

Overview of Uganda's Banking Industry

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East Africa

"Doing Business in Uganda, A Banking perspective"



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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 in Uganda– 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 noncollateralized 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 in Uganda – Cont'd



- i) Banking Sector; Includes Commercial Banks (26), Credit Institutions (4), 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.
- 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 in Uganda –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 in Uganda- Cont'd

Institution	Number	Branches	Total Assets (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



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.**

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).

Uganda financial sector Weaknesses and Challenges



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. Financial Inclusion is low - 62% of Uganda's population has no access

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 about 7 million or 38% of the 18 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.
- Covid 19 pandemic since march 2021.

Progress of Islamic banking in Uganda



- 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.



Banking Industry Perspective in Uganda



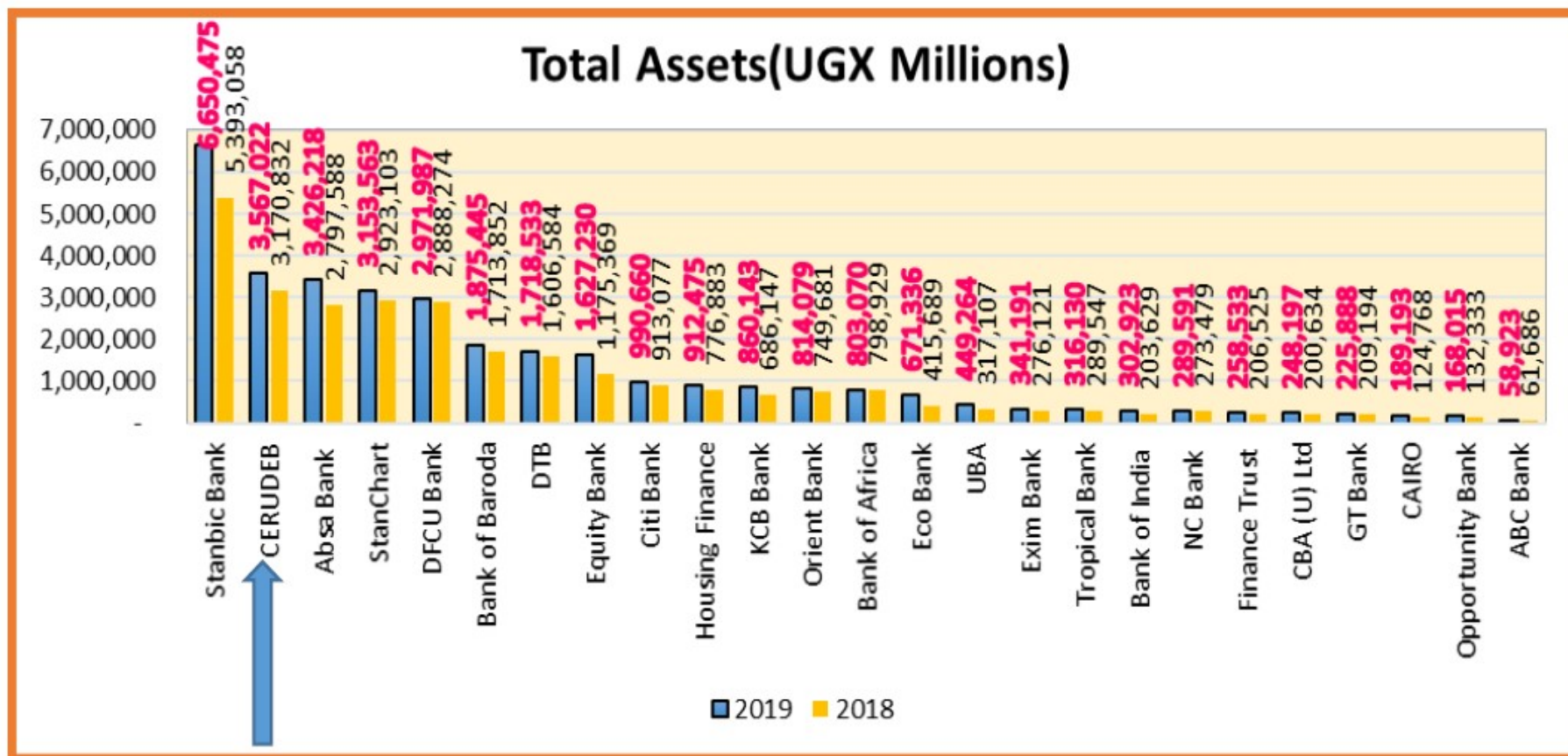
Commercial Banks in Uganda

- Currently there is 26 Banks in Uganda are supervised by Bank of Uganda, the central bank of the country. It is a government-owned bank that was established in 1966. Aside from governing the banks in Uganda, it promotes price stability and fosters a sound financial system. It is also responsible for promoting macroeconomic stability.
- Commercial banks closed the year 2019 with an average industry prime lending rate of 20.87%. Bank of Uganda began 2019 with a CBR at 10% and closed the year with 9%. As at the end of April 2020, CBR stood at 8% after Bank of Uganda's intervention to contain private sector credit disrupted by COVID-19.
- With the promotion of Opportunity bank from a tier 2 institution to a commercial bank and licensing of Afriland First Bank, a Cameroun based bank, the number of Commercial banks rose to 26 from 24.

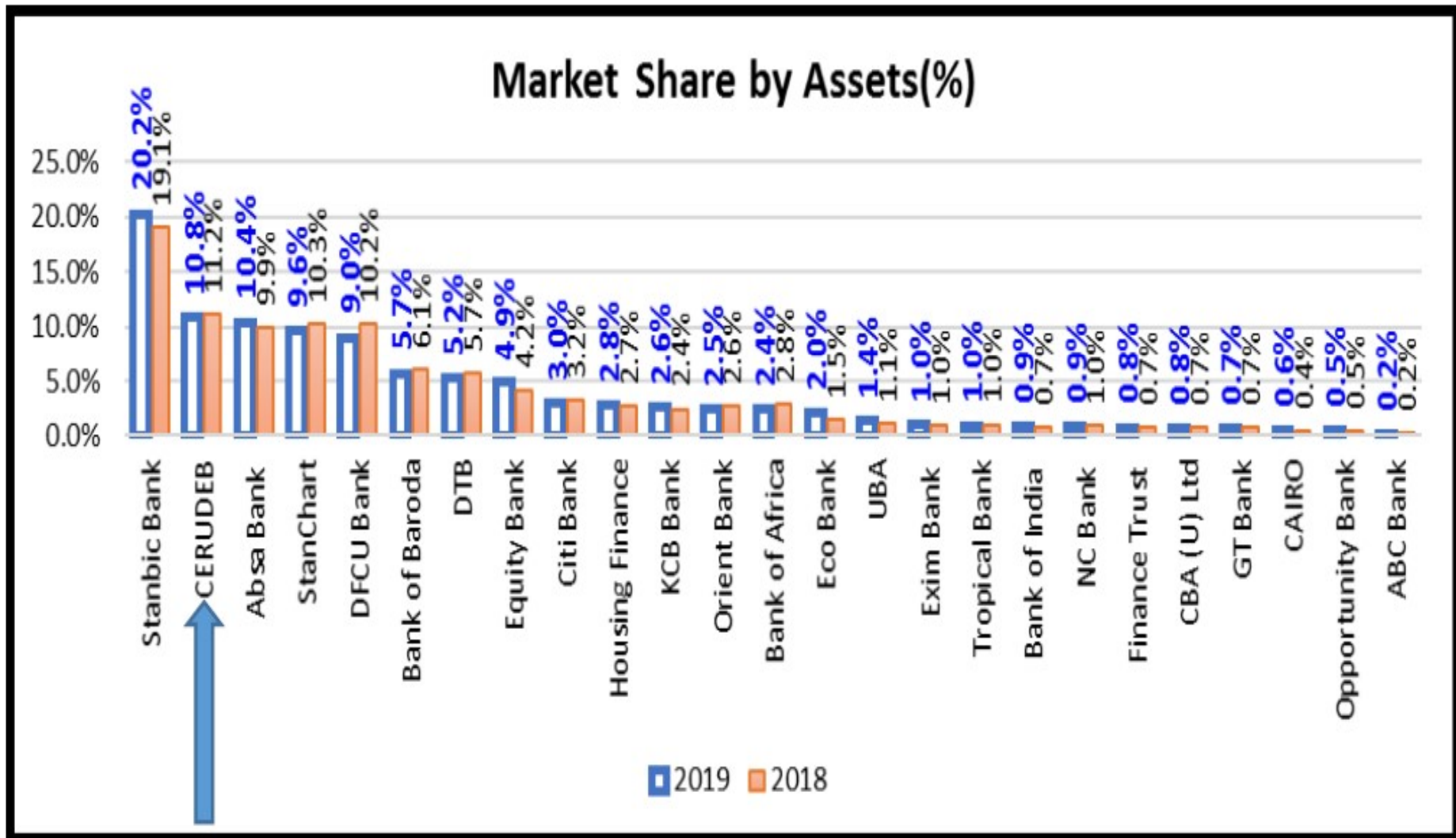
Banking industry in Uganda – Total Assets Performance 2019



TOTAL ASSETS PERFORMANCE Total industry asset base increased by 16.2% from 28.3Trillion in 2018 to Ugx 32.89Trillion 2019-this was the highest increment since 2015.



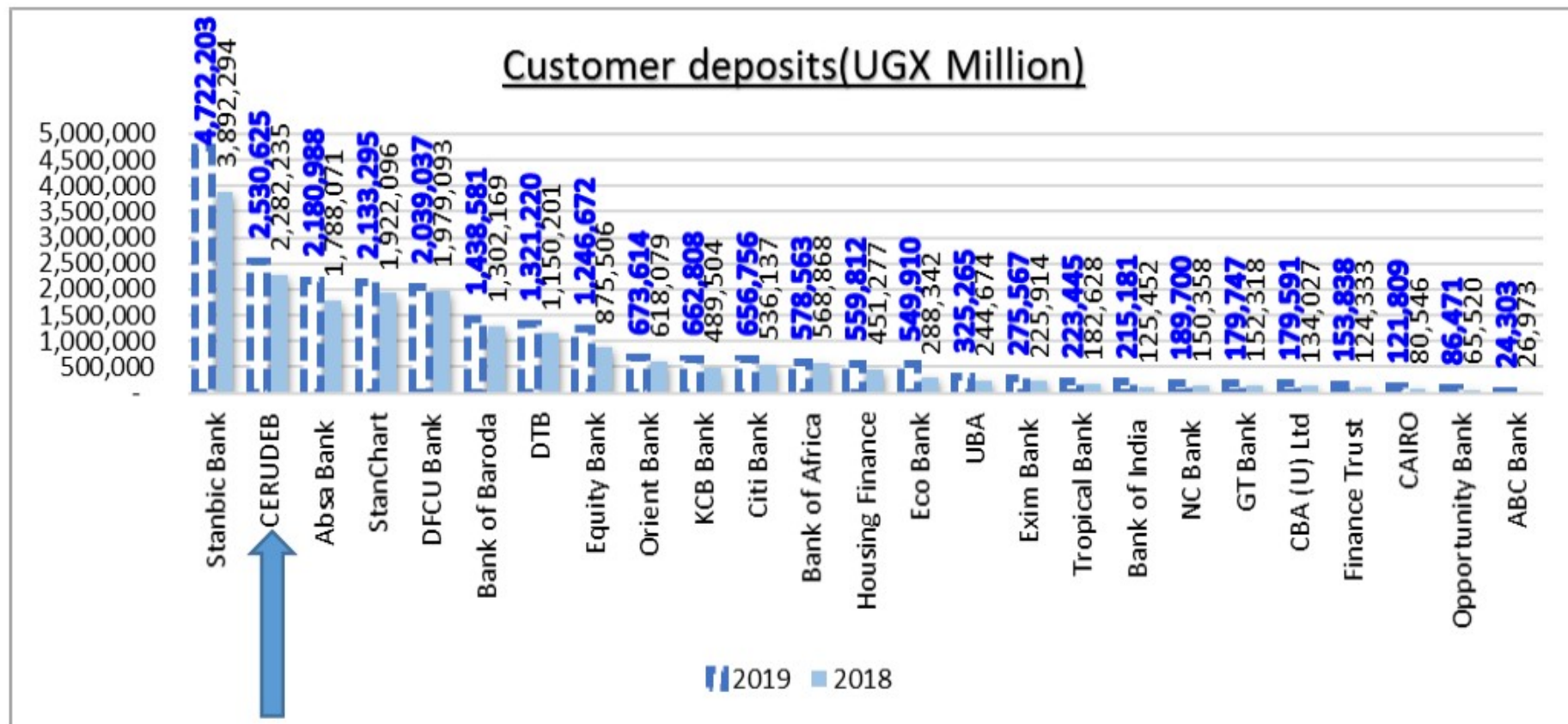
Banking Industry in Uganda – Assets market Share 2019



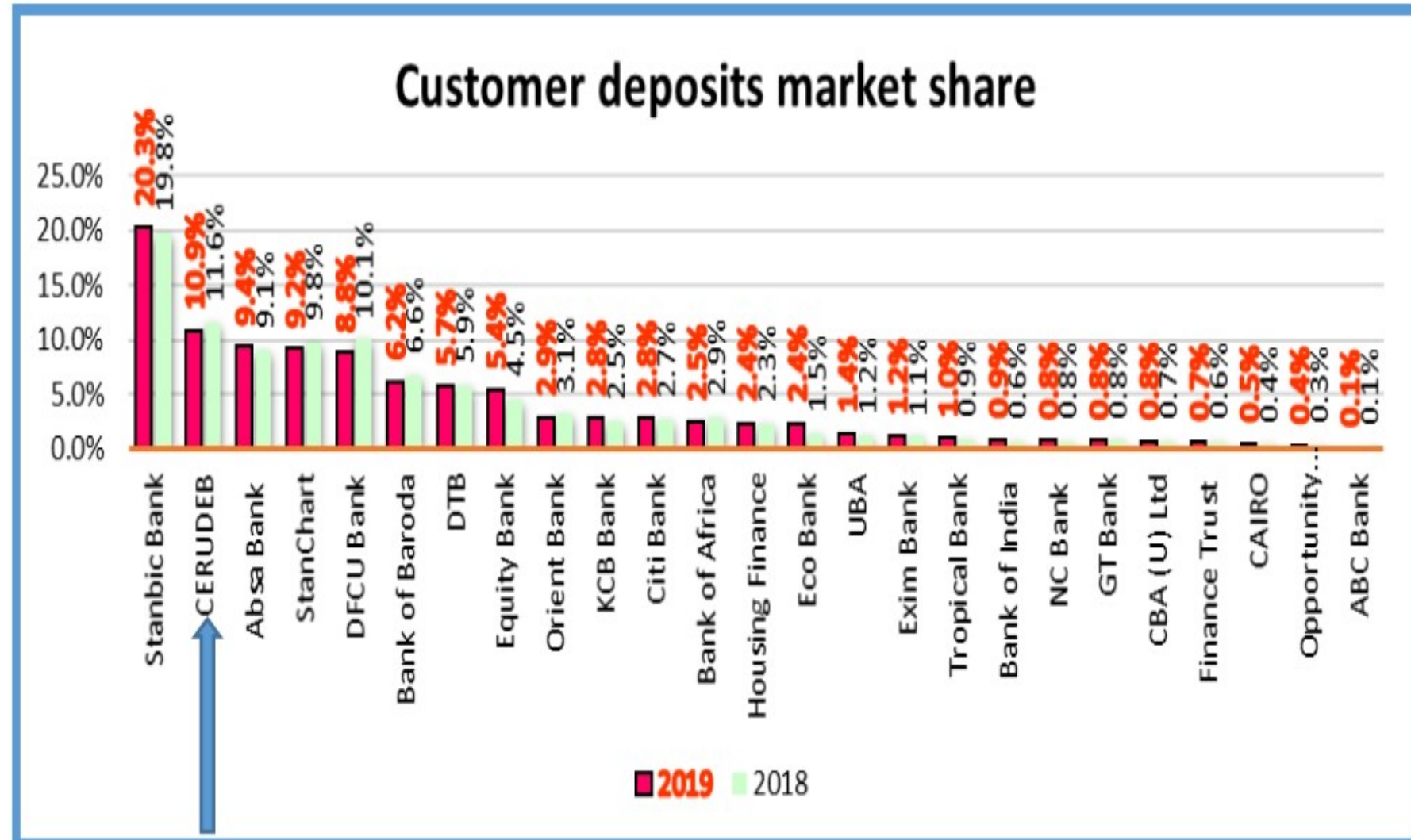
Banking Industry in Uganda – Customer Deposits 2019



Total customer deposits in the commercial banking sector increased by 18% from Ugx19.7Trillion in 2018 to Ugx23.3Trillion in 2019. This represented a 10% improvement from the year 2017/2018 deposit growth increase.



Banking Industry In Uganda -Deposit market Share 2019



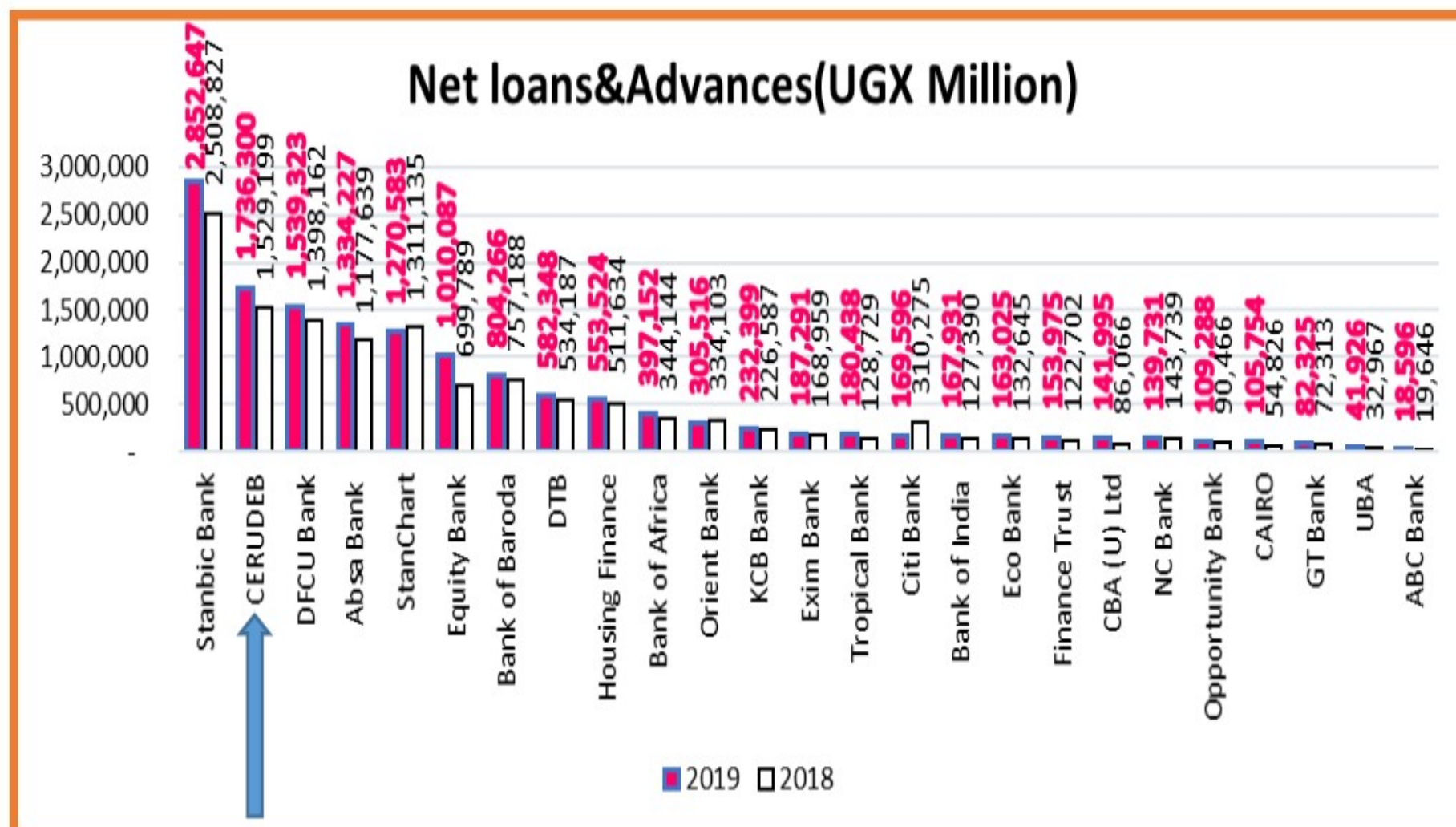
Banking Industry in Uganda - Net Loans and Advances 2019



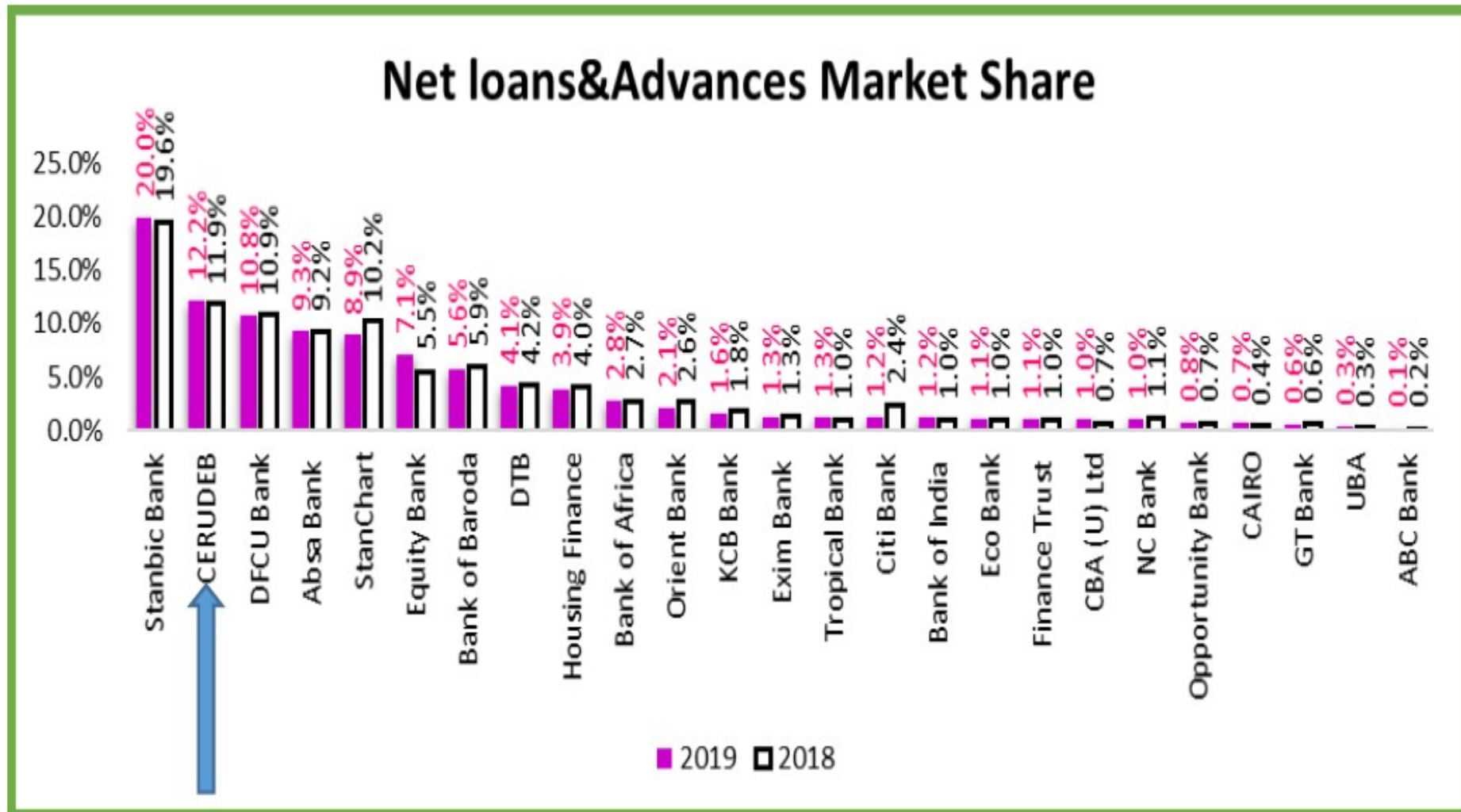
- Total Net loans and Advances in the industry registered a 11.4% increase to Ugx 14.28Trillion from Ugx12.8Trillion in 2018.
- This increase was lower than the 12% increase registered in 2017/2018. Despite a favorable CBR at 10% and PLR averaging 20.74% for the most part of the year, they did not have the most desired effect on private sector credit to spur unprecedented growth in Net loans& advances The top three banks maintained their positions from 2018.



Banking Industry in Uganda – Net Loans & Advances 2019



Banking Industry in Uganda – Net Loans & Advances market Share 2019



Banking Industry In Uganda - Profit 2019

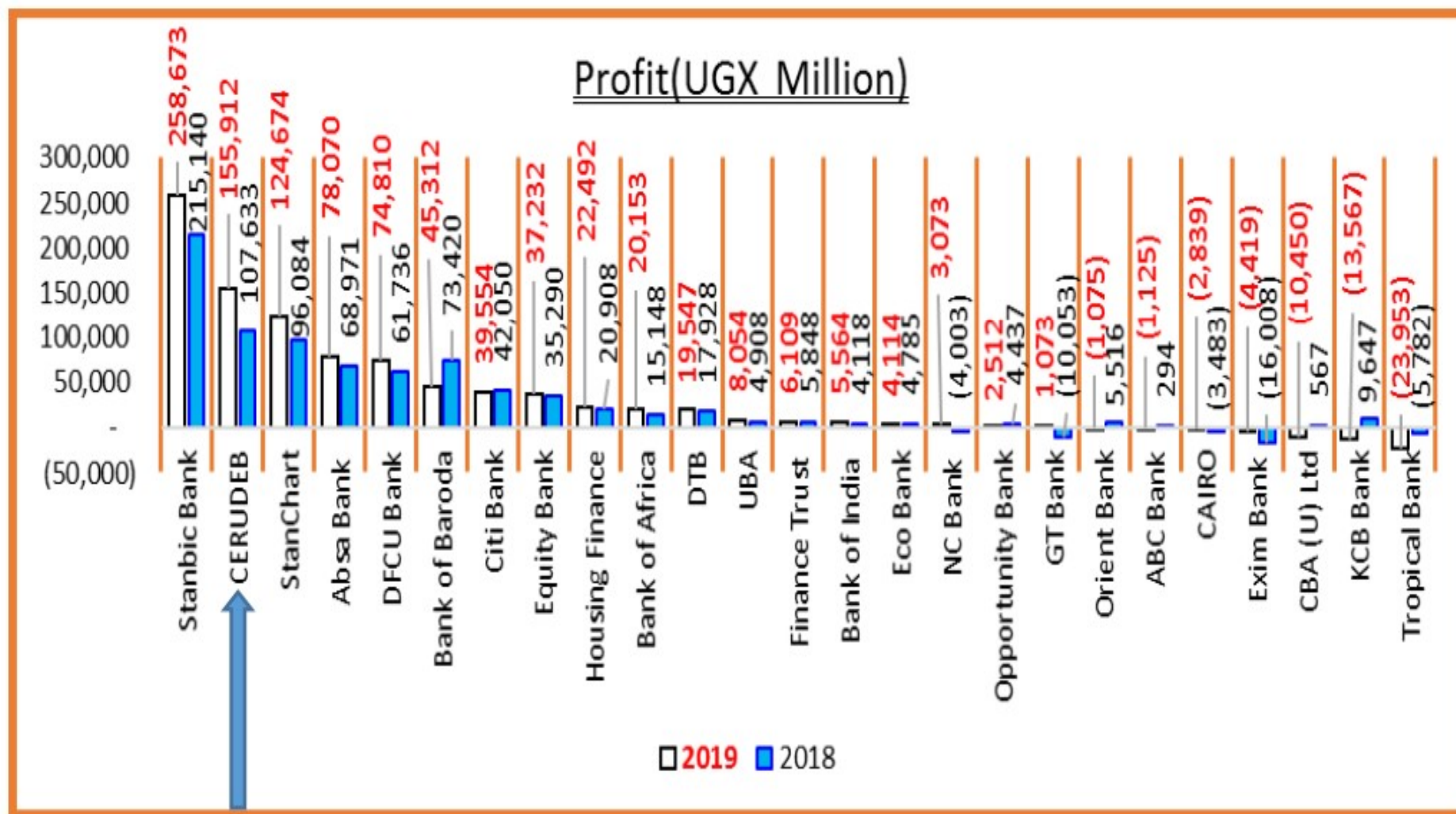


Having registered a drop-in profitability by 2.5% in 2018, the banking sector resuscitated and made a 12.2% increment from Ugx 750.2Bn in 2018 to Ugx 841.5Bn in 2019.

Despite this overall improvement in total profitability, the number of profit-making banks reduced from 19 in 2018 to 18 in 2019. This speaks into the fact that profits are shared by a few banks in the sector and the unpredictable of the banking sector. To put this into context, in 2016, there were 20 profitable banks compared to 18 in 2017 and 19 in 2018.



Banking Industry in Uganda – Profit 2019



Banking Industry in Uganda – Net Profit market Share 2019

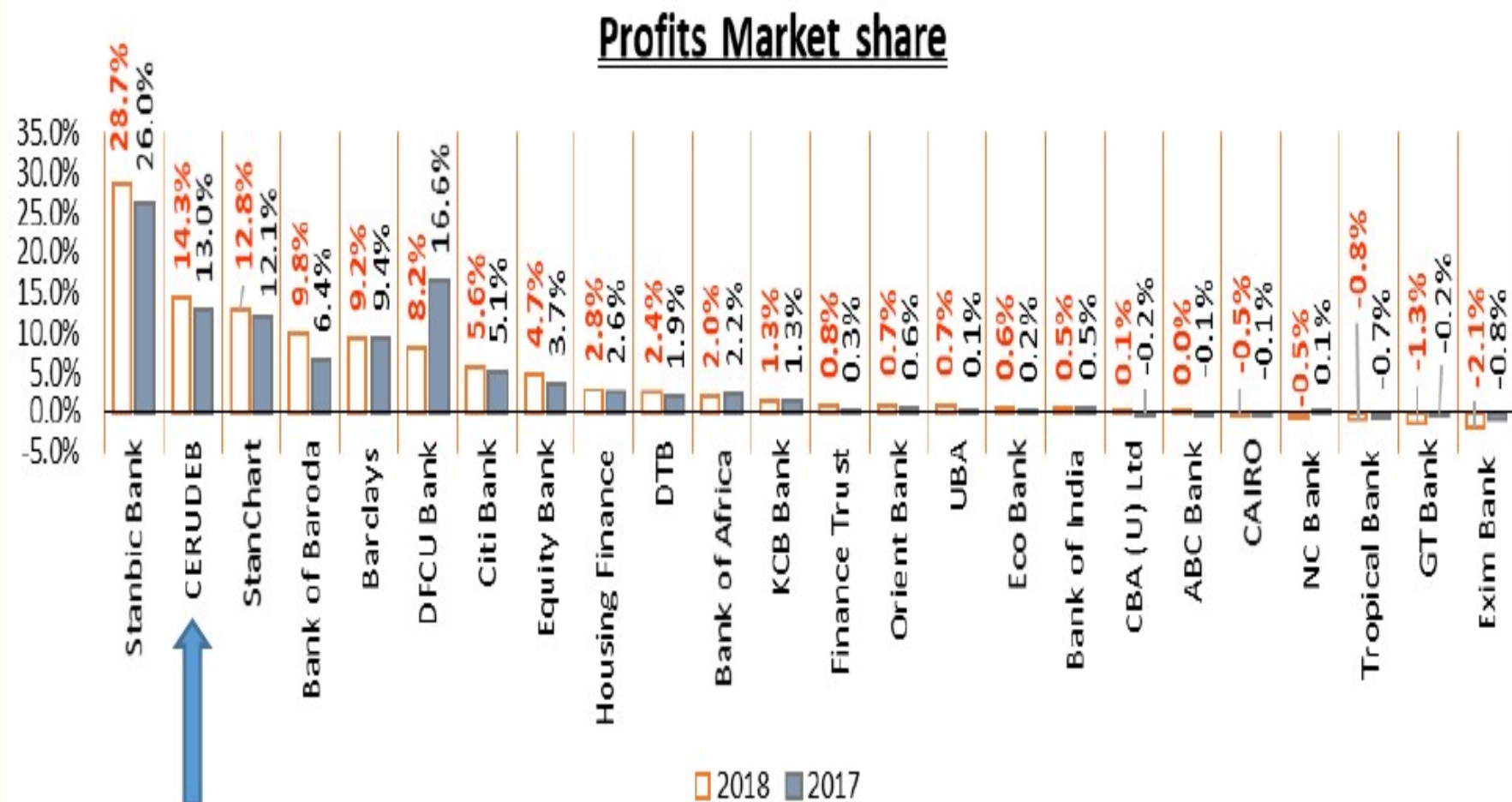


Loss Making Banks With the increase in the number of banks in the sector to 25, loss making banks also increased to seven(7) from five(5) in 2018. For the second year running, the total industry loss increased, and this time by 46% from 39.3Bn to 57.4Bn.

Net profit Market Share The top five most profitable banks (Stanbic, Centenary, StanChart, Baroda and Barclays) controlled 81% of the total market share as compared to the 74% they did in 2018 and far better from the 67% they controlled in 2017.



Banking Industry in Uganda – Profit Market Share 2019



Banking Industry in Uganda – Digitalization amidst Covid 19 pandemic



- Uganda's economy has experienced a slowdown in growth due to the severe impact of the COVID-19 (coronavirus) pandemic crisis, a locust invasion and flooding caused by heavy rains. Uganda's real gross domestic product (GDP) in 2020 is projected to be between 0.4 and 1.7% compared to 5.6% in 2019.
- Exports, tourism, remittances, foreign direct investment and portfolio flows shrunk during the second half of FY20 due to international trade disruptions and restrictions of movement of people. This has created significant fiscal and external imbalance, and a deceleration in growth in services, primarily in real estate activities and information and communications technology.

Banking Industry in Uganda – Digitalization amidst Covid 19 pandemic



- The COVID-19 pandemic effects notwithstanding, the bank needs to reach its customers digitally at any one time so that effects on new pandemics if any cannot overly affect them. This therefore calls for automation of processes, digital marketing strategies and efficiency in execution of tasks.
- With the continued emergence of FinTech companies and telecom companies now tapping into the banking market, the banks are investing more into driving digital innovations to fully digitize and offset any threats emerging from the FinTech competition.
- As growth of Non-funded Income continues to be a key aspect of the industry strategy and with credit income likely to be impacted by COVID-19, focus is on key areas like forex trading in tandem with digital channels like Mobile Banking and card payment solutions.

Banking Industry in Uganda – Digitalization amidst Covid

19



- Continuous monitoring of loan quality, loan restructuring, to reduce non-performing loans, has been enhanced to preserve the industry profitability with the anticipated low customer interaction due to COVID19.





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Thank You!