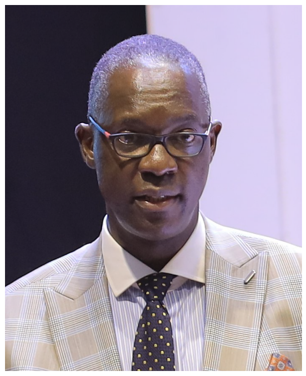
The future of banking is hinged on collaborations & partnerships

To remain relevant and meet customer needs and aspirations, the future of banking & financial services will be shaped by the type & level of partnerships & collaborations with other players and stakeholders now in the ecosystem including fintechs"

Daily Monitor's Martin Luther Oketch spoke to the Executive Director of Uganda Bankers Association **Mr. Wilbrod Owor** *and below are excerpts.*



Mr. Wilbrod Humphreys Owor
Executive Director
Uganda Bankers Association

How have financial institutions been able to adapt to the numerous changes to survive?

Banking operations and financial services delivery have indeed evolved owing to the numerous technological, demographic, and other socio-economic and environmental drivers. The banking and financial sector has arguably been one of the most impacted by the proliferation of disruptive technology. Disruptive technologies have markedly changed the way entities in the sector operate and deliver products and services to their clients.

Demographic changes with a much younger population in this part of the world, coupled with higher literacy and developments in the communication space have driven expectations much higher. There are now more types of players in the finance space, large, small, medium, and micro.

Traditional financial institutions have had to adapt and continue to do so by embracing technology partnerships as a key enabler and shaper of business models. Financial institutions today are investing in technologies with unprecedented processing power brought about by digitization and storage capacity to support innovations in service delivery and new e-financial product offerings, bringing convenience, reach, lower costs, and 24/7 availability.

Financial institutions are moving away from costly physical structures to platforms available on your computer, phone, or nearby agent. Financial institutions are now reaching the previously underserved or unbanked through inclusive finance. As at end of June 2022, we had 20.6 million bank accounts across the industry from about seven million about eight years ago. Today we extend credit and avail it on your mobile phone.

These adaptation milestones would not have been possible without the collaboration of fintechs, telecoms and the assistance of other strategic partners & regulators with whom the sector has had to partner with, to re-define service needs, and support governance around these changes particularly risk management and compliance requirements. Our conference in 2021, had 4th Industrial Revolution (4IR) as its anchor theme to further build on what is in existence today.

Technological changes as you already know have also come with cyber risks and other modern and sophisticated forms of crime as a full-time occupation. This means financial institutions must continue to invest to stay ahead of the game and anchor their integrity on collaborations and partnerships to minimize or stem the impact of such activities.

Partnerships and collaborations are the taglines for UBA's brand identity.

Share market insights, predictions, and views on the performance of the banking sector so far and will the post-pandemic economic recovery interventions deliver the desired results.

The last two and half years following the outbreak of the Covid-19 pandemic have been a very challenging period not just for the banking sector but for the economy as a whole. Most businesses suffered stress ranging from complete disappearance of cashflows owing to lockdowns and supply chain disruptions, to imported inflation, loan repayment arrears, fewer tax collections by the government, and the cycle of impact from one to another.

The banking industry responded with a series of measures such as credit relief through restructuring in an attempt to cushion against impacted cashflows. This in a way postponed some of the challenges in the hope that when the economy opened up, coupled with various other economic/fiscal interventions, businesses would eventually recover and stabilize.

Banks have, however, demonstrated resilience throughout this period and with the oversight of the regulator, maintained financial sector stability and liquidity. Additional resilience measures are being put in place by the regulator including a proposed upward revision of paid-up capital for regulated financial institutions as well as other risk management frameworks to cushion the sector against any shocks.

Government has put in place several interventions including fiscal regimes to provide relief as well as schemes to cushion business during this period. These are very much welcomed even as we appreciate that it is equally constrained and some factors are outside their control given that they are global and geo- political (higher energy prices and rising central bank rates) with worldwide impact. Full recovery will not happen overnight and it will take hard and smart work by & across all players.

The Small Business Recovery Fund (SBRF) is one such intervention that was set up by the Government of Uganda in partnership with Commercial Banks (CBs), Credit Institutions (CIs), and Microfinance Deposit- taking Institutions (MDIs) as an economic stimulus intervention in November 2021, aimed at providing support to small businesses that suffered financial distress arising from the effects of Covid-19 pandemic and show potential for recovery.

The uptake in the initial stages was not encouraging and we have revised features, terms, eligibility, criteria and are waiting for approval by the Minister for Finance then we re-engage targeted beneficiaries accordingly. There are also misconception issues among the borrowers centered around access, which we will address through literacy and awareness drives.

The banking sector is further re-examining how well it applies itself to support recovery in the other sectors of the economy, how well it aligns itself to the government's growth and development priorities, and how better to address the specific pain point of borrowers. At our most recent annual bankers conference, we focused on the manufacturing and tourism sectors and what specific support to provide, because of the sheer multiplier effect these two sectors would have on the economy and their very rich backward and forward linkages as well their ability to generate foreign exchange through both regional exports plus that brought in by more tourist visitors.

As a banking and financial sector, we are working to make available specific support initiatives to these two sectors.

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The sector is under immense pressure from communities, governments, and investors to play a key role in non-financial aspects that ultimately deliver impact, sustainable economic development as well as good financial results. It is now about the planet, people, and profit.

What plans are underway to support other sectors such as oil and gas, and real estate as well as bring down interest rates and make more funding available for on-lending and capitalizing businesses?

We are already active and supporting these sectors. We did have a dedicated session in April 2022, where we reviewed our positioning for much more support to the Oil and Gas sector, particularly local content funding. The session was very revealing by way of the lessons the sector has learned this far, the gaps that exist within the industry, and the opportunity space. We also learnt from our member institutions who have presence in other jurisdictions as to how the banking sector was applying itself to Oil & Gas and picked plenty of good insights.

We have had a follow-through discussion with the Petroleum Authority of Uganda and other stakeholders and players in the Oil & Gas sector. We have work to do, but rest assured that the banking sector will certainly be active and very supportive in this space. We also remain optimistic that the issues that are generating debate and differences of opinion will come to pass through dialogue, trust, and confidence building so that we unlock this opportunity before us and translate it into real meaningful development for the economy.

Regarding real estate, this continues to be an area of interest and I believe you can see how far this sector has come with the numerous developments going on. There is now a fairly advanced dialogue that is happening in the area of the mortgage refinance market & the supporting frameworks therein which will not only enable more financing but ultimately also bring down the price of mortgage facilities.

In terms of interest rates, there is still plenty of work to do. There are many market distortions we have to deal with in the near term. There are inflationary pressures as well, some of which are external to the economy. However, the industry is also constructing blended finance options that will combine domestically mobilized savings with alternative sources of structured funding to pool the two to avail additional lower-priced lines of credit supported by de-risking frameworks.

We have also held dedicated sessions with the Judiciary to try and unlock the capital tied up in litigation. This is a journey and we are making progress. We are also re-examining our syndication frameworks to enable the industry mobilize both internally as well as externally the much-needed competitive and structured financing to bridge funding gaps.

We hope that all persons of goodwill support this process and work to ensure the right environment pertains, to make Uganda an attractive destination for the flow of capital. We are engaging our regulator on some additional regulatory accommodations to enable us support more sectors. We will keep working at it till we get it right.

The key message I would like to put out is also for the existing borrowers and potential borrowers to play their part in building a good credit culture and have a good appreciation and discipline of managing credit/borrowing taken and what it takes to be eligible for more. These attributes help in pricing of risk and other requirements required to expand credit.

How is the industry positioning itself on ESG, green financing and unlocking opportunities for key players in the agriculture value chain and other areas?

This is gaining attention by the day. The realities of responsibly harnessing what our environment has to offer is with us. Sustainability issues are a big and crucial agenda item today more than ever and the expectations falling on financial institutions is getting heavier by the day.

Environmental, Social and Governance (ESG) issues are taking center stage and will increasingly be shaping our business models, operations, and systems including the people behind them. Today more than ever, the demand for impact is high on the agenda and is keeping financial sector CEOs awake because they face a test of time in fitting the ESG agenda in their business plans and budgets.

The sector is under immense pressure from communities, governments, and investors to play a key role in non- financial aspects that ultimately deliver impact, sustainable economic development as well as good financial results. It is now about the planet, people, and profit.

The message is to deliver profits ethically and accountably, support the real economy, and push boundaries to achieve this. Our regulator is working on a policy framework and roadmap to guide our journey, our operating models, and the engagements therein. We are being challenged to get aligned and walk this journey in a structured manner and avoid piecemeal adoptions. The industry has a champion and a team assigned to galvanize various resource inputs and plans to translate ESG aspirations into strategies and work plans and have all member financial institutions embrace this agenda.

We have had and continue to dialogue with and work with several other partners local, regional and international to build capacity in this space. Financial Institutions are beginning to design green financing products in collaboration with other partners referred to above, not limited to the agricultural value chain and energy-efficient financing propositions.

Once again, we can only best deliver these through partnerships and collaborations because some value chain players in the finance space are more agile and better placed to deliver solutions to the lowest bottom of the pyramid much more effectively. Today, we have agri-fintechs helping us reach the lowest farmer, who we could never have reached, with solar-powered solutions and related financing.