Louis Kasekende: Stronger rules foster growth, stability

Keynote address by Dr Louis Kasekende, Deputy Governor of the Bank of Uganda, at the official opening of the Banking, Finance and Insurance Expo 2011, Kampala, 15 April 2011.

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Uganda's banking industry has experienced significant transformation over the past three years, with rapid growth in the number of service outlets for various categories of financial services. Branches of commercial banks, credit institutions and microfinance deposit-taking institutions have increased from ***194*** in ***2007*** to ***397*** in ***2010***. Similarly, the number of Automatic Teller Machines has risen from ***262*** in ***2007*** to ***598*** by December ***2010***.

In addition, numerous financial products and customized services have been rolled-out by financial institutions in response to the ever-changing tastes of the clientele. These include electronic banking services, faster methods of money transfers, mobile banking, transfer services, and flexible banking hours to suit different categories of customers.

The Deputy Governor said that the Central Bank is cognizant of the inter-linkages between the various sectors of the financial system because instability in one sector could eventually spill over into other sectors and spark off system-wide crisis. He urged regulatory agencies to draw lessons from the financial crisis that rocked the western world and spilled over to the developing economies. Each sector must be effectively regulated in order to foster system-wide soundness and stability and mitigate attendant risks.

"To this end, Bank of Uganda has signed a Memorandum of Understanding with Capital Market Authorities and Uganda Insurance Commission in order to foster formal exchange of information for regulatory purposes.

"Bank of Uganda has also set up a Financial Stability Department and Financial Sector Surveillance Committee to look at the macro-linkages," he said.

Uganda's financial system comprises formal, semiformal and informal institutions. The formal institutions include banks, Microfinance Deposit-taking institutions, Credit Institutions, Insurance companies, Development Banks, Pension Funds and Capital Markets. The semi informal institutions include SACCOS and other Microfinance institutions, whereas the informal ones are mostly village savings and loans associations. Formal institutions are less prominent in rural areas than urban areas and they only serve 14% of the rural population. Informal institutions play an important role in the rural service provisions and serve approximately 12% of the rural population. These numbers indicate that Uganda's financial system is still quite shallow.

Most Ugandans (62%) have no access to financial services. The number of the population holding accounts in banks is four million or 33% of the 12 million who are bankable. The savings to GDP ratio is still low at 16%. In addition, financial intermediation is poor as indicated by the stock of private sector credit of 11.8% of GDP. These numbers do not compare favourably with Kenya and Tanzania.

There are about 22 Insurance Companies, 26 Insurance Brokerage Firms and eight Loss-Assessors operating in the country. The insurance industry just like the banking industry, remains largely underdeveloped. The products offered by these companies are limited to life and nonlife insurance products. In spite of the fact that agriculture is the backbone of the economy, Uganda lacks agricultural insurance, weather indexing of agricultural production and micro insurance for low income groups. The lack of a system of crop finance is a major barrier to lending to small farmers.

"The insurance sector must therefore take a closer look at developing new insurance products that suit their clients, train their personnel, increase distribution channels and enhance marketing," Dr. Kasekende said.

Banking, Finance and Insurance sectors are the life-blood for growth and development of the financial system and the entire economy. Hence the key sectors of the financial system deserve priority attention by government as they are instrumental in the process of savings mobilization and capital accumulation, key ingredients in the growth and development process of the economy.