



**9TH ANNUAL GENERAL MEETING OF GHANA ASSOCIATION OF SAVINGS
AND LOANS COMPANIES**

ADDRESS BY
MRS. ELSIE ADDO AWAZDI
SECOND DEPUTY GOVERNOR
BANK OF GHANA

THE COCONUT GROOVE REGENCY HOTEL, RIDGE, ACCRA
JUNE 20, 2019



Mr. Chairman,

Executives of the Ghana Association of Savings and Loans Companies (GHASALC),

CEOs/Managing Directors of Member Institutions, and other financial institutions,

Executives of other industry associations,

Invited Guests,

Distinguished Ladies and Gentlemen,

- 1.** Good Morning and thank you for the opportunity to join you at this 9th Annual General Meeting of the GHASALC. Almost a decade after its establishment, this Association has become a recognised voice for its member institutions, and we at the Bank of Ghana always welcome the opportunity to dialogue with GHASALC and its membership.
- 2.** The chosen theme “Business Sustainability: A Shared responsibility” could not be more appropriate in the times we are in. Sustainability of businesses is critical, if we are going to achieve the socio-economic growth we need to move this country forward. Savings and loans companies, like other deposit-taking institutions, exist to intermediate savings in order that businesses and other economic actors can obtain access to much-needed funds to meet their legitimate needs. Savings and loans companies are therefore a major enabler



of sustainable businesses and must understand how this role, if well played, can provide a boost for overall socio-economic growth and development. What is more, I need not remind you that savings and loans companies are themselves businesses and must therefore be sustainable in order to be able to support their customers and the entire economy. As a nation, the future of our economy and the wellbeing of our people depends to a large extent on the safety and soundness of individual financial institutions, and by extension, the sustainability of the whole sector. It is therefore imperative that we stakeholders work together towards building strong and sustainable financial institutions for our common good as a people.

- 3.** We have unfortunately seen the recent demise of a number of banks and microfinance institutions, owing to weak capitalisation, unsustainable business models, poor corporate governance, poor compliance with regulatory requirements, default on contractual obligations, among others, that ultimately led to their insolvency and eventual collapse. Let me be clear that businesses fail for all kinds of reasons, but the weaknesses I have outlined above undoubtedly leave any business vulnerable and unable to withstand shocks, making collapse inevitable. Indeed, several corporate failures around the world have been associated with weak compliance. Examples of failed businesses, such as the Medici Bank that collapsed in Italy in 1494, the failure of over a thousand savings and loans companies in the United States in the 1980s and 1990s, the failure of the Bank of Credit and Commerce International



in 1991, Barings Bank in 1995, and more recent banking failures in the U.S, the EU, and Nigeria, were all associated with poor corporate governance and a culture of weak regulatory compliance. For financial institutions especially, trust and confidence are critical and once lost, business sustainability becomes difficult. As the saying goes, trust comes on foot but bolts on horseback.

- 4.** The focus of this AGM on building sustainable businesses, is therefore timely. Now is a good time to assess the current state of the Savings and Loans (S & L) subsector, with the view to building sustainable business models to the benefit of all stakeholders and the broader economy.
- 5.** Ladies and Gentlemen, as I said earlier, financial intermediation is central to economic growth and poverty alleviation. This intermediation role is played by both the banking sector and other savings and deposit taking institutions in the economy. Within our financial sector, S & L companies and other lower-tier financial services companies are expected to provide financial access to the rather large informal sector which is mostly characterized by the unbanked and underserved population. Financial access to this segment of the society not only helps in improving livelihoods, but also contributes positively to the sustainable development of the country.
- 6.** Within the Ghanaian context, therefore, the potential role of S&Ls in financial intermediation cannot be overemphasized. It is however important to note that intermediation thrives on trust and confidence in the financial system. The security of funds entrusted to all financial institutions demands that they



are governed and managed in a sound and prudent manner to preserve the confidence of depositors and investors. This also implies that all deposit taking institutions must adhere to good corporate governance practices and build strong risk management systems to safeguard the stability of the financial sector.

- 7.** Mr. Chairman, Ghana's Savings and Loans sub-sector is made up of some 39 companies as at the end of March 2019, and dominates the Specialised Deposit-Taking Institutions (SDI) sector, accounting for 44.6 percent of total SDI assets. In March 2019, total assets of the sector increased to GH¢7,977.63 million, up from GH¢6,548.63 million a year earlier.
- 8.** Mr. Chairman, despite the growth in total assets, some S & L companies continue to be faced with poor asset quality, solvency and liquidity challenges. Indeed, as regulators, we have observed some worrying trends which require the attention of all stakeholders. In addition to liquidity and solvency issues, several financial soundness indicators of the industry have adversely deviated from accepted statutory and prudential benchmarks. These outcomes are primarily due to the business models adopted by some (not all) S&Ls, by essentially attracting term-deposit funding at unsustainably-high costs and deploying such funding into risky assets without adequate risk management systems to manage and monitor the inherent risk exposures. Poor credit underwriting practices, poor loan recoveries, insider dealings and related party transactions, weak governance and concentration in ownership structures



among others, have all contributed to the capital illiquidity and solvency challenges in the S&L sector.

- 9.** What is more, some institutions within the S&L sub-sector shifted from financing the lower-tier retail end of the market towards financing the wholesale end, or simply placing funds with other S&Ls. These practices have increased concentration risks in the sector, which impact negatively on financial stability.
- 10.** Given these challenges in the sector, I must commend the GHASALC for spearheading efforts to re-evaluate and realign the business models of its member institutions, at this Annual General Meeting. This will help improve to reposition the sector and regain the trust and confidence of the public.
- 11.** I urge the Executives of this Association to continue to lead the process of reengineering this sector, and in so doing, to help to refocus the business models of its members towards realigning themselves with the policy objective of financial inclusion for which savings and loans licences were issued. I would also urge you to collectively work towards finding the balance between profit-making and protection of depositor funds, underpinned by strong corporate governance, prudent business practices, and high ethical standards. Investments in appropriate technology and good human resources are also critical to helping the sector reposition itself to drive financial inclusion, improve efficiency and lower transaction costs for S&Ls and their customers.



- 12.** Ladies and Gentlemen, it is only such steps are taken that we can expect to see a sustainable savings and loans sector, as well as a sustainable private sector supported poised to be the engine of Ghana's socio-economic growth and development.
- 13.** Distinguished Ladies and Gentlemen, making the Savings and Loans sector sustainable is indeed a shared responsibility and we must all work to improve the sector's performance within Ghana's financial structure. As your regulator, the Bank of Ghana remains committed to ensuring that S & L companies are safe and sound, and that together the sector as a whole is resilient and does not pose risks for the wider financial system. We count on the support of the Association as we take steps in this direction and we will continue to dialogue with the Association to explore how this sector is repositioned going forward.
- 14.** On this note, let me thank you all once again for the invitation and wish you fruitful deliberations at the Annual General Meeting.
- 15.** Thank you for your kind attention.