ANNUAL DINNER OF THE
CHARTERED INSTITUTE OF BANKERS (GHANA)

ADDRESS BY
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ACCRA MARRIOT HOTEL
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Madam President of the Chartered Institute of Bankers,

President of the Ghana Association of Bankers,

Executive Secretary of Ghana Association of Bankers,

CEOs of Banks,

Colleague Bankers and Banking Students,

Invited Guests,

Members of the Press,

Distinguished Ladies and Gentlemen

1. Good evening. All too soon, a year has passed by and we are once again gathered for this special occasion which brings together all the distinguished professionals in this very unique profession. Thank you for the invitation to this dinner and to address the Institute of Bankers at the end of a week-long of activities marking "Bankers" week. It has now become a tradition for the Governor of the Bank to talk about the developments in the banking and financial sector, the economy and the outlook for the ensuing year, and I will like to continue that tradition tonight. This will be the second time that I am doing so.

2. We thank the Almighty God for seeing us through another year where we have worked together as stakeholders to shape the future of banking in our dear nation. A lot has been achieved and a lot more remains to be done to position the banking sector as the catalyst for the accelerated socio-economic growth that all Ghanaians desire.

3. Let me take the opportunity to welcome new members of our fraternity. In particular, I welcome Consolidated Bank Ghana Limited, and all new or incoming Managing Directors, Executive and non-Executive Directors, and senior management. We say *Akwaaba* and we look forward to you playing your part as we together build this industry for future generations. To the outgoing executves or officers, I say *Ayeekoo* for your contributions to the industry and we wish you well in your future endeavours.

4. Madam President, our industry is one of the key pillars essential to the realization of the high aspirations for development of the Ghanaian people. The sustainability of the banking industry is critical to the vision. As such, all stakeholders must work to ensure that banks operate within an enabling environment that supports them to carry out their financial intermediation function.

5. Madam President, a year ago when I first addressed this gathering, we were faced with many challenges in the financial sector and had begun a process of introducing reforms that would be needed to build resilience. The reforms aimed at strengthening the sector to become strong, solid, well capitalised, and better positioned to support a fast growing

economy. Madam President, as expected, these reforms continued into 2018, as we sought to also overhaul the entire supervisory framework.

6. Madam President, the financial systems stability remains central to the development agenda of the country. Historically, central banks used the lender of last resort function as the principal tool to ensure stability. Today financial stability goes beyond the lender of last resort function. Indeed financial stability and monetary policy are complementary as without financial stability, monetary policy impulses to the economy cannot be transmitted to the real economy. In Ghana, the central bank is mandated under its laws; the Bank of Ghana Act, 2002 (Act 612) as amended by Act 918 of 2016, and the Banks and Specialised Deposit-taking Institutions (BSDI) Act, 2016 (Act 930) to ensure a safe and sound financial sector.

7. Madam President, we inherited a financial system which was under a considerable state of distress, with banks that were not meeting capital adequacy requirement, banks that had suffered capital erosion with high non-performing loans which had led to a weak transmission of monetary policy to the real economy. Some of these banks were insolvent and illiquid, others were solvent but illiquid. Our predecessors continued to provide liquidity support to these weak failing banks, without addressing the underlying problems that led to the illiquidity and insolvency of these institutions. In short, the financial system had reached a tipping point and we could not just have assumed business as usual. The cleaning up objective was to ensure the orderly exit of insolvent banks from the industry with the view that any bank licensed and regulated by the Bank of Ghana is guaranteed to access your deposits when you need them and not to victimize wholly owned Ghanaian entities as our detractors sought to impugn. The reforms were also aimed at addressing the legacy problems in the banking sector such as the poor corporate governance, false financial reporting, and insider dealings, and other practices that left some banks insolvent.

8. Madam President, we took decisive actions underpinned by a strengthened legal framework under the Bank of Ghana Act, 2002 (Act 612) as amended by Act 918 of 2016, and the Banks and Specialised Deposit-taking Institutions (BSDI) Act, 2016 (Act 930). We closed a total of seven insolvent banks, and protected depositors' claims by the government to ensure that the rest of the banking sector did not suffer contagion.

9. There is no doubt that the failure of the seven banks came at a cost to the Ghanaian taxpayer, staff of the affected banks, and to an extent, shaked confidence in the financial sector. However, the decisions we took as a regulator protected the deposits of more than 1.5 million customers with deposit values of over GH¢10 billion. Additionally, the orderly intervention and revocation of these licences and the purchase and assumption transactions that ensued minimized the potential adverse impacts by ensuring that about 70 percent of the 5,000 jobs in the affected banks were saved. This would be contrasted to what could have been the imploding of these banks and the contagion that could have resulted.

10. Madam President, lessons learnt so far from the resolution experiences within the past two years have helped shape the reforms that are being introduced in the sector. What has become very clear is the need for more regulatory and supervisory vigilance to properly safeguard the new banking system after the reforms.

11. Madam President, one key lesson learnt was the level of related-party transactions that have become so endemic in the banks that were resolved. This has informed our decision to operationalize, in 2019, the **directive on financial holding companies** which seeks to facilitate effective consolidated supervision of regulated financial institutions and ensure that holding companies and affiliates of banks and SDIs do not take advantage of banks and SDIs within such groups at the expense of depositors and other creditors. In addition, the government has indicated that it will set up a high-level financial stability council with a key objective of bringing together all financial sector regulatory bodies and the Ministry of Finance to work together to minimize, if not eliminate, regulatory arbitrage and other sector-wide risks.

12. Another key lesson was the weaknesses in the corporate governance structures in some banks. Earlier this year, we issued the **corporate governance directive** to address the fundamental flaws observed in the governance process drawing on international corporate governance principles developed by the Basel Committee on Banking Supervision. We have received feedback several comments from some of you on the draft Transitional Provisions for implementation of the directive. We will finalise these provisions and public a final version by the end of 2018.

13. We have also introduced the **Fit and Proper Person's Directive** which aims to reinforce provisions in the corporate governance directive, especially in respect of whether a person is fit to be a director, a significant shareholder, or a key management personnel in a regulated institution. Our initial assessment shows that these directives are already shaping the corporate governance structures within the banking industry as we continue to ensure full compliance.

14. The industry's effort at reducing the high levels of non-performing loans is gradually taking shape, partly due to compliance with the loan write-off directive. We expect further improvements in asset quality with the appropriate disclosures of loan write-offs in banks' year-end published financial statements. The draft Credit Reporting Regulations and the draft Borrowers and Lenders Bill are in their final stages. When completed and passed by Parliament, these pieces of legislation should help improve the credit underwriting process and facilitate enforcement of loan and collateral agreements by banks and other regulated institutions.

15. Madam President, banks have adopted and are implementing the global credit risk management and financial reporting standards. Currently, the quarterly financial publications of banks are reported in line with IFRS 9, using the expected credit loss standard. This is improving on credit risk management frameworks and enabling banks effectively measure risks embedded in their credit portfolio. The full impact and benefits of this new standard in our credit administration process is expected to materialise in the coming year.

16. To improve on the compliance and risk governance within the banking sector, the Bank of Ghana during the year issued the final **Capital Requirement Directive for compliance** which will become effective in January 2019, coinciding with the completion of the increased minimum capital requirement for the industry. Banks are currently in the parallel-run phase which ends in December 2018. The Banking Supervision Department is working with the industry to ensure that all the challenges faced by banks are resolved for a smooth transition to the full implementation of the Basel II/III pillar 1 capital measurement (capital adequacy).

17. Madam President, the fight against financial crime in our industry and the entire financial system received a major boost this year when the central bank in collaboration with other sector agencies of Government, launched the **Cyber and Information Security Directive (CISD),** and also opened the Bank's Security Operations Centre (SOC), during the National Cyber Security Awareness Month celebrations in October. Among others, the CISD provides a framework for establishing cyber and information security protocols, establishment of reporting mechanisms and physical security measures for IT Data centres and control rooms, and assurance of data and network security. The directive contains an implementation schedule for banks and other regulated institutions to follow, which is currently being monitored by the Bank.

18. In addition, there is a **guide to Enhanced Competency Framework (ECF)** towards the building of cyber security competencies for industry players and I will encourage you to implement this framework as we work towards having effective cyber security controls in place to counter cyber and financial crime.

19. Madam President, the Bank of Ghana has provided the needed resources for the take-off of the **Ghana Deposit Protection Corporation (GDPC)**. Under the Ghana Deposit Protection Act, 2016 (Act 931), as amended, the Ghana Deposit Protection Scheme will be operational in or before September 2019. Banks and SDIs will be onboarded and will start contributions to the scheme by September 2019. During the year, the GDPC actively engaged various stakeholders to create public awareness of their operations and the expected role of banks, SDIs and the microfinance institutions to be enrolled in the scheme. The GDPC would continue to engage the industry and the general public to ensure smooth take-off in September 2019.

20. Madam President, as you will recall, about a year ago, we announced an increase in the minimum capital requirement for all universal banks to GHC400 million by end December 2018. A few people have wondered why the increase, but we all know that the more capital a bank has the safer it is. Bank owners want to have less capital and instead borrow more in what is called leverage to earn a greater return on their investments and using less of their own money. The most a bank owner loses in the case of a bank run is their capital but the wider public loses a lot more. It is therefore important we set the capital level in the banking sector to minimize the cost to society of a bank failing while ensuring the banking system also remains profitable. It remains our view that this new capital floor will help make banks stronger and resilient and position them to better support the Ghanaian economy. With a few days to end the year, the Bank of Ghana has been reviewing the capital build-up plans of banks, providing guidance to banks opting for mergers and acquisitions and voluntary liquidations through the issuance of the Mergers and Acquisition Directive and the Directive on Voluntary Winding-up respectively. I am happy to inform you that significant progress has been made in this area and as at November 2018, we can confidently say that about twenty-two (22) banks have either met or in good standing to achieve full compliance with the new minimum capital requirement. We have therefore intensified monitoring of the process as we bring closure to the recapitalisation process on December 31, 2018.

21. Recent developments in the banking sector reflect gains from the on-going reforms in the sector, which are expected to further increase after the recapitalization process is completed in December 2018. In addition to making profits, banks now have more assets with capital adequacy ratios well above required regulatory levels. It is therefore not surprising that the improving banking sector stability partly accounted for Standard and Poor's recent upgrade of Ghana's long-term rating to 'B' from 'B-' with stable outlook.

22. Ladies and gentlemen, while acknowledging that some critical issues remain to be addressed; our economy has witnessed a significant turnaround in the macro indicators. The restoration of macroeconomic stability should provide some basis for improved financial intermediation to boost economic activities in the near-term.

23. The stable macroeconomic environments occurred on the back of strong fiscal consolidation and prudent monetary policy providing an anchor to the disinflation process. In particular, improvements in interest rates are beginning to impact positively on availability of credit to households and the private sector to support growth.

24. In the course of the year, we experienced some headwinds from external sources on the domestic foreign exchange market, similar to many emerging markets. In particular, the shift to monetary policy normalisation in the U.S. led to rising yields and portfolio reversals especially in emerging markets, which triggered volatility in most currency markets. To a large extent, these pressures have moderated and the local currency has been relatively stable. The BoG will continue to carefully monitor the external environment and other related factors with the goal of ensuring stability in the currency.

25. The gains achieved in macroeconomic stability, together with implementation of other policy initiatives, will provide some impetus to economic growth. Banks, therefore, must position themselves to scale up their support for private sector-led growth.

What Next for the Banking Industry after Recapitalisation?

26. Madam President, as we take stock of what has become a very engaging past 18 months, allow me to share some perspectives on how we see developments in the banking sector in the coming year:

27. Even though we have made significant strides and seen improvements in the soundness and stability of the banking sector, there is still scope for improvement, especially from the financial sector stability and banking supervision perspectives. Our collective responsibility is to ensure efficient financial intermediation in the economy as we continue to provide assurances to the general public to address some of the confidence issues that arose during the clean-up. We should collectively work hard to regain the confidence of the general public through the introduction of prudent policies, regulations and procedures to ensure irreversibility of reforms introduced.

28. To this end, the Bank of Ghana will:

- Enforce strict compliance with all Directives, including the Capital Requirement Directive (Pillar 1) of the Basel II Accord and the IFRS 9 reporting standard;
- Finalise implementation of Pillar II of the Basel II Accord;

- Fully implement consolidated supervision alongside revisions to the Bank's Risk-Based Supervision Framework,
- Enhance cooperation with other financial sector regulators and relevant foreign regulators;
- Ensure that banks develop, adopt, and implement plans to scale up financial inclusion and sustainable banking efforts to support the achievement of the Sustainable Development Goals, deploying emerging technologies on the back of the new interoperability framework.

29. Underlying the regulatory agenda for 2019 is an approach that ensures that :

- Shareholders of banks and specialised deposit-taking financial institutions exercise control over these institutions not for the benefit of shareholders and related and connected parties, but primarily in the interest of depositors, creditors, employees, and other stakeholders;
- Boards are composed of persons that are capable of exercising the strong and independent oversight they are expected to ensure that the interests of all relevant stakeholders are protected;
- Risk management is integrated in the strategic focus of governance and management of these institutions;

- Compliance with regulatory requirements and ethical standards are embedded in overall risk management;
- Our supervisory systems, processes, and teams are better able to identify early warning signs, enforce regulatory requirements and ensure that prompt corrective action is taken by banks to recover quickly from any signs of distress.

30. Madam President, while the recovery in the banking sector is on-going, pockets of distressed institutions in the Specialised Deposit-taking Institutions segment of the financial sector are emerging. These also require full attention, if the public is to regain trust in the whole financial setup. The Bank is monitoring these developments and working closely with the Ministry of Finance on a plan to resolve the issues with a view to restore trust and confidence in the entire financial system.

31. Madam President, in concluding, let me reiterate that we have a collective responsibility as bankers to ensure high ethical and professional standards in the industry. And, the public is counting on us to perform this role diligently to restore trust and confidence. It is my expectation that 2019 will bring good tidings to our industry, with fewer challenges as we continue to build a robust and resilient banking industry.

32. Ladies and Gentlemen, thank you all for the attention and I wish you compliments of the season. Enjoy the rest of the evening.