2020 EDITION OF GIMPA'S BIENNIAL LAW CONFERENCE SERIES

Theme: "The Banking and Financial Sector Crisis in Ghana: Towards Sustainable Reforms"

KEYNOTE ADDRESS

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VIRTUAL CONFERENCE

The Rector of GIMPA,

Members of the Ghana Institute of Management and Public Administration,

Members of the Banking Fraternity,

Distinguished Guests,

Ladies and Gentlemen

1. A very good morning to you all. I wish to thank GIMPA for inviting me to deliver the keynote address for the 2020 edition of the Biennial GIMPA Law Conference, through this virtual means which has now become the new normal. The chosen theme, that is, "The Banking and Financial Sector Crisis in Ghana: Towards Sustainable reforms" is most appropriate given the recent developments in the Ghanaian financial sector and the reforms introduced over the last three years. The financial sector has become even more important given the outbreak of the COVID-19 pandemic and the unprecedented negative impact on our economy, on jobs and well-being, and the challenges of having to cope with the economic uncertainty that has engulfed the global economy. Banks and SDIs are at the forefront of implementing the policy measures taken to counter the economic impact of the COVID.

2. Three years ago, the Bank of Ghana embarked on a comprehensive reform process to clean up the banking and the SDIs sectors of our economy. These reforms were predicated on the findings of Banking sector Asset Quality Reviews carried out in 2015 and updated in 2016 which revealed that several banks in Ghana were severely undercapitalized and insolvent. The Bank of Ghana set an agenda to resolve the insolvent institutions to prevent spillovers to other institutions, work with the undercapitalized institutions to recapitalize to required thresholds and strengthen the regulatory and supervisory frameworks guiding the banking sector.

3. The reform exercise covered the resolution of four hundred and twenty (420) weak institutions made up of insolvent banks and SDIs. These included nine (9) banks, fifteen (15) savings and loans companies, eight (8) finance houses, three-hundred and forty-seven (347) microfinance institutions, thirty-nine (39) microcredit institutions, one (1) leasing company, and one (1) remittance company. The revocation of these 420 licences was necessary to clean the financial sector and reduce contagion risks while creating an environment for stronger and well-run institutions to thrive and play their expected intermediary role of supporting the economy.

4. Mr Chairman, these resolved institutions had several deficiencies. Some of them were set up overnight with little or no capital and by persons with questionable backgrounds with little or no experience in running banks. A common thread was that they were all managed or controlled by shareholders with complete disregard for prudential norms and best practices in corporate governance. It was clear that they were set up to get access to depositors' funds to finance other businesses of shareholders or other related or connected companies. In the process, oligarchies were formed involving various groups of companies under the control of common shareholding aided by their relationship with political authorities.

5. The Bank of Ghana, as the regulator and supervisor of the industry, was ineffective during the period. Poor licensing practices led to licences being issued without the appropriate due diligence on shareholders and their sources of capital. The Bank over activated its role as a lender of last resort and granted excessive amounts of liquidity support to failing banks, without addressing the underlying problems that led to the illiquidity and insolvency of these institutions.

6. The underlying causes of the failure of multiple savings and loans, finance houses, and microfinance companies were no different. Poor licensing standards, weak capital, weak governance and accountability structures, lending to related parties and cronies, poor risk management, and misreporting were very prevalent in the industry.

7. The Bank of Ghana raised the minimum capital requirement for the banks to GH¢400 million from GH¢120 million by 31st December 2018. This was a key policy aimed at strengthening banks to become more resilient, as well as strengthen their capacity to lend to better support economic growth. At the end of the exercise in December 2018, the number of banks had reduced to twenty-three (23) either by shareholders raising capital, through mergers, by acquisition through other banks, or the Government-administered scheme called the Ghana Amalgamated Trust. The recapitalisation repositioned the banking sector and made it better capitalized, liquid, stronger, and more resilient.

8. The Bank of Ghana itself had to be reorganised and restructured, and several key reforms were implemented to address the causes of the systemic failures that took place. The approach was three-pronged, involving (i) Enhancements to the regulatory regime; (ii) Sharpening the Bank's monitoring, supervision and enforcement tools; and (iii) enhancing capacity and addressing the ethical culture of Bank of Ghana's supervisory departments and that of the industry.

9. The key directives issued as part of the reform process were:

- The Corporate Governance Directive to address the fundamental weaknesses observed in the governance of banks. These directives are to ensure that boards of regulated financial institutions are composed of directors who can exercise strong and independent oversight and ensure that the interests of all relevant stakeholders are protected. Also, that key management personnel have adequate qualifications, experience, and integrity to effectively manage these institutions; and that banks fully embed compliance with regulatory requirements and ethical standards as part of risk management frameworks, with compliance officers and Boards prioritising regulatory compliance;
- A "Fit & Proper Person" Directive to help ensure that key shareholders, Board members, and key management personnel of banks possess the requisite knowledge, skill, and character commensurate with what is required for their roles; and
- A Cyber and Information Security Directive to make banks more resilient to cyber-attacks.

The Bank of Ghana also introduced measures to sharpen the main instruments used in enforcing its supervisory rules. Specifically,

- the Bank revamped its structures and procedures for licensing with more thorough due diligence and capital verification processes;
- introduced an enhanced process for making new rules which involved a more structured stakeholder consultation process to transparency in the policy development process, and

- instituted enhanced processes for examination (on-site and off-site) of regulated institutions, increased the frequency of on-site examinations, and strengthened accountability for supervisory follow-up of examination findings.

10. Further, the Bank of Ghana has invested in a new state-of the art surveillance software. This new electronic surveillance system will help capture supervisory data from regulated institutions more accurately and prevent the high incidence of misreporting witnessed with the failed institutions. In addition, the software will enhance the analytical capacity of the supervision teams and help with more effective reporting of supervisory concerns for appropriate and timely interventions.

11. More importantly, the Bank has increased resources to its Departments that regulate and supervise the financial sector. It has augmented the staff strength of the Banking Supervision, Other Financial Institutions Supervision, and Financial Stability Departments to enhance their capacity, drawing on existing skills within the Bank of Ghana as well as from the private sector. In addition, the Bank has redesigned training programs for supervisory staff to enhance the quality of policy development, examinations, and reporting on regulated institutions. The bank is providing critical training and technical assistance to retool its supervisory staff to promote higher standards of professionalism and ethical behaviour with the objective to ensure supervision teams are better equipped to identify early warning signs, enforce regulatory requirements, and ensure prompt corrective actions to moderate the risk of failure in the financial sector.

12. Mr Chairman, the COVID-19 pandemic has presented an unprecedented negative shock to the economy and a major test of the resilience and robustness of the banking sector. The Bank of Ghana has risen to the challenge with policy measures to protect the financial system and support the real economy. On March 20, 2020, the Bank of Ghana's Monetary Policy Committee (MPC) announced a series of measures designed to mitigate the impact of the COVID-19 pandemic shock. The measures included the following:

- Lowering the policy rate by 150 basis points to 14.5 percent;
- Lowering the cash reserve requirement ratio for banks from 10 to 8 percent to provide additional liquidity to the banks. This policy measure was expected to free up additional resources of about GHS2 billion for banks and SDIs to lend to critical sectors of the economy;
- Lowering the Capital Conservation Buffer for Banks by 1.5 percentage points to 11.5 percent and providing capital relief of about GHS1.1 billion for banks to boost lending to support the economy;
- Changing provisioning requirements for the spectrum of loan categories from 10 to 5 percent and which translates to about GHS115.3 million in capital relief to banks;
- Restraining banks from paying dividends for 2019 to preserve capital and liquidity; working with banks to further lower interest rate on credit to private sector by about 200 basis point;
- Collaborating with commercial banks to create a GHS3 billion credit facility for key industries including pharmaceuticals, hospitality, services, and manufacturing sectors; and
- Agreeing with banks to provide a 6-month moratorium on principal payments for the worst-hit sectors – Airline and Hospitality Industries.

13. It is by providence that the financial sector cleanup was undertaken at the time that it took place as heading into the pandemic, Ghana had already turned the fortunes of the banking system around and restored confidence in the sector. All the financial soundness indicators, measured in terms of earnings, liquidity, and capital adequacy showed significant improvement. We had put into place a framework to strengthen banks' capital. The overall capital adequacy ratio for banks had increased to 21.3 percent well above the regulatory requirement of 13 percent. The Non-performing loans ratio had declined from 21.3 percent at the end of December 2017 to 15.7 percent. Liquidity in the industry had improved and profitability was also on the uptrend.

14. Mr. Chairman, the supervision of banks has been strengthened with systems and structures to identify, assess, and proactively mitigate or manage vulnerabilities and threats to stability. The Bank of Ghana has addressed the growing complexities and interconnectedness among various segments of the financial sector especially among banks and SDIs and the potential systemic risks that could arise due to regulatory arbitrage and information asymmetry. The financial sector crisis has cost the Ghanaian taxpayer GHS21 billion to restore depositors' funds and recapitalise insolvent institutions.

15. Going forward, the financial sector will require constant regulatory and policy attention to mitigate the risks. The economic impact of the pandemic may result in higher non-performing loans and capital erosion of banks. A recapitalisation of the SDIs will become necessary to improve their resilience and enhance the safety of depositors funds. The lessons learnt are many. The Bank of Ghana is putting greater focus on identifying the early warning signals and initiating prompt corrective action. The symptoms of weak banks are usually poor asset quality, lack of profitability, loss of capital, excessive leverage, excessive risk exposure, poor conduct, and liquidity concerns. These symptoms are often caused by inappropriate business models, poor governance, poor decision making by senior management, misalignment of internal incentive structures with external stakeholder interests, and poor supervision. The Bank of Ghana has learnt its lessons.

16. We will continue with policy measures aimed at restoring confidence and preserve financial stability. In the aftermath of the pandemic, we would have to follow a careful unwinding of countercyclical measures that we have implemented and allow the financial system to function without the regulatory forbearance that we have put into place. Banks will have to be vigilant and upgrade their capabilities, improve governance and risk culture, and we are optimistic that with this approach, we will build a robust, resilient and capable financial sector to support Ghana's beyond Aid Agenda.

17. I am confident that the line-up of distinguished speakers for the two-day event will lead to very useful discussions to guide the stakeholders going forward particularly in these very challenging times and beyond.

18. Thank you and I wish you fruitful deliberations.