Bank of Uganda

Remarks by

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18th East African Banking School:

The Future of Banking in a Digital and Disruptive Environment

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Senior Officials from the EAC Sister Institutes of Bankers
Participants from our EAC Partner States

Good morning ladies and gentlemen

I would like to begin by welcoming you all to the East African Banking School and to commend the Uganda Institute of Banking and Financial Services for hosting the School.

The collaboration between the Ugandan Institute of Banking and Financial Services and its counterparts in Kenya and Tanzania in organizing this Banking School is an excellent example of the practical contribution, which regional cooperation at the institutional level can make to capacity building and professional training in our region.

The theme for this year's Banking School is: **"The Future of Banking in a Digital and Disruptive Environment".** It is a theme, which could not be more pertinent for the banking industry in East Africa.

The adoption of digital technologies is having a profoundly transforming the banking industry. Two aspects of this transformation are especially important.

First, digital technologies, such as mobile banking and internet banking, have made possible new methods of delivering financial services to customers. This has enabled banks to expand their customer base, in particular by bringing customers into the banking market that had hitherto been excluded from access to banking services, because it was not commercially viable for banks to serve this segment of the potential market. As such, digitalization is making a substantial contribution to enhancing financial inclusion, although its full potential in this regard has yet to be realised.

Over the last decade Kenya has been a global pioneer in the adoption of digital technologies to transform the nature of financial services. Initially this transformation was driven by the growth of mobile money, which is primarily a payments service, but it is now evolving into mobile banking with a broader range of financial services.

Secondly, digital technologies have enabled the automation of a wide variety of tasks previously performed by bank staff. It, therefore, offers banks opportunities to reduce their operating costs, mainly through automation of operations. Increasingly customers can conduct transactions with their banks around the clock without having to enter a banking hall or interact with any bank staff.

The adoption of digital technologies to deliver financial services also creates challenges and risks for commercial banks; three of which are particularly worthy of note.

First, the traditional model of commercial banking involves establishing long term relationships with customers and supplying a range of financial services to their customers. This enables banks to mobilise deposits more cheaply and to reduce the costs of transactions, thus making lending more commercially viable. The traditional model of commercial banking also provides synergies between different types of financial services – payments, deposits, and loans – which allow banks to realise economies of scope.

Digitalization threatens to disrupt the traditional model of commercial banking.

In particular, digitalization may enable non-bank service providers to encroach into the market for some of the key services offered by banks. For example, telecom companies can offer payment services through mobile money. This will diminish the incentives for the public to hold demand deposits in banks, which in turn threatens to erode the banks' primary source of low cost funds.

Secondly, the adoption of digital technologies will transform the spectrum of risks which banks face. In traditional banking business models, operational risks are relatively minor compared with credit risk or market risk, but this will not be the case for banking services which are dependent on digital platforms for their delivery. Banks will be exposed to the risk that their digital platforms will suffer breakdowns, which will disrupt the provision of services to their customers. They will also face risks of cyber fraud perpetrated on their customers' accounts.

Ensuring that their IT systems are resilient and that their customers' accounts can be protected from cyber fraud should be a priority for commercial banks. Banks cannot afford to lose the trust of their customers with respect to the safety of their accounts.

Digitalization will thus add a new layer of complexity to the risk management of banks.

Thirdly, digitalization will have major implications for the skill requirements of bank staff. Banks will need to employ staff with highly specialized IT expertise who can maintain their IT systems and rectify faults in these systems very quickly, to avoid disruption of services to their customers.

Clearly people with these types of skills are in scarce supply on the labour market in East Africa. The demands on managerial staff will also evolve. Bank managers will need to develop a good understanding of how their IT systems work and how they link into the overall operations of banks, so that they can identify where operational risks are likely to arise from and make strategic decisions about the use of IT systems.

Over the course of the next five days, you will hear a variety of presentations from experts in the field on topics related to the digitalization of banking services, including presentations on how banks can strategically position themselves in rapidly changing financial markets, new paradigms for financial inclusion, risk based oversight and regulatory compliance and career development.

You will have the benefit of an excellent team of resource persons, most of who are senior officials in the financial services industry in East Africa, and who have come here to share their expertise with you. I am confident that the presentations and discussions in this Banking School will offer you valuable insights and contribute to the development of your careers.

Thank you for listening.