Emmanuel Tumusiime-Mutebile: The state of the financial sector in Uganda

Address by Mr Emmanuel Tumusiime-Mutebile, Governor of Bank of Uganda, to the Annual General Meeting of the Uganda Institute of Bankers, Bank of Uganda, 23 June 2006.

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The President, Uganda Institute of Bankers,
The Council members, Uganda Institute of Bankers,
Ordinary and Student members,
Invited Guests
Ladies and Gentlemen

It is an honour for me as the patron of the Institute and Governor Bank of Uganda to make remarks to this Annual General Meeting. It also offers me the opportunity to share and exchange views with the banking fraternity the state of the financial sector over the last one year.

Ladies and gentlemen, it is almost one year since we last met here on June 24, 2005 to take stock of the business of the Institute and also lay strategies for addressing challenges within the banking industry. Bank of Uganda at that time made a commitment to foster a harmonious working relationship with all stakeholders of the financial sector in order to enhance safety, stability and efficiency in the sector. Mr. President and Council members, I am proud to report that Bank of Uganda has fulfilled that commitment and allow me to take this opportunity to restate our continued commitment to build and uphold a long term harmonious relationship with financial institutions and all stakeholders that have operated in partnership with Bank of Uganda to maintain a sound, safe and stable financial sector.

At this juncture, let me assure this assembly that Uganda’s financial sector has continued to be more resilient each passing year. During 2005, the financial sector soundness assessment by Bank of Uganda revealed an overall satisfactory performance of the sector. These achievements have resulted from a combination of various efforts from the management of the financial institutions, the regulatory authority and all other stakeholders in the financial sector. The obtaining stable macro economic environment has also gone a long way to augment the above efforts in fostering safety, soundness and stability of the financial sector.

Arising from the safety, soundness and stability of the financial sector, a number of technological innovations of banking products have emerged in the recent past. Most banks now operate automated teller machines (ATMs), and points of sales facilities (POS). The use of credit and debit cards is increasingly being recognized as an important payment system option. This is beginning to take root in the economy. Bankom Ltd which was launched in June 2005 to operate an electronic national inter-bank switching system has already attracted the participation of four (4) commercial banks and others are in the process of joining. This development will go along way to enhance the payment system by facilitating customer payments for utilities and purchases using debit cards. Licensing of the inter-bank switching system marks a significant step in Bank of Uganda’s efforts to widen the financial sector, which will result into the creation of a wider range of delivery channels to banks.

As you are all aware continued efforts to improve efficiency and mitigate risks in the payment system resulted into the implementation of a number of initiatives including a Real Time Gross Settlement (RTGS) System known as Uganda National Inter-bank Settlement (UNIS) in February 2005. As of now, about 80% of large value and time critical payment transactions pass through the system leaving 20% to pass through the traditional clearing system.

Likewise, to broaden the outlet and variety of institutions, which offer financial services, three new micro deposit taking institutions (MDIs) were licensed in 2005 bringing the total number of licensed MDIs to four. The significance of licensing MDIs has far reaching impact on promoting the savings culture and thereby fostering the accumulation of funds for investment purposes. Bank of Uganda therefore encourages the Council of the Institute of Bankers to initiate appropriate educational training programmes from which these new institutions can access information and expertise necessary for their future development. Bank of Uganda on its part will continue to promote the development of MDIs through prudential regulation and supervision so that they conduct their businesses in a manner that ensures safety of depositors’ funds.

Notwithstanding the above developments, the financial sector still continues to face new challenges in their operations including globalization, relatively high interest rates, frauds and forgeries and lately the...
energy crisis. With respect to globalization, this has resulted into a fast pace of technological advancements in products and systems deployed in the global markets. These technological advancements have dramatically diversified the risk profiles of financial institutions. To address this new development, Bank of Uganda has compelled all supervised financial institutions to institute credible risk management frameworks which can adequately identify, measure, monitor and control all risks inherent in financial institution business in a timely and ongoing manner.

Regarding the high interest rates charged on loans, although these have remained relatively stable in the last two years or so and while inflation has been maintained at single digits for over a decade, lending rates have continued to remain at high levels and at times as high as 26% p.a in some banks. Yet, the weighted interest rates on deposits continue to be extremely low, hence denying the saver favourable returns on savings. High interest rates have adverse impact on the financial sector in the form of impairing the borrowers’ capacities to service the loans as accumulated interest often become unbearable. All stakeholders in the financial sector are called upon to combine efforts in seeking for a solution to high interest rates charged on loans and avoid the potential for political intervention.

Frauds and forgeries are yet another set of evils which has continued to pose serious challenges to the safety of the financial sector. Unfortunately most of the reported and investigated frauds and forgeries seem to reveal internal involvement of bank staff. Banks together with law enforcement agencies must therefore do everything possible to ensure that this evil is controlled. Frauds, not only deplete the banks’ earnings and capital, but also create high reputational risk and erode confidence in our sector. In addition to the menace of frauds and forgeries, there are emerging incidents of money laundering that require firm action. Unfortunately, the absence of an Anti-Money Laundering law is still a serious impediment to combating this evil. Suffice to note that the Anti-Money Laundering Bill has been approved by cabinet and we hope the 8th Parliament will enact it into law at the earliest opportunity.

Lastly, as the patron of Uganda Institute of Bankers, I am aware that the Institute has a large number of alumni which keeps increasing every year. Banks should therefore take advantages of trained alumni of the institute while recruiting and promoting officers to challenging positions. In this way, the banking sector and the Institute will form partnership in addressing the existing operational risks within the banking sector. In the next few months, the institute will be conducting the 6th East African Banking School here in Uganda whose theme is ‘Managing Risk in Financial Services’. The banking sector is encouraged to make use of this opportunity and sponsor participants to this course.

Mr. President and Council members of the Institute, I wish to end by informing you that Bank of Uganda will be celebrating its 40th Anniversary during the month of August this year and all details will be communicated to you in the due course.

I thank you all for your attention.