



IMPROVING SUPERVISION OF FINANCIAL SERVICES IN GHANA

(Bank of Ghana)

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Introduction

- Supervision of the financial system has gone through several phases over the years.
- Authorities have sought to improve the financial system by introducing and establishing various regulatory frameworks, policies, and structures to ensure its safety, soundness and stability at any point in time.



Overview of the Financial System

- Ghana's financial supervisory system is largely fragmented, with the Banking and Non-bank, Securities, Pensions and Insurance sectors individually managed and regulated by separate agencies.
- Under this segregated supervisory system,
 - the Banking and Non-bank sector is overseen by the Bank of Ghana,
 - the Securities sector by the Securities & Exchange Commission,
 - Pensions by the National Pension Regulatory Authority and
 - the Insurance sector by the National Insurance Commission .

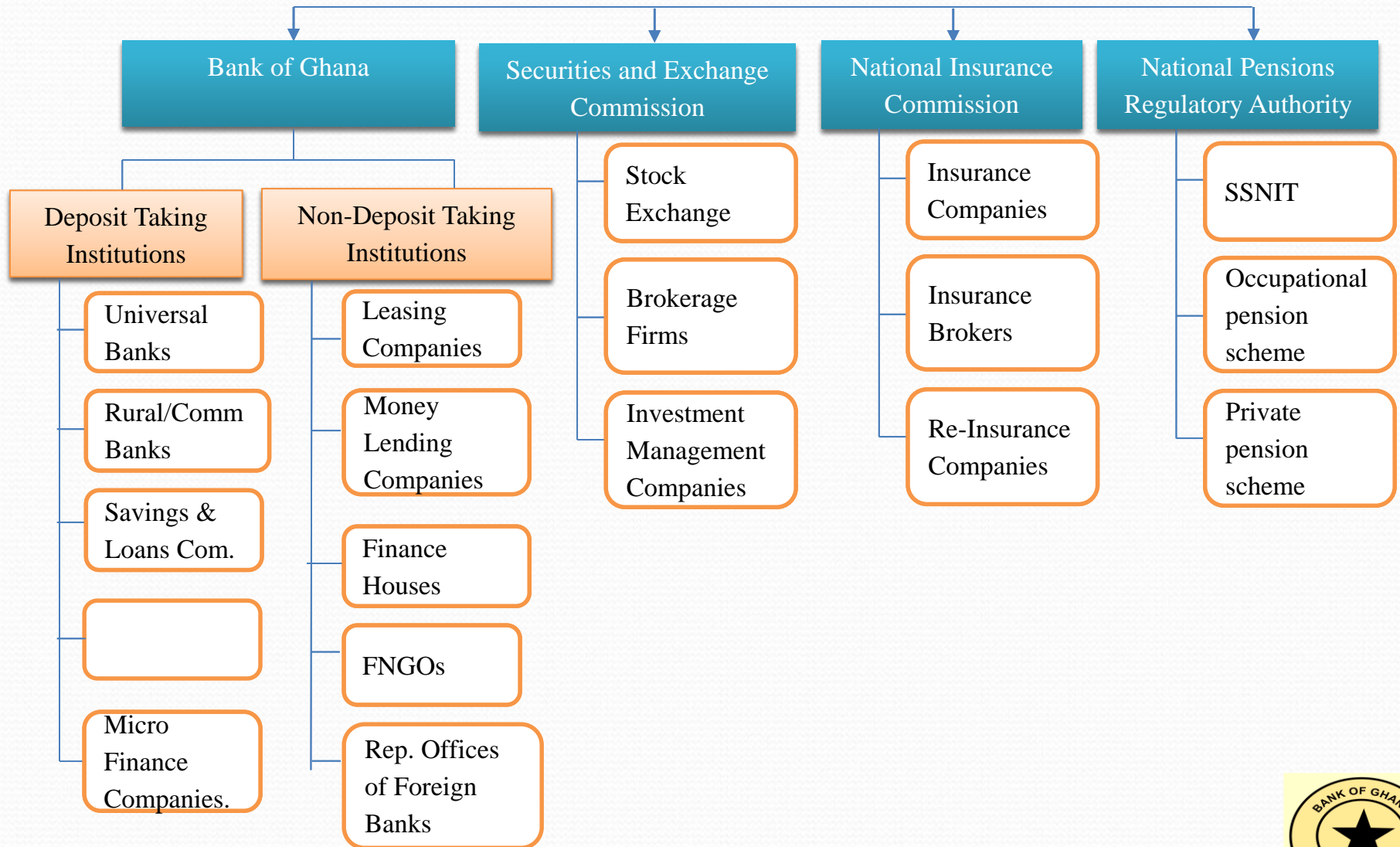


Overview of the Financial System

- There is also the other divide of the banking sector which is arguably considered massive but largely unregulated.
- In a bid to narrow this gap the authorities sought to lower regulation to the lower end of the market by creating and regulating:
 - The Micro Finance Companies
 - The Money lenders, Susu operators etc by registering and monitoring them through their apex bodies .
 - The Forex Bureaux (to minimize black markets in Foreign Exchange)
 - Mobile Money Operations (Telcos & Banks)
- The Bank of Ghana has also sought to deepen the commodities market by facilitating the creation of the Commodities Exchange to be supervised by the SEC.



Structure of the Financial System



Regulation Through Time

- **Colonial era regulation** – *Company Ordinances, Directives of WACB & Bank of Gold Coast*
- **Post Independence** – *Bank of Ghana Act (1957, 1961, 63, 65 and 69) & the Company Code of 1963 – BOG had extensive powers on banks' composition, information demand requirement, restriction on credit & investment etc.*
 - **1st Banking Law was Act 339 promulgated in 1970** – *consolidated all banking related laws; Introduced the Chief Examiner of Banks (CEB); outlined permissible activities; maintenance of Reserve Funds; minimum capital requirement (¢750,000) etc. etc.*
 - **The Banking Law 1989 (PNDCL 225)** - *gave BOG more powers & introduced requirements relating to capital adequacy, new minimum capital (¢200million), prudential lending guidelines, financial reporting procedures, etc. etc.*



Regulation Through Time

- **Financial Institutions (Non-Bank) Law 1993, PNDC Law 328** – *Leasing Companies; Mortgage Finance Companies; Finance Houses; Savings And Loans Companies; Hire Purchase Companies; and Credit Unions.*
- **The Banking Act 2004 (Act 673)** - *Licensing requirements; Capital & Reserves, Liquidity; Ownership & Control; Supervisory powers etc*
- **The Banking (Amendment) Act 2007 (Act 738)** – *enhanced licensing requirements; remedial measures; information exchange agreements; priority of deposit liabilities and winding up etc.*
- **Bank & SDI and Deposit Insurance Bills undergone 3rd reading** - *strengthen ff. thematic areas - Consolidated Supervision; Cross Border Supervision; Problem Bank resolution; Prompt Corrective Action; Application of administrative sanctions; Basel II Risk Sensitivity, Capital Measurement etc. etc.*



BOG's Regulatory Mandate

- The Bank of Ghana is charged with the responsibility of ensuring that the financial system is safe, stable and as well serves as facilitator for wealth creation, economic growth and development.
- The Bank of Ghana has overall supervisory and regulatory authority in all matters relating to banking and non-banking financial business with the purpose of achieving a safe, sound and efficient banking system in the interest of depositors and the economy as a whole.



BOG's Regulatory Mandate (Cont'd)

Consequently, the Central Bank exercises its mandate to ensure that:

- i. Depositors' funds are safe;
- ii. The solvency, asset quality , liquidity and profitability of banks are maintained;
- iii. Adherence to statutory and regulatory requirements ;
- iv. Fair competition among banks;
- v. The maintenance of an efficient payment system.



BOG's Regulatory Mandate (Cont'd)

- The regulatory and legal framework within which banks, non-bank financial institutions as well as forex bureaux operate in Ghana are the following:
 - i. Bank of Ghana Act , 2002 (Act 612)
 - ii. Banking Act, 2004 (Act 673) & Banking (Amendment Act), 2007 (Act 738)
 - iii. Non-Bank Financial Institutions Act, 2008 (Act 774)



BOG's Regulatory Mandate (Cont'd)

- Other Financial Laws includes:
 - ✓ Payment System Act, 2003 (Act 662)
 - ✓ Foreign Exchange Act, 2006 (Act 723)
 - ✓ Credit Reporting Act, 2007 (Act 726)
 - ✓ Anti-Money Laundering Act, 2008 (Act 749)
 - ✓ Borrowers and Lenders Act, 2008 (Act 773)
 - ✓ Home Mortgage Finance Act, 2008 (Act 770) etc.

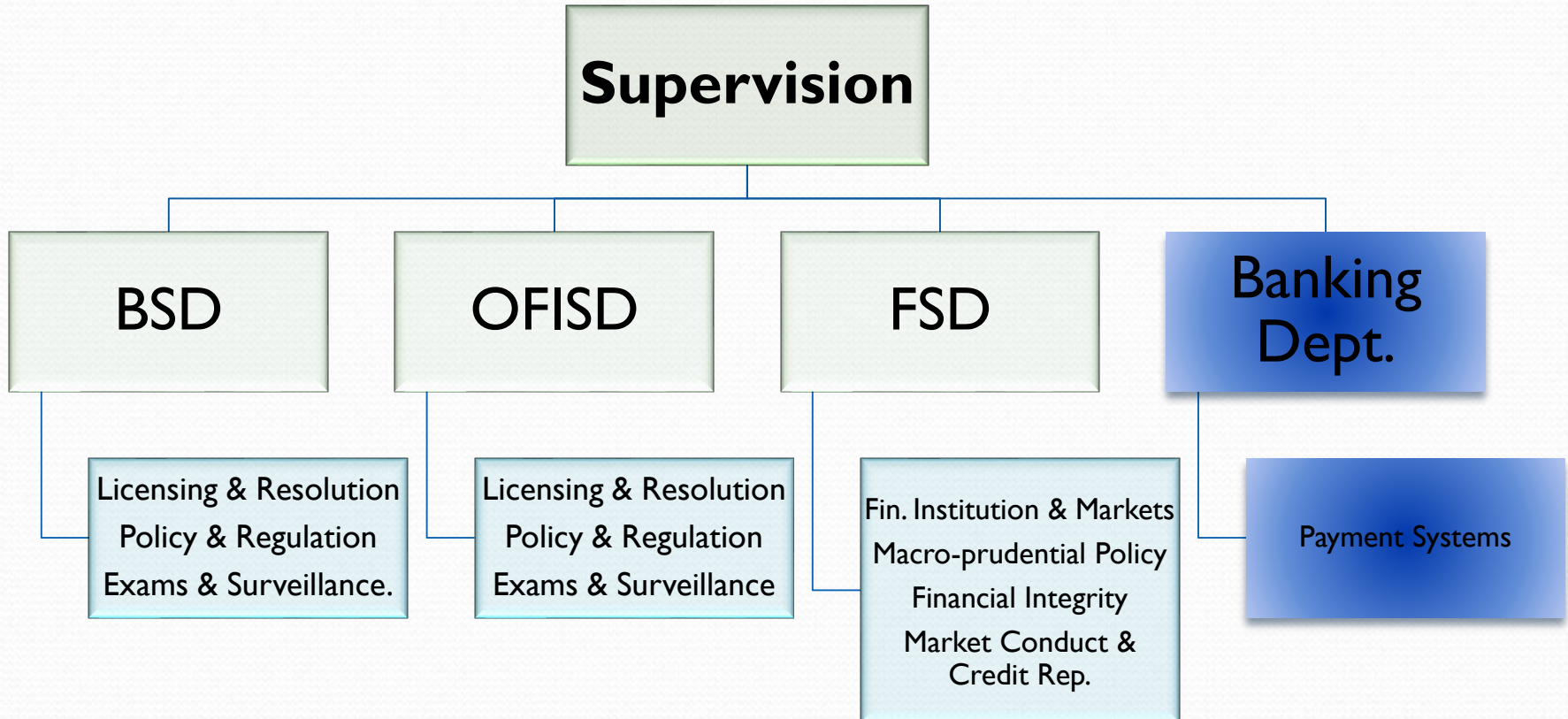


BOG's Regulatory Mandate (Cont'd)

- The functions and responsibilities of the Central Bank as a Regulator are defined in Act 612 and Act 673 as follows:
 - i. To regulate, supervise and direct the banking system and credit system to ensure the smooth operation of a safe and sound banking system;
 - ii. To establish the Banking Supervision Department (BSD) and appoint an Officer designated as the Head of BSD;
 - iii. To consider and propose reforms of the laws relating to banking business.



Supervision Function - Organogram



Current Licensed Institutions (Mar-16)

Institutions	Number	Market Share -TA (%)
Banks	30	85.1
Rural Banks	140	3.4
Non-Bank Financial Institutions	59	9.8
<i>Savings & Loans</i>	30	
<i>Finance Houses</i>	23	
<i>Mortgage Company</i>	1	
<i>Leasing Companies</i>	5	
Microfinance Institutions	545	1.7
Forex Bureaus	413	
Credit Reference Bureaus	3	
Representative Offices	4	
TOTAL	1,194	100

○ No. of Foreign Controlled Banks 17



Current Supervisory Approach

- The BSD has adopted the risk-based approach to supervision since 2006.

- Off-site surveillance:
 - ✓ *Individual banks - trends and peers*
 - ✓ *Banking system*
 - ✓ *Main sectors of the economy*
 - ✓ *Economic environment (local, national, regional, global)*
 - ✓ *Regular submission of returns/data*

- Onsite examination:
 - ✓ *Top-down and forward-looking;*
 - ✓ *Appraisal and assessment;*
 - ✓ *SLEMS ratings*

- Regular contact with banks (Relationship Manager Concept)



SLEMS Rating Criteria

➤ **Solvency** –

Paid-up capital requirement & position of Net worth through time; The bank's capital adequacy ratio (CAR); Asset quality; Risk absorption capacity; capital at risk; capital plan etc. etc. .

➤ **Liquidity** –

Maintenance of minimum cash reserve ratio; sufficient liquid assets to meet maturing obligations; Internal limits on key liquidity ratios; daily monitoring of liquidity position; monthly liquidity stress tests and results analysed for necessary action; liquidity contingency plan;

➤ **Earnings** –

Key performance indicators pitched against budget targets, peers, industry & time; key ratios (ROE, ROA, ROEA, C/I, margins etc.); Earning contribution to net worth; Source of earnings (core/non-core; diversification etc)



SLEMS Rating Criteria

➤ **Management –**

Review & adherence of key policies of banks;

Key management functions – Board & Senior oversight responsibilities; compliance function; internal audit; risk management; financial analysis etc.

➤ **Sensitivity to Markets (what if analysis)**

•To determine:

- the extent to which monetary policy translates into the markets and*
- how the market reacts to the policies*
- Market risks:- is the risk of losses in, on and off balance sheet positions from movements in market prices. eg.*

Interest rate,

Exchange rate,

Commodity and

Equity risks



Improved Supervisory Strategy

- Human Capital Development (ie. ongoing Recruitment, Orientation & Training)
- Adoption of Risked Based Supervision (from Compliance Based)
- Introduction of new Banks & SDI Bill and Deposit Insurance
- Electronic submission of returns (eg. EFASS & OOESS)
- Conduct of joint studies with the industry to address specific issues (calculation of base rates).
- Collaboration (shared experiences & ideas) with counterpart Supervisory Authorities on new approaches to consolidated and cross-border supervision.
- Holding trilateral meetings with banks management & external auditors
- Regular contact with law enforcement agencies; (EOCO, BNI, FIC etc.)
- Establishment of BSD & OFISD



Credit Reference System

- There are 3 licensed Credit Reference Bureaus in Ghana.
- XDS Data Ghana, HudsonPrice Data Solutions and Dun & Bradstreet Credit Bureau commenced operations in 2010, 2012 & 2013 respectively
- Under the Credit Reporting Act, 2007 (Act 726), financial institutions are mandated to provide data on loans of all sizes to the credit bureaus.
- Lenders conduct searches or access information on firms and individuals, such as payment history, default information, property information and loan guarantor details before granting any application.



Collateral Registry

- In fulfillment of its mandate under the Borrowers and Lenders Act (Act 773), the Bank of Ghana in February 2010 established the Collateral Registry to principally register charges and collaterals.
- Key Function – Honoring of Search Requests; Processing of Discharges; Processing of Realization Requests



Electronic Banking

- New wave of Mobile Money Operations (ie Telcos & Banks). Transaction reaching GHC35.4billion as at end 2015 which is just GHC5.85billion shy of the total deposit liabilities of the 29 banks.
- Cheque Code Clearing Systems
- GHIPSS

Conclusion

- Effective supervision, sound legal system, and strong accounting and auditing framework are essential to healthy banking systems and a robust economy.
- The Ghanaian Banking sector remains safe, sound and stable;
- Bank of Ghana will continue to examine the risk management frameworks and business models of banks to ensure their safety and soundness.
- The Bank of Ghana will continue to provide a sound regulatory environment for the banking sector while expecting practitioners to engage in prudent activities aimed at protecting customers, maximizing profits and providing meaningful financial services to the public.



Thank You

