MEDIA SENSITIZATION PROGRAMME

ORGANISED BY THE GHANA ASSOCIATION OF SAVINGS AND LOANS COMPANIES, ASSOCIATION OF FINANCE HOUSES, AND GHANA ASSOCIATION OF MICRO FINANCE COMPANIES

OPENING REMARKS BY MRS ELSIE ADDO AWADZI, SECOND DEPUTY GOVERNOR, BANK OF GHANA,

HOLIDAY INN HOTEL, ACCRA

13TH OCTOBER 2020

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Executive Officers and members of the Ghana Association of Savings and Loans Companies, the Association of Finance Houses, and the Ghana Association of Micro Finance Companies

Officials of the Bank of Ghana

Officials of Media Houses

Invited guests, and distinguished Ladies and Gentlemen

1. Good Morning, and warm greetings from Governor Addison and the Board, Management, and Staff of the Bank of Ghana.
2. Today's event is a very important one, and I applaud the Executives and members of the sector Associations for this collaborative initiative of engaging the media with one voice, on matters pertaining to their sector.
3. Savings and Loans Companies, Finance Houses, and Microfinance Companies, together with Rural and Community Banks, constitute Ghana's Specialised Deposit-Taking Institutions (SDIs) sector which is regulated under the Banks and Specialised Deposit-Taking Institutions Act of 2016 (Act 930). These institutions have been licensed by the Bank of Ghana to provide access to finance to segments of our society that would typically not be able to access financial services from commercial banks. SDIs are expected to accept small deposits and to provide small

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loans to micro/small businesses and informal sector business operators. For a developing country like Ghana, this segment of our society forms the bedrock of our economy and can be harnessed and nurtured to become strong economic actors.

4. Together, the SDI sector has contributed significantly to our nation's socio-economic development by serving individuals and micro, small, and medium sized enterprises. But for SDIs, a big vacuum would have existed in our financial system today. At the end of July 2020, the assets of SDIs constituted 8.47 percent of total banking sector assets, and their deposit base and loans made up 7.70 percent and 14.28 percent respectively of the entire banking sector. Savings and Loans Companies, Finance House Companies, and Microfinance Companies, currently operate through a total of 1,070 branches nationwide serving about 1.5 million individuals and businesses, offer thousands of jobs, and provide loans for commerce & finance, salaried workers, transportation and communications, agriculture, forestry and fishing, and small-scale construction, mining and manufacturing, amounting to about Ghc 5.7 billion as of July 2020, with loan amounts per customer ranging from a little over Ghc 1000 to Ghc 20,000 and beyond.

5. In spite of the achievements of the SDI sector, it has faced challenges over the years. As you may know, many of the microfinance companies that were licensed from 2012 were "grandfathered" into the then new

microfinance licensing regime without the requisite due diligence done on them. Several of them had operated for a number of years without regulation, and upon being licensed, continued with business as usual, without compliance with licensing requirements and other regulatory norms, and without understanding that as financial institutions, they had to operate under prudent management and strong internal controls to ensure the safety of their depositors' funds.

6. A number of Savings and Loans Companies and Finance Houses also strayed away from their mandates under the licences issued by the Bank of Ghana, and tried to operate as banks without the requisite amounts of capital or the expertise to manage the risks they were taking. Instead of taking small deposits and lending small amounts of money per customer, they took on large deposits and made large loans, and placed significant amount of funds with other SDIs and related parties with little or no prospects of getting back these funds.

7. Essentially, it is these factors, namely, poor capitalization, poor business models, poor governance and risk management, and in some cases fraud and dishonesty, that led to many of these institutions collapsing in the last few years starting with the famous or infamous DKM in 2016, and subsequently many more.

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8. The Bank of Ghana had to revoke the licences of 347 insolvent microfinance companies and 39 microcredit companies on 31st May 2019. It is important to note that 155 of these Microfinance Companies and 10 of the Micro Credit Companies had already ceased operations and had been dormant for a number of years. On 16th August 2019, Bank of Ghana also revoked the licences of 15 insolvent Savings and Loan Companies and 8 insolvent Finance House Companies.

9. The affairs of the defunct SDIs are currently being wound down in accordance with relevant laws. In the meanwhile, Government has stepped in to provide financial relief for their depositors and employees, so that they did not have to wait for years to see if any value might be realized out of the assets of these institutions before they got paid, if at all. Out of Ghc6.5 billion in cedi deposit claims validated by the receiver of the failed SDIs, an amount of Ghc6.39 billion has been paid in cash to depositors, leaving a balance of Ghc110 million being claims of related parties (shareholders, directors, and affiliates) of the defunct institutions who played active roles in their management and control.

10. The clean-up of the SDI sector was necessary. First of all, the laws under which we regulate these institutions require that we revoke their licenses when they are no longer able to honour their obligations to their customers, after they failed to address unsafe and unsound

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practices, and solvency and liquidity challenges. Secondly, it was important to protect depositors of these institutions whose deposits had been locked up for months and years, and the general public that continued to do business with these institutions without knowing their true financial condition. Thirdly, the safety of the financial system was at stake, as confidence in the entire system was being eroded. The public simply did not know the difference between an SDI that was distressed and one that was not. Once the public began to see signs of certain SDIs being unable to honour their obligations to their customers, they started to demand a return of their deposits from other financial institutions, leading to challenges for those institutions that were otherwise strong.

11. Following the cleanup of the SDI sector, there are currently 25 Savings and Loans Companies, 15 Finance Houses/Leasing Companies, 137 Micro Finance companies, and 144 Rural and Community Banks, currently operating.

12. In order to mitigate the risk of reoccurrence of mass failures in the SDI sector, the Bank of Ghana has revamped its supervision of the sector and is working on new rules on corporate governance and risk management to guide operators in the sector. The operationalization

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of the Ghana Deposit Protection Scheme in October 2019 will also help to protect small depositors of SDIs in the event that they fail.

13. The Bank of Ghana continues to engage with the SDI Associations to explore how best to reposition the sector going forward. In the meanwhile, we expect SDIs to refine their business models and ensure that they are aligned to the policy objective for which the sector was created. In the case of the Savings and Loans Companies and Finance Houses Companies, the policy objective is to fill the "missing middle", i.e. segments such as the SME sector, that the banks typically would not service. For Microfinance Companies and Microcredit Companies, we expect them to continue to expand access to finance to the informal sector, micro businesses, low-income households, and marginalized groups such as women entrepreneurs, youth entrepreneurs, start-up businesses, and similar groups.

14. Altogether, we expect the SDI sector to be the key delivery channel for financial inclusion, a key requirement for Ghana's socio-economic advancement. There are still many Ghanaians and businesses that do not have access to savings products and credit facilities, and this presents opportunities for the SDI sector to grow. Under the National Financial Sector Development and Inclusion Strategy (2018-2023),

Government expects an increase in access to finance from the current rate of 58 percent to 85 percent by 2023.

15. To stay true to their mandate, and to stay relevant in our fast – evolving technology-driven financial industry, SDIs must prioritise good governance including strong internal controls and risk management, and customer care, and ensure that they keep their eye on the quantity and quality of capital they have when making business decisions. We expect them to embrace digital financial services to provide more financial services on a cost-effective basis to the vulnerable groups in our society. They can, however, only do this when they have the right amounts of capital to invest in cutting-edge technology, strong and independent Boards of Directors, expert human capital, and effective internal controls.

16. Given the SDI sector's importance to the economy, the Bank of Ghana has provided regulatory reliefs to help support the sector and their customer base during the ongoing COVID-19 pandemic. Among other things, we have reduced their liquidity reserve ratios, and adjusted their loan-loss provisioning rules, to allow them to provide loan repayment moratoria and other reliefs to their customers who are some of the worst-hit by the pandemic.

17. Let me conclude by reiterating the commitment of the Bank of Ghana to building resilient and robust banking and SDI sectors that contribute positively to economic growth and development. Our regulatory measures will continue to promote stability, integrity, and inclusiveness in our financial system.

18. I wish you all gathered here today, mutually-beneficial discussions. This event presents a rare opportunity for the SDI Associations to better explain the operations of their sector to the media, and for the media to ask questions and to provide feedback to the Associations on perceptions of customers and the general public as far as SDIs are concerned. We need the media to be a real partner that understands the financial sector and the regulatory framework within which it operates, in order to lead the public discourse in a dispassionate and expert manner. I am confident that today's event will help in that direction.

Thank you all for your kind attention!

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