



# **BANK OF UGANDA**

## **Overview of the Financial Sector in Uganda**

Presented at the 4<sup>th</sup> Meeting of the Financial Cooperation Working Group

March 18-19, 2015

Sophia Kironde Iwumbwe

**Mission: To Foster Price Stability and a Sound Financial System**



# Outline

1. Overview of the Financial Sector in Uganda
2. Supervisory Framework
3. Strengths
4. Weaknesses
5. Challenges
6. Status of Islamic Banking
7. Conclusion



# Overview of the Financial Sector in Uganda

- Uganda's financial system is composed of formal, semiformal and informal institutions.
- The formal institutions include Banks, Microfinance Deposit-taking institutions, Credit Institutions, Insurance companies, Development Banks, Pension Funds and Capital Markets. The semi-formal institutions include Savings and Credit Cooperative Associations (SACCO) and other Microfinance institutions, whereas the informal ones are mostly village savings and loans associations.
- Formal institutions are less prominent in rural areas than urban areas and they only serve 14% of the rural population. Informal institutions play an important role in the rural service provisions and serve approximately 12% of the rural population.



# Overview of the Financial Sector – Cont'd

**Commercial Banks:** This class includes commercial banks which are authorized to hold [checking](#), [savings](#) and [time deposit accounts](#) for individuals and institutions in local as well as International currencies. [Commercial banks](#) are also authorized to buy and sell foreign exchange, issue letters of credit and offer loans to customers.

**Credit Institutions:** This class includes Credit and Finance companies. They are not authorized to establish checking accounts or trade in foreign currency. They are authorized to take in customer deposits and to establish savings accounts. They are also authorized to make collateralized and non-collateralized loans to customers.

**Microfinance Deposit-taking Institutions:** This class includes microfinance institutions which are allowed to take in deposits from customers in the form of savings accounts. Microfinance Deposit-taking Institutions are not authorized to offer checking accounts or to trade in foreign currency.



# Overview of the Financial Sector

- i) **Banking Sector**; Includes Commercial Banks (25), Credit Institutions (3), Microfinance Deposit-taking Institutions (3), Forex Bureau (203) and Money Remitters (58).
- The Supervision and Regulation of banking activity is vested in Bank of Uganda (BOU). BOU conducts on-site examination of all commercial banks using a risk-based supervision methodology and offsite surveillance of these institutions.



# Overview of the Financial Sector – Cont'd

- ii) **Securities Sector**;...where financial instruments for raising capital are traded e.g. Stocks and Bonds.
- The Uganda Securities Exchange (USE) remains the ONE approved Stock exchange in Uganda.
  - Regulated by the Capital Markets Authority



## Overview of the Financial Sector – Cont'd

- iii) **Insurance Sector;** The sector comprises Insurance Companies, Insurance Brokers.
  - The Insurance Regulatory Authority is the supervisory body for this sector.



# Overview of the Financial Sector Cont'd

| Institution                              | Number | Branches | Total Assets<br>(UGX.Million) | USD      |
|--|--------|----------|-------------------------------|----------|
| Commercial Banks                         | 25     | 565      | 19,583,634                    | 6,638.52 |
| Credit Institutions                      | 3      | 55       | 310,939                       | 105.40   |
| Microfinance Deposit-taking Institutions | 3      | 73       | 322,980                       | 109.48   |





# Regulatory Framework

- There are various legislations governing the regulation of the financial sector. The Banking Sector regulated by Bank of Uganda is governed by;
  - ✓ Financial Institutions Act, 2004,
  - ✓ Micro Deposit-taking Institutions Act, 2003
  - ✓ Foreign exchange Act, 2004
  - ✓ Anti-Money Laundering Act, 2013
  - ✓ Implementing Regulations regarding: Licensing, Ownership, Capital Adequacy, Credit Classification, Credit Concentration, Credit Reference, External Auditors, Forex, Insider Lending, Liquidity, Corporate Governance and Consolidated Supervision , Anti-money Laundering.
  - ✓ Guidelines (Risk Management, Consumer Protection.



# Regulatory Framework

- There are relevant legislations in place governing the supervision of various institutions other than those regulated by the Bank of Uganda. e.g the Insurance Act 1996.



# Strengths

- Presence of enabling legal framework which gives the regulatory bodies autonomy in the execution of their mandate and contribute to safe and sound sectors.
- Risk Based Supervision Methodology, which enables efficient allocation of supervisory resources.
- The EAC embraced consolidated Supervision and instituted measures to facilitate exchange of information (MOUs, Supervisory Colleges).



# Weaknesses

- The Banking sector is very dynamic with players innovating new products and services , and yet the regulator may not swiftly adapt to this change.



# Challenges

- Financial Inclusion is low - 62% of Uganda's population has no access mainstream financial services. The number of the population holding accounts in banks is 4 million or 33% of the 12 million who are bankable. The savings to GDP ratio is still low at 16%. In addition, financial intermediation is poor as indicated by the stock of private sector credit of 11.8% of GDP.
- Slow speed of enactment of Legislations governing new banking products and services e.g Islamic Banking, Agency Banking.



# Progress of Islamic Banking

- Uganda is in the process of introducing Islamic Banking.
- Proposals to amend the Banking Legislation were submitted to the relevant approval authorities.
- In the meantime a lot of background work is being undertaken in preparation for the approval of the amendments. i.e. Capacity Building in Islamic Banking.
- Obtained Technical Assistance from the IDB to develop a Supervisory and Regulatory framework for Islamic Banking.



Thank you