

BANK OF UGANDA



Remarks by

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Deputy Governor, Bank of Uganda

**At the Occasion of Celebrating Ten (10) Years of KCB Bank
(Uganda) Limited's Banking Operations in Uganda**

November 03, 2017

*Your Excellencies, the Ambassadors and High Commissioners,
Members of the Diplomatic Corps,
KCB Group Chairman, Mr. Ngenny Biwott,
The KCB Group CEO and MD, Mr. Joshua Oigara,
Executive Director Supervision, Bank of Uganda
The Board of Directors of KCB Bank (Uganda) Limited,
The CEO, Management and Staff of KCB Bank (Uganda) Limited,
Invited Guests,
Ladies and Gentlemen,*

I bring warm greetings from the Governor, Prof. Emmanuel Tumusiime-Mutebile, who is unable to join us this evening. None-the-less, I am greatly honoured this evening to preside over this function, at which KCB Uganda is celebrating ten years of successful operations in Uganda. Let me start by congratulating the Shareholders, the Board of Directors, Management and Staff of KCB for all their achievements over the last ten years. KCB Uganda is a subsidiary of the KCB group which has assets of nearly US\$ 6 billion and operates in seven different countries.

I listened to the remarks by the leadership of the KCB Group, and I would like to emphasize two issues. First; is the fact that contrary to the narrative by some Ugandan media commentators, the government of Kenya is only a minority shareholder in the KCB Group, holding about 18 percent of shares as at August 2016. Second, is a lesson for our business community in Uganda to strive to emulate our Kenyan counterparts in terms of foresight and discipline in managing our businesses so that we too can have Ugandan businesses successfully establishing base across the borders.

My brief remarks will concentrate on examining developments in the financial sector in two parts. The first part will look at the last ten years of KCB Bank Uganda in our market; while the second will examine the next decade and what I envisage to be the key challenges to banks especially with regard to the rapid developments in financial technology (FinTec) as well as implications for regulation and supervision.

KCB opened its doors to the Ugandan public in November 2007. This was after the lifting of the moratorium on licensing of new Commercial Banks in 2004.

The licensing ban had been put in place following several bank failures in the late 1990s. You may recall that these bank failures resulted in the enactment of the Financial Institutions Act, (FIA) 2004 with more stringent regulatory standards that required new entrants to undergo rigorous due diligence and meet higher minimum capital requirements.

KCB Uganda has expanded to a bank with a branch network of sixteen branches across the country and has registered significant growth in its balance sheet and Shareholder Capital over the years.

Ladies and Gentlemen, these are no mean achievements given the increasing competition in the banking sector. Financial services' providers need to innovate continuously to remain competitive. In this regard, the bank has positioned itself as one of the leading providers of digital banking solutions in the market. It recently upgraded its Core Banking System to support the bank's digitalization.

The next decade promises to be even more exciting and challenging for banks in Uganda. It will be characterized by accelerated dynamism in form of adoption of new technologies and service models that offer advantages but also pose new risks. It is a period in which FinTech can be applied to spur efficiency gains in the financial sector, offer more specialized, better and more targeted products and services, and deepen financial inclusion.

It is still too early to gauge the full impact of the current technological progress on the banking sector. However, it is not untenable to say that there is potential for many of the services and products currently on offer by banks and other financial market players to be rendered obsolete by new tech-savvy entrants or more competitive processes. With the increased use of technology in our daily lives, Banks will be required to adopt more efficient mechanisms of leveraging the vast quantities of consumer and firm data.

The advent of new FinTech has implications for financial stability and the attendant regulation and supervision frameworks. First, a number of these financial services and products stretch beyond the realm of the existing supervisory and regulatory framework. Second; the near universal use of technological solutions could entail increased vulnerability to cyberattacks and inadequacies with respect to compliance with Anti-money laundering and anti-terrorism financing regulations.

To respond to these new risks and vulnerabilities, our regulatory framework will also have to change fundamentally from the present focus on intermediaries or “entity-based” to more “activity-based” regulation in

light of the complex network of transactions and players in financial services. In addition, our licensing regime will also need to be continually redesigned to bring new types of service providers within the regulatory ambit.

The good news is that some of the emerging technologies may contribute to better regulation, because they could facilitate regulatory compliance and reduce compliance costs. The Bank of Uganda will be studying how some of these new technologies could be employed to enhance security, identify suspicious transactions and facilitate regulator-bank interactions.

The key message to KCB Uganda and all the other Supervised Financial Institutions in Uganda is that the next decade is going to be a very challenging one.

Technological advancement is going to present a lot of exciting benefits, but there will also be attendant risks. To survive and thrive, the banks must continuously institute robust risk management frameworks which are capable of prudently mitigating these risks in order to protect depositors' funds and ensure the soundness of the banks.

With these remarks, I once again extend my heartfelt congratulations to KCB Uganda on this milestone of marking ten years of banking services in Uganda and I wish you many more fruitful years to come.

I thank you.