

Emerging Developments in the Banking Industry of Ghana



Emerging Developments

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1. Introduction

- The banking industry has seen significant developments over the last few years.
- The industry continues to record growth in total assets despite challenges posed to some banks in view of the general economic challenges(eg energy crisis, utility price increases etc.) emerging from the real sector to the banking sector.



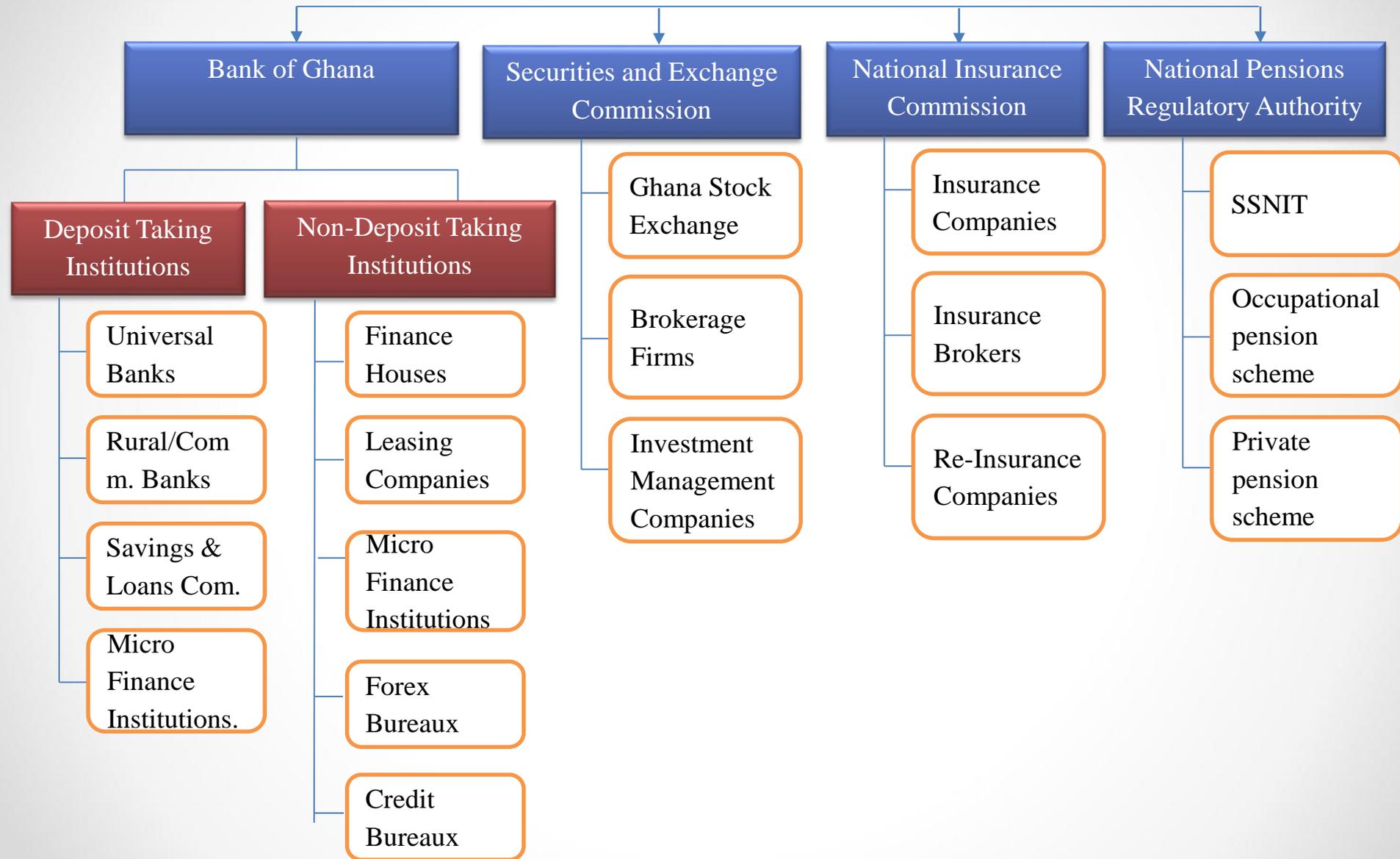
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1. Introduction

- In order to satisfy the growing needs of the country as well as engender competition the BOG has licensed a number of institutions including those at the lower end of the market
- The industry thus witnessed the emergence of the microfinance industry. This was a conscious effort to effectively regulate the microfinance sector which was hitherto unregulated.



STRUCTURE OF FINANCIAL SERVICES INDUSTRY IN GHANA



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3. Overview of the Banking Industry

- The banking system as at end - March 2016 comprises the Bank of Ghana, 29 Universal banks (excluding ARB Apex bank which is a mini-central bank for rural banks), 139 rural and community banks, 61 NBFIs, and 555 MFIs.

	Mar-16	Mar-15	Mar-14	Mar-13	Mar-12
Institution Type	No.	No.	No.	No.	No.
BANKs	29	27	27	27	27
NBFIs	61	57	57	52	50
RCBs	139	139	140	136	135
MFIs	555	337	135		
TOTAL	784	560	359	214	212



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3. Overview of the Banking Industry

- Total assets of the industry at end-March 2016, was GH¢76.27 billion, up by 18.8% over end-March 2015 level of GH¢64.16 billion

ASSETS	Mar-16	Mar-15	Mar-14	Mar-13	Mar-12
Institution Type	GH¢'M	GH¢'M	GH¢'M	GH¢'M	GH¢'M
BANKs	64,556.76	55,087.22	39,128.47	27,996.11	22,935.56
NBFIs	7,722.92	5,803.23	4,236.20	2,768.55	1,914.19
RCBs	2,672.53	2,160.59	1,832.89	1,559.38	1,149.20
MFIs	1,316.19	1,113.87	342.47		
TOTAL	76,268.39	64,164.91	45,520.24	32,324.04	25,998.96



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3. Overview of the Banking Industry

- As at the end - March 2016, total assets of the universal banks formed 84.7%, the NBFIs held 10.1% while the RCBs took up 3.5% and MFIs 1.7% of the industry assets.

	Mar-16	Mar-15	Mar-14	Mar-13	Mar-12
Institution Type	Share (%)				
BANKs	84.7	85.9	86.0	86.6	88.2
NBFIs	10.1	9.0	9.2	8.6	7.4
RCBs	3.5	3.4	4.0	4.8	4.4
MFIs	1.7	1.7	0.8		
TOTAL ASSETS	100	100	100	100	100



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4. Legal Framework for Supervision

- The key legal framework for supervision of banks in Ghana is the Banking Act 2004 (Act 673) as amended.
- Developments in the banking sector created the need for a new banking bill.
- Among the reasons for the current bill (**Banks and Special Deposit Taking Institutions Bill**) are:
 - ✓ bring all deposit-taking institutions under one law (i.e. both banks & deposit-taking NBFIs) as public interest entities in line with IFRS;
 - ✓ put in place more stringent criteria for licensing, mergers and changes in controls;
 - ✓ prescribe more stringent procedures for dealing with unauthorized banking or deposit taking activities;



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4. Legal Framework for Supervision – cont.

- Among the reasons for the current bill are:
 - ✓ apply consolidated supervision to banks, banking groups and financial holding companies;
 - ✓ enable the Bank of Ghana to take prompt and mandatory corrective actions based on capital adequacy deficiency/short fall triggers;
 - ✓ provide more detailed Bank/SDI recovery and resolution framework (ranging from the appointment of advisors, official administration to liquidation);
 - ✓ allow imposition of administrative sanctions without recourse to the law courts; and
 - ✓ make provision for accounting for unclaimed funds in the banking industry.



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4. Legal Framework for Supervision – cont.

- Ghana Deposit Protection (GDP) Bill
- A study undertaken in 2012 showed that the overall level of savings and investments in Ghana has remained comparatively low despite increasing financial sector stability and deeper financial intermediation
- The GDP bill has the objective to
 - ✓ protect and support small depositors from loss on the occurrence of an insured event (withdrawal of licence).
 - ✓ support the objectives of fostering the safety, soundness and efficient functioning of a stable market based financial system in Ghana.



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5. Other Regulatory Developments

➤ Basel II/III implementation

To improve on the quality of risk management, corporate governance and internal control practices in the banks

- ❖ preparations for the adoption the Basel II/III Capital framework by June 2017
- ❖ In-house committees working on the key areas and building capacity
- ❖ Readiness assessment is currently being conducted
- ❖ Industry to be informed to appoint Basel II/III coordinators to ensure effective industry buy-in
- ❖ Monthly meetings will be held to deliberate and finalise the various documentations developed



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5. Other Regulatory Developments

- Why Basel II/III implementation for Ghana
 - ❖ To further strengthen the safety, soundness and stability of the banking system.
 - ❖ To provide a higher risk sensitive approach for the measurement of capital (as against Basel I).
 - ❖ Promote the development and use of stronger risk management techniques by banks to monitor and manage their risks.
 - ❖ To allow for greater use of banks' own existing internal models as inputs for the calculation of capital.
 - ❖ Ensure that Banks maintain capital commensurate with their risk profile and control environment, and that a bank's management continually ensures that the bank has adequate capital to support its risks beyond the core minimum requirement.



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5. Other Regulatory Developments

- Revisions to the New Base Rate Model
 - ❖ High interest rates have been a major issue over the years
 - ❖ The base rate model was introduced to
 - ✓ bring transparency to lending rates,
 - ✓ promote uniformity in the definition of determinants of Base Rate and,
 - ✓ facilitate better assessment of monetary policy transmission
 - ❖ Renewed calls for a revision to the base rate model to consider issues relating to newly licenced banks and introduce additional parameters to improve transparency
 - ❖ A committee has been set up including industry players and the Bank of Ghana
 - ❖ Input is therefore expected from all stakeholders



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5. Other Regulatory Developments

- IFRS 9 implementation
 - ❖ IASB has moved from the incurred loss model to expected credit loss model
 - ❖ Implementation will largely align the International Financial Reporting Standards (IFRS) to the Bank of Ghana provisioning and prudential norms even though the IFRS impairment concept may be more stringent in view of the treatment of the commitments and undrawn portions of overdrafts , lines of credit etc.
 - ❖ Despite the conviction that the IFRS impairment treatment may be more stringent the Credit Risk Reserve (CRR) introduced by the BOG may serve as a buffer during the period of the transition.
 - ❖ The above notwithstanding, the BOG has written to all banks to do an impact assessment of their 2016 audited financial statements by June 2017.
 - ❖ Effective implementation date of the standard is January 2018.



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5. Other Regulatory Developments

- IFRS implementation for NBFIs
 - ❖ Ghana implemented IFRS for the banking industry in 2008
 - ❖ Compliance monitoring was initially restricted to only the universal banks
 - ❖ IFRSs are to be adopted by all public interest firms hence the need to extend the implementation to the Non-Bank Financial Institutions (NBFIs)
 - ❖ Bank of Ghana will communicate to all BOG licensed NBFIs to begin the process including consultations with the institutions
 - ❖ Effective date of first adoption for NBFIs will be January 2018.



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5. Other Regulatory Developments

- New and Revised Guidelines and Regulations
 - ❖ Upon the passing of the Banks and the SDI Bill into Act, the Bank is expected to issue various guidelines and regulations to enhance towards ensuring the safety, soundness and stability of the financial system
 - ❖ The guidelines include
 - ❖ Corporate Governance guidelines
 - ❖ Risk Management guidelines
 - ❖ Dormant accounts and Unclaimed Balances guidelines
 - ❖ Directives on Branch Application
 - ❖ Regulation of Mergers & Acquisition Ownership Control
 - ❖ Internal Control and Internal Audit guidelines
 - ❖ Conduct of Fit and Proper Test guidelines
 - ❖ Credit Classification and Provisioning Directives



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6. Financial Literacy and Consumer Protection

- Market Conduct and Consumer Protection
 - ❖ Measures taken to enhance the framework for market conduct and financial consumer protection
 - ❖ BOG has over the years set up the Investigative and Consumer Reporting (ICRO) Unit, in the Financial Stability Department to oversee the conduct of the market and to protect the consumer.
 - ❖ Also a committee has been set up for financial literacy and work has began with public education across the regions
 - ❖ Regional offices expected to be set up to handle complaints at the regional level and to help with financial literacy education with the locals



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7. New payment and settlement systems

- E-Money developments
 - ❖ Increased access to mobile money services and growing at a faster pace
 - ❖ Regulations to be expanded to meet the needs of consumers
 - ❖ Payment systems oversight office set up within Banking Department to handle issues relating to payments and settlements in Ghana



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8. Conclusion and the Way Forward

- Ghana has a well-diversified banking industry with a gradual shift in the structure and composition
- The BOG will continue to come out with policies to reduce the regulatory gap to the informal/shadow banking financial world.
- The introduction of the new institutions especially at the lower end of the market (MFIs) is likely to engender financial inclusion and infuse some level of competition.



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8. Conclusion and the Way Forward

- The industry has witnessed some major developments in electronic products and this is expected to enhance the 'cashlite' vision of the BOG.
- The BOG will continue to make and review policies to keep pace with the fast changing and increasing complexity and interconnectedness of the financial system so as to ensure a safe, sound and stable financial system.

Thank you

