

## **Johnson P Asiama: Fifteen years of Ghana Banking Awards – enriching a healthy competitive landscape in the drive for consumer relevance in banking**

Speech by Dr Johnson P Asiama, Second Deputy Governor of the Bank of Ghana, at the Annual Banking Awards 2016, on the theme “Fifteen years of Ghana Banking Awards – enriching a healthy competitive landscape in the drive for consumer relevance in banking”, Accra, 26 August 2016.

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Mr Chairman, Captains of Industry,  
Executives of the banking industry, Distinguished Guests,  
Ladies and Gentlemen.

It is a pleasure for me to join you today for the 15th edition of the Ghana Banking Awards. This event usually serves as a platform where the contributions of the banking sector to the economy could be recognized. It should therefore serve the purpose of stimulating healthy competition among banks which could in turn lead to improvement in the delivery of financial products and services across the industry.

This year’s theme, **“Fifteen years of Ghana Banking Awards: Enriching a healthy competitive landscape in the drive for customer relevance in banking”** could not have been better chosen. The theme resonates well with a quote by Felix George Rohatyn (an accomplished investment banker) who said **“... At its core, banking is not simply about profit, but about personal relationships”**.

I will come back to say more about these shortly, but permit me, Mr. Chairman, to thank Corporate Initiative Ghana (CIG), the organizers of this event for this opportunity.

For my address this evening, I will begin with some general conceptual issues relating to the banking scene and then follow-up with some specific matters that touch on the Bank of Ghana’s regulatory and supervisory role.

### **A vibrant and growing banking industry**

Mr. Chairman, you will agree with me that the banking industry in Ghana has experienced tremendous growth and unprecedented competition over the past 10 years, especially after the adoption of the Universal banking concept in 2004. Today, banks do not only compete among themselves, but also with non-banking entities such as Savings and Loans companies, Finance Houses, Rural and Community Banks and lately Microfinance companies.

The objective for introducing the Universal banking concept was to allow all banks in the country that comply with the prescribed capital requirements the freedom to engage in some or all permissible banking business activities without restrictions. This has resulted in banks penetrating into new and active markets with the view to increasing market share and profitability.

It is important to note that banking is a customer-oriented service industry; therefore banks’ ability to survive in the market largely depends on customers. Customers are the focus and customer service is the differentiating factor in the banking industry. Thus those service providers who are able to provide tailor made services and high level of service quality do not only retain customers, but also obtain a sustainable competitive advantage. Thus high customer satisfaction is important in maintaining a loyal customer base.

Mr. Chairman, the flip side is that banks that fail to respond to competitive pressures risk being marginalized as the history of industry is replete with examples of companies that failed to grasp the significance of innovation and ended up ceding their dominant market positions to firms that were started in garages.

In Ghana, just as in many other advanced markets, the government and the regulator have explicitly moved to dismantle barriers to entry while encouraging competition from new entrants. This is because new entrants would only survive in such a competitive environment by applying innovative technology and business models which will eventually compel other market participants to follow suit, much to the benefit of the final consumer.

Ladies and Gentlemen, anecdotal evidence on the banking industry in Ghana however suggests that a significant proportion of customers have the perception that their banks do not provide helpful, proactive and customized financial services to them. It will interest you to know that customers are usually open to being nudged, guided and assisted in making better decisions; yet most banks have not shown the ability to harness the power of broad customer relationship information to deliver real value to their customers beyond traditional product silos.

The danger for banks is that the trust advantage that they enjoy from their customers is fast eroding, with younger customers far more willing than their older generation to consider banking outside the traditional banking system. Traditional banks are challenged to show that they can deliver value across varied products and channels and thereby avoid being overtaken by simpler and more nimble competitors.

### **Regulatory and supervisory oversight**

Mr. Chairman, the Bank of Ghana stands committed to ensure that a stable environment for banking with a level playing field is provided through its regulatory and supervisory functions for banks to thrive and also ensure confidence in the banking system. In connection with this, the Bank has recently overhauled the existing legal framework for banking. As you may be aware, a new Banks and Specialized Deposit- Taking Act as well as a novel Deposit Protection Act have been passed by Parliament and are currently awaiting Presidential assent to usher-in a new framework for the conduct of bank and non-bank business.

The Banks and Specialized Deposit-Taking Institutions Act seeks to address gaps and inconsistencies in the banking laws and also deepen cooperation with regional counterparts to improve the regulation and supervision of foreign banks that are active in the country. This is consistent with the vision of the Government's financial sector reform agenda which aims at among others:

- making the financial sector of the country the preferred source of finance for domestic companies;
- Promoting efficient savings mobilization;
- Enhancing the competitiveness of the country's financial institutions;
- Ensuring a stronger and user-friendly regulatory regime; as well as
- Achieving a deepened and a diversified domestic financial sector.

The new bill will be complemented by a number of regulations and directives, to help enhance the environment for the conduct of banking. These include:

- Corporate Governance Regulations
- Licensing Regulations
- Outsourcing Directive

- Risk Management Directive
- External Auditors Regulations
- Mergers and Acquisitions Directive
- Information Technology Standards

Ladies and Gentlemen, with the passage of the Ghana Deposit Protection Bill, I am happy to inform you that the Bank of Ghana in collaboration with the German Government will soon establish a deposit protection system in Ghana for the first time in our history. This will ensure protection for small depositors and enhance the safety of the financial system. Hopefully, this should lead to increased deposit mobilization for investment and growth.

The implementation of the deposit protection scheme may however pose serious challenges to undercapitalized institutions as well as institutions that breach regulatory and prudential requirements. This is because such institutions would not qualify to participate in the scheme, and this could clearly impact on their ability to thrive. May I therefore seize this opportunity to advise all licensed institutions to ensure strict compliance with capital and other regulatory and prudential requirements at all times.

Distinguished Guests, Ladies and Gentlemen. The Bank of Ghana has also commenced the process towards an effective implementation of Basel II in Ghana. To this end, I will entreat banks to review their credit standards and capital needs in relation to their risk profile and appetite to ensure strict compliance.

Let me also take the opportunity to comment briefly on two key interventions that are currently ongoing in the industry. The first is about the recent Asset Quality Review (AQR) of banks by the external auditors. The second has to do with the implementation of an electronic retail payment infrastructure to complement existing inter-bank payment and settlement systems.

Mr. Chairman, to sustain the pace of progress in the financial sector and enhance the financial system's resilience to shocks and its contribution to the needs of a growing economy, the Bank of Ghana, in collaboration with some selected audit firms, carried out a diagnostic assessment of the quality of financial exposures in the form of loans and advances as well as investments of twenty eight (28) Ghanaian banks in 2015.

The exercise revealed some vulnerability with respect to loan losses within the banking system which require capital injection by some banks. The bulk of these losses were due to funding to the Utility Companies and Bulk Oil Distribution Companies (BDCs).

Currently, the government is finalizing plans to clear all arrears due to BDCs and Utility Companies to restore their viability. The implementation of the plans would improve the capital levels of banks that were affected by the exercise and place them on a sound footing.

Also, the Bank of Ghana is developing a Recapitalization and Liquidity plan to strengthen the banking industry and make it more resilient and robust. As part of the plan, the Bank will be conducting an update of the AQR of all banks to effectively determine the current provisioning and capital needs of each bank. Banks that are found to be significantly undercapitalized would be required to inject capital within a stipulated time frame and improve upon their risk management practices.

The exercise will be repeated on regular basis to ensure that all banks have adequate provision for loan losses and the required amount of capital to match their levels of business. This will ensure the safety and soundness of our banking system.

Mr. Chairman, Ladies and gentlemen, you may recall that in March 2014, Bank of Ghana launched a Strategic Payment Systems Roadmap for Ghana to accelerate the transformation of the payment system landscape from cash-dominance to cash-lite. The key

strategy for executing this agenda is the establishment of an integrated and interoperable electronic national payment system infrastructure. A national payment system of this nature will avert the development of fragmented payment systems and ensure efficient use of liquidity within the financial system.

Currently, there is interoperability within the payment cards subsector, evidenced by the “gh-Link” switch on one hand; and interoperability among international card schemes such as Visa and MasterCard on the other hand.

However, the mobile money subsector, which has experienced phenomenal growth in recent years, and also holds the key to financial inclusion is not interoperable. This situation poses a serious challenge to our quest for an efficient and inclusive national payments system.

In line with the payment system development objectives of the country, the Bank of Ghana has initiated a project to implement a mobile money payment system infrastructure to enable mobile money platforms become interoperable for seamless funds transfer from one mobile money service provider to another.

Subsequently, the new retail interoperable switch will be linked to the GhIPSS infrastructure to achieve national payment systems interoperability.

In sum, the project seeks to ensure an overall integration of mobile payments platforms of the mobile money operators. It will also achieve integration with the clearing and settlement facilities consisting of the Cheque Codeline Clearing with Truncation, the Automated Clearing House, the Ghana Interbank Settlement (GIS) system - RTGS, the Central Securities Depository and the gh-linkTM. Finally the project will ensure integration with participant banks, mobile money operators and existing front end processors.

Clearly, this project, when completed would provide enormous opportunities for banks, corporate entities, government and individuals, and also put Ghana among the league of countries with developed payment system infrastructure.

The stakeholder consultations have so far begun, and we look forward to an active engagement by the banking industry in this regard.

## **Conclusion**

In conclusion, Mr. Chairman, I want to take this opportunity to congratulate all the award winners and of course those who could not win any award. I wish you better luck next time. And to the organizers of the program, I wish you every success in your future endeavours.

Thank you for your attention.