigation. The paper utilizes a range of conceptual and analytical tools, and empirical analyses laid out in Basel-3 framework.

3. Data

This paper uses the consolidated banking system balance sheets and income statements and a number of financial soundness indicators important for stress tests from the Bank of Uganda. The data were collected in April 2018 and generally relate to end-December 2017, unless noted otherwise.

4.Methodology

First, this paper uses the Basel 3 test for credit risk by introducing the minimum legal levels of provisioning provided by BoU. We assume that banks suffer a 25% loss in cases where collateral is seized, and that additional provisioning will lower risk-weighted assets one-for-one. This examines the level of capital injection required to achieve different values of capital adequacy ratio (CAR) to risk-weighted assets (RWA) ranging from 10% to 100%.

Second, we examine the likelihood of undercapitalization and bank failure, and the level of capitalization required to mitigate this risk. To do this, we shock the model with hypothetical change in the volume of NPLs ranging from 10% to 100%. We also assume that the various ranges of NPLs will require a provisioning of equivalent value and that the entire impact will fall on bank capital.

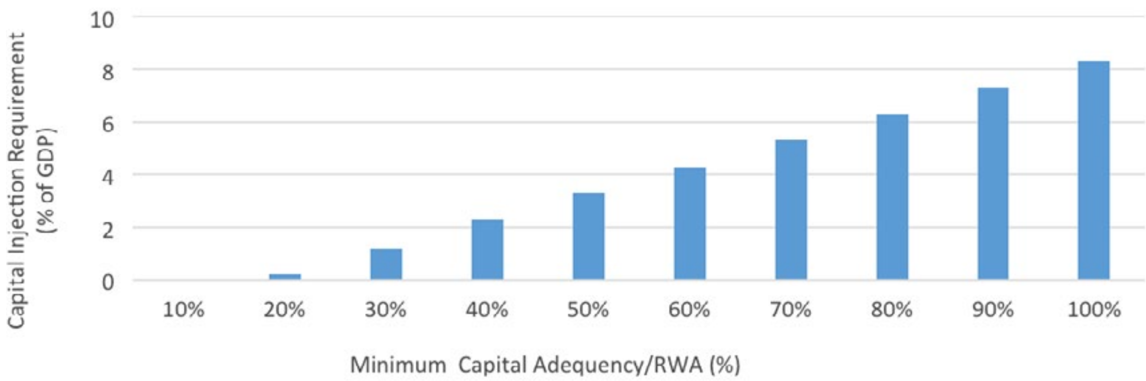
Third, the paper analyses the direct and indirect effect of nominal depreciation on the commercial bank sector. We assume several bands of nominal depreciation ranging from 10% to 100%. We also assume that the “exchange rate elasticity” of NPLs among foreign currency non-bank borrowers is 0.25 and that these NPLs generate additional requirements for provisions equivalent to the rate of depreciation.

Lastly, we carry out interest rate stress tests by examining the effects of different values of interest rate ranging from 10% to 100% on bank income and value of banks liquid assets.

5.Results

Credit Risk: To mitigate credit risk, Uganda’s banking system ought to have sufficient levels of loan loss reserves, given the quality of banking system credit portfolios. Figure 1 illustrates the capital injection required for different bands of minimum legal requirements. A 10% legal requirement is most sustainable due to its negligible constraint on capital. Meanwhile, 40 % legal requirement would require a 2.5 % of GDP in capital injection into the banking system to avoid insolvency.

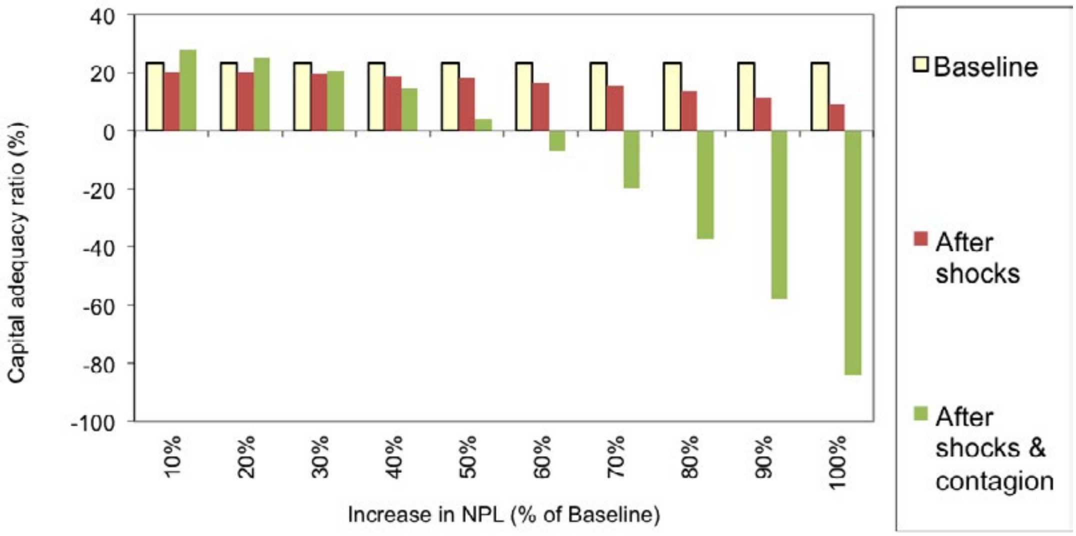
Figure 1: Change in Capital injection



Source: Authors Estimate using data from the BoU

On the other hand, Figure 2 shows the volume of NPLs increases ranging from 10% to 100%. A 10% increase in NPL reduces capital by 3-percentage points from the baseline. A 60 % increase in NPL reduces capital by 6% and elevates the risk of contagion on the capital of the entire financial system by 6 percent.

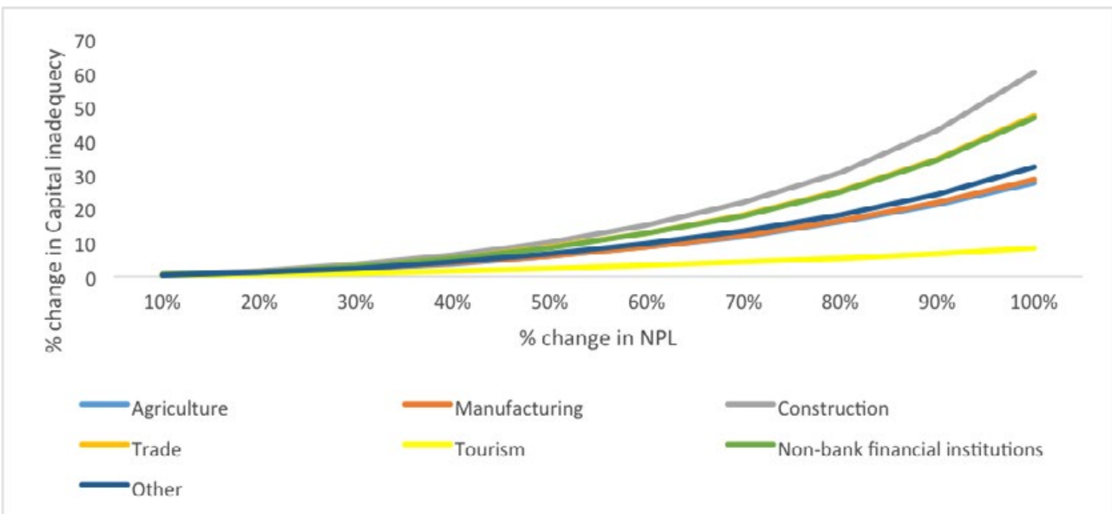
Figure 2: Effects of increase in NPL



Source: Authors Estimate using data from the BoU

Figure 3 disaggregates the volume of NPLs increases by sector. We observe that the risk of losing banking capital is more elevated when exposed to credit extended to construction and agriculture sector. A 50% change in NPL from the construction and agriculture sector reduces banking capital by 10%.

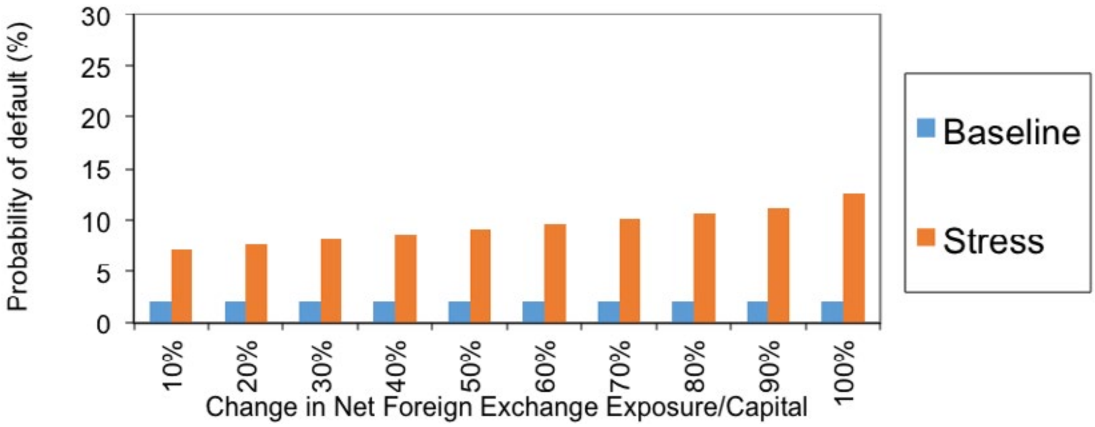
Figure 3: Sectoral Effects of increase in NPL



Source: Authors Estimate using data from the BoU

Foreign exchange risk: The financial health of Uganda's banking system was negatively related to nominal depreciation of the Uganda shilling (figure 4). This could emanate from increased foreign currency dominated NPLs and worsening net open position of the banking system. From figure 4, a 10 % depreciation increases the probability of default by 5-percentage point from the baseline.

Figure 4: Exchange rate risk



Source: Authors Estimate using data from the BoU

Interest rate risk: Increase in interest rate are largely a result of worsening business environment and weak macroeconomic fundamental such as high inflation (Mawejje et. al. 2016). An increase in interest rate can have two effects on the banking system's capital. First, there is a reduction in net income of the bank. Table 1 suggests that a 10% increase in interest rate reduces the capital asset ratio (CAR) to 21.6 %, which is equivalent to 1.4 percentage point reduction on CAR. Second, banks incur the cost of repricing asset. From table 1, a 10% increase in interest rate reduces CAR to 18.2 %, which is equivalent to 3.3 percentage point reduction in CAR. Table 1 also illustrates the net effect of the two changes. In this case, a 10% increase in interest translates into 4.8 reduction in CAR.

Table 1: Impact of Interest rate risk on Ugandan Banking sector

	Increase in Interest rate (%)									
	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
Net interest income impact										
CAR after-shock (percent)	21.6	20.1	18.7	17.3	15.8	14.4	13.0	11.5	10.1	8.7
Change in CAR after-shock (pct points)	-1.4	-2.9	-4.3	-5.7	-7.2	-8.6	-10.0	-11.5	-12.9	-14.3
Repricing impact										
CAR after-shock (percent)	18.2	13.5	8.7	4.0	-0.8	-5.5	-10.3	-15.1	-19.8	-24.6
Change in CAR after-shock (pct points)	-3.3	-6.6	-10.0	-13.3	-16.6	-19.9	-23.3	-26.6	-29.9	-33.2
Overall change in CAR (NII and repricing impact)	-4.8	-9.5	-14.3	-19.0	-23.8	-28.5	-33.3	-38.1	-42.8	-47.6

Identifying the Sources of Commercial Bank Risk
in Uganda Using the BASEL-3 Framework

This paper uses the data on Uganda's banking system to widens the lens of supervision to better account for the commercial banking sector health, as recommended in the Basel-3 framework. The study emphasizes the need to balance between capital requirements to mitigate NPL and bank liquidity requirements. While capital requirements ensure a healthy banking sector, they reduce the liquidity in the banking system leading to rationing of credit to the private sector. Nevertheless, due diligence measures need to be elevated, particularly for the construction and agriculture sector. This study recommends that the minimum liquidity requirements to be kept at not more than 20% and NPL's from construction and agriculture should grow at no more than 30% of the baseline.

For Ugandan banks to benefit from nominal depreciation, an improvement in banking system assets denominated in foreign currency over foreign liabilities is imperative. Equally, due diligence on customers who seek foreign currency loans is important. This will reduce the impairment of the capacity to repay foreign currency denominated loans.

The government and the private sector should enhance the business environment and increase productivity. This will keep the inflation outlook favorable enhancing the ability of the bank of Uganda to stabilize interest rates.

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Does the volatility of bank assets in Uganda warrant high minimum regulatory capital adequacy requirements?

Martin Brownbridge and Kenneth Egesa, Bank of Uganda

1.Introduction

The motivation of the paper is to evaluate how much protection the minimum capital adequacy requirements (CARs) imposed on banks in Uganda offer to bank depositors. We do this by examining the distribution of historical bank losses in Uganda, over the 2000-2017 period and comparing these losses to the minimum CARs now in force in Uganda. The paper is organised as follows. Section 2 provides the background to this issue and section 3 reviews efforts by other researchers to calibrate minimum CARs. Section 4 explains our methodology and empirical results. Section 4 provides an interpretation of the results and a conclusion.

2.Background

Capital adequacy requirements are the cornerstone of prudential regulations for banks. Capital provides both a buffer to shield a bank's deposits from losses incurred by the bank and an incentive for owners to ensure that their bank is soundly managed. Most of the academic literature has focussed on the role of bank capital in providing incentives to restrain risk taking, to protect the interests of a bank's creditors (e.g. Dewatripont and Tirole, 1993). Bank supervisors, in contrast, have generally focussed on the role played by bank capital in absorbing losses and thereby protecting a bank's deposits. The 2007-2009 global financial crisis demonstrated that many banks in advanced economies held too little capital to absorb the losses that they incurred during the crisis. Hence the focus of the regulatory reforms, introduced by the Basel Committee on Bank Supervision (BCBS) in the wake of the crisis and termed Basel III, was to raise minimum CARs as well as to strengthen the quality of capital (Basel Committee on Bank Supervision, 2010A).

Guests at the symposium, 3rd left is the MD Assets Recontruction Company, ARC Mr. Flex Okoboi

Under Basel III, the minimum core capital to risk weighted asset (RWA) ratio was raised from 4 percent to 6 percent while the total capital to RWA ratio remains at 8 percent. Basel III also introduced a capital conservation buffer for common equity set at 2.5 percent of RWA. Banks are allowed to draw down on this buffer during periods of stress but if they do so they will be subject to regulatory restrictions on the distribution of earnings to help preserve their capital.

As with the previous Basel Capital Accords (Basel 1 and II), the CARs under Basel III are intended to be applied to internationally active banks and provide a minimum standard for capital regulations worldwide. The BCBS recognises that bank regulators in jurisdictions where banks face higher risks should set minimum CARs which are higher than the international benchmarks set out in the Basel Accords. Compared to banks in advanced economies, banks in developing economies face more volatile economic conditions, their loan portfolios are often less diversified sectorally (because the economies themselves are less diversified) and they operate in a weaker institutional environment and therefore are vulnerable to suffering larger losses (Narain et al, 2003). This would warrant bank regulators setting higher minimum CARs than the minimum levels of the Basel Accords.

In Uganda, the 2005 Capital Adequacy Regulation imposed minimum core and total capital to RWAs of 8 percent and 12 percent respectively, four percentage points above the then minimum CARs of the Basel Accords. Following the introduction of Basel III, all of the central banks of the East African Community (EAC), including the Bank of Uganda, agreed to maintain a 4-percentage point premium above the Basel III minimums, thereby setting CARs of 10 percent and 12 percent of RWAs for core capital and total capital adequacy requirements respectively, as well as imposing the Basel III capital conservation buffer of 2.5 percent of RWA, as shown in table 1 below

Table 1 Minimum capital Adequacy Ratios; Basel III and Uganda

Percent of risk weighted assets	Basel III	Uganda
Tier 1 (core)	6	10
Total capital	8	12
Capital conservation buffer comprising (tier 1 capital)	2.5	2.5
Capital surcharge for D-SIBs	1-3.5	1-3.5

3. Empirical estimates of how much capital banks require and of the impact of raising capital adequacy ratios

Several different approaches have been used by researchers to estimate how much capital banks or banking systems require to protect them against losses. Perhaps the most direct approach is to use historical data on bank losses as a share of their risk weighted assets to estimate the probability that a bank will incur losses greater than certain thresholds and to map these thresholds to capital adequacy requirements. This is the approach taken by The Basel Committee on Banking Supervision (2010B), which examines the distribution of rates of return to risk weighted assets of banks in seven countries over long periods and estimates the maximum loss to RWA which occurs within 99 percent of the distribution of rates of return. From 11 samples of bank returns, the maximum loss covered by the 99th percentile is 8.7 percent of RWA. In addition, this paper examines the distribution of losses incurred by banks in the 2007-09 global financial crisis.

A second approach is taken by Majnoni and Powell (2005), who apply a bootstrapping sampling methodology to data on bank loans obtained from public credit registries in three Latin American countries to simulate the expected and unexpected losses on a bank's loan portfolio. They find that, to cover for the unexpected losses of 99 percent of the distribution of losses, banks in Argentina and Mexico would require minimum capital of around 15 percent of their RWAs.

A third approach, which is often used by bank regulators, is the stress test, in which banks' balance sheets are subject to a specified negative shock, such as defaults on the loan portfolio, to simulate the impact on the banks' capital positions. Jang and Kataoka (2013) provide an example of this approach for New Zealand banks.

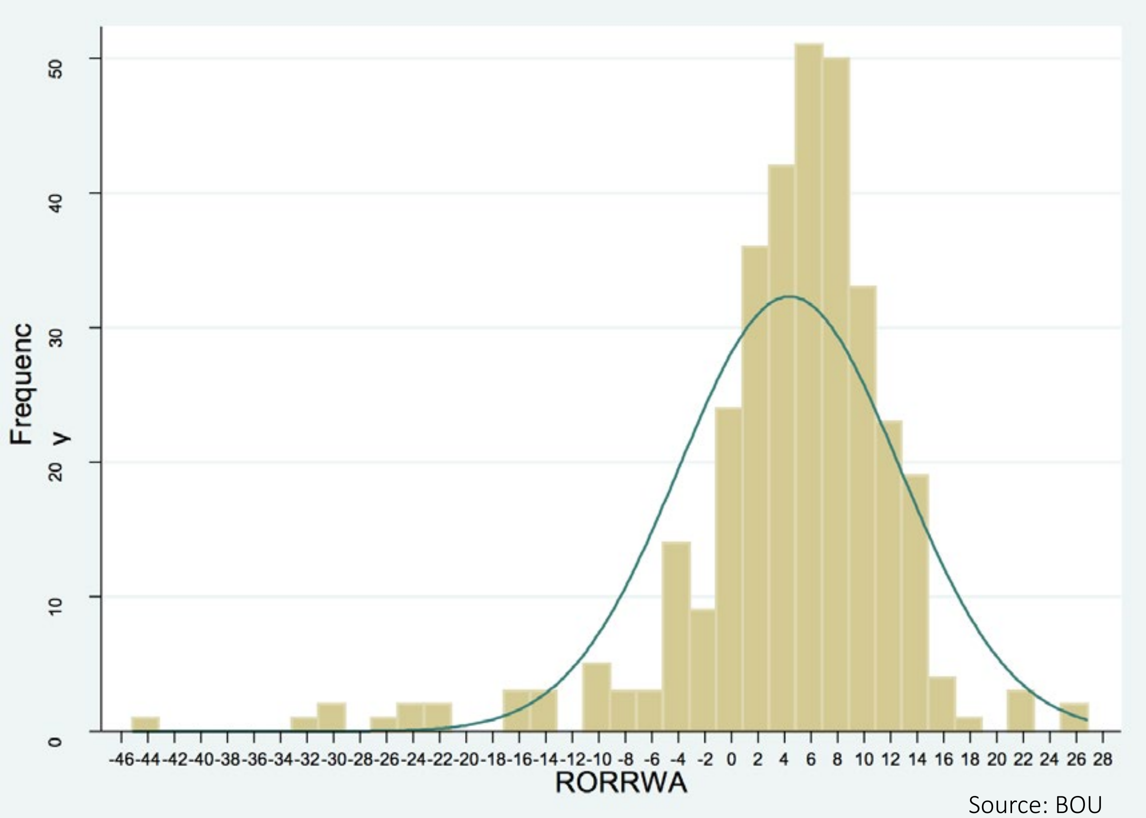
Finally, researchers have used econometric models of the factors affecting the probability of a banking crisis to investigate whether raising bank capital adequacy ratios reduces this probability. For example, Caggiano and Calice (2011) use a multivariate logit model of the probability of a systemic banking crisis with a panel of 19 African countries covering the period 1980-2008. They estimate that a one percentage point increase in actual holdings of bank capital as a percentage of RWA, above the average capital to RWA ratio in the sample of 21 percent, would reduce the probability of a systemic crisis by 0.5 percent.

4.Methodology and Results

Our approach is similar to that employed by the Basel Committee on Banking Supervision (2010B). We use data on the pre-tax annual rates of return as a share of risk weighted assets (RORRWA), of all banks operating in Uganda during the period 2000-2017. There were 29 banks that were operational in this period. Sixteen were operational in 2000, four were closed, one was sold and merged with another bank, thirteen new banks were licensed during the period and twenty four were operational at the end of the period. We have excluded values the first year of operation of all new banks, because this would have distorted the results. Most of the new banks incurred heavy start up costs, while they had not had time, in their first year of operation, to build up a loan portfolio and so their RWA were low.

There are 335 observations in this data set. The mean RORRWA is 4.5 percent; i.e. a pre-tax annual profit of 4.5 percent as a share of RWA. Figure 1 depicts the distribution of these observations. Sixteen percent of the observations involved losses.

Figure 1: *Distribution of annual Pre-Tax Rates of Return to Risk Weighted Assets for Ugandan Banks;*

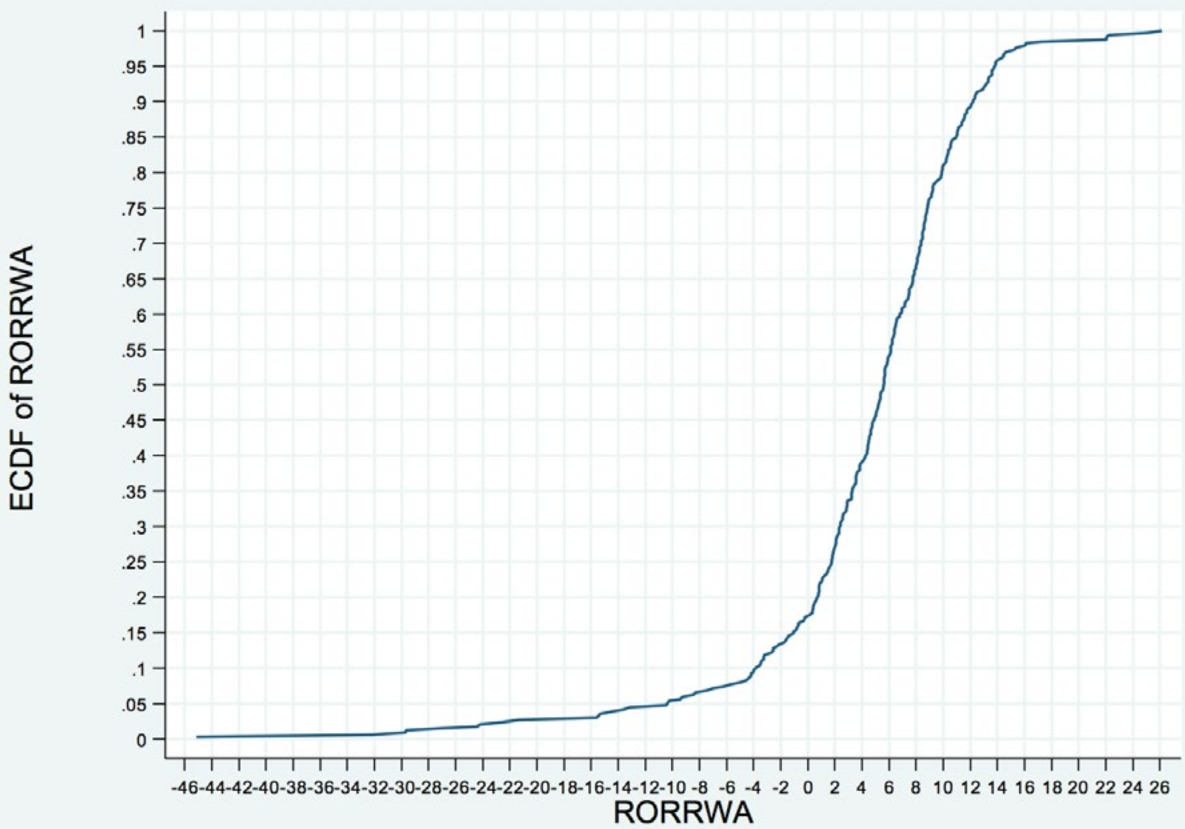


Source: BOU

2000-17

In assessing the protection afforded by banks' capital buffers, we are concerned with the negative values which are in the left tail of the distribution. Figure 2 depicts the empirical cumulative distribution function of RORRWA, which begins with a probability of zero on the extreme left-hand side and moves to a probability of one (i.e. it cumulatively encompasses all values) on the right-hand side. Thus, as we move from right to left of this distribution, the cumulative probabilities decline

Figure 2: Empirical cumulative distribution function of RORRWA



Source: BOU

as losses become larger.
Table 2 shows the values of losses in the far left of the cumulative distribution function. Only one percent of the observations involve losses which are of a magnitude of 26.5 percent or more of RWA. Losses of 15.5 percent or more of RWA comprise 2.5 percent of the observations and losses of 9.6 percent or more of RWA comprise 5 percent of the observations.

Percentiles	RORRWA
1	-26.5
2.5	-15.5
5	-9.6

Source: BOU

Table 2 RORRWA at various percentiles of the cumulative distribution function

Therefore, if we wanted to set a minimum capital requirement which would provide a buffer against all but one percent of banks' RORRWA in the period covered by our data, the CAR would need to be at least 26.5 percent of RWA. A CAR of 9.6 percent of RWA would be sufficient for only all but 5 percent of RORRWA.

An alternative way of looking at these data is to ask, given the distribution of RORRWA which occurred during 2000-2017, how much protection would the current minimum CARs, shown in table 1, afford to banks in Uganda. In answering this question, we assume that, given the uncertainty in determining the value of a bank's assets, bank regulators would not want to allow a bank's capital to fall to zero. Hence a bank should at least hold a small positive capital position if it is to be considered to be solvent. If we set the minimum capital to RWA at two percent for a bank to be considered solvent, two percentage points should be deducted from each of the minimum CARs shown in table 1 to compute the scale of losses which the applicable level of capital could absorb without jeopardising the bank's solvency. Hence the minimum core capital to RWA of 10 percent can absorb losses of 8 percent of RWA before a bank risks insolvency.

Range of losses to RWAs	Cumulative Distribution Function (CDF) Value
-32.2 : -12.5	0.0388
-32.2 : -10.5	0.0418
-32.2 : -8	0.0627
-32.2 : 0	0.1642

Source: BOU

Table 3 Probability of Bank Losses Exceeding Specified Values

The bottom row in table 1 shows that the probability of a bank's RORRWA being a loss during this period is 16.4 percent, as noted earlier. The core capital adequacy requirement is 10 percent of RWAs which, as discussed above, provides a buffer for losses of 8 percent of RWA if a bank is to remain with a small positive net worth. The probability of a bank incurring losses of 8 percent or more of RWA in the 2000-17 period was 6.3 percent, as shown in the second row from the bottom in table 3. If we add the capital conservation buffer of 2.5 percent of RWA, which must comprise core capital, to the minimum core capital requirement, the minimum core capital holding would provide a buffer against all but 4.2 percent of banks' RORRWAs in this period. Finally, if we include tier 2 capital along with the capital conservation buffer, the capital requirement rises to 14.5 percent of RWA and the probability that a bank will incur a loss greater than 12.5 percent of its RWA is 3.9 percent.

Interpretation and Conclusion

How should we interpret these results? Out of our sample of 335 individual bank annual RORRWA during the period 2000-17, about four percent involved losses which would have wiped out bank capital and rendered the bank insolvent, if banks' core capital ratios had been no higher than 10.5 percent of their RWAs, which is the minimum tier 1 capital to RWA plus the capital conservation buffer which banks must now hold to comply with the capital adequacy requirements in Uganda. There are currently 24 banks in Uganda, so over the next 10 years there will be 240 annual realisations of bank profits and losses. If the same distribution of RORRWA which prevailed during 2000-17 also occurs over the next 10 years, we would expect that about four percent of the 240 annual RORRWA would involve losses equal or greater to 10.5 percent of RWA, which amounts to almost approximately one per year. Hence one could conclude that the current capital adequacy requirements in Uganda, set out in table 1, will be sufficient to ensure that the vast majority of banks remain solvent in any given year but that on average one bank per year would suffer a loss greater than the regulatory CAR and hence would face insolvency if its capital were no higher than the regulatory minimum and also if its shareholders did not capitalise their bank before it became insolvent.

There are three caveats with this interpretation. The first is that the distribution of bank RORRWA in the next 18 years will not necessarily remain unchanged. It is likely that stronger bank regulations and supervisory capacities will reduce the probability of RORRWA in the left tail of the distribution, making banks safer. However there are some factors which might increase probabilities in the left hand tail, such as the evolution of new types of risks facing banks; for example operational risks linked to banks' IT systems. On balance it is difficult to conclude a priori whether the banking system will become more or less risky than it was over the last 18 years.

Second, the actual capital ratios of banks in Uganda are much higher than the minimum CARs shown in table 1. For example, at the end of 2017, the average core capital to RWA of all banks in Uganda was 20.9 percent. Hence banks are able to absorb larger losses than would be the case if they only held the minimum capital required to comply with regulatory CARs. Consequently, the probability of losses occurring which would wipe out actual bank capital is much lower than four percent.

Third, whether bank regulators regard the possibility of one bank failure per year on average as acceptable or not depends on the nature of the banks that fail. The failure of a bank which is systemically important would be far more damaging than that of a bank which is not. Consequently, regulatory policy should aim to ensure that the probability of a domestic systemically important bank (D-SIB) failing is much lower than the average probability of failure in the banking system. One way to achieve this is to subject D-SIBs to a capital surcharge. As shown in table 1, Uganda can apply a capital surcharge of between 1 and 3.5 percent of RWA to banks which qualify to be classed as D-SIBs, in line with Basel III. Thus, a D-SIB would have to hold core capital, including the capital conservation buffer and the D-SIB capital surcharge, of between 13.5 percent and 16 percent of its RWA. This will make Ugandan D-SIBs more resilient than other banks. A useful extension of this research would be to compute the probabilities of D-SIBs incurring losses

Guests at the Dinner

greater than their regulatory minimum CARs.

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Willful Loan **Defaulters**

Why Lenders Must be Creative in their Debt Recovery Approach.

There has been a lot of social media criticism of a decision by financial institutions to intensify their advertisement of stubborn loan defaulters in the local print media. Some institutions have even gone a step further to advertise the willful defaulters on social media through a local virtual company called Smoked Out Ltd. The company operates a dedicated webpage advertising the names, photos and last known addresses of the willful defaulters until full settlement of the monies owed.

Banks and other financial institutions have advertised defaulting debtors in the print media for many years now without any significant challenge. It is therefore likely that motivation of the recent criticism has more to do with Smoked Out Ltd's wider social media outreach and the content of the debtor details provided in the advertisements than the print media advertisements themselves. The criticism largely centers on the banks' alleged breach of the debtors' constitutional rights of privacy and the bankers' hallowed cardinal rule of confidentiality.

Although the criticism creates the impression that advertisement of debtors is reprehensible in baking practice, Uganda is not the only country to advertise willful defaulters in the media. In 2015, the Central Bank of Nigeria ordered all banks to name and shame all debtors whose loans had been non-performing for over 365 days. The notices were published every quarter, the first appearing in August 2015 after a three months' notice for debtors to settle their loans. According to Reuters, Africa's largest economy experienced a currency crisis following a sharp fall in global prices of crude oil, Nigeria's main export. The crisis harmed the cash flow of some companies with foreign currency loans leading to the growth NPLs and a near collapse of eight commercial Banks. Reuters also reports that public notices run by Banks, some recognizable to Ugandans such as Stanbic IBTC Bank and Guaranty Trust Bank (GT Bank), also provided details such as the sums owed by the published debtors.

Similarly, in October 2016, the Liberia Bankers Association published over 4000 debtors from only six financial institutions in a massive name and shame campaign of debtors who had persistently refused to repay their loans. This publication followed a 30 days' notice to defaulting debtors to contact their Banks and work out an arrangement for their obligations. This drastic action followed Liberia's enactment of a Commercial Code and the establishment of a Commercial Court to fast track enforceability of financial contracts. However, according to the Liberian Observer – a local Liberian newspaper, LBA argued that the Banks reserved the right to implement a system that allows for the naming and shaming of chronic/ repeat offenders or those that act with impunity in refusing to repay their loans.

Further, advertisements of willful debt defaulters is a common and accepted practice in some States in India. In fact, some Banks have become even more creative in publicizing of chronic defaulter problem. In 2017, more than 500 employees and retirees of Catholic Syrian Bank in Kerala, India, held a campaign in which small groups of 40 – 50 employees silently marched and camped outside the residences of willful defaulters every Thursday holding banners and placards imploring them to settle their loans so that they could earn their salaries and pension. The success of this strategy had another Bank, the Punjab National Bank, adopt a somewhat similar campaign and registering as much success. The Bank organized what it called Gandhirigi marches – named after Mahatma Gandhi's ideals of truth and nonviolence – in which processions marched to NPL borrowers and mockingly offered them flower bouquets.

Advertisement and shaming of willful debtors is far more drastic and intrusive in China. Creditors advertise willful debtors on television, outdoor display screens, public lifts, etc. The Supreme People's Court created and maintains a blacklist of willful debtors that it publishes on a dedicated website that lists names, photos and identification numbers of the 'dishonest people'. Some Courts have also rolled out programs that leave recorded caller tune messages on the phones of defaulting debtors informing the caller to urge the recipient of his call to honor his debt obligations and get off the black list.

The question therefore, is not whether advertisement of debtors is an acceptable practice, but rather whether the affected debtors are in fact the victims as they are made out to be. Many bank customers have taken out loan facilities and retired them without any major difficulty. Many have serviced their facilities amidst unimaginable challenges and difficulties demonstrating remarkable commitment to their obligations and honour. There are also those that have failed to honour their obligations in under-

The Executive Director Supervision, Bank of Uganda Dr. Tumubweine Twinemanzi chats with bank heads after the meeting

standable situations and contrary to the popular perceptions, Banks have entered into restructuring arrangements where circumstances warranted such accommodation.

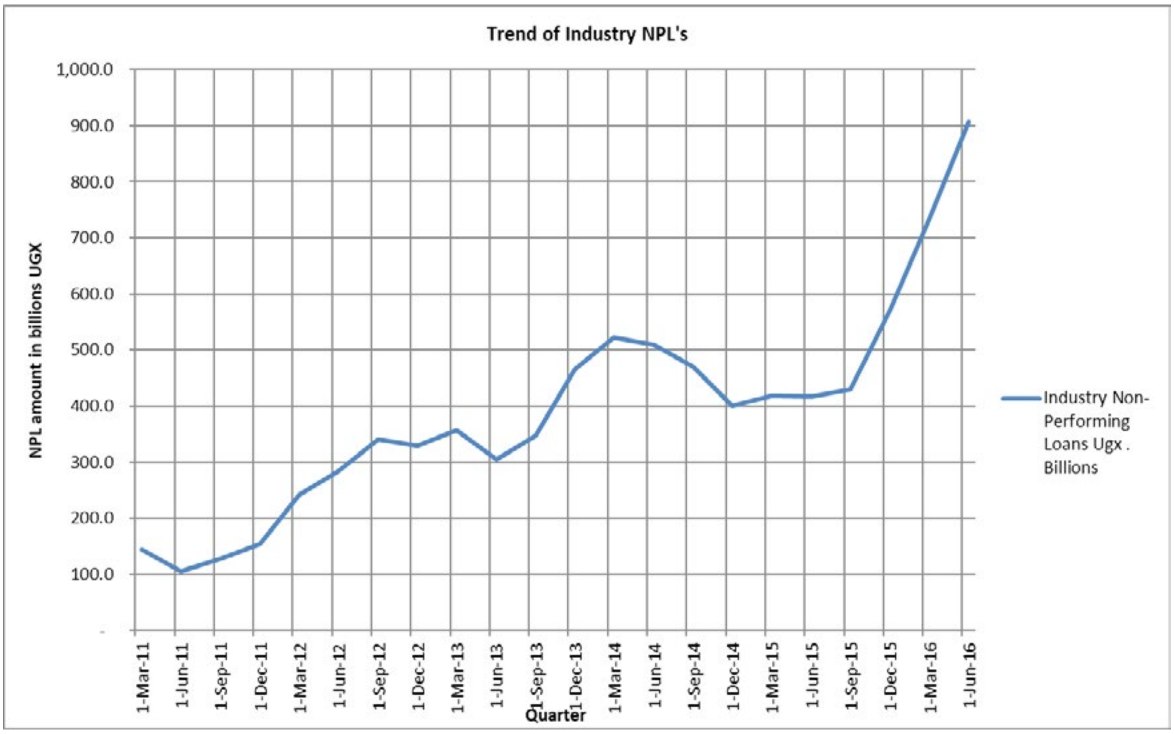
However, there is a small yet growing number of defaulters, more generally referred to as willful defaulters, that are of major concern to the Banks. This campaign is meant to explicitly target this group. This group, broadly, falls into three categories.

a) The first is the fraudulent borrower. This type of borrower takes out a facility without any intention of repaying the money borrowed. The less brazen of this category may opt to live a quiet life under the social radar or jump jurisdiction and enjoy its loot in the safety of another country. The more shameless opt to stay in Uganda openly showing off their loot as they scheme for their next victim.

b) The second category comprises debtors who borrow without fraudulent intention. However, during the course of the loan term, they fail/neglect to service the facility because of various reasons including diversion of funds, financial difficulty etc. This category normally has alternative means of servicing/retiring its facilities but makes a willful decision not to prioritize the inconvenience of repayment.

c) The third category of debtors, normally referred to as the skip debtors, is constituted by borrowers who simply vanish sometime during the loan term. These debtors typically change their physical and telephone addresses and their whereabouts remain unknown for many years. The Banks attempts to follow up these debtors through their next of kin are normally unsuccessful for various reasons ranging from collusion, next of kin's loss of contacts etc. Because of a lack of an established citizen database, some of these debtors are able to hide in plain sight often pursuing new opportunities and obtaining new addresses without changing their identities.

The high rates of Non-Performing Loan Portfolio (NPLs) highlights challenges of debt collection in Uganda. While NPLs stood at Shs.150bn in March 2011, the same had risen to Shs.900bn by June 2016 representing a growth of 600%! Bank of Uganda's Annual Supervision Report 2016 reports bad loans to have more than doubled from USh.573.4bn in December 2015 to USh.1, 203.2bn in December 2016 and achieved a peak never attained in Uganda's Banking history.



This increasing challenge calls on the Banks to review their NPL management practices and adopt more effective debtor recovery strategies. The major recourse available to the Banks has been to pursue defaulting debtors in the Courts of law i n cases of unsecured debt and enforcements of securities in cases of secured debt. However, the structural set up of the judicial process presents three major problems to the Bank's recovery processes.

a) The long and tedious Court procedures open the judicial process to abuse offering a convenient haven for any debtor, even one with the most conspicuous mischief. Consequently, even the most transparent secured lender enforcement stands the risk of challenge before Courts on the most flimsy and flippant of grounds. The purposes in these cases is not to pursue a legitimate claim, but to frustrate or delays the recovery process. While the now established mediation process at the High Court Commercial Division offers reasonable debtors an opportunity to negotiate debt workouts with their Bankers, chances of a settlement judgement are much less with debtors falling within the categories mentioned above, who wager on the Banks's general aversion for long hearings to demand unreasonable concessions.

b) While the remarkably improved 18 – 24 months turnaround time for hearing of cases at the High Court Commercial Division offers dim excitement to the Banks, the turnaround time at the Chief Magistrate's Courts remains embarrassingly dismal. Not surprisingly, the Banks have little confidence in these Courts and limit filings in their Registries. This presents a major challenge for the Banks as a larger part of their NPLs constitute claims that fall under the jurisdiction of the Chief Magistrate's Court.

c) The increased recovery of NPLs through the Court systems also translates into increased costs and expenses incurred on professionals hired to defendant and support the Bank's cases.

Clearly, there has been a growing trend more unscrupulous and mischievous persons obtaining credit facilities with no real commitment to repay them. The Banks are reacting to this emerging trend to deal with the shrinking space of their traditional debt recovery operations. Therein lies the justification for Banks to become more innovative and efficient in addressing the growing NPL recovery problem.

The willful debt defaulters' contention that the Banks ought to have taken them to Court instead of advertising them in the media seek, rather arrogantly, to dictate the weapons that the Banks should use against their mischief. The argument of breach of privacy and confidentiality seeks to gag the Banks against the injustices committed against them. The argument, in any event, cannot hold since it has now been established under case law that a Bank may take such steps as are reasonable for the purpose of ensuring the recovery of its loans, including advertising the debtor. The argument is also self-defeating as the Court Registries, where the willful defaulters insist the Banks ought to file claims against them, are public registries. Further, Court proceedings are open to the public. What the willful defaulters ultimately seek in real term is for the process of debt recovery to remain cumbersome and expensive for the Banks. That would serve them conveniently.

There are consequences if the dishonesty of willful debtors is allowed to thrive. Ultimately, Ugandans shoulder the costs of the borrowers' default. When setting their interest rates Banks take into account the cost of their funds, the costs of administering loans and the possible losses which might be incurred if the borrower defaults. It therefore follows that where the default rates and costs of debt recovery are high, interest rates will be high. It also follows that a borrowing customer will factor the cost of his borrowing in his prices.

On the other hand, Banks could decide to reduce their lending as a way of safeguarding themselves against credit risk. According to Bank of Uganda's Financial Stability Report June 2017, this risk crystalized 2016 and 2017 as the Central Bank recorded a reduction in credit growth for what was reported as banks' aversion to risk amidst a decline in loan quality. Ultimately, this too affects the prices of goods and services, and does little to affirm investor confidence in the Ugandan market.

In even more extreme cases, public funds have been applied towards the settlement of claims against failed Banks brought to their knees by defaulting debtors. The Banking crisis of the late 1990s that led to the closure of Greenland Bank, International Credit Bank and Co-operatives Bank was precipitated by mismanagement and high rates of loan defaults and NPLs. In the absence of a satisfactory regulatory framework to handle depositors' claims, the Government was compelled to settle their claims in full out of taxpayer funds to avert a complete economic and political crisis.

For over a decade, the Central Bank has maintained a team and resources, at great expense, to recover NPLs due to defunct Banks. Similarly, Government was compelled to establish and maintain the Non Performing Assert Tribunal (NPART) to handle the NPLs of the then Uganda Commercial Bank. In the more recent case of Crane Bank, media reports indicate that the now closed Bank had accumulated a NPL portfolio of over Shs.300bn by the time of its placement under Statutory Management. The media also reports the Central Bank to have sold the assets of the financial institution at Shs.200bn/- after forking out Shs.400bn/- to keep the ailing Bank afloat under Statutory Management.

Therefore, the Banks should be applauded for their efforts in ensuring the recovery of depositors' money, and encouraged to innovate even cheaper and more effective means of debt collection. The public ought to support the Banks' name and shame campaign to unburden itself of consequences of the intransigence of the willful defaulters. Ultimately, the campaign is also about accountability, transparency and plain good manners. Decency and decorum require that any person, regardless his status, return any item which he borrowed. A willful defaulting debtor is therefore, also likely to be a chronic rent defaulter or a bar hoper with a trail of unpaid bills in his wake.

Alternative Dispute **Resolution framework**

Bankers & Lawyers push for Alternative Dispute Resolution **(ADR)**

Bankers and Lawyers are pushing to have a private sector led alternative dispute resolution and arbitration framework established.

At a Banking & Law Symposium hosted by Uganda Bankers' Association & Uganda Law Society on the 23rd of March 2018, the parties resolved to establish a private sector driven and independent Arbitration Centre to deal with the ever-growing caseload due shortage of judicial officers or otherwise, numerous injunctions and delays, that impact the different sectors of the economy and constrained both lending and the underlying commercial & investment environment.

Unresolved non-performing loan cases impact bank earnings, impair capital and crowd out money that would have been made available for lending to other borrowers.

Businesses also suffer, stagnate and grind to a halt when cases are not resolved in time, with gross consequences to the economy.

The Centre is meant to offer private mechanisms for resolving commercial disputes and to bolster confidence in for private sector investment in Uganda.

The proposal has been welcomed by the private sector foundation of Uganda among others.

Arbitration comes with party autonomy, expert Judgement, procedural flexibility, confidentiality and most importantly expediency, making it an appealing mode of dispute resolution that ideally favors all parties concerned. The purpose of the Centre is mainly to address the issues that are crippling ADR in Uganda today by promoting access to justice, promoting economic growth by reducing time spent resolving disputes and reducing on the case backlog in the formal judicial system.

The Centre will be registered as Company Limited by guarantee and Arbitration and Mediation Rules together with a Practice Note will be developed to govern proceedings.

The Rules will be based on International best practices including the UNCITRAL Model Law that is tailored to be efficient, flexible and cost effective. The parties are free to designate their arbitrator(s)/ mediator(s), to select the applicable, the language of the proceedings, the seat of arbitration, and their own legal counsel.

Alternative Dispute **Resolution framework**

For enforcement purposes, the Centre shall refer to provisions under the Arbitration and Conciliation Act. Arbitrators and mediators will be included on a roster and members will be required to subscribe to an internationally recognized professional ADR body as well as a professional body for their respective professions.

In the performance of its roles, the Centre will also offer training courses to promote and maintain a standard of arbitrators in the country. These arbitrators and mediators will be governed by a code of conduct to ensure professional ethics are observed. The Centre will also propose model dispute resolution clauses to be used in contracts/ agreements and provide instant access to a bank of both online and offline resources covering key arbitration topics.

An interim Board was constituted to set up the operational frameworks and structures of the Center.

The Board was mandated with drafting a concept Note, organizing consultative meetings with the different stakeholders, developing a budget and identifying the sources of financing, drafting & developing the Arbitration and Mediation rules, developing the Arbitration Practice Note, developing a note of arbitration & mediator /code of conduct, putting a Secretariat in place and incorporating the company.

Consequently, significant progress has been made with completion of 80% of the tasks that the interim board was assigned. At the expiration of the team's mandate, a functioning structure will be in place that will allow for a fully-fledged arbitration Centre to operate and exist in the country.

Noelle Nangira.
Legal Desk, Uganda Bankers Association.

Hon. Justice Yorokamu Bamwine Principla Judge and Head of Court at the conference

Former Uganda Law Society President Mr. Francis Gimara

Inaugural members of the new arbitration committe with the Deputy Governor BoU Dr. Loius Kasekende

Cultural Change and Collaborations **to drive next Generation Banking**

How do you Picture and project the Future of Retail Banking?

- The digital era is now upon us. At its core, powerful forces are reshaping the banking industry. Mobile Wallet is becoming the convenient store of value.
- Customer expectations, technological capabilities, regulatory requirements, demographics and economics are together creating an imperative to change
- Mobile phones have now defined our way of life and the sooner solution providers work within that space, the more they will remain relevant
- Banking in a digital world is integrated and seamlessly fits in a person's daily life.
- The vast number of payment solutions hitting the market that no longer require debit or credit cards make the mobile wallet potentially more popular. MVISA, MAsterpass and others have all made their way into the mobile payments space.

So what should be done to deliver and delight Customers with this Future in mind?

- Consumer Expectations have become Necessities. The realization that MNOs can co-exist with the financial institutions has enabled tailoring of solutions that can support interest earning on savings held on wallets
- To Improve loyalty, revenues, productivity and retention, customer and end user experience will need highly enhanced digital solutions through mobile banking platforms, Cards and Internet
- Digital is not about another channel. We have moved from digitisation to transformation and disruption.

With New entrants, innovations and Opportunities, what should Banks do to stay relevant?

- With the entry of Fintechs and other newcomers to the banking market, delivering better customer experience has become a key priority for most retail banks.
- These extremely dynamic players have strengths in technology, branding and emotional engagement that incumbent

banks may struggle to compete with.

- Google, Alibaba, Apple, and others have trust and now leverage it for new financial experiences. Financial services is being embedded in wider experiences.

- Banking has highly been about managing risk and doing the basics right- doing nothing has been a successful strategy – this is no longer true

- it's not only about payment transactions but the data and insights that exist around each transaction- predictive analytics and anticipating customer options and choices is where the value and future revenue is.

- Customer now, have to access financial services by using technology solution Options without necessarily visiting a branch (through ATMs, Internet Banking, Agency Banking, Extension/Field Services, & Electronic or Mobile Wallets).

What Banks do in this Fast Moving and changing market?

a) Markets at the medium to low end has increasingly become informal in financial dealings

b) People are looking for solutions that sit within their confines and offer the convenience they so desire

c) Banks do recognize the urgency of embracing digital transformation to ensure they capture the massive value at stake before the desire to deal with formal financial institutions is wiped away

d) Driving and sustaining a digital transformation also requires taking a systematic approach to building in-house talent. Most banks seek to foster relevant technical skills such as mobile development, data and analytics, and cybersecurity skills as well as capabilities for new infrastructure such as cloud technologies.

e) "The best way to look at innovation challenges is to consider them as permanently ongoing. They evolve and take on new forms. You must maintain principles, but always be ready and willing to review and improve practices."

How will Fintechs help drive Banking for the future generations?

a) Offer Interest on balances to attract Savings

b) Provide reliable service with assured availability

c) Have a strong Brand or partner with trustable brands where people can save

d) Digitised Credit Scoring System with automated loan approvals- Need an Algorithm that screens and rates users for borrowing

e) Need to work out a fall-back position to foster repayments – Use of a Carrot & Stick

f) Establish a win-win between MNOs & Banks on mechanics around who carries the burden of recovery and the related risk.

g) Effective interest rates – Balance between incomes & deterrent

What more Synergies can Banks Innovate around the Mobile Phone?

Security guarantees need to include a mix of authentication mechanisms (Proxidata, NFC, Fingerprint and Voice biometric) technology & Very Smart Authentication for online purposes
Banking solutions should offers a refreshing approach to mobile payment that overcomes the challenges of cashless payment.

Mobile banking solutions should provide Services like agent banking, money-remittance, merchant payment, social grants, salary bulk payment, e-commerce, lottery, micro-insurance, e-tickets, airtime, tax collection, etc...

Banks need to offer a complete set of financial transactions that are user friendly and meet a broad range of payments where one can transact anywhere and anytime on every channel.

What are some of the challenges Related to Agent Banking?

- Liquidity Management Challenge at Agents level (The cost and complexity of building sustainable cash-in/cash-out networks)

__a)__Unpredictable fluctuations in client demands

__b)__Long wait at rebalancing points

__c)__Lack of resources to buy sufficient float

__d)__Having to close the store to go and rebalance

- Agency remains a low-profit business, – driving unauthorized charges and typically remains an add-on business.

- Too many agents are left on their own and never receive monitoring or support visits
- Insecurity and fraudulent activities are growing. This undermines trust in digital financial services- Agents Reporting Robbery/Theft & Fraud in Uganda is at about 33% for Robbery/Theft & 53% for Frauds

- Large proportions of agents report experiencing periods when they are unable to transact, be it due to network interruptions or system downtime.

Your last words?

Evolve or Die:, Definitely there will be a role for banks that have the right culture and willingness to collaborate. I don't see a role for traditional banks that are trying to cling on to the old way of banking.

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customerservice@topfinancebank.co.ug
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The Financial Intelligence Authority – Uganda

Sydney Asubo,
Executive Director, Financial Intelligence Authority

Recent Developments in the Anti-Money Laundering/ Countering Financing of Terrorism Landscape in Uganda

Uganda's Exit from the FATF/ICRG Monitoring Process

The Financial Action Task Force (FATF) Plenary Meeting held on 2nd November 2017 approved the International Cooperation Review Group (ICRG) Working Group Recommendation to remove Uganda from the FATF Compliance Document, which means that Uganda is now out of the ICRG Review Process and is therefore no longer on the FATF Grey List i.e. Uganda will no longer be subjected to the FATF's on-going Global AML/CFT compliance process. This implies that Uganda's legal and Institutional framework is now considered to be robust enough to adequately identify and address money laundering and financing of terrorism Risks, which now eases correspondent banking relationships and other investment and financial flows with the rest of the world.

The FATF congratulated Uganda for the significant progress made in addressing the strategic deficiencies earlier identified by FATF, as per the Action Plan for Uganda, the specific elements of which I will highlight shortly .

The FATF thus encouraged Uganda to continue working with the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) to sustain improvements in, and effectiveness of, Uganda's AML/CFT Regime.

In 2013, the Anti-Money Laundering Act, 2013 was enacted and its implementation immediately began. To that end, the Financial Intelligence Authority (FIA) was established in 2014 in accordance with the Act, and is now fully operational and functional.

In February, 2014, the Minister of Finance, Planning & Economic Development wrote to the President of the Financial Action Task Force (FATF), to convey Government's pledge of high level political commitment to work with the FATF, and the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), to address strategic deficiencies in Uganda's Anti-Money Laundering and Combating of Financing of Terrorism (AML/CFT) regime.

As a result of Government's commitment to work with FATF, Uganda was placed under FATF's International Cooperation Review Group (ICRG) Review process and the FATF accordingly endorsed an Action Plan for Uganda in 2014. Since then, every six months, Uganda has been reporting to the FATF through the Africa/Middle East Regional Review Group (A/ME RRG) of the ICRG, on progress made in addressing our AML/CFT deficiencies as required by ICRG procedures, and in line with the FATF Action Plan for Uganda, which was further revised/ updated in June 2016.

Uganda's being placed under the FATF ICRG Review process (FATF Grey List) implied that, under the FATF Standards, every FATF member country was required to exercise caution and take appropriate steps to protect themselves against financial transactions originating from or destined for Uganda, due to Uganda having inadequate AML/CFT measures. All countries were required to periodically update the FATF Secretariat on the steps they have taken in that regard. Therefore, being on the FATF Grey list amounted to an indictment on Uganda's financial system and was therefore a major constraint to correspondent banking;

Foreign Direct Investment; and other financial flows to and from Uganda, and thus presented a significant risk to our quest to accelerate economic growth and development outcomes.

The remedial measures, as per the FATF Action Plan for Uganda, on which Uganda has been reporting to the ICRG of FATF were:

i. Adequately criminalizing terrorist financing;
ii. Establishing and implementing an adequate legal framework for identifying, tracing and freezing terrorist assets;
iii. Ensuring effective record keeping requirements;
iv. Establishing a fully operational and effectively functioning Financial Intelligence Unit;
v. Ensuring adequate suspicious transactions reporting requirements;
vi. Ensuring adequate and effective AML/CFT supervisory and oversight program for all financial sector; and
vii. Ensuring appropriate laws and procedures are in place with regard to international cooperation for the FIU and supervisory authorities.

The key measures undertaken by Uganda to address the above deficiencies include the following:

a) Uganda has signed and ratified all the relevant UN Conventions that have a bearing on ML/TF control and has established for implementation the applicable UN Security Council Resolutions.

b) The Anti-Money Laundering (Amendment) Act, 2017 was passed to address deficiencies in the principal Act. As a result, standards for record keeping requirements for all financial institutions have been enhanced; clarity on AML/CFT supervision and enforcement of compliance has been provided for; and there is streamlined legal basis and procedures for competent authorities to provide a wide range of mutual legal assistance as well as international co-operation for the FIA and supervisory authorities among others.

c) Anti-Terrorism Act, 2002 has been amended. The Anti-Terrorism (Amendment) Act, 2015 criminalizes the financing of terrorism in accordance with the Terrorist Financing (TF) Convention. In addition, further amendments have been undertaken under the Anti-Terrorism (Amendment) Act, 2017. The latest amendment criminalizes any act, whether occurring in Uganda or elsewhere in accordance with the provisions of the International Convention for the suppression of the financing of terrorism (1999). The Anti-Terrorism Regulations, 2015 were issued to implement the provisions of the amended Act. In addition, Anti-Terrorism Regulations, 2016 were issued to provide for the implementation of the UN Security Council Resolutions.

d) Other key legislations that have been amended are:

i. Financial Institutions (Amendment) Act, 2016 provided for the streamlining of the inconsistencies in Customer Due Diligence (CDD) requirements and Suspicious Transactions (STR) reporting obligations. As a result, FIA is the sole and central agency designated to receive STRs.

ii. Capital Markets Authority (Amendment) Act, 2016 provides the CMA supervisory powers for AML/CFT purposes and the ability to impose administrative sanctions for non-compliance.

iii. Insurance Regulatory Authority (Amendment) Act, 2017 also provides the IRA supervisory powers for AML/CFT purposes and the ability to impose administrative sanctions for non-compliance.

iv. The Narcotic Drugs and Psychotropic Substances (Control) Act, 2016 was enacted to consolidate the law relating to narcotic drugs and psychotropic substances and to implement the provisions of the International Conventions on narcotic drugs and psychotropic substances.

v.The Tier 4 Microfinance Institutions and Money Lenders Act, 2016 was enacted to provide a framework for the regulation of the Microfinance sub-sector and the licensing of money lenders.

e)The FIA, in collaboration with relevant MDAs, Private Sector, and Development Partners, conducted a Money Laundering/Financing of Terrorism (ML/FT) National Risk Assessment (NRA), which is going to pave way for the application of the risk-based approach to AML/CFT supervision. The NRA provides recommendations and an Action Plan which identifies and assigns specific responsibilities to particular public and private entities with respect to AML/CFT. The NRA was discussed and approved by Cabinet in August 2017, and will soon be made public and accessible to all interested parties.

f) The Minister of Finance, Planning and Economic Development has established a AML/CFT National Task Force whose responsibility is to promote coordination and cooperation amongst all stakeholders in the development and implementation of strategies and policies, and to ensure that all the relevant sectors appropriately address the risks identified in the NRA. Iam happy to report that all the participants represented here today , are all represented in this committee; namely; FIA(which is the Secretariat); Bank of Uganda; Insurance Regulatory Authority; Capital Markets Authority; Uganda Police, Uganda Bankers Association; Insurance Association of Uganda etc

In June 2017, the FATF Plenary meetings held in Valencia, Spain, observed that Uganda had made significant progress in addressing the strategic deficiencies in its AML/CFT Regime and thus authorized the ICRG to conduct an onsite visit to Uganda, to confirm the effectiveness of Uganda's AML/CFT Regime and the sustainable implementation of the same. To that end, the ICRG Africa/Middle East team conducted the on-site visit to Uganda on 18th-19th September 2017 and their report to the FATF/ICRG was to the effect that Uganda's commitment to advance and to continue the implementation of its AML/CFT reforms is clear, ongoing, and robust, and that implementation was underway. To that end, the A/ME Co-chairs recommended that it was no longer necessary to keep Uganda under the FATF ICRG Review process.

Next Steps

a) Uganda will continue cooperating with the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) to ensure sustainable improvements and robustness of Uganda's AML/CFT Regime.

b)Government has committed to prioritize actions pertinent to strengthening the Financial Intelligence Authority to effectively perform its mandate.

c)As per Cabinet Directive, all Government Ministries, Departments, and Agencies are required to prioritize implementation of the NRA recommendations and Action Plan within their sector plans and budgets.

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