



REMARKS BY THE SECOND DEPUTY GOVERNOR, MRS. ELSIE ADDO AWADZI, AT THE JOY FM FINANCIAL SECTOR FORUM ON NOVEMBER 1, 2018

Opening remarks

The stability and integrity of our financial system should be of utmost important to everyone and the economy as a whole. Banks and other institutions that take deposits are regulated to help ensure that they remain safe and sound to perform their critical role in the economy.

As you know the BoG has undertaken a number of reforms recently and continues to strengthen the system. I look forward to sharing some of these reforms with you, and to hearing your thoughts on the reform process so far and going forward.

Qs & As

Q. What is the current state of affairs in Ghana's banking sector?

The banking sector is generally strong and continues to be profitable, judging from a number of key indicators. For example:

- total assets continue to increase;
- profitability remains high;
- industry CAR of 19% compared to required minimum of 10%; and
- the quality of bank loans continues to improve, with a reduction in NPLs.

Q. BoG has carried out a number of reforms recently. Why is BoG finally cracking the whip after doing nothing for a long time

Indeed, BoG has initiated a number of reforms over the last year and half to make the banking sector stronger and more resilient. Key among these reforms are:

- The revocation of licences of 7 failed banks, and the appointment of receivers for these banks;

- Strengthening the regulatory framework through a number of new Directives on a number of key issues such as capital, corporate governance, provisioning for loans, and others;
- A renewed focus on risk-based supervision of banks to help identify problems sooner than later;
- Stronger enforcement of our Laws and Directives;
- Increasing public awareness to help the banking public make prudent banking decisions.

BoG is committed to ensuring that banks and other financial institutions it regulates, remain safe and sound and engage in practices that protect the deposits of their clients as well as ensure that the financial system is safe and stable for all users. BoG has demonstrated this commitment by the bold steps it has taken so far, as difficult and painful as some of them have been.

Q. Were the actions taken against the 7 defunct banks necessary? Why were they taken?

- The BoG's recent actions were necessary to ensure that banks that failed were made to exit the market in an orderly fashion and without disruptions to our financial system. Failed banks become serious sources of risk for the entire financial system and the economy as a whole, and must be made to exit before they collapse the whole system. What happens to the financial system affects everyone!
- The defunct banks had reached a point where they were no longer able to operate as banks. 4 of the 7 had been found to be significantly undercapitalised as of the 2015/16, and subsequently became insolvent when their capital was further impaired due to bad loans and other irrecoverable assets. The other 3 defunct banks obtained their licenses by false pretences through the use of suspicious and non-existent capital, which rendered them significantly undercapitalized compared to the minimum of GHS 120 mn they were required to have.
- Underlying these failures were a pattern of poor corporate governance practices, insider dealings, misreporting, and other practices which put depositors' funds at risk.

In taking these actions, BoG sought to:

- protect the deposits (about GHS11 billion) held by these defunct banks;
- ensure that these defunct banks exited the market in an orderly fashion without creating disruptions to the rest of the system; and
- allow stronger institutions to operate and support the economy.

Q. What has been the impact of the BoG's actions against the failed banks on the financial sector and beyond?

- BoG's actions against the failed banks and Government's decision to guarantee the deposits of the 7 banks and the creation of CBG have helped to mitigate what could have been severe adverse consequences from these failures. When banks fail, there are usually a lot of casualties, which if not well managed could lead to significant problems for the financial sector and the economy.
- The interventions of the BoG and MoF:
 - Protected about GHS 11 billion in customer deposits, including deposits and placements of other financial institutions (banks, savings and loans, RCBs, MFIs, insurance firms, securities firms and fund managers, and pension fund managers);
 - Minimized job losses by saving some **3,500** or 70% of **appx 5000 employees** of the defunct banks;

The banking sector reforms have boosted the confidence of local and international investors and other market players in the BoG's role as regulator, and have contributed to the recent upgrades to Ghana's credit rating from S&P from B- to B.

Q. The clean-up has been costly to the tax payer. How will this be recovered if at all?

- The clean-up costs were necessary policy interventions to help mitigate the socio-economic impacts of the failure of the banks.
- It is important that the costs of these interventions which were borne by taxpayers, are recovered to the extent possible through recoveries from debtors, shareholders, and related and connected parties who took money from the defunct banks.
- The receivership processes are ongoing, and the receivers are making great strides in their recovery efforts. Amounts in excess of 400 Million Cedis have so far been recovered by the Receivers of the 2 banks closed last year.
- Dossiers on all seven banks have been handed over to EOCO for investigations and possible prosecutions by relevant State agencies.

- BoG's own internal investigations into the conduct of Bank of Ghana officials have begun with the establishment of the Office of Ethics and Internal Investigations. Any officials (current and former) found culpable will neither be spared nor shielded by Management.

Q. *Any lessons so far?*

Trust and confidence in the financial system are critical. As the saying goes, trust comes on foot and leaves on horseback! All parties must work towards preserving the trust that customers repose in them.

Q. *What about the specialised Deposit-Taking Institutions Sector? There are signs of distress with some institutions not paying depositor claims. Is BoG planning to act against these institutions? If so, how soon? What are the estimated clean-up costs?*

BoG continues to assess the condition of the SDI sector. Institutions that do not meet prudential requirements will be closed. BoG will ensure that any such action is managed carefully to mitigate any potentially adverse socio-economic impacts.

Q. *What is next for BoG?*

- We are working with all stakeholders to rebuild confidence in our banking sector. There are great opportunities ahead for the industry to drive Ghana's economic growth agenda, and we expect to see banks positioning themselves for these opportunities.
- Following the new regulatory requirements we have introduced, we expect to see better capitalized banks, more transparency in the quality of assets held by banks, stronger corporate governance and risk management practices, and a new focus on maintaining the confidence of customers.
- On our part, we are strengthening our regulatory and supervisory capacity through improved systems, processes, accountability, and training, to enable our supervision staff better monitor banks' performance and conduct, and ensure that banks take prompt corrective action to address emerging risks.
- We are moving ahead with implementation of the deposit protection scheme established under the Ghana Deposit Protection Act, 2016 (Act 931) as amended, to provide a safety net for vulnerable depositors in the event of a bank failure.

Q. What should be the structure of financial sector regulation going forward.

Currently, there are different regulatory agencies with mandates to regulate different parts of the financial sector. Each of these agencies have the requisite understanding of their respective sectors and should work on improving their own effectiveness as may be needed.

More cooperation is also needed among all the regulators. This will help ensure that each regulator has visibility on the other parts of the financial system and has a clear understanding of how their actions and the actions of their licensees affect other parts of the system and vice versa.

Closing remarks

- Let me conclude by reassuring everyone that the BoG is carrying out the mandate it has under law to ensure the safety and soundness of banks and other deposit-taking institutions, to protect depositors' funds, and to promote integrity and stability of the financial system.
- BoG is committed to supporting the banks and other financial institutions that are playing by the rules of the game.
- We are working together with all stakeholders to build a resilient banking sector that has the trust and confidence of everyone and that support the national economic growth agenda.