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Enhancing Banking Supervision Mechanisms in OIC Member Countries

The Gambia Country Presentation

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OUTLINE OF THE PRESENTATION

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1. INTRODUCTION

- The report covers developments in the Gambia banking sector for the year ending December 2014

- The report is in three main parts – Domestic economy, banking sector and Conclusion.

2. Developments in the Domestic Economy

Real GDP Growth

- The latest estimates from the Gambia Bureau of Statistics (GBoS) indicate that real GDP contracted by 1.4 percent in 2014, compared to the growth of 4.6 percent and 5.9 percent in 2013 and 2012 respectively. The deceleration in economic activity in 2014 was primarily due to lower agricultural production which declined by 22.0 percent due to late and insufficient rains and the negative impact of the Ebola epidemic on the tourism sector.

2. Developments in the Domestic Economy

- ***Monetary Developments***
- Broad money grew by 11.2 percent in the year to end-December 2014 compared with the growth of 15.1 percent in the previous year. The decline in the growth of broad money was mainly the result of slower pace of expansion in the net domestic assets (NDA) of the banking sector by 14.2 percent compared to 25.8 percent in 2013. The net foreign assets (NFA) of the banking sector, on the other hand, increased by only 2.2 percent following a contraction of 8.7 percent in 2013.

- Growth in reserve money decelerated to 11.9 percent in 2014, substantially lower than the growth of 28.1 percent a year ago.

- In the year to end-December 2014, the domestic debt rose to D18.7 billion, or 38.7 percent from a year earlier. Treasury bills and Sukuk-Al Salaam, accounting for 78.1 percent and 3.2 percent of the domestic debt stock, increased by 32.2 percent and 48.5 percent respectively.

2. Developments in the Domestic Economy

- **Government Fiscal Operations**
- Preliminary data on the execution of the Government budget for 2014 indicate that total revenue and grants increased to D7.6 billion (22.4 percent of GDP), or 26.3 percent from 2013. Domestic revenue, comprising tax and non-tax revenue, amounted to D6.4 billion higher than the D5.3 billion in 2013 attributed to the 20.8 percent and 21.5 percent increase in tax and non-tax revenue respectively.

- Total expenditure and net lending amounted to D11.8 billion (35.1 percent of GDP), higher than the outturn of D8.8 billion (27.0 percent of GDP) in 2013. Current and capital expenditure rose to D7.8 billion and D2.8 billion compared to D6.5 billion and D2.3 billion respectively in 2013.

- The overall budget balance (including grants) recorded a deficit of D4.3 billion (12.6 percent of GDP) which was financed by both domestic and external sources.

2. Developments in the Domestic Economy

- **External Sector Developments**
- Preliminary balance of payments (BOP) estimates for the first nine months of 2014 indicate an overall deficit of US$12.80 million, lower than the surplus of US$13.84 million in the corresponding period last year. The current account deficit rose to US$97.48 million compared to a deficit of US$50.38 million during the corresponding period in 2013.
- At end-December 2014, gross international reserves totaled US$111.9 million, equivalent to 4.0 months of import cover compared to US$161.06 million, or 5.5 months of import cover in December 2013.
- Volume of transactions in the domestic foreign exchange market increased to US$1.42 billion in 2014, or 8.4 percent from a year earlier. In the year to end-December 2014, the Dalasi depreciated against the US dollar by 16.28 percent, Euro (4.14 percent) and British Pound (12.73 percent).

2. Developments in the Domestic Economy

Inflation Outlook

- Consumer price inflation, measured by the National Consumer Price Index (NCPI), accelerated to 6.9 percent in December 2014, from 5.6 percent in December 2013. Both food and non-food inflation rose to 8.43 percent and 4.83 percent from 6.72 percent and 3.74 percent in December 2013 respectively.

- At the last two sittings of the Monetary Policy Committee (MPC) in November 2014 and February 2015, the Committee decided to leave the policy rate unchanged at 22.0 percent. The MPC judges the stance of monetary policy appropriate for now.

3. THE BANKING INDUSTRY

Overview

- The banking industry consists of twelve (12) banks, eleven (11) of which are conventional banks and one (1) Islamic bank. The banking sector accounts for about 90% of the Gambian financial system.
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- The industry ended 2014 with strong fundamentals. Total assets of the industry increased to D24.5 billion, or 16.4 percent from 2013.
- Loans and advances, accounting for 22.1 percent of total assets, decreased to D5.4 billion, or 10.4 percent owing primarily to the 9.0 percent decline in private sector credit.
- Deposit liabilities rose to D16.8 billion, higher than the D15.2 billion in 2013.

3. THE BANKING INDUSTRY

- Peer group analysis of the industry based on total assets indicated that three big banks accounted for 53.33%, one medium size bank with 13.85% and eight small banks sharing the remaining 32.82% of total assets.

- The industry risk-weighted capital adequacy ratio averaged 30.0 percent in 2014, over and above the required minimum of 10.0 percent. All the banks met the minimum requirement.

- The ratio of non-performing loans to gross loans declined substantially from 20.0 percent in 2013 to 7.0 percent in 2014.

- Credit concentration of the industry is considered high. Two economic sectors, Distributive Trade and Other Commercial with 34% and 24% respectively accounted for 58% of industry loans and advances. The remaining ***42%*** was shared by eight other sectors of the economy.

3. THE BANKING INDUSTRY

- The banking industry recorded a net profit of D680.0 million in 2014. The return on assets and return on equity rose to 11.0 percent and 71.0 percent compared to 2.0 percent and 14.0 percent respectively in 2013.
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- The liquidity ratio stood at 85.0 percent, over and above the statutory minimum requirement of 30.0 percent.
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- Sensitivity to market risk measured by the foreign currency overall Net Open Position stood at negative -0.10% of capital and reserves as at end December 2014 which is well within the statutory limit of +/-15%. All banks were within the statutory limit.

4. Regulation of the Financial System:

- The CBG is the sole Regulator and Supervisor of the Gambian Financial System responsible for commercial banks, Insurance Companies, Foreign Exchange Bureaus, Micro Finance Institutions and is the guardian of the payment and settlement system. Different departments are however responsible for each industry

4. Regulation of the Financial System:

- The main pieces of legislation used to regulate and supervise banks are the Banking Act 2009, the Central Bank Act 2005 and the Anti Money Laundering and Counter Financing of Terrorism Act 2012. The Insurance Act 2003 and Insurance Regulation 2005 regulate Insurance sector while Micro Finance and Foreign Exchange Bureaus are regulated through guidelines and regulations issued by the Bank.

4. Regulation of the Financial System:

- In 1997 the Financial Institutions Act 2003, now Banking Act 2009 was amended to incorporate provisions for Islamic Banking. The same year, The Arab Gambia Islamic Bank (AGIB) was incorporated and opened its doors to the public.

In 2004, the Insurance Act 2003 was also amended to cater for Islamic Insurance. The first Islamic Insurance (Takaful) company was opened in 2005.

4. Regulation of the Financial System:

- Currently, there now legal framework for Islamic Micro Finance companies in the country. A non-bank financial institutions Bill which will create the enabling law for Islamic Microfinance is with the Legislature. However, a number of investors expressed interest in the area.

- There exist huge potentials for Islamic finance in The Gambia. However, due to lack of awareness and capacity constraints, there is lot of room for improvement to exploit the sector to its maximum potential.

4. Regulation of the Financial System:

- **Licensing Procedures**
- Banks are licensed under Section 3 of the Banking Act 2009.
- **Banks are supervised using the following approaches:**
- **A. Off-site monitoring**
- This involves monitoring of banks within The Central Bank through analysis of returns submitted to the Bank by commercial banks.
- **B. On-site Examination**
- Periodically, the CBG conducts onsite examinations. At the end of the exercise, reports are produced which spell out the salient findings and recommendations.

4. Regulation of the Financial System:

- **C. Collaboration with External Auditors**
- The Bank conducts bi-lateral meetings with Auditors at the planning stage of annual audits.
- Tripartite meetings with bank management, CBG and Auditors are held at the conclusion of audit exercises.

- **D. Annual Prompt Corrective Action (PCA) assessment**
- The PCA framework is a means to promote a safe and sound financial system by monitoring each bank’s compliance and performance against five “critical elements” and progressively ensuring that corrective measures are taken in response to the deteriorating compliance or performance of a bank.

4. Regulation of the Financial System:

- **E. Issue of Directives**

  In addition to the off-site and on-site functions, the Bank issues Directives to banks periodically. Some of the directives issued include:
- **Minimum Capital Requirement:** To further strengthen the banking industry, the CBG increased the minimum capital requirement to D150million and D200 million to be observed by end-December 2010 and 2012 respectively.
- **Capital adequacy** – banks are required to maintain a minimum capital adequacy ratio of 10% with a corresponding gearing ratio of 10 times.

4. Regulation of the Financial System:

- **Management and Technical Services Agreements (Guideline 9)**
- The Guideline was issued in 2007 and aimed parent banks to serve as source of support to their subsidiaries in The Gambia.
- **Guideline 1 (Revised 2007) on Submission of Regulatory returns**
- The guideline provides monetary penalties and non monetary sanctions. Covers areas such as:
- Late and inaccurate submission of returns
- Fit and proper persons test
- Publication of annual accounts

4. Regulation of the Financial System:

- **Guideline 3 (Revised) on Statutory Reserves**
- The old guideline requires banks to set aside reserves equal to their paid up capital (ie ratio of capital to statutory reserves is 1:1) before profits could be distributed.
- However, the revised guideline allows banks to distribute 75% and retain 25% of annual profits. Before meeting the 1:1 ratio.
- After meeting the ratio, they are allowed to distribute 85% and retain 15% of annual profits.
- **Guideline 6 (Required Reserves)**
- Banks are required to keep 10% of their weekly average deposit liabilities in reserves.
- 80% of the amount of which shall be held in current account with Central Bank and 20% in cash holdings.
- Monetary fines are imposed for non compliance with the requirement.

4. Regulation of the Financial System:

- **F. Other Supervisory Activities**
- Additionally, the CBG houses :
- The Credit Reference Bureau (CRB) and
- The Financial Intelligence Unit (FIU) and
- The Collateral Registry
- Preparing to introduce explicit Deposit Insurance Scheme in The Gambia.
- The Bank is a member of a number of supervisory colleges

4. Regulation of the Financial System:

- The essence of the CRB is to enable banks share information on borrowers.
- The remit of the FIU is to receive, analyse and share suspicious transaction reports with a view to fight money laundering and terrorism financing.
- The Collateral registry aims at speeding the realisation of collateral avoiding the need for lengthy court processes between lenders and borrowers
- On the other hand, the Deposit Insurance Scheme seeks to shift the burden of bank failures from the public to the private sector.
- The essence of colleges is provide cooperation with other supervisors. The CBG is a member of the following supervisory colleges:
- Committee of Bank Supervisors in West and Central Africa (CBSWCA)
- College of Supervisors of the West African Monetary Zone (CSWAMZ)
- Standard Chartered Bank College UK
- ECO Bank Group Collage of banking Commission for Franco Phone West Africa.

5. *Main Strengths and Weaknesses in supervision of banks:*

- **Strengths:**
- Speed in decision making due to small size of the country
- Good collaboration of stakeholders (central Bank, Ministry of Finance, Bankers' Association etc)
- Well trained work force
- Closely follows and implement international best practices in supervision
- Use of state of earth electronic platform for return submission
- Adoption of International Reporting Standards IFRS by all banks

5. *Main Strengths and Weaknesses in supervision of banks:*

- **Weaknesses:**
- Lack of explicit deposit guarantee scheme
- Lack of national crisis resolution frame work
- Capacity constraints in some specialized areas such as Islamic Banking and Finance.
- Flaws in the application of Shariah principles in Islamic Banking and Insurance
- Absence of separate mechanisms for the regulation and supervision of Islamic Banks
- lack of legal framework for Islamic Micro Finance companies in the country.
- Comparatively low capital requirements compared to other countries

6. *Main challenges and obstacles in banking supervision:*

- increasing number of banks in a small country;
- Absence of capital market in the country;
- Absence of robust and specialized capacity building institutions in supervision;
- High Non-Performing Loans (NPLs);
- issues in Accounting Standards applied to Islamic Banking; and
- Capacity constraint at both Regulators and Operators level.
- Implementation of Basel II/III due to high cost and technical complexity
- Problem bank resolution due to lack of explicit deposit insurance scheme

7.Conclusion/Recommendations

- Capacity building and public sensitization in Islamic Banking and Finance
- Introduce mechanisms for cooperation and collaboration between member countries
- Creation of National and OIC wide Crisis Resolution Frame work
- Creation of Supervisory colleges to deal with cross boarder financial institutions
- Creation of Explicit Deposit Insurance Schemes in member countries
- Creation of collateral registries to reduce default rates
- Embrace International Standards such as Basel II/III, IFRS, AAOIFI etc.

THE END

- Thank you for your kind attention