Annual Bankers' Conference (ABC) 2017 Key Highlights:

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 Kiwanuka Ssekandi (M.P).

The Vice President, His Excellency Edward Kiwanuka Ssekandi (M.P);

1. 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.
2. He reaffirmed the commitment of the Government of Uganda in ensuring sound economic policies to support the financial and banking sector to flourish.
3. 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.
4. He appealed to the financial sector players to ensure that their services reached the unbanked especially in the rural setting. 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;

1. 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

2. Strengthen bank lending to the private; the governor noted that while loan demand, as peroxided 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.

3. 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.

4. 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.

5. 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.

6. 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.

7. 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.

8. 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.

9. 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:

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

2. 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.

3. 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.

4. 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.

5. He encouraged Regulators to support Digital Financial Services.

6. 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.

7. 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 decisions.
- Ensuring good governance.
- Building more inclusive lending (Supporting SMEs and the poor)
- Protecting the environment.
- Being transparent and acting with integrity.

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.