

UGANDAN BANKING SECTOR: EMERGING TRENDS AND OPPORTUNITIES

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2018 review of Ugandan banking sector

In 2018, Uganda's banking sector witnessed good credit growth supported by a steady decline in the ratio of non-performing loans to total gross loans of 3.4 percent in December 2018 compared to 5.6 percent in the prior year. Credit growth was further supported by a decline in lending interests which dropped to an average of 19.9 percent in 2018 compared to the 21.3 percent average registered in 2017. The number of accounts in commercial banks increased from 7.4 million in June 2017 to 12.1 million in December 2018. Although this represents a decent growth, it is low considering Uganda's population of nearly 40 million people and only half the number of mobile phone accounts which is estimated to be over 23 million. Year-end loan balances were recorded at UGX 12.7 trillion as at December 2018 compared to UGX 11.3 trillion the same time in 2017. Deposits were reported at UGX 19.6 trillion in December 2018 compared to the 18.2 reported in 2017. Total Industry Assets grew to UGX 28.1 trillion as against the UGX 26.6 trillion reported in 2017.

On the downside, the cost to income ratio remained high at an average of 68 percent with several banks above 73 percent. Total profit after tax dropped to UGX 751 billion compared to UGX 762 billion reported in 2017 with five out of twenty-four banks reporting losses. Overall the banking sector's profitability ratios dropped while the average return on equity (ROE) and return on assets (ROA) improved from 16 percent to 14.7 percent and from 2.7 percent to 2.5 percent respectively.

Emerging Trends and Opportunities in Uganda Banking Space

Developments in the Payments Space

The payments space is evolving from the use of paper notes, and cheques among others to digital or e-payments with customers increasingly demanding for 24/7 secure and integrate payments experience with control in their hands.

The fast pace and developments in the payment's

arena have seen the emergence of several players including Fintech, Telecoms aggregators and cybersecurity actors among others. Financial Institutions are collaborating with Fintech and Telecom aggregators in the delivery of cost-effective financial services to their clients and customers continue to benefit from lower opportunity cost while transacting.

In light of these developments and as part of its strategy to regulate this space, the Central Bank of Uganda drafted a National Payments Policy to streamline regulation on digital payments and to provide for safety and efficiency of the payment system. Once this bill is passed into law, it will provide for a more modern, efficient and flexible payment system for players in the financial services and the general public.

Agent Banking

Technology continues to transform the sector due to its potential to bring down costs while delivering convenience for the customer.

The sector is witnessing expanded points of presence through Agent Banking with 8805 approved. Of these, 6584 are active agents with monthly value transactions of 738 billion. In April 2018, as part of the efforts to reduce costs of doing business, Uganda Bankers Association launched the Shared Agent Banking system (SABs) which to date has enabled access to a total number of 5200 agents compare to just under 600 branches in 2017. The Shared Agent Banking System enables Agents of one bank to serve customers of another bank. This is a good opportunity for banks to collaborate which is a critical component under the National Financial Inclusion strategy 2017-2022 pillar number (i) that focuses on reducing financial exclusion and barriers to access of financial services.

With the Shared Agent Banking System, customers don't have to access the traditional banking halls to transact and banks do not have to set up branches to serve customers. Through SABs

customers can deposit cash, withdraw cash, pay bills, schools fees and money transfers at their convenience. Such Initiatives that involve shared technology platforms will help bring down the costs of delivering financial services while increasing outreach /footprint/presence.

Furthermore, regarding driving operational efficiencies for cost saving, financial institutions continue to explore possibilities of minimizing duplication/rationalization of common/shared service channels like ATMs, Agent points, cash management services, data centers among others. UBA is working with BOU to finalize & deliver connectivity & interface to NIRA database for re-registration of all existing customers using national I.D and E-KYC authentication to support the new individual accounting opening process.

The above provides good opportunities to promote financial inclusion as an industry. Positioning agent banking and all its related technology, products therein as the wider sector financial inclusion initiatives and channels.

Alternative Dispute Resolution Framework

In 2018, a private sector-led Alternative Dispute Resolution and Arbitration framework were unveiled during a banking and law symposium that was organized by Uganda Bankers Association and Uganda Law Society.

This initiative seeks to address the challenge of case backlogs that have greatly affected the banking sector. 730 Billion is tied up in court cases and process. This staggering amount of capital sitting on the banks’ collective balance sheets is paralyzed and inaccessible to the wider economy. In April 2019, the International Center for Arbitration and Mediation Kampala (ICAMEK) was officially launched in Kampala and will complement existing arbitral bodies as well as supplement the efforts of the formal judicial system has taken to reduce case backlog and promote access to justice.

In 2018, UBA also embarked on consolidation of the Asset Reconstruction Company (ARC). With support from the World Bank & IFC, a capacity building training for Bank Heads of Credit and Legal as well as the Assets Reconstruction Company (ARC) Team. This session focused on the management of stressed portfolios, other insights on the management of Asset Management Compa-

nies. UBA is currently working on having operational guidelines and regulations finalized and bringing onboard institutional investors to ARC to assist banks in the management of toxic debt restructure /reconstruct /reinvestment to turnaround companies under stress.

Contributor’s Profile

PATRICIA AMITO is the Head of the Communications and Corporate Affairs at Uganda Bankers Association (UBA), where she is providing strategic leadership in the areas of stakeholder engagement and management and ensuring implementation of strategic communication initiatives that support the UBA mandate.

Patricia is also the Communications Manager at the Agent Banking Company of Uganda, providing technical support to the development and execution of the Agent Banking Communication strategy, coordinating stakeholder interests, management and documentation of progress in implementation of the project and driving awareness of the service among the public.

Patricia has extensive working history in the banking sector and experience working in other sectors such as Nonprofit Organizations, supporting diverse communication initiatives, project management, and partnership management.

She holds a master’s degree in Business Administration and Management from ESAMI and a Bachelor of Science degree in Quantitative Economics from Makerere University.

