

Emmanuel Tumusiime-Mutebile: Emerging issues in the banking industry

Remarks by Mr Emmanuel Tumusiime-Mutebile, Governor of the Bank of Uganda, at the Opening Ceremony of the Colloquium of Judges and Magistrates on “Emerging Issues in the Banking Industry”, Mbarara, 13 August 2015.

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My Lords, the Chief Justice and Deputy Chief Justice

My Lords, the Honourable Judges

Your Worships, the Magistrates

The Chairman and Members of the Uganda Bankers Association (UBA)

Ladies and Gentlemen,

It is a great pleasure and honour for me to take part in this important gathering which brings together members of the Uganda Bankers’ Association and colleagues from the judiciary to discuss very pertinent issues on the banking and financial sector.

I am very much delighted and convinced that this forum provides a unique opportunity for your Lordships and Worships together with the bankers to discuss and have a better understanding of emerging issues and risks in pursuit of enhancing the soundness of the financial sector.

Ever since UBA came into being in 1981, it has continued to play an important role to articulate the interests of the banking industry in Uganda by reaching out to all the key stakeholders in society, including the government, the judiciary, the parliamentarians, the business community and the general public. This forum therefore, is in line with UBA’s strategic mission of improving knowledge on the banking sector risks and building consensus for addressing challenges and developing ideas for a better legislative environment and resolution of financial disputes which by nature are common in the banking industry.

Over the last decade, the banking industry globally has witnessed a significant transformation especially from the technological front. These changes have immensely reshaped the manner and speed of financial services delivery as well as a menu of products and services offered by financial services providers to customers. Uganda like most other countries has not been spared by these developments owing to its interconnectedness to the broader financial system through the payment system and competitive pressures for business which has often spurred the need to innovate. At the same time, the risk profiles of business have also profoundly changed and thus, while banks continue to harness the ensuing benefits from the innovations, they must find ways of containing the array of risks associated with the developments to safeguard the integrity of the banking sector.

In this address, I will attempt to highlight some of the emerging issues and risks which need to be looked into; to ensure the stability of the financial sector. I will also briefly talk about the role of Bank of Uganda in the areas of regulation and financial sector development.

- As alluded to earlier, innovations as well as the entry of new banks and regional economic integration drive have combined to spur competition in the financial services industry. Banks are continually embracing information technology to offer innovative financial products. The increasing integration of the banking sector into the global financial markets, through cross border banking and capital flows, has created or heightened exposures to these new sources of risk. The evolution of technology has made possible the issuance and innovation of numerous type of banking products including the VISA, MasterCard, online Banking, Mobile money, Internet Banking and e-commerce. All these forms of innovations facilitate modern banking and positively influence our ways of living in many fields. The rollout of IT supported products and

services in the banking industry however, come with a concern on “security” and new risks. Some of the common risks prevalent include cyber-related frauds which can arise from hacking of IT systems and/or manipulation of IT databases.

- Relatedly, the efficiency gains from technology have changed the nature of the execution of financial and economic crimes as well as financing of terrorism providing a faster and diversified means by utilizing IT infrastructure. At present the need to combat Money Laundering and Financing of Terrorism is increasingly changing the role and mandate of the Central Bank which is required to honour various Freeze Order requests by police and requests from International stakeholders like the US Embassy and local stakeholders like the Financial Intelligence Authority. Fortunately the BoU is represented in the Board of the Financial Intelligence Authority and has a close collaboration on addressing the common issues of concern.

Inadequate training of Mobile Money Agents has also exposed some agents to fraudsters although quantifying the actual losses is not easy as the data on such frauds is not readily available at Bank of Uganda.

- Broadly, the nature of IT risks calls for unique skills for interrogations of IT systems to support investigations on cyber-related fraudulent activities in a bid to stemming crimes of IT nature.
- What then is the role of the central bank in addressing the emerging risks in the financial sector? The primary responsibility of the BoU is to initiate the drafting of the required regulations and to enforce the same when enacted. Regulation has two objectives. The first objective is to protect the interests of depositors and this is done by imposing prudential requirements on banks, under the framework of the Financial Institutions Act (FIA), 2004. The second objective is to preserve financial stability as a means of preventing financial crises and this entails ensuring that banks conduct their operations in a manner that is not detrimental to the stability of the banking industry.
- In addition to the above, BoU has embarked on the process of introducing additional regulatory measures on payment systems which will among others lead to proper regulation of mobile money operations. The advances in technology demand that BoU and other regulators world-wide continually re-examine their financial regulations in light of the emerging risks while at the same time not stifling innovations. Financial sector regulators therefore must always put the risks and “security” concerns as a key priority and align these concerns with standard setting to promote the advancement of banking services.

I must also emphasize that in stemming financial sector vices and risks, members of the judiciary play a very important role especially in the timely resolution of disputes not only of cyber-related/IT nature but also disputes that arise from the traditional banking activities such as those that arise from foreclosure of collateral belonging to bank customers who have defaulted on their loans which in the past have tended to be quite lengthy and a challenge to the lending institutions. We all know that losses of any nature including those arising from frauds negatively impact the capital of banks which can endanger the safety of depositors’ funds. I therefore believe that this workshop will build consensus on how the bankers and members of the judiciary can improve the timelines of resolution of financial crimes and disputes and generate invaluable ideas to foster the soundness of the banking industry.

With those few remarks, I wish to declare this workshop officially opened.

Thank you for your attention.