FINANCIAL STABILITY REVIEW

BANK OF GHANA
EST. 1957

2020

Preface

The Financial Stability Review assesses developments in Ghana's financial system and the broader macro-economy, with a focus on policies implemented to mitigate emerging risks to financial stability. The report also highlights developments in the four broad sectors of the financial system; namely the banking, insurance, pension and securities industries. In the special feature section, the report highlights the role of deposit insurance as a safety net partner and Ghana's AML/CFT regime. The publication of this report aims to promote market transparency and public awareness on financial sector stability issues in Ghana.

The Financial Stability Review is a collaborative effort between the Bank of Ghana, Ministry of Finance, National Insurance Commission, Securities and Exchange Commission, National Pensions Regulatory Authority, Ghana Deposit Protection Corporation and the Financial Intelligence Center.

Contents

Abbreviations

AIs	Accountable Institutions
AML	Anti-Money Laundering
BCP	Business Continuity Plan
BNSSS	Basic National Social Security Scheme
BOG	Bank of Ghana
BSSI	Banking Sector Soundness Index
CAR	Capital Adequacy Ratio
CCB	Capital Conservation Buffer
CET1	Common Equity Tier 1
CFT	Combating the Financing of Terrorism
CSWAMZ	College of Supervisors of the West African Monetary Zone
DOS	Denial of Service
eFASS	Electronic Financial Analysis and Surveillance System
ESRM	Environmental and Social Risk Management
FATF	Financial Action Task Force
FIC	Financial Intelligence Center
FMC	Fund Management Companies
FSC	Financial Stability Council
GCX	Ghana Commodities Exchange
GDP	Gross Domestic Product
GDPC	Ghana Deposit Protection Corporation
GIABA	Inter-Governmental Action Group against Money Laundering in West Africa
GoG	Government of Ghana
GRA	Ghana Revenue Authority
GSE	Ghana Stock Exchange
MOF	Ministry of Finance
NIC	National Insurance Commission
NPRA	National Pensions Regulatory Authority
SEC	Securities and Exchange Commission

Executive Summary

The global economy broadly contracted in 2020, driven mainly by supply chain disruptions and low demand arising from uncertainties emanating from the COVID-19 pandemic. The contraction in global output, in the year under review, disproportionately affected the poorest and most vulnerable countries, delaying several of the Sustainable Development Goals (SDGs) for selected countries.

To mitigate the adverse effect of the pandemic on markets and the economy, several central banks cut policy rates, announced a raft of macro-prudential measures, and initiated various forms of asset purchasing programs to support the credit markets and reduce funding costs. In addition, fiscal authorities initiated aggressive stimulus packages to counter declining aggregate demand arising from the COVID-19 pandemic. With the policies enacted, and the rapid pace of vaccine developments, financing conditions at end-December 2020 were favourable , evidenced by high equity valuations in the capital markets, low borrowing costs and high credit issuance. These favourable financing conditions are expected to support the economic recovery process, barring further waves of the pandemic.

On the domestic front, the COVID-19 pandemic led to a decline in economic activity in 2020. Specifically, real GDP growth declined to 0.4 per cent in 2020 from 6.5 per cent in 2019. To mitigate the adverse impact of the pandemic, the monetary and fiscal authorities implemented a number of policy measures to bolster the domestic economy and safeguard financial stability. Consequently, Ghana was one of the countries in Sub-Saharan Africa to record growth in 2020, albeit lower than in 2019. The strong gross international reserves build-up in 2020, amid the pandemic, provided enough buffers to maintain stability in the Ghana Cedi.

The banking sector proved resilient to shocks over the review period. Results of several stress tests showed that the banking industry remained robust to credit, exchange rate, interest rate and liquidity shocks. At end-December 2020, the financial soundness indicators for the banking industry indicated strong capital, liquidity and profitability levels, despite a marginal decline in asset quality. The strong banking sector position was underpinned by the comprehensive reforms undertaken before the onset of the pandemic, and the prompt prudential measures implemented by the Bank of Ghana amid the COVID-19 pandemic.

Developments in the insurance industry remained generally positive in 2020. Gross premiums increased by 20.6 per cent, while the capital base increased by 15 per cent. The gains made in the review year, are expected to further improve in the near-to-medium term, with the anticipated passage of the new insurance bill and the enforcement of the new Minimum Capital Requirement (MCR).

In the securities industry, total Assets Under Management (AUM) recorded 8.04 per cent growth in 2020, on the back of an increase in pension funds under management, despite the license revocation of 53 fund management companies. On the bourse, the Ghana Stock Exchange (GSE) recorded a bearish performance. Developments on the GSE was characterised by a 4.4 per cent loss in market capitalisation and a negative 13.98 per cent end-of-year return. These developments were attributed to low demand and excess supply of equity stocks in light of uncertainties from the COVID-19 pandemic. To strengthen the capital market performance, the regulator has developed a capital market plan and issued additional guidelines for the industry.

The pensions industry maintained a strong growth momentum, as the public pension fund administered by the Social Security and National Insurance Trust (SSNIT) rebounded from contraction in the previous years to 26 per cent growth in 2020. The industry's performance was due to the rapid growth of private pension funds, the partial settlement of government indebtedness to the Tier 1 scheme, and the implementation of timely COVID-19 related initiatives and regulatory developments aimed at enhancing the general outlook of the pensions industry.

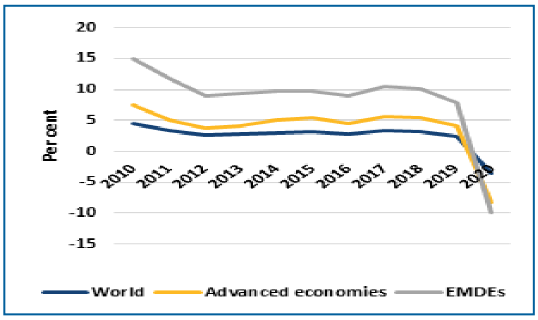
To summarise, Ghana's financial system proved resilient to the COVID-19 pandemic on the back of timely policy interventions by financial sector regulators. To ensure sustained recovery from the pandemic, the financial sector will require enhanced regulation and supervision to ensure that spillover risks from the COVID-19 pandemic are well contained.

1 Macro-Financial Developments

1.1 Developments in the Global Economy

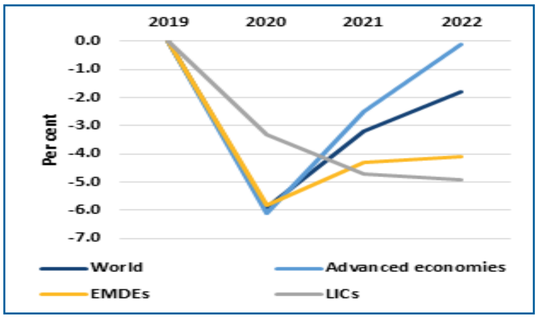
The global economy in 2020 contracted by 3.5 per cent, a significant decline from the growth rate of 2.8 per cent recorded in 2019. The broad contractions in growth in 2020, was attributable to the COVID-19 pandemic which adversely affected Advanced Economies (AEs) and Emerging Markets and Developing Economies (EMDEs). In AEs, output contracted by 4.7 per cent, while in EMDEs, output contracted by 1.7 per cent. The severe contractions were driven mainly by supply chain disruptions and the precautionary behavior of households and firms in response to the measures introduced to stem the COVID-19 outbreak.

Figure 1.1a: Global growth



Source: World Bank Global Economic Prospects, June 2021

Figure 1.1b: Deviation of output from pre-pandemic projections



Source: World Bank Global Economic Prospects, June 2021

The COVID-19 pandemic severely affected global trade. At the onset of the pandemic, global trade declined rapidly due to measures (such as border closures and travel restrictions), that were initiated by a number of countries to curb the spread of the virus. By the fourth quarter, however, the relaxation of containment measures, due to vaccine developments and the success of health and safety protocols, had led to a rebound in goods trade. In contrast, services trade remained depressed. The changing patterns of trade in the global economy could be attributed to the peculiar nature of the pandemic, which shifted demand from services (especially tourism services, and face-to-face services) towards consumption of goods. Following these developments, trade in the review year contracted by 8.5 per cent in 2020, as compared to a growth of 0.9 per cent in 2019.

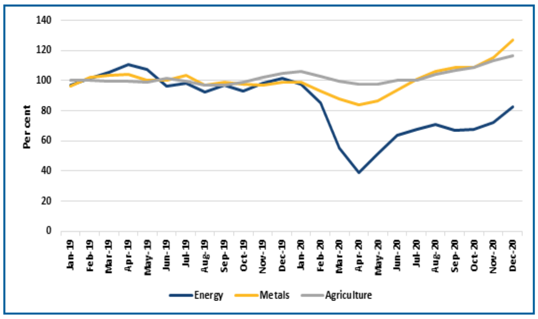
BOX 1.1

THE COVID-19 PANDEMIC

- On March 11,2020, the World Health Organization (WHO) declared COVID-19 a pandemic.
- The disease has claimed over 3.8 million lives with 83.5 million cases reported worldwide between January 22, 2020 and December 31, 2020 (as reported by Statista).
- To reverse the progression of the pandemic, the WHO reports that there are around 100 COVID-19 vaccine candidates in clinical trials with some vaccines being more than 90 per cent effective.

Commodity prices, which fell at the onset of the pandemic, largely rebounded at the end of the year. In March 2020, prices of energy, agriculture and metal commodities fell abruptly, as demand for commodities fell with the onset of the pandemic. At end-December 2020, however, the index price for commodities (energy, agriculture and metal) had largely rebounded in response to signs that an economic recovery, bolstered by vaccine developments, was underway. Due to the rebound in commodity prices in the second half of the review year, the index price for agriculture and metal commodities increased year-on-year by 28.6 per cent and 11.4 per cent respectively. In contrast, the index price for energy commodities at end-December 2020 was 18.3 per cent lower than values recorded at end-December 2019. The decline in energy prices in the review year was attributed to the prolonged impact of the pandemic on global oil demand.

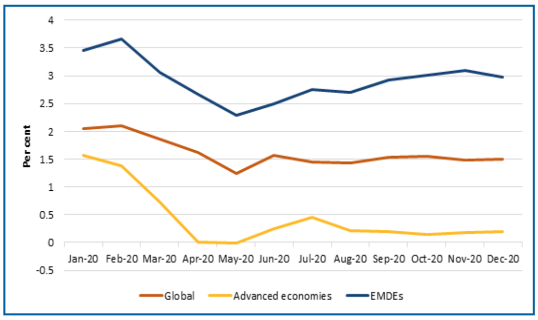
Figure 1.2. Commodity price indexes



Source: World Bank Global Economic Prospects, June 2021

In line with declines in global growth and commodity prices, inflationary pressures remained broadly contained in 2020. In Advanced Economies, inflation decreased to 0.19 per cent at end-December 2020 from 1.4 per cent at end-December 2019. Inflation in EMDEs, however, remained flat at 2.97 per cent. Among EMDE's, inflation declined in three regions (Emerging and Developing Asia, Emerging and Developing Europe, Latin America and the Caribbean) and increased in two regions (Middle East and Central Asia, and Sub-Saharan Africa). The increase in inflation in some EMDEs, during the year, largely reflected the effects of sharp currency depreciations from unexpected capital outflows, as well as rising domestic food prices in some countries.

Figure 1.3: Inflation, by country group



Source: World Bank Global Economic Prospects, June 2021

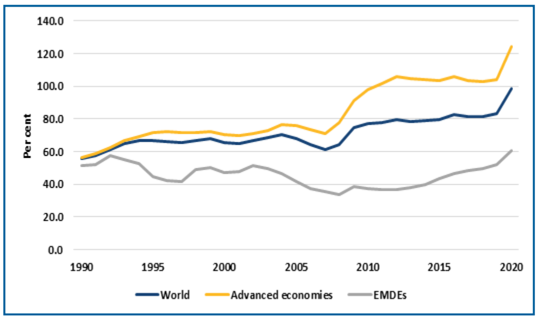
The contraction in global output due to the COVID-19 pandemic has disproportionately affected the poorest and most vulnerable countries. After more than two decades of steady global poverty reduction, the crisis is projected to increase poverty globally. It is estimated that South Asia (where substantial gains in poverty reduction had previously been made) would experience about one-half of this increase in poverty rates, whereas Sub-Saharan Africa would experience about one-third. Inequality is also likely to worsen, partly reflecting the fact that the pandemic is expected to have a disproportionate negative effect, on the incomes of vulnerable groups and long-term productivity growth.

According to the World Bank's Global Economic Prospects, positive outcomes in Low Income Countries (LICs), concerning poverty reduction, can materialize if policy makers employ, in a timely manner, the necessary reforms required to improve growth outcomes.

On the back of rapid vaccine development and supportive fiscal and monetary policies, the global economy is expected to expand by 6.0 per cent in 2021, the fastest post-recession pace in 80 years. At the onset of the pandemic, funding conditions tightened significantly in financial markets (to levels observed during the global financial crisis) in response to the heightened uncertainty emanating from the global spread of the virus. To mitigate the adverse effect of the pandemic on markets and the economy, Central Banks cut policy rates, announced a raft of macroprudential measures, and initiated various forms of asset purchasing programs to support credit markets and to lower funding costs. In addition, fiscal authorities initiated aggressive expansionary policies to counter the fall in aggregate demand arising from the COVID-19 pandemic. With the policies enacted and the rapid pace of vaccine developments, financing conditions at end-December 2020 were generally loose, as suggested by high equity valuations in the capital market, low borrowing costs and high credit issuance. The favourable financing conditions are expected to support a sustained economic recovery in 2021 and beyond, barring further waves of the pandemic.

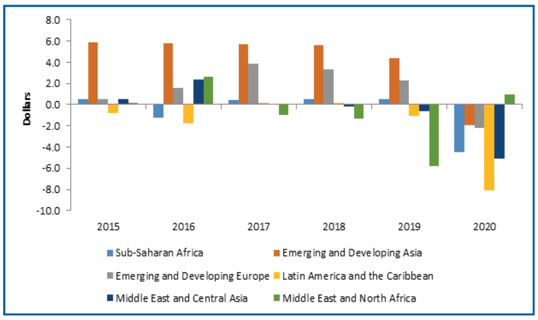
To foster a sustained economic recovery over the near-to-medium term horizon, it is important that countries create the necessary fiscal space to conduct expansionary policies, as needed, by reducing their debt burdens. Prior to the pandemic, global debt had risen to a record high of 230 per cent of GDP, with government debt at a record 83 per cent of GDP. The sudden onset of the COVID-19 pandemic has raised the global debt level, which would significantly limit the fiscal space needed to address economic shocks, especially in developing countries. To address the rising external debt burden, the World Bank's Global Economic Prospects Report has recommended broader participation by all private and official bilateral creditors in existing debt service relief efforts. In addition, the report called for deep debt reduction for countries in debt distress to increase the attractiveness for investment; better debt transparency practices that overcome secrecy and restrictions in debt contracts, and legislative reforms to expedite the restructuring of private sector debt.

Figure 1.4: Government debt



Source: World Bank Global Economic Prospects, January 2021

Figure 1.6: Output per Capita



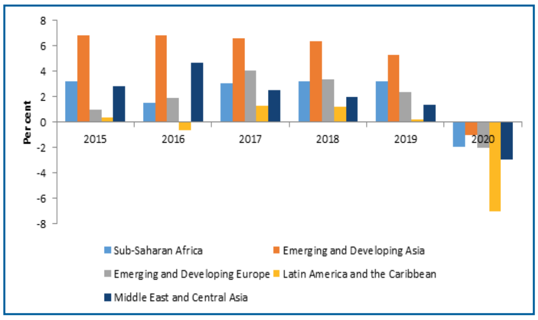
Source: IMF World Economic Outlook, April 2021

The evolution of the pandemic, influenced in part by government actions, social behavior, and vaccine-related developments, will play a critical role in shaping the global recovery's strength and durability. With the COVID-19 pandemic still spreading across the world, the global outlook will remain dependent on government actions, social behavior and mass-vaccination programs. Undoubtedly, the effective deployment of vaccines and adherence of individuals to health and safety protocols will play a major role in halting and possibly reversing the progression of the pandemic, thereby strengthening economic activity, and improving financial market conditions. Economic policies that aim to reverse the adverse effect of the pandemic on economic activity should therefore be implemented in tandem with specific health policies that include vaccine rollouts.

1.2 Developments in Sub-Saharan Africa

Output in the region contracted by an estimated 1.9 per cent in 2020. The decline in growth within the region, largely emanated from the COVID-19 pandemic, which resulted in low demand for exports, declines in commodity prices, capital outflows and rising sovereign spreads within the region. These adverse economic factors, led to a 4.5 per cent decline in per capita income in 2020, causing average living standards to fall significantly in approximately a quarter of Sub-Saharan African economies.

Figure 1.5: EMDEs GDP Growth

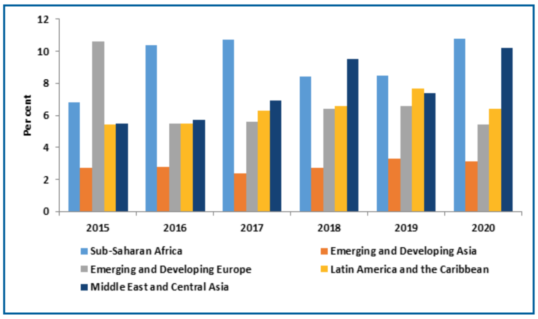


Source: IMF World Economic Outlook, April 2021

The pandemic had a varying impact on economic output for countries within the region. Oil exporters grappled with sharp declines in prices, while those with large travel and tourism sectors suffered from near-complete shutdowns of tourism-related activity. Contractions in agricultural commodity exports were however, less steep, as most agricultural-exporting economies were supported by higher international prices; with a few countries even avoiding outright recessions as a result.

The pandemic triggered a sudden uptick in inflation. This was mainly due to disruptions in the supply of food and energy, the bulk of which were imported. For some countries, such as Kenya and South Africa, persistent low demand due to the lockdown and other containment measures eased inflationary pressures. However, inflation picked up in other countries in response to food price pressures and higher depreciation rates, which led to higher prices in the domestic economy for imported goods.

Figure 1.7: CPI Growth



Source: IMF World Economic Outlook, April 2021

In the near-term, growth is expected to rebound within the region. The rebound is anticipated to be on the back of export growth, which is expected to accelerate in line with an expected increase in economic activity among major trading partners, amid vaccination rollout programmes. Despite October 2020 projections alluding to a recovery, the regions expected GDP growth in 2021 remains significantly below the level projected in April 2020.

This raises concerns about the speed of convergence of the region to other advanced economies.

Table 1.1: GDP growth (%)

	2020	2021	
	Actual GDP Growth	Projected GDP Growth in April 2020	Projected GDP Growth in October 2020
GDP	-1.9	4.1	3.1

Source: IMF World Economic Outlook, April 2020 and October 2020 update

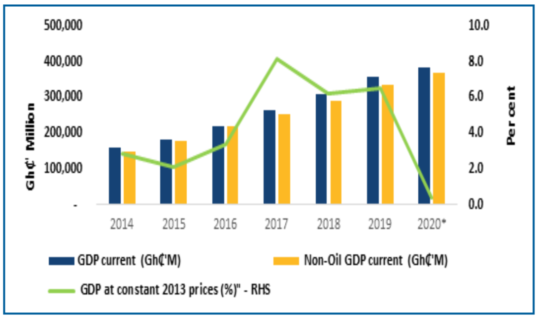
Without timely and accommodative policy interventions, the growth outlook could worsen. Sub-Saharan Africa could experience a weaker recovery from the COVID-19 pandemic, due to delays in the implementation of large-scale vaccination programmes and outdated or insufficient cold storage systems to preserve vaccines. Additionally, new waves of infections in non-regional trading partners could lower export demand, tourism and investments within the region – all significant factors for growth. To ensure a sustained recovery from the pandemic, the timely implementation of health policies, alongside monetary and fiscal policies to mitigate risks within the economy, cannot be overstated. To ensure that fiscal policies can be used without restraint, the World Bank[1] notes that it is essential for the region to pay attention to debt sustainability (at end-December 2020, debt to GDP averaged 70 per cent). In the near-to-medium term, policies that specifically support financial intermediation, the health system, remote work, virtual education, as well as reductions in the debt burden, will help to foster a faster recovery within the region.

1.3 Domestic Developments

In line with the global growth developments, the COVID-19 pandemic resulted in a significant slowdown in domestic economic activity. Real GDP growth for 2020 stood at 0.4 per cent as compared to 6.5 per cent in 2019. The slowdown in output growth was partly attributable to a decline in economic activity within the forestry & logging, manufacturing, mining & quarrying, hotels & restaurants, professional, administrative & support services, and real estate sub-sectors as the COVID – 19 containment measures restricted activities.

The pandemic affected both demand and supply of goods and services. Consumer demand weakened due to uncertainties emanating from the pandemic, while disruptions in global supply chains led to an unexpected sharp increase in the cost of domestic production. Domestically, the adverse impact of the pandemic on demand and supply led to a 67.2 per cent contraction in net exports of goods and services in 2020, as compared to a 17.6 per cent contraction in 2019.

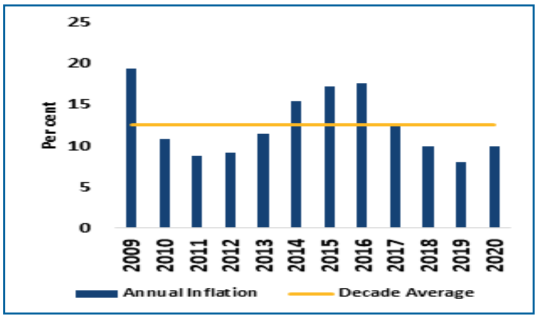
Figure 1.8: Domestic Output



Source: Ghana Statistical Service and Bank of Ghana

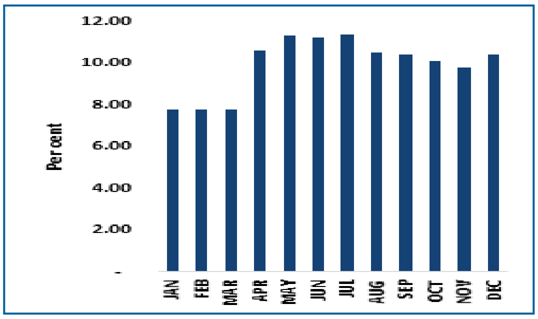
Inflationary pressures increased marginally, driven mainly by COVID-related factors. Headline inflation increased to 10.4 per cent in December 2020, from 7.9 per cent in December 2019. During the year, inflation increased to a high of 11.4 per cent in July before easing to 10.4 per cent in December. The increase in the rate of inflation, in the middle of the year, was attributable to a rise in food prices resulting from panic-buying episodes occasioned by the imposition of COVID-19 partial lockdowns in Accra and Kumasi. In 2020, average inflation stood at 9.93 per cent; within the medium-term band of 8±2 per cent, and below the decade average of 12.47 per cent.

Figure 1.9a: Average Annual Inflation



Source: Ghana Statistical Service and Bank of Ghana

Figure 1.9b: Inflation Developments in 2020



Source: Ghana Statistical Service and Bank of Ghana

In 2020, COVID-19 related global market conditions influenced trends in commodity prices. While crude oil price declined, the average realised price of gold, cocoa beans and cocoa products increased in 2020. Volume and total receipts of crude oil exports declined by 3.7 per cent and 35.2 per cent to 67,458,206 barrels

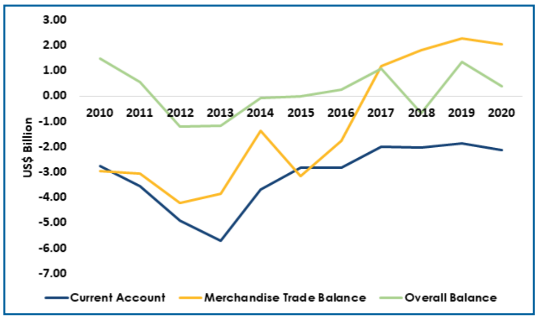
[1] Global Economic Prospects, 2020

and US$2.91 billion in 2020, respectively. Average realised price of crude also declined to US$43.15 per barrel in 2020, from US$64.14 per barrel in 2019. The general restrictions on movement and the slow pace of the recovery of economies from the pandemic-induced shocks contributed to the decline in the volume of exports and prices of crude. In contrast to developments in crude oil export receipts, gold export receipts increased to US$6.80 billion in 2020, from US$6.23 billion in 2019, on the back of a 27.2 per cent increase in the average realised price (US$1,764.16 in 2020) of gold per fine ounce. Similarly, total exports of cocoa beans and products increased by 1.7 per cent to US$2.33 billion in 2020, due to below average rainfall and political tensions in Ivory Coast, the world's leading producer, which reduced supply of the bean.

Developments on the commodities market impacted the trade balance adversely. The trade balance declined to a surplus of US$2.04 billion (3.0 per cent of GDP) in 2020, from a surplus of US$2.26 billion (3.4 per cent of GDP) recorded in 2019. The reduction in the trade surplus in the review year was attributable to a larger decline in export receipts during the pandemic, relative to imports. Total exports and imports fell to US$14.47 billion and US$12.43 billion in 2020 respectively. Reductions in total export receipts, in the review year, was driven mainly by a significant decline in crude oil exports (US$1.58 billion) and timber and timber product exports (US$35 million). Reductions in total import receipts, on the other hand, were driven mainly by a significant decline in oil and gas imports.

Overall, the Balance of Payments account (BOP) recorded a surplus of US$0.37 billion in 2020, as compared to the surplus of US$1.34 billion in 2019. The current account recorded a deficit of US$2.13 billion (3.1% of GDP) compared to a deficit of US$1.86 billion (2.8% of GDP) in 2019. The worsening of the deficit was because of a marginal decline in trade surplus and higher services outflows, which was moderated by the strong inflows in remittances as well as lower net investment income outflows.

Figure 1.10: Balance of Payments Statistics

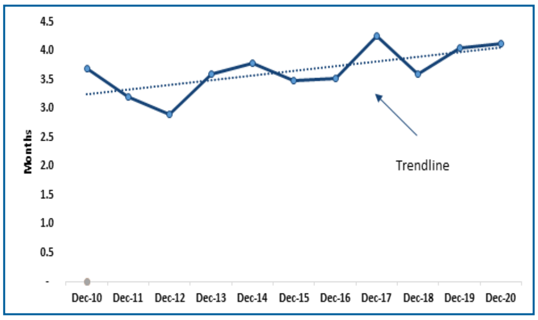


Source: Bank of Ghana

The performance of the cedi improved during the year. Against the US dollar, the Ghana Cedi depreciated cumulatively by 3.93 per cent, as compared to a 12.89 per cent depreciation in 2019. Similarly, against the British pound and Euro, the Ghana Cedi depreciated by 7.08 per cent and 12.07 per cent respectively, as compared to a 15.66 per cent and 11.24 per cent depreciation in the previous year. The depreciation rate of the Cedi against the US Dollar in 2020 was the lowest since 2010.

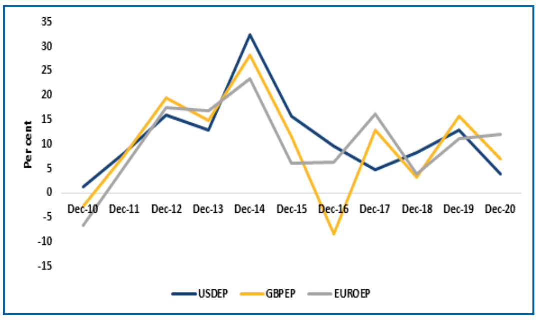
Gross International Reserves also improved to US$8.62 billion. The gross international reserves at end-December 2020 provided 4.12 months of import cover, as against the 4.05 months of import cover (equivalent to US$8.42 billion in reserves) recorded in 2019. The improvement in reserves, amid the pandemic, was due to inflows from Eurobond issuance, a US$1.0 billion IMF RCF, improvements in remittances inflows and repatriation of increased forex receipts from gold exports, among others.

Figure 1.11: Reserves in Months of Import Cover



Source: Bank of Ghana

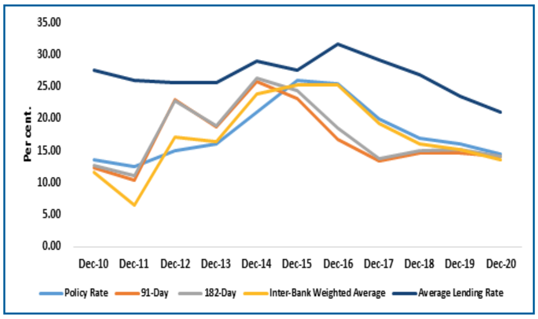
Figure 1.12: Y-o-Y Depreciation Rate



Source: Bank of Ghana

Generally, short-term interest rates observed a downward trend, in line with the easing monetary policy rate environment in 2020. In response to the adverse impact of the COVID-19 pandemic, the Monetary Policy Rate (MPR) was reduced by 150 basis points to 14.5 per cent in March 2020. . In line with this, the interbank weighted average interest rate decreased to 13.6 per cent at end-December 2020, from 15.2 per cent at end-December 2019, resulting in improved liquidity conditions on the interbank market. Interest rates also reduced marginally across various maturity profiles of the yield curve. Rates on the 91-day and 182-day treasury bills declined to 14.08 and 14.13 percent in December 2020, from 14.69 and 15.15 percent in December 2019 respectively.

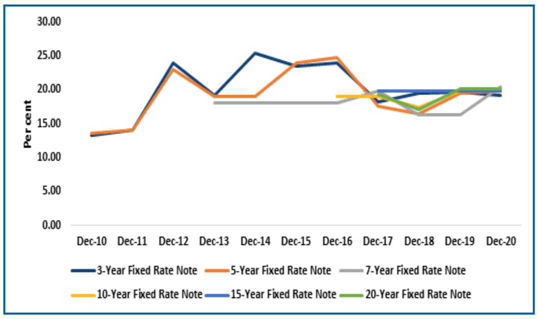
Figure 1.13a: Interest Rates



Source: Bank of Ghana

Yields on long-term government instruments continued to remain attractive on the secondary market. The 5-year bond rate increased to 19.85 per cent in 2020, from 19.50 percent in 2019. Similarly, the 7-year bond rate also increased to 20.50 per cent in 2020, from 16.25 per cent in 2019. Rates on the 10-year, 15-year and 20-year bonds, however, remained unchanged at 19.80 per cent, 19.75 per cent and 20.20 per cent, respectively, while rates on the 3-year bond, declined to 19.25 per cent in 2020, from 19.70 per cent in 2019.

Figure 1.13b: Yields on Government Bonds

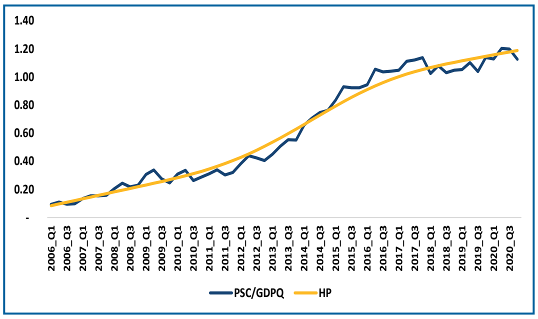


Source: Bank of Ghana

The stock of public debt rose to 76.1 per cent of GDP[2] **(GH¢291.6 billion) in December 2020, from 61.2 per cent of GDP (GH¢218.2 billion) at end-December 2019**. Government revenue and grants totaled GH¢55.1 billion (14.4 per cent of GDP), against a total expenditures and arrears clearance amount of GH¢96.4 billion (23.8 per cent of GDP). Expenditures, in the review year, increased on the back of measures implemented to mitigate the impact of the COVID-19 pandemic. These developments resulted in an overall fiscal deficit (on cash basis) of 11.7 per cent of GDP in 2020, as compared to a deficit of 4.7 per cent in 2019 leading to an increase in the public debt stock. At end-December 2020, of the total debt stock, domestic debt was GH¢150.7 billion (39.3 per cent of GDP), while external debt was US$24.72 billion (35.0 per cent of GDP).

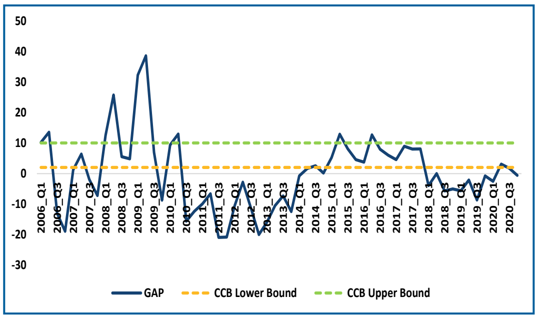
The Credit-to-GDP ratio was below its long-term trend at the end of the year. For the first quarter of 2020, the credit-to-GDP ratio was above its long-term trend. However, the credit-to-GDP ratio fell below its long-term trend at the end of the year due to uncertainties emanating from the COVID-19 pandemic. This indicates that the domestic macro -economy would be able to absorb more credit without a significant build-up of risks.

Figure 1.14a: Credit-to-GDP Ratio



Source: Bank of Ghana

Figure 1.14b: Credit Gap



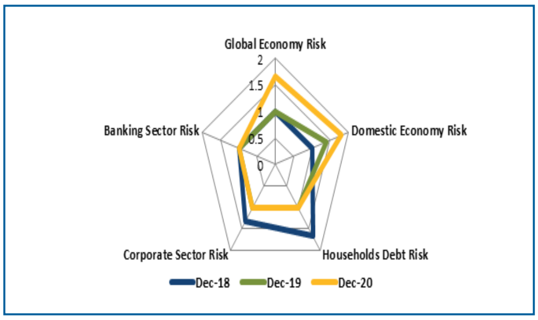
Source: Bank of Ghana

General risks to corporate, household and banking sector remained well contained in 2020, while risks to the domestic and global macro-economy increased. The reduction in risks to both corporate and household sectors was on the back of COVID-19 containment measures initiated by fiscal and monetary authorities. For instance, the Central Bank cut interest rates by 150 basis points to reduce the impact of the pandemic on households and corporate sectors. In addition, banking sector risks were well contained, even at the onset of the pandemic, mainly on the back of COVID-19 policy measures that were initiated by the Central Bank and the restructuring of the banking sector prior to the pandemic. Domestic economy risks, however, heightened on the back of a slowdown in economic activities due to the impact of the pandemic on movements. Similarly, the slowdown in global output growth increased risks to the global economy. In line with the timely implementation

[2] Total public debt stock includes the financial and energy sector bailouts

of monetary and fiscal policies within the domestic economy, however, the IMF's World Economic Outlook projects that growth is expected to recover to 4.64 per cent and 6.10 per cent in 2021 and 2022, respectively.

Figure 1.15: Ghana: Cobweb Diagram, December 2018-2020



Source: Bank of Ghana

2 Financial System and Interconnectedness

2.1 The Financial System in Ghana

Ghana's financial system, comprising, Banking, Pensions, Securities and Insurance industries, is regulated and supervised by four distinct authorities. These are the Bank of Ghana (BoG), National Pensions Regulatory Authority (NPRA), the Securities and Exchange Commission (SEC), and the National Insurance Commission (NIC).

The financial sector assets expanded amid the COVID-19 pandemic. At end-December 2020, total financial sector assets increased to GH¢213.3 billion (55.6% of GDP) from GH¢184.7 billion (51.8% of GDP) in 2019. The increase in the total asset of the financial sector in the review year was attributable to expansions in the asset size of the banking, insurance and pensions industries. The total assets of the securities industry declined in the review year due to the revocation of licenses of defunct fund management companies. Broadly, the financial sector at end-December 2020 remained well positioned to support financial intermediation, economic growth and financial stability.

BOX 2.1

THE FINANCIAL STABILITY ADVISORY COUNCIL

In the review year, the Financial Stability Advisory Council (FSC), chaired by Dr. Ernest K. Y. Addison, Governor of the Bank of Ghana, held its regular meetings to assess market vulnerabilities, with a focus on risks to financial stability emanating from the COVID-19 pandemic.

At the meetings, members critically reviewed:

1. Policies initiated by member institutions to mitigate the adverse effects of the COVID-19 pandemic;
2. Financial sector safety nets within the financial system; and,
3. Data sharing and communication systems across Regulators, with the aim of enhancing information flow across Regulators.

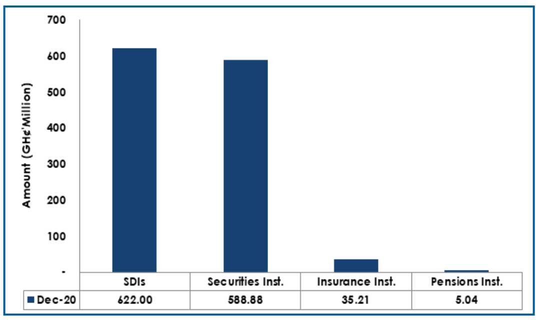
The deliberations at the Council meetings, were in line with the mandate of the FSC which is to proffer recommendations to safeguard financial stability by enhancing coordination among financial sector regulators, identifying emerging risks to inform policy actions, and strengthening Ghana's capacity to manage financial sector crisis.

The FSC has the following institutions as members: Bank of Ghana; Ghana Deposit Protection Corporation; the Ministry of Finance; the National Insurance Commission; the National Pensions Regulatory Authority; and, the Securities and Exchange Commission.

2.2 Interconnectedness of the Financial System

Total exposures of banks to the other financial institutions[3] were approximately GH₵1.25 billion as at end-December 2020. Exposure of banks to Other Financial Institutions was mainly in the form of investment placements and credit facilities (loans and overdraft). In the year under review, banks were largely exposed to the Securities industry (GH¢588.9 million), Insurance industry (GH¢35.2 million), Pensions industry (GH¢5.0 million) and Specialised Deposit-Taking Institutions (SDIs) (GH¢622.0 million).

Figure 2.2: Banks exposure to other financial institutions

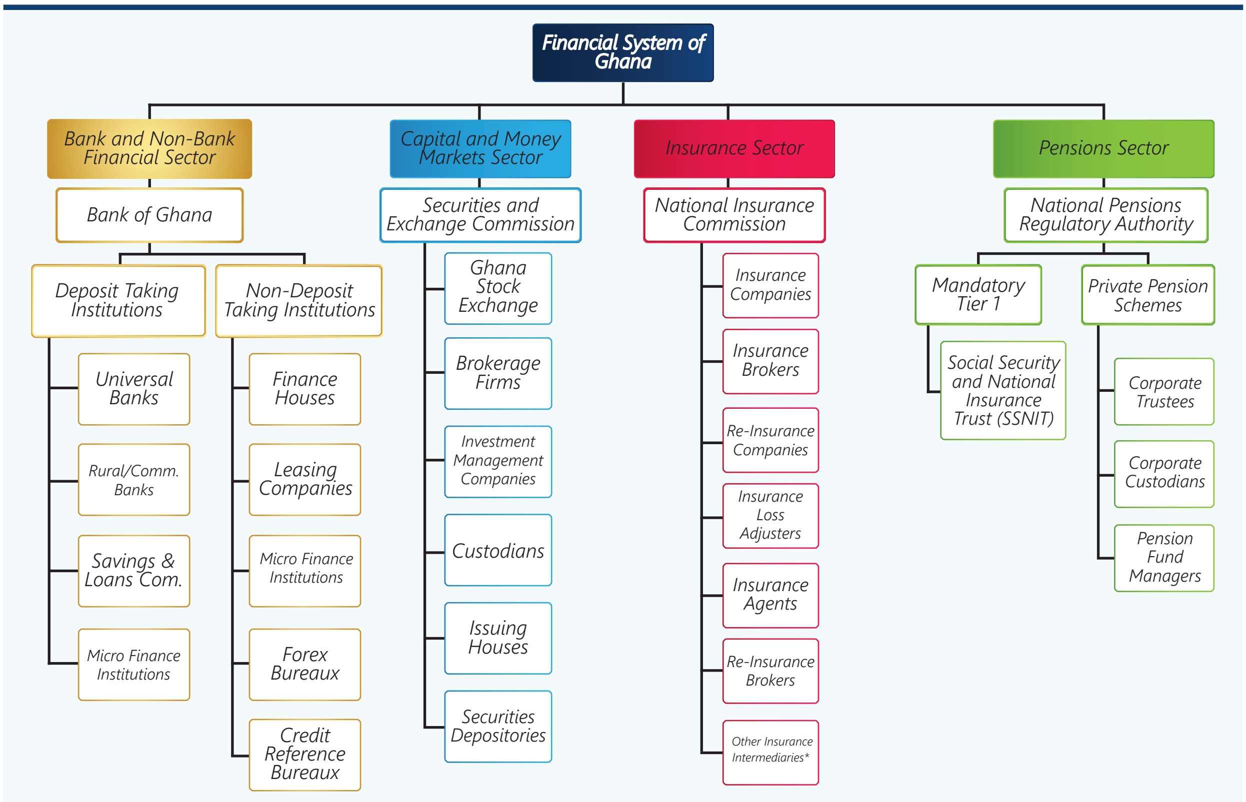


Source: Bank of Ghana

Total exposure of Other Financial Institutions to banks was approximately GH¢3.77 billion at end-December 2020. Majority of these exposures were in the form of deposits and investments. The Pensions industry was the most exposed (GH¢1.1 billion) to banks, followed by the SDIs (GH¢1.0 billion), the Insurance industry (GH¢898.8 million) and the Securities industry (GH¢768.7 million). The exposure levels of financial institutions to one another reinforce the need to maintain strong prudential standards with effective supervisory coordination and collaboration.

[3] Other Financial Institutions include Specialised Deposit-Taking Institutions and institutions regulated by the National Insurance Commission, National Pensions Regulatory Authority and the Securities and Exchange Commission.

Figure 2.1: Structure of the financial system in Ghana



Source: Bank of Ghana

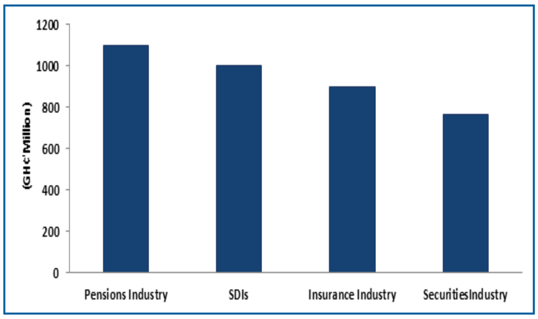
Table 2.1: Assets of the Ghanaian Financial System

INSTITUTIONS	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20
Banking Industry						
Total Assets (GH₵' M)	74,459.36	94,642.64	110,717.97	123,751.17	142,902.72	163,871.11
Total Asset/GDP (%)	41.27	44	43.14	41.17	39.69	42.73
Share of Financial Sector Assets	72.95	72.95	69.2	73.48	76.78	76.81
Securities Industry						
Total Assets Under Management (excluding Pension Funds)- GH₵' M	11,103.82	15,735.70	23,854.26	16,978.01	10,370.81	8,321.84
Total Assets (excluding Pension Funds)/GDP (%)	6.16	7.32	9.29	5.50	2.91	2.17
Total Assets Under Management (including Pension Funds)- GH₵' M	13,671.76	20,158.88	31,062.12	25,570.88	26,249.08	30,584.11
Share of Financial Sector Assets	10.88	12.13	14.91	10.08	5.57	3.90
Insurance Industry						
Total Assets (GH₵' M)	3,026.92	3,667.38	4,653.33	5,489.64	6,540.27	7,692.95
o/w Life Insurance	1,718.37	2,182.67	2,842.49	3,155.41	3,821.79	4,521.00
Total Assets/GDP (%)	1.68	1.71	1.81	1.83	1.87	2.01
Share of Financial Sector Assets	2.97	2.83	2.91	3.26	3.51	3.61
Pensions Industry						
Total Assets (GH₵' M)	13,482.19	15,682.94	20,769.23	22,201.19	26,295.20	33,459.64
o/w Public Pension Fund	8,810.08	8,889.99	9,771.14	9,187.58	8,931.93	11,440.24
Total Assets/GDP (%)	7.47	7.29	8.09	7.39	7.52	8.73
Share of Financial Sector Assets	13.21	12.09	12.98	13.18	14.13	15.68
Financial System						
Total Assets	102,072.29	129,728.66	159,994.79	168,420.01	186,109.00	213,345.54
Assets/GDP (%)	56.58	60.32	62.33	54.58	51.81	55.63

Source: Bank of Ghana, Securities and Exchange Commission, National Insurance Commission, National Pensions Regulatory Authority

* Other Insurance Intermediaries include Bancassurance, Insurance Loss Adjustors, Insurance Loss Assessors, Micro Insurance Agents, Insurance Investigators, Third Party Cell Captive Providers etc

Figure 2.3: Other Financial Institutions Exposure to Banks

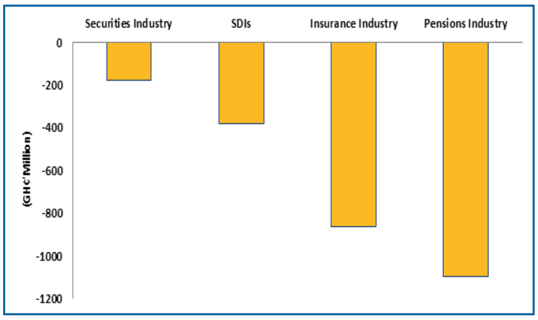


Source: Bank of Ghana

The exposure of Other Financial Institutions to banks was comparatively higher than banks' exposure to the Other Financial Institutions. On net basis, banks had a negative claim of GH¢2.5 billion on other financial institutions. This implies that Other Financial Institutions had more funds with banks than the banks had with Other Financial Institutions.

The negative net claims of banks were as follows: Pensions' industry (GH¢1.1 billion); Insurance industry (GH¢863.6 million); SDIs (GH¢382.3 million); and Securities' industry (GH¢179.9 million). With a strong and resilient banking sector, the net claims suggest that the funds of the financial system would be well protected.

Figure 2.3: Other Financial Institutions Exposure to Banks



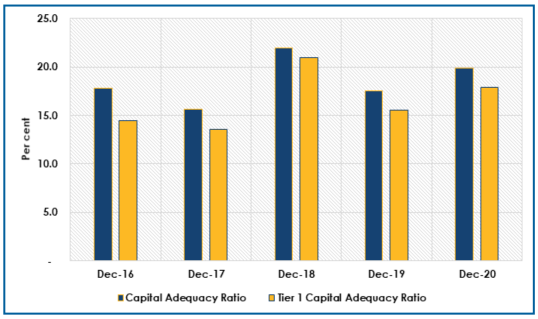
Source: Bank of Ghana

3 Assessment of the Banking Industry

3.1 Performance of the Banking Industry

The Capital Adequacy Ratio (CAR) for the banking industry was well above the regulatory minimum. At end-December 2020, CAR and Tier 1 CAR, stood at 19.8 per cent and 17.9 per cent respectively, well above the minimum regulatory CAR threshold of 11.5 per cent. The solvency levels indicated that banks had enough capital buffers to absorb potential losses from challenges that could emanate from the COVID-19 pandemic.

Figure 3.1: Capital Adequacy Ratio

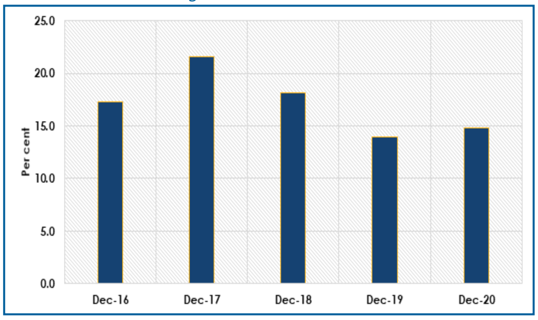


Source: Bank of Ghana

The COVID-19 pandemic led to a marginal decline in asset quality. The Non-Performing Loans (NPLs) ratio increased marginally to 14.8 per cent at end-December 2020, from 14.3 per cent at end-December 2019. The increase in the NPL ratio was attributable to the pandemic-induced loan repayment challenges and a slowdown in credit growth in 2020. By sector, the increase in the NPL ratio was primarily due to increases in NPLs in the construction and manufacturing sectors. The NPL ratio for the construction sector increased from 17.9 per cent to 22.6 per cent, while that of the manufacturing sector increased marginally from 17.7 per cent to 18.2 per cent over the same comparative period. Regulatory guidance to banks was issued by the Central Bank to assist banks reduce NPLs over the medium term. In addition, the BoG is continuously monitoring developments in NPLs to inform policies in a timely manner.

Notwithstanding the marginal increase in NPLs, the capacity of the banking industry's capital to absorb NPL-related losses improved during the year. Non-performing loans net of provisions to capital decreased to 5.2 per cent at end-December 2020 from

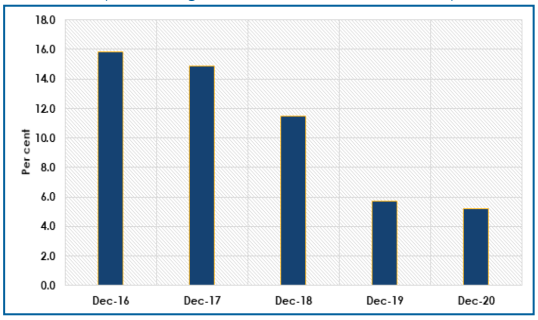
Figure 3.2: Non-Performing Loans to Total Gross Loans



Source: Bank of Ghana

5.7 per cent at end-December 2019. The decline in the ratio was attributed to a year-on-year improvement in the capital position of banks, following policies by the BoG to provide capital reliefs to banks amid the COVID-19 pandemic.

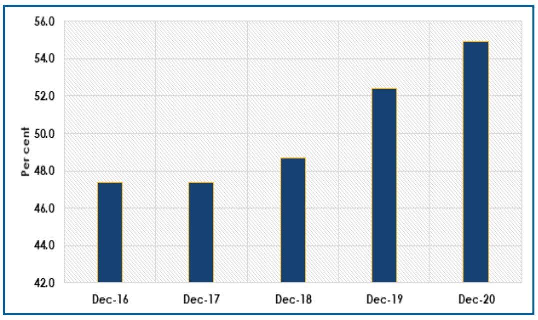
Figure 3.3: Non-performing Loans Net of Provisions to Capital



Source: Bank of Ghana

The Interest margin to gross income ratio increased on the back of attractive returns on investments. At end-December 2020, interest margin to gross income was 54.9 per cent, as compared to 52.4 per cent at end-December 2019. The increase in the ratio, in the review period, was primarily due to faster growth in net interest income relative to gross income. Specifically, net interest income grew by 20.9 per

Figure 3.4: Interest Margin to Gross Income

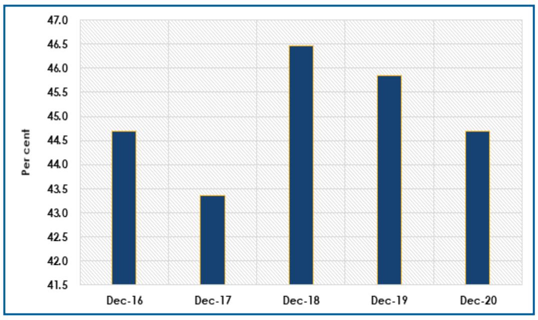


Source: Bank of Ghana

cent from December 2019 to December 2020, while gross income grew by 15.4 per cent over the same comparative period.

Non-interest expenses to gross income declined year-on-year. At end-December 2020, non-interest expenses to gross income stood at 44.7 per cent, a 1.1 percentage point decline, from its value in 2019. The decline was primarily due to decreased expenditures on training (34.3%), occupancy (27.3%) and travel (7.7%) amid the COVID-19 pandemic.

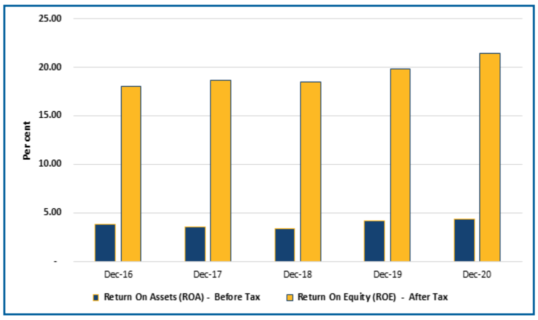
Figure 3.5: Noninterest Expense to Gross Income



Source: Bank of Ghana

The banking sector remained profitable during the year. Return on equity (after-tax) increased marginally to 21.40 per cent at end-December 2020 from 19.94 per cent at end-December 2019. Similarly, return on assets (before-tax) increased marginally to 4.36 per cent from 4.15 per cent. The improvement in profits was driven by an increase in interest margins and reduction in non-interest expenses to gross income.

Figure 3.6: Profitability

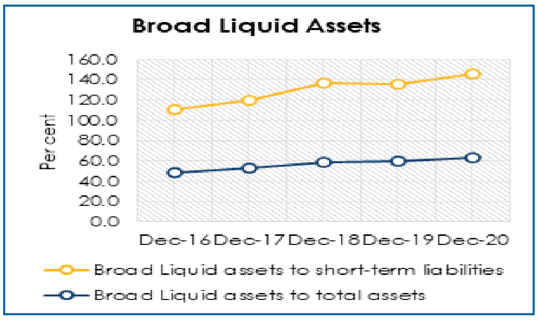


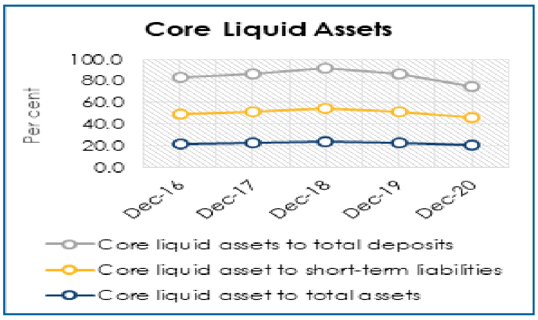
Source: Bank of Ghana

The banking industry remained broadly liquid. Broad liquid assets to total assets increased to 64.1 per cent at end-December 2020 from 61.1 per cent at end-December 2019. Similarly, broad liquid assets to short-term liabilities increased to 84.2 per cent from 77.6 per cent. The increase in broad liquidity within the banking industry was attributed to a rise in the holdings of long-term instruments by banks during the review period, in response to uncertainties emanating from the COVID-19 pandemic.

In contrast to broad liquidity, indicators for core liquidity declined marginally as banks reduced their cash holdings. At end-December 2020, liquidity indicators showed that the Banking industry was highly liquid and in a healthy position to meet its obligations.

Figure 3.7: Broad Liquid Assets and Core Liquid Assets

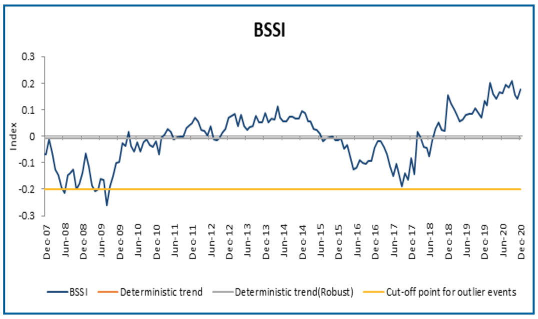




Source: Bank of Ghana

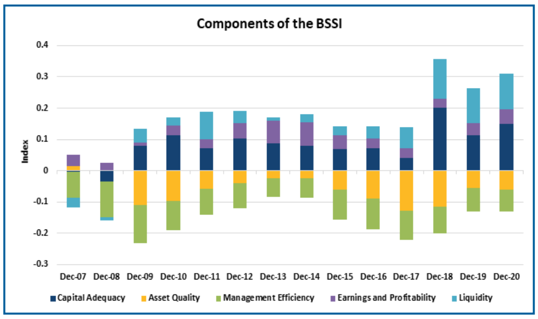
The Banking Sector Soundness Index (BSSI)[4]**, the composite indicator which tracks the financial soundness of the banking sector, improved marginally at end-December 2020 relative to its end-December 2019 position.** The upward trend of the BSSI, amid the COVID-19 pandemic, was attributable to the strong liquidity (broad) and capital position of banks during the review year. The sustained soundness of the banking sector, amid the COVID-19 pandemic, reflected gains from banking sector reforms (clean-up, recapitalisation, etc.) implemented prior to the onset of the pandemic and the prompt monetary policy and prudential responses implemented by the BoG to support the liquidity and capital positions of the banking industry.

Figure 3.8: BSSI and Components of BSSI



[4] The BSSI is developed from the Capital Adequacy Ratio, Asset Quality Ratio, Management Efficiency Ratio, Earning Ratio and Liquidity Ratio. An upward trending BSSI connotes a general improvement in the performance of the banking system.

Figure 3.8: BSSI and Components of BSSI



Source: Bank of Ghana

The heat-map of the banking industry's core Financial Soundness Indicators (FSI) also showed a resilient sector amid the COVID-19 pandemic. At end-December 2020, a majority of the core Financial Soundness Indicators were either in their first-best or second-best performing periods, given historical data over the past two decades.

In sum, the banking industry ended 2020 with a robust performance despite the initial pandemic-induced slowdown observed in the second quarter of 2020. Growth in the industry is expected to remain strong as the economy recovers, barring any potential lockdowns and slowdown in economic recovery due to the COVID-19 pandemic.

3.2 Regulatory Developments

To strengthen the cooperation, deepen mutual assistance and encourage exchange of valuable information across borders among regulators, the BoG actively participated in the Central Banks of the West African Monetary Zone (WAMZ) quarterly virtual meetings in 2020. In fulfillment of its key objective of promoting a resilient and sound financial sector, which includes the harmonisation of sound supervisory practices, the Committee of Governors of the WAMZ approved the setting up of an expert committee to harmonise the Risk-Based Supervisory (RBS) frameworks of members of the College of Supervisors of the WAMZ (CSWAMZ). The harmonised RBS framework is expected to provide some minimum benchmarks to guide cross-border supervision and the joint examination exercises conducted by some hosts and home member states.

To strengthen the safety and soundness of the banking sector within the domestic economy, the Bank of Ghana issued a number of prudential directives and guidelines. Among others, the Bank amended its Capital Requirement Directive to include 50.0 per cent of unaudited profit (Tier 2 capital) in Common Equity Tier 1 (CET1), reduced the leverage ratio downwards from 6.0 per cent to 4.5 per cent, and excluded deductions of intra-group transactions from CET1 capital. Further, in ensuring that the

Figure 3.9: Core Financial Stability Indicators

CORE FSIs	19-Mar	19-Jun	19-Sep	19-Dec	20-Mar	20-Jun	20-Sep	20-Dec
Capital Adequacy								
Regulatory capital to risk weighted assets	20.55	19.25	19.06	17.48	19.33	21.25	20.28	19.83
Regulatory Tier I capital to risk-weighted assets	15.76	14.47	17.13	15.53	17.71	19.36	18.35	17.88
Asset Quality								
Nonperforming loans net of loan-loss provision to capital	15.36	14.19	12.09	5.74	5.21	5.12	5.51	5.24
Nonperforming loans to total gross loans	18.76	18.05	17.27	13.94	14.49	15.65	15.77	14.82
Earnings								
Return on assets - before tax	4.40	4.37	4.26	4.14	4.30	4.13	4.22	4.36
Return on equity - after tax	21.12	21.15	20.50	19.87	21.20	20.58	21.01	21.40
Liquidity								
Core Liquid asset to total assets	19.55	21.65	21.17	22.53	21.53	19.25	21.86	20.06
Core Liquid asset to short-term liabilities	25.27	27.66	27.44	28.96	28.76	25.88	29.30	26.32
Core Liquid assets/total deposits	29.76	32.31	31.97	35.22	34.20	29.72	32.90	28.85
Broad Liquid assets to total assets	59.58	59.85	59.18	59.34	60.10	61.38	64.20	63.04
Broad Liquid assets to short-term liabilities	77.01	76.46	76.70	76.27	80.28	82.49	86.04	82.72
Efficiency								
Interest margin to Gross income	52.04	52.10	52.00	52.42	54.60	53.61	54.56	54.91
Noninterest expenses to gross income	44.18	44.86	45.45	45.85	44.32	45.96	44.99	44.70
Personnel Expenses to Gross income	19.75	19.44	19.66	19.56	19.45	18.77	18.42	17.99

1st Best Performing Period   2nd Best Performing Period   3rd Best Performing Period   4th Best Performing Period

Source: Bank of Ghana

prudential treatment of COVID-19 related reliefs granted by financial institutions to customers (such as repayment moratoria, extended and restructured loans and advances to customers) are accounted for in a transparent and standardized manner, the BoG issued the following regulatory guidance to the industry, among others:

i. Prudential Treatment of Credit repayment and loan restructuring measures for COVID-19 pandemic related exposures;
ii. Application of IFRS 9 expected loss impairment model in response to the COVID-19 pandemic;
iii. Rules on credit data submission to the credit reference bureaux in accordance with COVID-19 related reliefs to borrowers; and
iv. Utilisation of Capital and Liquidity Releases to Banks and SDIs.

The BoG also collaborated, with the International Finance Corporation (IFC) to develop reporting templates for banks in furtherance of its commitment to support the sustainable banking concept. The templates were to monitor the progress made by banks following the signing-off of the Sustainable Banking Principles (SBPs) by Managing Directors of banks in 2019. The SBPs provide the guiding principles to underpin effective Environmental and Social Risk Management (ESRM) policy frameworks for banks in Ghana. The Principles are in line with Ghana's National Development Plan, the UN Sustainable Development Goals and the UN Framework Convention on Climate Change. The SBPs apply to five sectors which are: agriculture and forestry; mining, oil and gas; construction and real estate; energy and power; and manufacturing. To facilitate the implementation of the SBPs (seven principles) and its five sector Guidance Notes, the BoG embarked on capacity building and awareness programmes for banks and supervisory staff in 2020. The seven SBPs are as follows:

i. Identifying, measuring, mitigating and monitoring environmental and social risks; and identifying environmental and social opportunities in bank business activities;
ii. Promoting good environmental and social governance practices in banks' internal business operations;
iii. Strengthening good corporate governance and ethical standards;
iv. Fostering gender equality;
v. Facilitating financial inclusion;
vi. Enhancing resource efficiency and sustainable consumption and production; and
vii. Compliance reporting.

Internally, the BoG further strengthened its supervisory structures by enhancing its financial surveillance system.

The new financial surveillance software, Online Regulatory Analytic Surveillance System (ORASS), which replaces the existing Electronic Financial Analysis and Surveillance System (eFASS), progressed through to the final phase of implementation. ORASS will improve the surveillance process of the Bank by providing a platform that enhances data integrity and facilitates the timely submission of information (returns) to the BoG. The new platform establishes a single interface with the industry to eliminate duplication of work and enhance efficiency in data submission and management.

3.3 Measures to Mitigate Emerging Risks

The COVID-19 pandemic, which had an adverse impact on the domestic economy, necessitated further policy support to preserve gains made in the banking industry following the reforms. At the BoG's March 2020 Monetary Policy Committee (MPC) meeting, it was noted that the COVID-19 pandemic had significantly heightened uncertainty in global financial markets, thereby causing a sharp downturn in global stock prices, and a steep rise in emerging markets' sovereign bond spreads. Furthermore, it was noted that the adverse impact of the COVID-19 pandemic on exports, imports, and foreign exchange receipts, would result in a marked slowdown in domestic economic activity. Consequently, to mitigate the impact of the COVID-19 pandemic on the domestic economy, the Bank of Ghana announced a series of policy and regulatory measures during the review year to improve financing conditions and ease liquidity pressures to keep credit flowing to critical sectors of the economy. In particular, the Bank:

1. Cut the monetary policy rate by 150 basis points to 14.5 percent in March 2020 and worked with commercial banks (through moral suasion) to transmit the same measure of decline to lending rates;
2. Reduced the primary reserve requirements to 8 percent from 10 percent to increase liquidity in the banking system;
3. Reduced the Capital Conservation Buffer (CCB) of banks by 1.5 percentage, implying an effective drop of capital adequacy requirement (CAR) from 13 to 11.5 percent;
4. Reduced the provisioning requirements for loans in the "Other Loans Especially Mentioned" from 10 to 5 percent, to ease liquidity conditions and provided capital relief to banks;
5. Urged the commercial banks to provide a 6-month moratorium on principal payments on loans due from customers in the worst-hit sectors of the economy;

6. Suspended dividend payments by Banks for the year 2020 to secure capital buffers;
7. Provided assurance to strengthen the capacity of the ARB Apex Bank to provide liquidity support for rural and community banks facing temporary liquidity challenges;
8. Extended the deadline for SDIs (MFIs and RCBs) to meet new capital requirements to December 2021 from the earlier deadline date of 28th February 2020;
9. Reclassified as "current", loan repayments that were past due for Microfinance Institutions for up to 30 days, as pertains to all other sectors;
10. Reduced the loan provision rate for OLEM category from 10% to 5% for loans (1 to 30 days in default);
11. Reduced the cash reserve requirement for Rural and Community Banks (RCBs), Savings and Loans Companies (S&Ls), Finance Houses from 8 to 6 percent, and from 10 to 8 percent for microfinance companies; and
12. Worked with banks and mobile money operators to:
    a. Eliminate transaction fees on mobile money transfers (of up to GH¢100); and
    b. Revise transaction limits upwards to promote the use of digital solutions, such as mobile money and online transactions, amid the pandemic.

The policy measures introduced during the review year, helped improve the soundness of the banking sector, and the economy, amid the pandemic. Specifically, the policy measures enhanced liquidity (particularly broad liquidity) in the banking system, preserved capital buffers and helped banks and specialised deposit-taking institutions provide support to critical sectors of the economy severely impacted by the pandemic. In addition, stress tests conducted during the review year, showed that the banking system would be generally resilient to market, credit and liquidity shocks emanating from the COVID-19 pandemic.

4 Assessment of the Insurance Industry

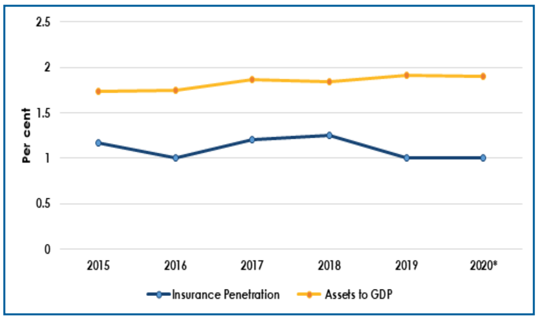
4.1 Performance of the Insurance Industry

Notwithstanding the effects of COVID-19 on the global and domestic economy, the Insurance industry continued to experience modest gains. The National Insurance Commission's (NIC) digital platforms, as well as the swift response of industry players to the challenges posed by the pandemic helped drive the gains. The passage of the Insurance Bill is expected to protect the gains made.

Gross premiums within the insurance industry grew by 20.6 per cent in the review year. Gross premium at end-December 2020 stood at GH¢4.20 billion as compared to GH¢3.49 billion at end-December 2019. The steady growth in gross premiums was attributable to the rollout of various alternative distribution channels on digital platforms and the introduction of a digital platform (Motor Insurance Database - MID) by the NIC in January, 2020. The MID, introduced in the review year, ensured that sales of insurance policies were not compromised during the pandemic and that premiums generated from motor insurance, were commensurate with the risks associated with the asset insured.

The rate of insurance penetration, defined as gross premium over GDP, has remained relatively stable at 1 per cent over the last five (5) years. Insurance penetration in the near-to-medium term is expected to increase on the back of the passage of the new Insurance Bill, recapitalisation of the insurance sector, continuous product innovation, and increased public education.

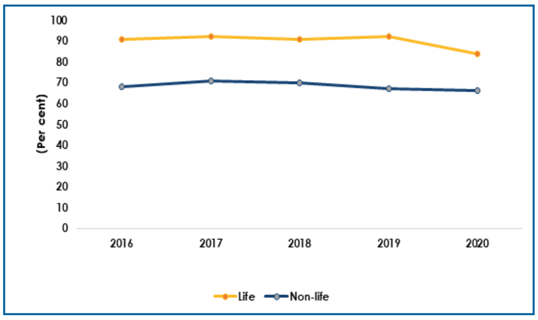
Figure 4.1: Insurance Penetration and Insurance Industry Assets/GDP



Source: National Insurance Commission

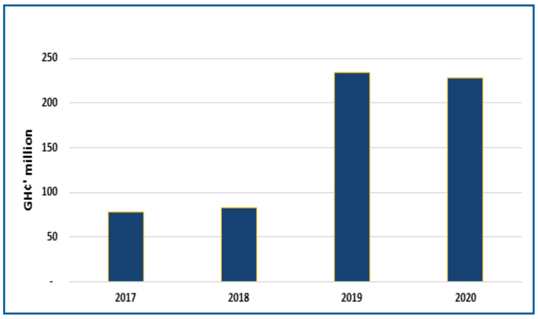
The on-going recapitalisation of the insurance industry is expected to further improve retention of insurance business in the country. In the year under review, non-life insurers retained 66 per cent of premiums, as compared to 84 per cent by life insurers. The lower retention ratio of non-life insurers was due to the nature of the risks underwritten and the high gross insurance risk ratio. At end-December 2020, overseas reinsurance premium transfers, amounting to approximately GH¢229 million, was approved by the NIC.

Figure 4.2: Retention Ratio by Life and Non-Life Insurers (2016 – 2020)



Source: National Insurance Commission

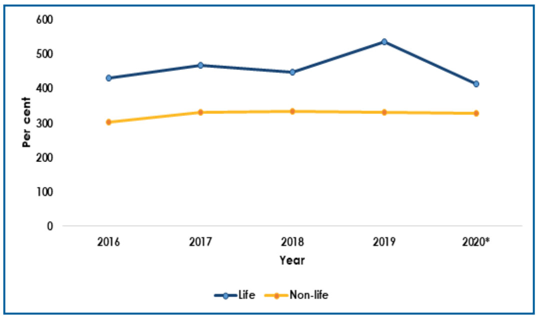
Figure 4.3: Overseas Reinsurance Premium Transfers



Source: National Insurance Commission

Solvency risk is fairly contained within the industry. The industry's total capital base increased to GH¢2.91 billion at end-December 2020 from GH¢2.53 billion at end- December 2019, a growth of 15 per cent over the financial year. Capital Adequacy Ratio (CAR), a metric that measures the quality of available assets to meet obligations, stood at 415 per cent and 328 per cent for the life and non-life insurance sub-sectors respectively. The CAR for the life and non-life industry, in the review year, exceeded the minimum requirement of 150 per cent for the industry. The improvements in corporate governance practices and the efforts made by insurance entities to meet the new minimum capital requirement contributed to this strong result. The outlook for the solvency position of insurance institutions within the industry remains positive especially with the on-going recapitalisation exercise.

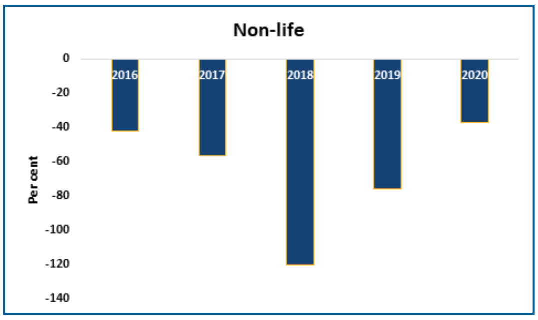
Figure 4.4: Capital Adequacy Ratio (CAR)



Source: National Insurance Commission

Return on equity increased significantly for non-life insurers and remained stable for life insurers. In the life sub-sector, poor underwriting results and declining investment income led to a reduction in return on equity. In contrast, return on equity in the non-life sub-sector increased on the back of investment income, which more than compensated for poor underwriting results within the non-life sub-sector. Underwriting losses and declining investment yields remain significant risks to profitability within the insurance industry. To address underwriting losses, insurers need to adjust their business models to prevent underpricing of risks while strengthening their cost control measures. In the near-to-medium term, the widespread use of the MID and the on-going recapitalisation exercise, with cost control measures, is expected to improve underwriting results.

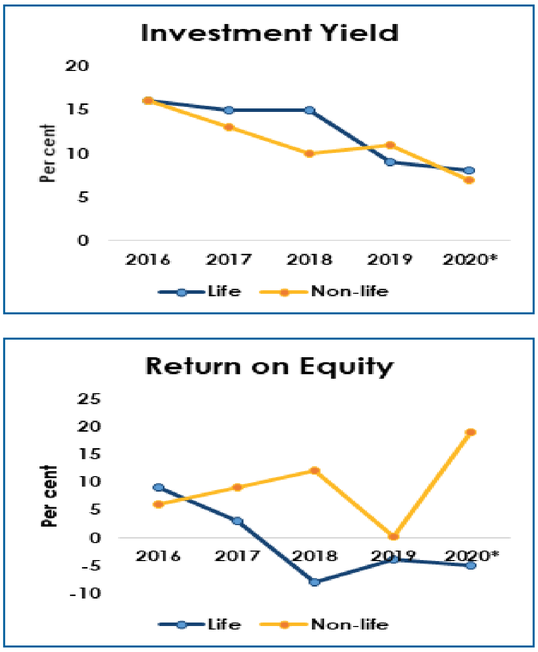
Figure 4.5: Underwriting Results



Source: National Insurance Commission

Total investment assets grew to GH¢5.7 billion at end-December 2020 from GH¢4.9 billion at end-December 2019. In the non-life sub-sector, total investment assets amounted to GH¢1.9 billion, as compared to GH¢3.9 billion in the life sub-sector. The total investment assets in both the non-life and life sub-sectors were concentrated in fixed income securities, with a gradual shift of investments to the real estate sector, moderating in 2020. In the life sub-sector, investments were primarily in GoG and BoG securities (42.0%), investment properties (24.7%) and fixed deposits (19.5%). Similarly, in the non-life sub-sector, investments were primarily in fixed

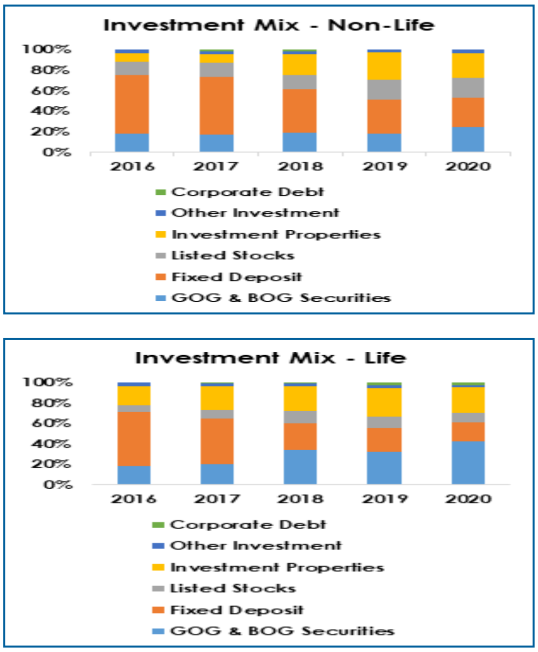
Figure 4.6: Investment and Return on Equity



Source: National Insurance Commission

deposits (28.5%), GoG and BoG securities (24.7%) and investment properties (24.7%). Amid underwriting losses, investment income will continue to play a pivotal role in the near-to-medium-term sustainability of the Insurance industry.

Figure 4.7: Investment Portfolio of Insurers (Life and Non-life)



Source: National Insurance Commission

4.2 Regulatory Developments

The NIC maintains a clear mandate to protect and safeguard the interests of policyholders, and as such continues to develop new initiatives that would promote confidence in the market, whilst maintaining a robust and well-capitalized Insurance industry. Some of the policy initiatives introduced during the year include;

i. **Extension of the deadline for the new Minimum Capital Requirement (MCR) from 30th June, 2021 to 1st January, 2022**. Following the announcement of the MCR, the NIC reviewed the recapitalisation plans of regulated entities. Companies that did not meet the new MCR highlighted plans to raise additional capital from private investors, existing shareholders, the capital market or through retained earnings. In the wake of the pandemic coupled with heightened uncertainty, the NIC granted an extension to the deadline to accommodate challenges in raising capital.

ii. **Establishment of the Motor Insurance Database (MID) to simplify the sale of motor insurance policy, as well as to ensure that motor insurance underwriters are adhering to regulations**. The MID is a central database from which the validity of a motor insurance sticker can be confirmed. The checks can be done through a text message or a Quick Response (QR) Reader. The MID will curb the incidence of proliferation of fake motor insurance stickers and minimize the number of uninsured vehicles.

iii. **The expected passage of the Insurance Bill**. The Bill has provisions that strengthen the regulatory powers of the NIC and seeks to develop and transform the industry through the implementation of new compulsory insurances, promotion of agricultural insurance and ability to conduct group-wide supervision. The Insurance Bill when passed would promote innovative insurance initiatives.

iv. **Signing of the Marine Insurance Protocol with Ghana Shippers Authority and Ghana Revenue Authority (GRA)**. The Marine Insurance Protocol is expected to improve the take-up of marine insurance business in the country and lead to the retention of premiums, which, otherwise, would have been ceded to foreign insurance entities. The NIC is in the advanced stages of creating a Marine Insurance Database to assist the Customs Division of the GRA to authenticate the details of marine insurance policies submitted to the Authority by importers.

v. **Increased collaboration with law enforcement agencies through provision of logistics and training**. The NIC provided training for senior Motor Transport and Traffic Directorate (MTTD) officers in the basics of insurance and the enforcement of motor insurance in Ghana. Also, in a bid to facilitate enforcement, 'Gota' phones were procured by the NIC for officers of the MTTD for the purposes of the confirmation of properly insured vehicles and detection of fake insurances.

vi. **Enhancing the Business Continuity Plan (BCP) of the NIC and regulated entities.** The NIC updated its BCP to reflect the evolving nature of risks and the possible impacts from a pandemic like COVID-19. The NIC also reviewed the BCPs of its regulated entities to ensure business practices and processes are updated. The NIC specifically:
    a. Evaluated critical insurance processes in the BCPs of regulated entities to identify and mitigate deficiencies in order to provide recommendations for its regulated entities; and
    b. Encouraged the use of alternative distribution channels like the use of digital platforms to automate systems and processes, increase direct sales, and simplify the distribution of insurance processes across multiple distribution channels.

4.3 Measures to Mitigate Emerging Risks

The NIC is developing a framework to contain Cybersecurity risk. Usage of digital platforms in the Insurance industry has increased considerably, leading to risks associated with the compromise of data integrity, data theft and disruption of services. In its attempt to avert and mitigate the effects of these risks, the NIC has commenced processes to develop a comprehensive industry Cybersecurity policy and framework. This will help drastically mitigate the threat of cyber-attacks including, but not limited to, Denial of Service (DoS) attack, deployment of computer viruses, malicious attacks and data breaches.

To address solvency risk, the NIC has increased the minimum paid-up capital for the insurance industry. Insolvent insurance companies could leave policyholders exposed to various threats. To mitigate solvency risks and improve confidence in the insurance market, the NIC is enforcing a new minimum capital regime from 1st January, 2022 and is currently engaged with industry participants to ensure that companies are able to meet the new directive.

The NIC has implemented policies to address low insurance penetration within the economy. The policies include the passage of the Insurance Bill which is expected to improve premium income growth in the industry through the implementation of new compulsory insurances, promotion of agricultural insurance, and creation of new provisions to support innovative insurance schemes.

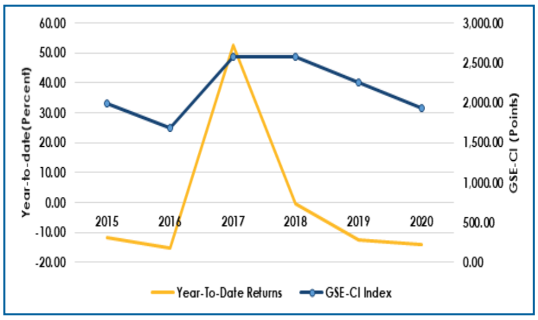
5 Assessment of the Securities Industry

5.1 Performance of the Securities Industry

5.1.1 Equity Market

The Ghana Stock Exchange (GSE) recorded a bearish performance in the year under review. The Ghana Stock Exchange Composite Index (GSE-CI) closed at 1,941.59 points at the end of 2020 from 2,257.15 points in 2019, representing a decline of 315.56 points in the index. This resulted in a negative 13.98 per cent end of year return, as compared to negative 12.25 per cent in 2019. Consequently, this resulted in a loss of GH¢2.42 billion in market capitalization. The decline in equity prices was due to excess offers over bids arising from investor's need for liquidity. During the period under consideration, the GSE had thirty-six (36) listed equities on its platform compared to 39 stocks in the same comparative period.

Figure 5.1: GSE-CI and Year-To-Date Returns

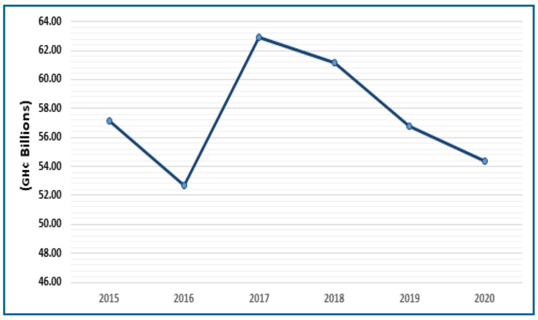


Source: Ghana Stock Exchange

The value of listed companies declined in the year 2020. The total market capitalization recorded at the end of 2020 was GH¢54.37 billion, as compared to GH¢56.79 billion in 2019 (see Figure 5.2). The decline in market capitalization, which translates into a loss of 4.4 per cent could mainly be attributed to decreases in stock prices on the Exchange. The factors, which accounted for the decreases in stock prices, were lower demand and excess supply of equity stocks, as investors were eager to offload their assets for cash in light of uncertainties arising from the COVID-19 pandemic. In effect, investors experienced a total capital loss of GH¢2.42 billion at the end of 2020.

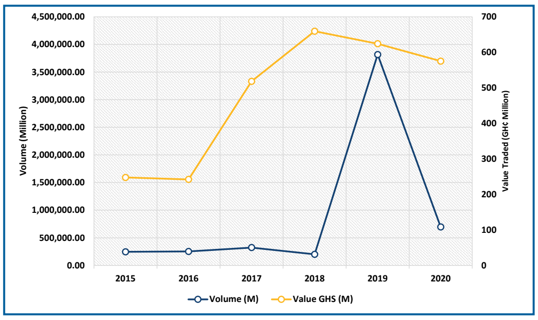
The cumulative volume and value of equities traded on the GSE in 2020 decreased significantly as compared to 2019. The volume of shares traded decreased from 3,816,967,510 in 2019 to 695,396,188 in 2020 with a value of GH¢624.20 million and GH¢575.27 million, respectively. The volume and value traded represented a decrease of 81.78 per cent and 7.84 per cent respectively from the previous year, suggesting that liquidity on the bourse, declined in the year under review (see Figure 5.3)[5].

Figure 5.2: Market Capitalization



Source: Ghana Stock Exchange, Central Securities Depository

Figure 5.3: Volume and Value Traded.



Source: Ghana Stock Exchange, Central Securities Depository

5.1.2 Fixed Income Market

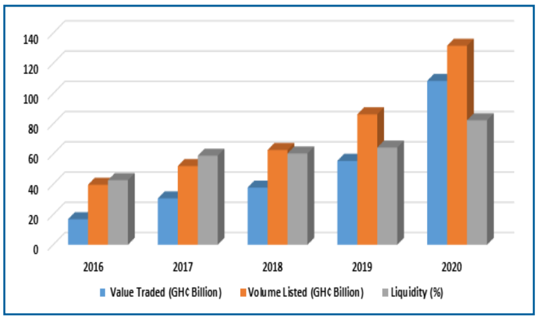
The total value and number of debt instruments outstanding and listed on the Ghana Fixed Income Market (GFIM) increased in 2020 as compared to 2019. The total value of Government of Ghana (GoG) and corporate debt instruments grew by 52.58 per cent and 51.94 per cent, respectively, to GH¢120.69 billion and GH¢10.97 billion at the end of 2020. Similarly, the total number of debt instruments listed in 2020 increased to 200 from 195 instruments in 2019.

The increase in the value of debt instruments was accompanied by an increase in the total volume of debt securities traded. Total volume of debt securities-traded increased by 95.15 per cent to GH¢108.41 billion in 2020, while total value of debt instruments listed increased by 52.5 per cent to

[5] It is important to note, however, that the 2019 volume traded, was exceptional, due to a large block trade in ETI shares.

GH¢131.66 billion[6]. Similarly, the liquidity on the fixed income market rose from 64.35 per cent in 2019 to 82.34 per cent at the end of 2020.

Figure 5.4: Market Indicators for Fixed Income Market



Source: Central Securities Depository

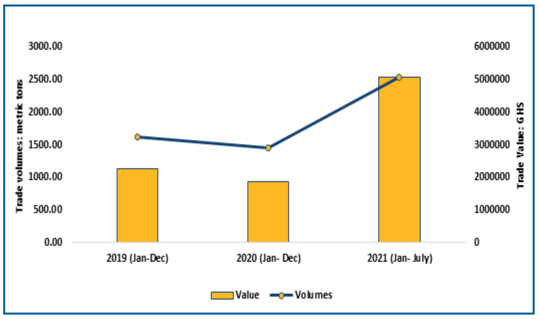
5.1.3 The Ghana Commodity Exchange

The Ghana Commodity Exchange (GCX) is a model Exchange backed by a credible Warehouse Receipt System. The GCX model requires depositors of Commodities traded to voluntarily deposit their commodities in GCX warehouses around the country and offer them for trade on the GCX electronic platform.

The GCX continues to expand the number of warehouses enrolled and the number of commodity contracts traded on the exchange. In December 2020, rice contracts were added to the commodities traded on the GCX electronic trading platform. This increased the number of commodities traded from four to five (previous commodities listed were maize, soya bean, sorghum, sesame). The Volume of commodities traded on the GCX reduced from 1,621.08 metric tons in 2019 to 1,450.53 metric tons (10.52%) in 2020, while the value of commodities decreased from GH¢2.28 million to GH¢1.89 million (17.30%). The reduction in traded volumes and values were largely due to a COVID-19 induced reduction in production levels of processors who purchase listed commodities on the GCX. The GCX has begun preliminary work to enable the trading of Cashew on the platform.

The E – Warehouse Receipt Financing (WRF) initiative affords depositors of listed Commodities access to credit using their deposited Commodities as the sole collateral for the loans. Small Holder Farmers (SHF), in particular, have been crowded out of the financing space as most of them are unable to post the requisite collateral for loans. In 2020, although interest rates were relatively high, a total of nineteen (19) receipts, belonging to 134 small holder farmers were financed at a value of GH¢110,879.17.

Figure 5.5: GCX Trade



Source: Securities and Exchange Commission, Ghana

5.1.4 Asset Under Management

Total Assets Under Management (AUM) saw a significant growth in 2020 as a result of an increase in pension funds. The total Assets Under Management (AUM) at the end of 2020 stood at GH¢30.58 billion, increasing by 8.04 per cent from the previous year, as compared to a decline of 0.01 per cent in 2019. Total Assets Under Management at end 2020 was made up of Pension Funds (GH¢22.26 billion), Collective Investment Schemes (CIS) (GH¢3.14 billion) and other funds (GH¢5.18 billion) managed by fund managers. The growth of 8.04 per cent in AUM was due to a 24.10 per cent increase in pension funds despite a negative growth in both CIS and discretionary funds. The negative growth in other funds and CIS could be attributed to reduced investor confidence arising from the revocation of the licences of 53 fund management companies that could not honour redemption requests of investors (see Table 5.5).

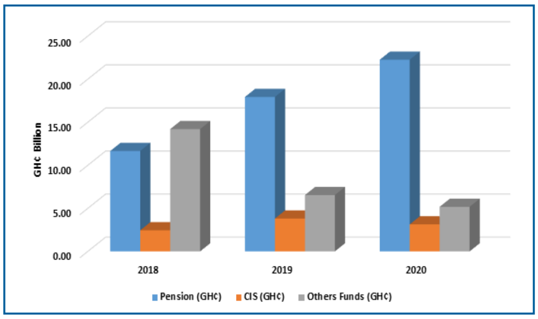
BOX 5.1

THE GHANA COMMODITY EXCHANGE

The GCX was established in 2018 to help transform and standardize commodity trading in Ghana. The aim of the exchange is to establish linkages between agricultural and commodity producers and buyers, to secure competitive prices for their products, assuring the market quantity and quality, as well as timely settlement of their trade. At the end of 2020, the GCX facilitated trade contracts for immediate delivery from 10 warehouses located across Ghana. Since its inception, the GCX has created 2,400 direct and indirect (skilled and unskilled) jobs. The GCX comprises member organizations with 131 members made up of approximately 300,000 smallholder farmers represented by farmer-based organizations who are directly or indirectly benefiting from the Exchange's services. Other members include financial institutions, processors, and aggregators. The number of partner financial institutions at the end of 2020 remained at six (6), made up of four (4) rural banks, one (1) Micro Finance Institution and one (1) Rural Development Fund.

[6] The increase in total volume traded was despite a decrease in the number of securities listed to 44 in 2020, from 45 in 2019.

Figure 5.6: Assets Under Management



Source: Securities and Exchange Commission, Ghana

Table 5.1 Composition of Assets Under Management

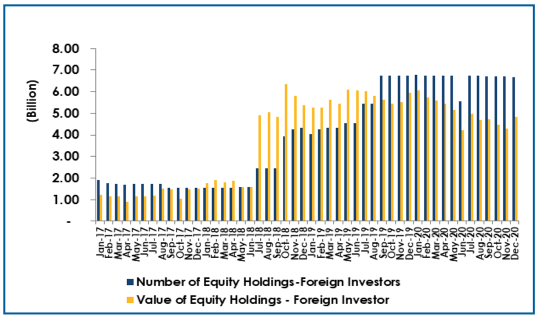
AUM	2020	2019	% Change 2020	% Change 2019
Pension (GH¢)	22,262,272,751.66	17,939,594,633.63	24.10	53.89
CIS (GH¢)	3,142,376,958.70	3,824,072,843.69	-17.83	55.96
Others Funds (GH¢)	5,179,460,517.28	6,543,892,216.93	-20.85	-53.92
Total (GH¢)	30,584,110,227.64	28,307,559,694.25	8.04	-0.01

Source: Securities and Exchange Commission, Ghana

5.1.5 Foreign Investors

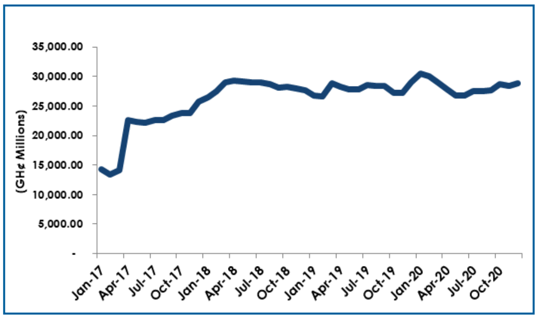
The value of debt security holdings held by foreign investors remained broadly unchanged during the period under review, in contrast to the value of foreign investor equity holdings, which declined. Foreign investors debt holdings stood at GH¢28.8 billion at end-December 2020, as compared to GH¢29.1 billion at end-December 2019. In contrast, the value of foreign investors equity holdings decreased to GH¢4.82 billion at end-December 2020 from GH¢5.94 billion at end-December 2019. The decrease in the value of foreign investors' equity holdings was attributable to declines in the price of equities in the domestic market, arising from uncertainties regarding the impact of the COVID-19 pandemic on the domestic economy. It is expected that the value of equity holdings by foreign investors would rebound as the domestic economy recovers from the COVID-19 pandemic in 2021.

Figure 5.7: Foreign Investor Total Equity Holdings



Source: Central Securities Depository

Figure 5.8: Foreign Investor Total Debt Security Holdings



Source: Central Securities Depository

5.2 Regulatory Developments

The SEC revoked the licences of 53 Fund Management Companies, in line with its mandate of protecting investors and the integrity of the Securities market. In line with the powers vested in the Commission under the Securities Act 2016 (Act 929), the Commission revoked the licenses of 53 Fund Management Companies (FMCs) in November 2019. Of these licencees, 3 FMCs were restored following appeals at the Administrative Hearing Committee of SEC with another 3 FMCs not having client's funds under management. Following the revocation of the licences, the SEC notified the Registrar General (RG) who subsequently petitioned the High Court for the winding up of the companies under the Bodies Corporate (Official Liquidations) Act, 1963 (Act 180). As at the end of 2020, the RG had obtained liquidation orders for 34 revoked FMCs. The intervention by the SEC to revoke these licences was aimed at preserving the investments of over 77,000 retail and 4,700 institutional investors, restoring transparency and introducing greater accountability, while instilling higher ethical standards through improvement of the licensing and supervisory framework. The investment portfolio of the affected firms amounted to GH¢8.1 billion, with GH¢2.4 billion (30 per cent) invested in treasury bills, bank fixed deposits, and listed equities.

Government provided relief to clients of defunct Fund Management Companies (FMC) under a full bailout and partial bailout programme. Payments to investors of FMCs with liquidation orders commenced in September 2020 under a full bailout scheme[7] (in line with the bailout formula). Additionally, for FMCs without liquidation orders, an interim measure, called a partial (special) bailout scheme was announced in November 2020 for investors. The interim measure, brought about after several engagements with the Ministry of Finance (MoF), considered investors' plight of waiting for a long time while court processes

[7] The full bailout scheme covered investors of 47 FMCs; the Commission revoked the licenses of 53 Fund Management Companies (FMCs) in November 2019. Of these licencees, 3 FMCs were restored following appeals at the Administrative Hearing Committee of SEC with another 3 FMCs not having client's funds under management.

were still ongoing. The partial bailout involved the payment of a flat amount of GH¢50,000 cash. Affected investors having more than the GH¢50,000 invested were to receive their additional funds after liquidation orders from the RG was secured. The additional payouts were to be made in line with the full bailout formula. In 2020, the number of claimants who had signed on to the full bailout scheme was 5,466 with a total amount of GH¢1,168 million. As at end-December 2020, 3,781 of the total claims had been paid an amount of GH¢485.5 million. In addition, under the Partial bailout scheme, an amount of GH¢49.95 million had been paid to claimants. The Amalgamated Mutual Fund Limited was established as the vehicle for the bailout of investors.

In 2020, the SEC also issued guidelines to strengthen the supervision of activities by operators in the securities market, in accordance with its regulatory mandate (section 3 of Act 929). The issued Guidelines were: i) Licensing Requirements Guidelines; ii) Conduct of Business Guidelines; iii) Corporate Governance Code for Listed Companies; iv) Sandbox Licensing Guidelines; v) Guidelines on Auditors and Reporting Accountants; and vi) Directive on Operation of Trust Account by Market Operators.

In addition, the MoF and SEC completed the development of the Capital Market Master Plan. The document would serve as a blueprint for capital market development in Ghana for the period 2020 – 2029. The plan was launched in May 2021. The vision of the plan is "A deep, efficient, diversified and well-regulated capital market with a full range of products attractive to domestic and international investors."
The Plan has 4 pillars:

- Pillar 1: Improving diversity of investment products and liquidity of securities market;
- Pillar 2: Increasing the investor base;
- Pillar 3: Strengthening infrastructure and improving market services; and
- Pillar 4: Improving regulation, enforcement and market confidence.

The full document is available on the website of the Commission[8].

5.3 Measures to Mitigate Emerging Risks

The SEC initiated policies to address investor apathy in the capital market stemming from the COVID-19 pandemic. Specifically, the uncertainties arising from the pandemic induced excess offers leading to a reduction in market capitalization and a negative year-to-date return on the GSE. A continued decline in investor interest may worsen performance in the equity market and discourage firms seeking to raise capital from listing on the exchange. To mitigate this risk, the SEC promoted product diversification and development and engaged the public and market operators on newly issued guidelines as Real Estate Investment Trusts (REITs) and private funds. The regulator also intensified its public education programmes to enhance investor confidence and protection. In addition, the SEC issued Sandbox Guidelines to encourage innovation of new products in the securities market. In line with its intensified public and investor education programmes, a new quarterly initiative dubbed "Time with the Commission", was launched in the fourth quarter of 2020.

Investor confidence is expected to rebound, while the risk of companies delisting on the GSE is expected to decline. Partly due to reduced investor/shareholder interest to provide additional capital in the face of a gloomy business environment, some companies sought to delist from the GSE. However, the successful implementation of COVID-19 control measures and the announcement of a permanent exemption of capital gains tax on listed securities is likely to lead to a rebound in trading. This would promote investor confidence and limit the risk of delisting.

Digital platforms remain essential in preventing the disruption of operations. Limited marketing avenues due to the pandemic led some FMCs to temporarily close offices, while others migrated activities online. To mitigate the risk of permanent closures, the regulator encouraged online marketing and use of electronic payment systems. In addition, the regulator continuously monitored online platforms to identify and control inherent risks through its risk-based supervision approach.

To enhance and sustain productivity, staff were provided with the necessary equipment to protect themselves from the COVID-19 virus. Specifically, the Commission migrated to a shift system and empowered staff to work from home while providing sanitizers, masks, vitamin C and a hand washing station at the entrance of the Commission. Physical inspections were also restricted to emergency situations and all mails were required to be submitted electronically.

Deepening digital submission of returns by market operators would sustain the regulator's supervisory activities amid the pandemic. During the year, the Commission received returns digitally as part of its medium-term digitization strategy. The digitization

[8] *https://sec.gov.gh/capital-market-master-plan/*

was accelerated by the COVID-19 pandemic and the need to reduce onsite inspections. The Commission also began development of a Risk Based Supervisory Framework, which will be enhanced in 2021, following implementation of its Regulatory Compliance Portal in 2020. These solutions will improve the capacity of the regulator to ensure market integrity and investor protection.

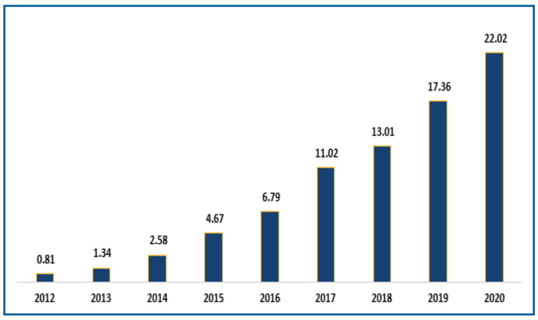
6 Assessment of the Pensions Industry

6.1 Performance

The pensions sector expanded in the year under review. At end-December 2020, total pension funds increased to GH¢ 33.5 billion from GH¢ 26.4 billion in 2019, despite the COVID-19 pandemic and the much-anticipated decumulation of Private Pension Funds. In 2020, pension funds grew by 27 per cent, as compared to 19 per cent in 2019. The strong growth of pension funds (27 per cent) in 2020 is attributable mainly to the partial settlement of government indebtedness to the Tier 1 scheme and the consistent growth of private pension funds.

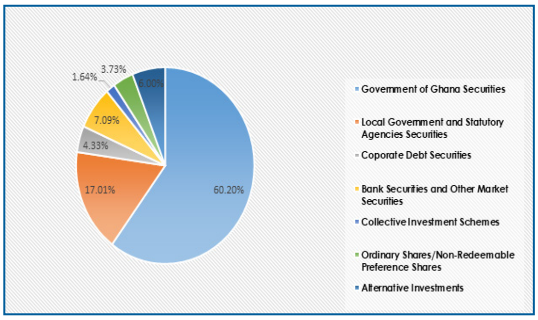
Private pension funds maintained a strong growth momentum in 2020. Total private pension funds, grew by 26.8 per cent in 2020, as compared to 33.4 per cent in 2019. At end-December 2020, total private pension funds stood at GH¢ 22.02 billion, as compared to GH¢17.36 billion at end-December 2019. The growth in private pension funds was remarkable, given the commencement of the decumulation of private pension funds and the granting of emergency access to pension benefit amid the pandemic. In 2020, investment of private pension funds was held primarily in the form of government securities, constituting 60.2 per cent of the total.

Figure 6.1: Private Pension Funds (%)



Source: National Pensions Regulatory Authority

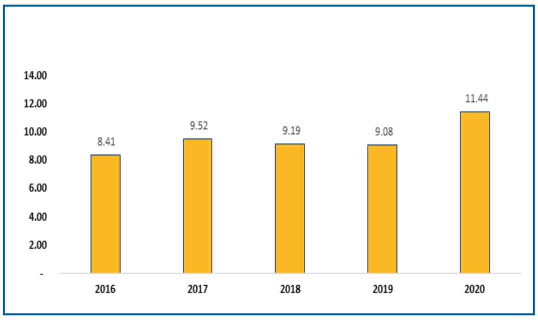
Figure 6.2: Allocation of Private Pension Funds



Source: National Pensions Regulatory Authority

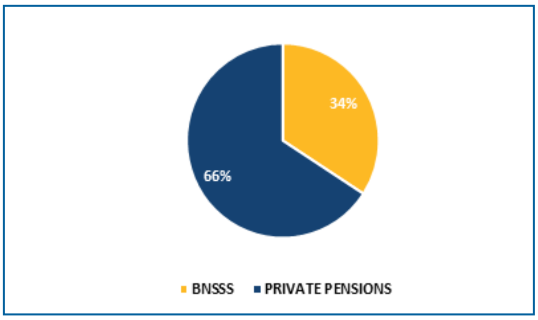
Growth of pension funds under the Basic National Social Security Scheme (BNSSS) rebounded in 2020. From a negative growth in 2018 (-3.5 per cent) and 2019 (-1.2 per cent), pension funds under the BNSSS recorded a growth of 26 per cent in 2020. The growth was mainly due to the settlement of part of government's indebtedness to the scheme. At end-December 2020, total funds under the BNSSS stood at GH¢ 11.35 billion, compared to GH¢ 9.08 billion at end-December 2019. Downside risks to sustained growth in the outlook for the public pension funds include the late payment of contributions, rising outstanding contributions, increasing benefit payments, and weak investment outturn.

Figure 6.3: Public Pension Funds



Source: National Pensions Regulatory Authority

Figure 6.4: AUM Distribution



Source: National Pensions Regulatory Authority

6.2 Regulatory Developments

In 2020, the National Pensions Regulatory Authority (NPRA) collaborated with industry stakeholders to implement a number of key initiatives. The objective was to contain the impact of the COVID-19 pandemic on the pension sector and employees, while enhancing the general outlook of the pension sector. Key regulatory developments, related to the COVID-19 pandemic, include:

1. **Granting of emergency access to third-tier pension funds;**
   a. The measure provided additional funds to contributors who had lost their jobs due to the pandemic. To enhance the cushioning given to contributors, the NPRA worked with the Ministry of Finance to grant tax waivers to members on the 3rd Tier pension scheme who accessed their benefits under the emergency withdrawal provision.
2. **Waiver of penalties on late contribution payment;**
   a. The 3% contribution surcharge on late pension contribution payments by employers was waived.
3. **Extension of the deadline for industry return; and**
   a. the submission deadline for annual reports and other industry returns for Scheme and Corporate Trustees were extended for one (1) month, and
4. **Enhancement of offsite analysis.**
   a. In the wake of the COVID-19 pandemic and its associated restrictions, the NPRA enhanced and relied on its offsite analysis to ensure compliance to its regulations and detect regulatory breaches by corporate trustees and schemes in a timely manner.

In addition to the policies listed above, the following measures were taken to strengthen the pensions sector:

1. **Prosecution of defaulting employers:**
   - Five (5) employers who failed to comply with the mandatory 2nd Tier contributions were prosecuted.
2. **Launching of the Cocoa Farmers Pension Scheme:**
   - The government launched a pension scheme for cocoa farmers in December 2020. This scheme will see cocoa farmers in the country contributing to a pension scheme which will guarantee retirement benefits. The scheme will also ensure a decent retirement income for cocoa farmers. The Pension Scheme will enable the farmers to make voluntary contributions towards their retirement, while COCOBOD makes a supplementary contribution on behalf of the farmers.
3. **Payment of lump sum of pensioners who migrated from PNDCL 247 to Act 766:**
   - For pensioners who did not make the minimum contribution period under PNDCL 247, the NPRA, in the review year coordinated the transfer and payment of their lump sums in line with Act 766. Also, the difference of 4% resulting from the old contribution rate of 17.5% and the new contribution rate of 13.5% was duly paid.

6.3 Measures to Mitigate Emerging Risks

The Authority's supervisory approach remained focused on a hierarchy of risk priorities, which enables it to identify and address the most critical issues. For 2020, the following emerging risks included:

- **Job losses:** Job losses and retrenchments (especially in the formal sector) will eventually have a negative impact on contribution inflows which goes to affect the sustainability of the Pension Schemes/Funds. To mitigate this, the Authority waived its sanction of 3% surcharge for delay or non-payment of contribution by employers for a period to ease the financial distress caused by the impact of the pandemic.
- **Loss of investment income and non-performance of investments**: In 2020, most investment portfolios yielded low returns. The Authority was able to identify this risk early and mitigated it by granting waivers for Trustees to increase investment threshold in Government of Ghana (GoG) securities and investments in the Investment Guideline.
- **Tier 3 withdrawals**: As part of measures to ease the impact of the pandemic, contributors to Personal Pension Schemes were granted a one-time tax-free withdrawal of funds. Provident Fund Schemes also applied tax waivers to retrenched staff. As a result, contributors were allowed to withdraw 15 per cent of their contributions. To prevent exploitation of this provision and possible fraud, a guideline was issued. Proof of retrenchment or termination of appointment before approval was a prerequisite for the granting of the tax-free withdrawal.
- **Increase in regulatory infractions**: Due to the suspension of on-site inspections, it was estimated that the risk of breaches in regulatory guidelines could plausibly increase. To ensure that this risk does not manifest within the pensions industry, the Authority has deployed other non-contact means like smart workplace for virtual on-site inspections. In addition, the NPRA has deepened its off-site reports assessment to mitigate this risk.

- **Lack of automation of regulatory processes**: The Authority regulates Corporate Trustees, Individual Trustees, Pension Fund Managers, Pension Fund Custodians and Pension Schemes who submit reports periodically to the Authority. These reports are reviewed to ascertain compliance in their operations. To facilitate the efficient review of these reports, the Authority is acquiring a regulatory software to automate most of its processes and procedures.

- **Fraud in benefit payments**: In 2020, the decumulation of private pension funds for contributors under Tier 2 commenced. To prevent 'fraud in benefit payments' during the decumulation, the Authority has developed a benefit administration procedure to guide the industry in payments, whiles other measures have been put in place to verify and validate the identity of claimants in collaboration with the NIA.

7 Assessment of the Resilience of the Financial Sector

7.1 Stress Tests of the Banking Industry

To evaluate the resilience of the financial system, various tail events/shocks were applied to the banking industry using financial and economic data. Banks continue to dominate the Ghanaian financial sector (70.0% of financial sector asset as at end-December, 2020) and remains heavily interconnected with the securities, insurance and pensions industries. As a result, stability of banks remains critical in preserving financial system stability in the country. To evaluate the banking industry's resilience to shocks, an exercise that stressed banks' balance sheets and profit and loss accounts to extreme but plausible shocks was conducted using data as at end-December, 2020. The stress tests covered credit, market and liquidity risks. The scenarios were model driven, anchored on historical simulations and relied on expert judgment.

7.1.1 Credit Risk Stress Testing

The banking industry was found to be generally resilient to credit risk based on the Loan Migration Model stress testing. The loan migration analysis stressed banks' loan portfolio through reclassification of existing loans to indicate a higher degree of loan impairment under the following assumptions:

i. Annual growth rate of gross loans increases at a moderate rate of 1% due to uncertainties generated by the COVID-19 pandemic;
ii. A worst-case scenario of 1.0 standard deviation of the mean annual migration rate since the year 2008 occurs concurrently;
    a. Current to OLEM – 3.8%
    b. OLEM to substandard – 53.7%
    c. Substandard to Doubtful – 75.8%
    d. Doubtful to Loss – 100%
iii. The current provisioning norm is maintained.
iv. No loan collateral is considered or deductible from the loan except for cash collateral.

Supported by a strong capital base, the banking industry remained robust to extreme loan impairment. The industry CAR, following a stress test, reduced from a pre-stress CAR of 19.8 per cent to a post-stress CAR of 18.6 per cent, well-above the minimum regulatory CAR of 11.5 per cent (hurdle rate). The resilience of the industry to elevated levels of credit impairment is partly supported by a strong capital build-up from profit retention and the recent capital injection (recapitalisation). Amid the COVID-19 pandemic, prompt policy responses such as the freeze on dividend pay-outs helped to further ensure that the industry was well-capitalized to contain probable credit deterioration as a result of the uncertainties arising from the pandemic. The reduction of the capital conservation buffer by 1.5 percentage points to 11.5 per cent provided further capital charge relief for banks.

Table 7.1: Stress Test Results of Credit Risk Stress Tests - Loan Migration Model

Credit Risk	Period	Baseline CAR (%)	Stressed CAR(%)	Hurdle Rate (%)
Loan Migration Model	Dec-2020	19.8	18.6	11.5

Source: Bank of Ghana

The banking industry was also found to be resilient to credit risk based on the Loan Concentration Model stress test. The concentration shock assesses the impact of a failure of a bank's single largest borrower. The scenario evaluates the solvency of banks should their single largest borrower fail to honour their obligation, leading to the exposure migrating to the loss category. The December 2020 test revealed that should the single largest borrower of each bank default concurrently, the CAR of the banking industry will decrease from 19.8 per cent to 16.0 per cent. This indicates that the industry CAR, facing an adverse credit shock, would still be well-above the minimum regulatory capital due to the strong capital position.

Table 7.2: Stress Test Results of Credit Risk Stress Tests - Loan Concentration Model

Credit Risk	Period	Baseline CAR (%)	Stressed CAR(%)	Hurdle Rate (%)
Loan Concentration Model	Dec-2020	19.8	16.0	10.0

Source: Bank of Ghana

7.1.2 Exchange Rate Risk Stress Testing

The banking industry was robust to exchange rate shocks. Exchange rate risk focuses on shocks to assets and liabilities emanating from foreign exchange market volatilities. The scenario assessed the direct impact of variations in exchange rate on an institution's Net Open Position (NOP). The main assumptions include;

i. A change in the exchange rate leads to a proportional change in the domestic currency value of the institutions' NOP; and

ii. A worst-case scenario of +/-1.0 standard deviation of the mean depreciation/ appreciation of the Cedi/Dollar exchange rate from the year 2008 to the fourth quarter of 2020.

   a. +1 standard deviation – (23% depreciation)

   b. -1 standard deviation – (3.1% appreciation)

The result indicates that, an unexpected large depreciation and appreciation of the Ghana Cedi against the US Dollar would not have any significant impact on the solvency of banks, reflecting the existing tight limits on the NOP within the banking industry.

Table 7.3: Stress Test Results from an Exchange Rate Shock

Exchange Rate Shock	Period	Baseline CAR (%)	Stressed CAR (%)	Hurdle Rate (%)
Depreciation (1 standard deviation)	Dec-2020	19.829	19.823	11.5
Appreciation (1 standard deviation)	Dec-2020	19.829	19.828	11.5

Source: Bank of Ghana

7.1.3 Interest Rate Risk Stress Testing

Impact of interest rate shocks have muted. The interest rate shock tests for direct interest rate risk, which is the risk incurred by a financial institution when the interest rate sensitivities of its assets and liabilities are mismatched. The scenario utilizes the repricing gap model which calculates the changes in interest income and interest expenses resulting from the "gap" between the flow of interest on the holdings of assets and liabilities in each time-to-repricing bucket. The "gap" in each time-to-repricing bucket shows how net interest income will be affected by a given change in interest rates.

The model is simulated under the following assumptions:

i. The Treasury bill rate is the benchmark for setting the interest rate;

ii. Interest rate shock amounting to +1 standard deviations of the average 91-Day Treasury bill rate over the period 2008 to December 2020 was applied on the system;

iii. The shock takes the form of a parallel shift of the yield curve for all interest-bearing instruments across all currencies; and

iv. The time-to-repricing is up to one year.

The results of the exercise showed that unanticipated interest rate changes amounting to +1 standard deviation in the 91-day Treasury bill rate would not significantly affect the solvency condition of the banking industry. The results from the interest rate risk stress testing model, showed that the industry CAR, facing an adverse interest rate shock, would still be well-above 11.5 per cent, the minimum regulatory capital (hurdle rate).

Table 7.4: Stress Test Results from an Interest Rate Shock

Interest Rate Shock	Period	Baseline CAR (%)	Stressed CAR (%)	Hurdle Rate (%)
Repricing gap (+1 standard deviation)	Dec-2020	19.8	18.2	11.5

Source: Bank of Ghana

7.1.4 Liquidity Risk Stress Testing

Liquidity shocks are generally subdued. The liquidity stressing exercise assesses how the withdrawal of all funds by the single largest depositor would impact the solvency position of banks. The key assumptions are:

- Haircut for assets with the following residual maturities to be disposed of to settle withdrawal needs;
  - » Assets less than 1 month – 10%
  - » Assets greater than 1 month and less than 3 months – 14.6%
  - » Assets greater than 3 months and less than 6 months – 15%
  - » Assets greater than 6 months and less than 1 year – 15.5%
  - » Assets greater than 1 year and less than 3 years – 100%
- Average risk-weight of liquidated assets – 0%.

The results from the liquidity risk stress-testing model showed that the industry CAR, facing an adverse liquidity shock, would still be well above the minimum regulatory capital (hurdle rate).

Table 7.5: Stress Test Results from Liquidity Stress Tests

Liquidity Shock	Period	Baseline CAR (%)	Stressed CAR (%)	Hurdle Rate (%)
Single Largest Depositor Withdrawal Funds	Dec-2020	19.8	18.8	11.5

Source: Bank of Ghana

7.1.5 Multi-Factor Shock Analysis

The multi–factor scenario combined credit (loan migration model), exchange rate (depreciation) and interest rate (increase) shocks. The results indicate that, the banking industry would continue to be resilient against concurrent asset quality downgrades, extreme depreciation, and interest rate increases. Following the multifactor shock, the stressed CAR of the industry stood at 16.9 per cent, well above the minimum regulatory capital (hurdle rate).

Table 7.6: Multi-Factor Shocks

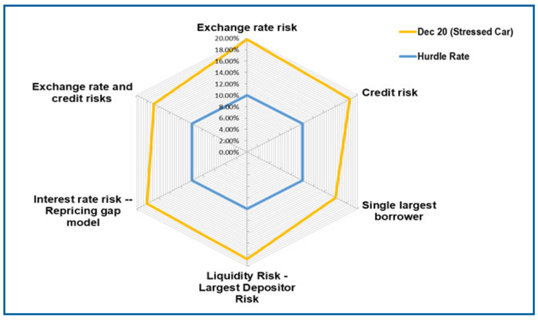
Multifactor Shock	Period	Baseline CAR (%)	Stressed CAR (%)	Hurdle Rate (%)
Depreciation and Credit Risk Shock (Loan) Migration Model)	Dec-2020	19.8	16.9	11.5

Source: Bank of Ghana

The Resilience Assessment Map

Generally, the banking industry would be resilient to shocks emanating from the COVID-19 pandemic. From the stress test results, the banking industry would be able to withstand credit, interest rate, and exchange rate shocks (see resilience assessment map[9]). The resilience of the banking industry to shocks, as shown by stress test results, could be largely attributed to the strong pre-COVID position of the industry and the prompt prudential measures implemented by the BoG to strengthen the banking industry amid the COVID-19 pandemic.

Figure 7.1: Resilience Assessment Map

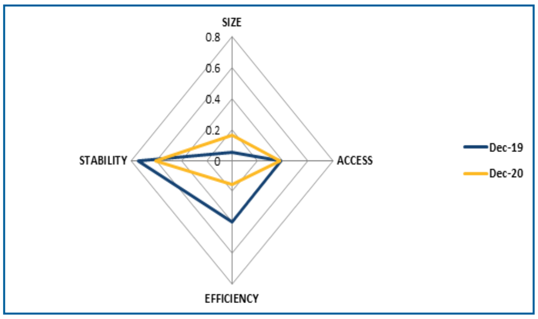


Source: Bank of Ghana

7.2 Assessment of Capital Market Resilience

The Stock Market Performance Index (SMPI) captures four dimensions of the GSE performance: – access, size, efficiency, and stability of the market. These indices provide a broader view of the status of the bourse and helps identify potential risks that may arise on the market. A capital market with increasing access, size, efficiency and stability will broadly be more resilient to shocks.

Figure 7.2: Stock Market Performance Indices



Source: Ghana Stock Exchange

The size dimension of the SMPI decreased in the year under review. The size dimension of the stock market captures resource mobilization potentials of the market. In 2020, the index for the size dimension reduced to 0.13 from 0.25 in 2019. The size of the bourse declined on the back of a drop in the ratio of market capitalization to GDP by 13.31 per cent; turnover ratio by 7.86 per cent; and the total value of stock traded to GDP by 7.42 percent[10]. The decline in trading activities was fueled by a fall in demand for equities in the period under review.

The access dimension of the SMPI decreased marginally in 2020. The access dimension captures market concentration and is measured by the Herfindahl- Hirschman Index (HHI), the share of the largest ten firms in terms of total market capitalization and the share of top ten firms in terms of total trading volumes. At end-December 2020, the index for the access dimension, decreased marginally to 0.38 from 0.39 by end-December 2019. The decrease in the access dimension was on the back of a decrease in the HHI, and the share of the largest ten firms in terms of total trade volumes.

The efficiency index of the stock market also reduced in the review year. The percentage of shares with zero returns is used to measure pricing efficiency on the bourse. At end-December 2020, the index for the efficiency dimension reduced to 0.15 from 0.39 in the previous year. The decline in the efficiency index was on the back of the percentage of shares with zero returns, which increased to 37.5 per cent at end-December 2020, from 23.52 per cent at end-December 2019.

The stability index on the stock market declined in 2020. Stability on the bourse; is measured by the price to earnings ratio, price volatility index and the percentage of stock with negative returns. At end-December 2020, the index for the stability dimension declined to 0.16 from 0.74 at end December 2019. The decline in the stability index at end-December 2020 was on the back of the price to earnings ratio, which declined to 3.15 at end-December 2020 from 7.41 at end-December 2019.

[9] The resilience map shows the stressed Industry CAR following stress test exercises. The hurdle rate represents the minimum regulatory capital for the industry.
[10] In comparison, the ratio of market capitalization to GDP, turnover ratio and total value of stock traded to GDP declined by 18.83 per cent, 7.86 per cent and 1.13 per cent in 2019.

8 Special Features

8.1 The Role of Deposit Insurance as a Safety Net Partner

Financial crisis can have severe and lasting effects on economic activity and on the welfare of firms and individuals, especially depositors. Bank failures may result in large fiscal costs, can have contagion effects on other financial institutions (banks and nonbank financial institutions), and undermine the stability of the financial system. Financial crisis and the long process of recovery reduces the ability of the financial sector to perform its primary role, which is to transform savings into productive investments at a reasonable price and provide an efficient framework for payments and settlements.

Effective bank resolution frameworks and financial safety nets are important to preserve financial stability, which is a prerequisite for economic growth and sustainable poverty reduction. For countries that have experienced bank failures on a systemic scale, the disruption to economic activity, the loss of savings, and the interruption to credit creation have had long-lasting adverse effects on economic growth, employment, and poverty reduction. Those effects have been evidenced in many regions, including Central Asia, East Asia and Pacific Europe, Latin America and the Caribbean, South Asia, and Sub-Saharan Africa. The extent of damage that bank failures impose on the economy and the resultant implications for poverty depend on a country's ability to identify and resolve bank distress quickly, and with minimal disruption to the economy and wider financial system. Countries with poorly developed systems for detecting and responding to bank stress in a timely manner, and with inadequately designed and implemented resolution frameworks and financial safety nets, have generally experienced deeper and longer lasting economic effects than countries with robust frameworks in these areas.

Financial safety nets are a set of arrangements aimed at reducing the effects of the failure of one or multiple financial institutions on depositors, the financial system, and the economy. Financial institutions, particularly banks, have a unique function in the economy as they take deposits from the public and play a critical role in payments and transactions between economic agents. Because of this, banks are subject to prudential requirements and close supervision. Financial safety nets of Banks fall into two categories: i) those that apply to adequately capitalized and viable but illiquid banks and ii) those that apply to inadequately capitalized and nonviable banks, which need to be resolved. They serve different purposes—the first for liquidity support and the second as a means of providing support to protected depositors exposed to an insolvent financial institution—but both aim to minimize adverse effects arising from bank distress or failure.

Deposit Protection as a Financial Safety Net Pillar

Deposit Protection is a financial insurance scheme that protects small depositors by ensuring prompt payment of depositors' funds in the event of the occurrence of a bank failure. It is a scheme established by Governments and Regulators across the world to promote trust in the financial system. The main financial safety net for depositors of a failed bank is deposit insurance. Deposit insurance schemes provide a mechanism to insulate small depositors from loss and to give them prompt access to their deposits, up to a defined level, on the failure of a bank.

Deposit insurance schemes are generally funded through regular premiums on banks covered by the scheme and supplemented with a temporary funding line from the government where necessary. Deposit protection aims to protect depositors against the loss of their savings when an individual bank or deposit taking institution fails. This protection reinforces trust in the financial system and averts bank runs. Deposit insurance is referred to as an "explicit" system, where the cost of protecting deposits is largely borne by the financial institution, in contrast to a system where there is an implicit expectation that the government will step in to protect all depositors or even all creditors of a bank or deposit taking institution.

The International Association of Deposit Insurers (IADI)[11] Core Principles state that membership in a deposit insurance system should be compulsory for all licensed banks and deposit taking financial institutions.

[11] The International Association of Deposit Insurers (IADI) is the global standard-setting body for deposit insurance systems. IADI has published Core Principles for Effective Deposit Insurance Systems (the IADI Core Principles), which set an important benchmark for jurisdictions to use in establishing or reforming deposit insurance systems

In most jurisdictions, promoting financial inclusion does not fall explicitly within the mandate of the deposit insurer. Other participants in the financial safety net are encouraged to stay abreast with financial inclusion initiatives and associated technological innovations. It has been noted that, the involvement of deposit insurance in the promotion of financial inclusion, should be undertaken with the strong engagement of, and coordination with supervisory authorities and other financial safety-net participants. In addition, public awareness campaigns should adequately address what types of deposits and money transfer vehicles are covered by deposit insurance and what types are not. This is to minimize potential confusion among small-scale depositors and financial service providers alike.

Deposit insurance schemes fall into different categories depending on their range of functions. The simplest deposit insurance schemes are referred to as "paybox" schemes. These are used to reimburse insured depositors upon the closure of a bank or deposit taking institution through pay-outs to depositors; funds cannot be used for wider resolution purposes. An alternative scheme known as "paybox plus" enables a deposit insurer to make a financial contribution to a wider range of bank resolutions, including Purchase and Assumption (P&A). The financial contribution to a resolution, made by a deposit insurance scheme, is normally subject to a least cost test. The least cost test limits the amount of funds provided, to the minimum amount that would have been paid through pay-out. A deposit insurance scheme with an explicit mandate to seek the lowest-cost form of resolution to meet the objective of providing insured depositors with access to their funds is known as a "loss minimizer" scheme. A deposit insurance scheme is referred to as "risk minimizer" if it has comprehensive risk minimization functions, including risk assessment and management, a full suite of early intervention and resolution powers, and, in some cases, prudential oversight responsibilities.

Ghana's Deposit Protection Scheme

The Ghana Deposit Protection Act, 2016, Act 931 as amended by the Ghana Deposit Protection (Amendment) Act, 2018, (Act 968) established the Ghana Deposit Protection Scheme. The scheme seeks to protect a small depositor from loss incurred by the depositor due to the occurrence of an insured event. The object of the scheme is to support the development of a stable and efficient financial system in Ghana, by ensuring prompt payouts to insured depositors on the occurrence of an insured event. Act 931 (the Act), as amended, also establishes the Ghana Deposit Protection Corporation (GDPC) to manage the deposit protection scheme. The Act, also establishes the Deposit Protection Funds from which reimbursements will be made to depositors (payouts) on the failure of a bank or Specialized Deposit Taking Institution (SDI).

Key Features of Ghana's Deposit Protection Scheme

Ghana's deposit protection scheme was designed in line with international principles. The scheme, which has a paybox mandate, has a number of essential features outlined below.

a. ***Governance*** - GDPC or the Corporation is a statutory body that operates within the public sector of Ghana. The Corporation has a seven-member Board, Chief Executive, Management and other staff. The Corporation is charged with managing the scheme and the Deposit Protection Fund.
b. ***Membership*** - Membership of the scheme is compulsory for all deposit-taking banks and SDIs licensed by the Bank of Ghana.
c. ***Coverage*** – (Scope): All deposits are protected, with the exception of a few, such as a deposit:
    i. For which a depositor has not been identified;
    ii. Frozen in compliance with an order of a court,
    iii. belonging to a director, key management personnel,
    iv. belonging to an accounting or audit firm of a failed institution (or any of these who have worked with the bank or specialized deposit-taking institution for at least three years preceding the occurrence of the insured event);
    v. used as collateral for a loan or other obligation with the bank or SDI:
    vi. Held by a financial institution, pension fund, retirement fund, insurance company, collective investment undertaking, local government, central government and administrative authority; and
    vii. Held in a foreign branch of a bank or SDI incorporated in Ghana, and a subsidiary of that bank or SDI operating in a foreign country.
d. ***Coverage*** - (Limit): Payouts upon failure of a bank or SDI are fixed at GH¢6,250.00 per customer per bank and GH¢1,250.00 per customer per SDI. The GDPC Act allows room to amend this after the first three years in operation.
e. ***Premiums*** – Members (banks and SDIs) pay an initial 0.1 per cent of the minimum paid–

up capital as a one-off payment. An annual premium assessed yearly by the Board, currently 0.3 per cent of the insurable deposits of the bank or SDI for the preceding year is charged payable on a quarterly basis.

f. ***Reimbursing Depositors*** – Reimbursing depositors shall be within 30 days after the publication of modalities for compensation. Depositors who are unable to claim during that period have five years to make their claim. There is no limit to the timeframe for claiming on behalf of deceased depositors.

BOX 8.1

KEY MILESTONES

- ***Branding and logo of GDPC***

During the inception / project phase of the scheme, communication efforts were focused on developing an effective branding and communications strategy that will rapidly enhance stakeholder awareness of the key features of the Ghana Deposit Protection Scheme. The current GDPC logo, featuring Ghana's map sitting in two hands, signifies the universal and broad nature of the Scheme, indicating how the deposits of small depositors across the country are held secure in the hands of the Corporation. The Ghana Cedi sign within the map depicts the currency in which the deposits are protected, while the colours, gold and blue, signify wealth and confidence. The Logo of the Corporation is in the process of being registered with the Trademarks Registry of Ghana.

- ***Public Awareness***

Section 24 (m) of the Ghana Deposit Protection Act, 2016, Act 931 as amended, mandates the Corporation to promote and undertake a sustained communication and public awareness of the scheme using various communication strategies, tools, and outlets. Realizing the importance of communication and public awareness to the efficiency of a deposit insurance system, particularly in a country like Ghana where deposit protection is a novelty, the Ghana Deposit Protection Corporation set out to enhance stakeholder awareness about the key features of the new deposit protection scheme right at the inception / project phase. GDPC continues to organise sensitization sessions for different levels of employees of member institutions. Since the onset of COVID-19, these sensitization sessions have been virtual via zoom video conference. Sensitization session have recorded as much as 300 participants per session.

- ***Website Development***

To enhance visibility for the GDPC brand and to increase public awareness of operations of the Scheme, Management of GDPC saw to the development of a website for GDPC. The website prominently features write-ups, statutes, FAQs and audio visuals,which explain the key features of the Deposit Protection Scheme. GDPC is also working to maintain a strong social media presence.

- ***Stakeholder Awareness***

In order to enhance and sustain stakeholder awareness and understanding of Ghana's new deposit protection Scheme, Management of GDPC have since 2020 embarked on sensitization webinars for representatives of member institutions of the Ghana Deposit Protection Scheme. Having enrolled as a member of the International Association of Deposit Insurers (IADI), GDPC hosted the 2019 IADI-ARC Technical Assistance Workshop, which saw the public launching of GDPC. By this event, GDPC was introduced to the financial sector, as a new financial safety net partner in Ghana. GDPC has since the Go-Live, drafted communications policies and manuals and has currently initiated the process for production of communication materials to be distributed by member institutions to depositors explaining the key features of the Scheme. As part of efforts to enhance the working relationship between GDPC and its member institutions, there are periodic meetings between GDPC and officials of banks, Savings and Loans Companies, Microfinance Institutions and Finance Houses to discuss avenues of collaboration between GDPC and member institutions of the Scheme.

- ***Integrating Deposit Protection into educational curriculum***

As part of efforts to entrench the knowledge about GDPC and deposit protection practice within the financial system, the Corporation is working to introduce deposit insurance as a course in the curriculum of business schools and finance professional bodies such as the Banking College, Chartered Institute of Bankers (CIB) and Institute of Chartered Accountants, Ghana (ICAG). The Banking College is set to roll out the first program in the third quarter of 2021.

g. ***Public Policy Objective*** - The object of the scheme is to protect a small depositor from loss incurred due to the occurrence of an insured event and support the development of a stable and efficient financial system in Ghana through prompt payment of depositors.

Relationship between GDPC and Bank of Ghana (BoG)

GDPC plays a partnering role to Bank of Ghana's mandate of promoting and maintaining financial stability and ensuring a sound payment system. The banking sector's Financial Safety Net comprises the following; 1) Prudential Regulation and Supervision; 2) Failure Resolution; 3) Lender of last Resort; and 4) Deposit Protection. The first three functions are under the remit of the Bank of Ghana while the GDPC undertakes the last function.

In October 2020, GDPC and BoG established a Technical Collaboration /Cooperation Agreement through a Memorandum of Understanding **(MoU)**. This was in line with Act 931, as amended, which enjoins both parties to enter into a cooperation through the MoU for information sharing and other necessary collaboration. The following are key areas of cooperation listed within the MoU:

- Exchange of information between the parties;
- Operational support and resource sharing;
- Failure Resolution and pay-out; and
- Regional and cross border matters;

GDPC is a key partner in the financial safety netof Ghana. It is not a substitute for the other partners of the safety net, but rather complements them. As a new financial safety net participant, GDPC is working hard to build a credible brand. The strategic plan of the Corporation is to ensure that over the next five years, GDPC develops its people, processes, stakeholder collaborations, financial performance and its brand as an efficient and responsive scheme. This is to ensure that GDPC attains relevance as a key financial safety net partner. When depositors do not feel inclined to run on financial institutions at the least sign of trouble, then GDPC would have attained credibility and relevance as a safety net partner. This will in turn promote financial stability, which is the bedrock of economic growth and sustainability.

8.2 Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) Regime

Money Laundering, Terrorist Financing and the Proliferation of Weapons of Mass Destruction (ML/TF&P) pose serious risks to global financial systems. In response to the threat of ML/TF&P to the global economy, the Financial Action Task Force (FATF) was established in 1989 to set international standards that promote the effective implementation of legal, regulatory and operational measures for countering money laundering, terrorism financing and the proliferation of weapons of mass destruction. FATF, in collaboration with its regional bodies, including the Inter-governmental Action Group against Money Laundering in West Africa (GIABA), works to identify and mitigate national- level risks with the aim of protecting the international financial system from misuse.

Ghana as a member of GIABA[12], has sought to draw up measures to establish its AML/CFT regime in line with FATF Standards. The country has demonstrated strong commitment to strengthening its AML/CFT regime with the establishment of laws to strengthen and stabilise the financial system. This special feature provides a brief overview of the history of Ghana's AML/CFT regime, and key developments in the review year.

8.2.1 BRIEF HISTORY

First Round Mutual Evaluation Exercise

In April 2009, Ghana undertook the First Round of Mutual Evaluation exercise conducted by GIABA to assess the country's AML/CFT regime. The GIABA plenary in November 2009 adopted the Mutual Evaluation Report (MER), which revealed a number of deficiencies in Ghana's AML/CFT regime. In response to the findings from the mutual evaluation exercise, Ghana developed a comprehensive National Strategy and Action Plan for the Countering of Money Laundering and Financing of Terrorism (2011-2014). The National Strategy was used as a framework for the enforcement and strengthening of legal, institutional, and civil society mechanisms for the prevention of financial crimes, money laundering and the financing of terrorism. The Strategy facilitated a holistic approach to the coordination and cooperation of relevant agencies and all other stakeholders (central government, local authorities, civil society, and the private sector) involved in the implementation of AML/CFT measures in Ghana. The National Strategy also provided the road map for implementing a robust AML/CFT regime and set out the goals and actions required to build an effective AML/CFT system in Ghana.

National Risk Assessment

At the May 2014 GIABA Plenary held in Niamey, Niger, a directive was issued for all member States

[12] GIABA - Inter-Governmental Action Group against Money Laundering in West Africa (a regional body of FATF)

to undertake and complete their respective National Risk Assessments (NRA) before the Second Round of Mutual Evaluation. The NRA was intended to provide guidance in identifying and assessing threats and vulnerabilities of a country at a national level, especially concerning key requirements set out in the FATF Recommendations, and its interpretive note.

Between the years 2014 and 2016, Ghana conducted its NRA using the World Bank Tool. The objective of the NRA process was to test the robustness of Ghana's current AML/CFT regime and to identify, assess and mitigate ML/TF risks, through amendments in its legal and regulatory frameworks. The NRA report, which identified some strategic deficiencies within Ghana's current AML/CFT regime, was published in April, 2016, making Ghana the first country in the sub-region to have undertaken such an important step in curbing the twin-menace.

2nd Round of Mutual Evaluation Exercise

At the 25th GIABA Technical Commission/Plenary meeting held in May 2016 in Praia, Cabo Verde, Ghana opted to undergo the Second Round of Mutual Evaluation in September 2016. Accordingly, Ghana conducted its Second Round of Mutual Evaluation exercise and the report was adopted at the GIABA Technical Commission/Plenary Meetings held in Monrovia, Liberia in May 2017. The MER identified some strategic deficiencies in Ghana's AML/CFT regime and made some recommendations to rectify those deficiencies.

From September 19, 2016 to October 5, 2016, Ghana completed its Second Round of the AML/ CFT Mutual Evaluation process[13]. The evaluation was conducted by a team of assessors from GIABA based on both Technical Compliance with FATF 40 Recommendations and the Effectiveness of the AML/CFT regime.. The MER adopted at the GIABA Technical Commission/ Plenary Meetings held in Monrovia, Liberia in May 2017, identified some strategic deficiencies in the implementation of the Ghana's AML/CFT regime. Consequently, the country was grey-listed by FATF. In collaboration with the International Co-operation Review Group (ICRG) of the FATF, Ghana drew up an action plan to address the strategic deficiencies identified in the second mutual evaluation exercise (ICRG Action Plan).

National AML/CFT Policy

Following the launching of the NRA in April 2016 and completion of the Second Round of the AML/ CFT Mutual Evaluation process, Ghana launched a National AML/CFT Policy and Action Plan in September 2019 to strengthen its AML/CFT regime. The Plan, which sought to address strategic deficiencies in the national AML/CFT Regime had six main goals, namely to:

1. Strengthen the legal and institutional framework in the fight against ML/TF & P and other financial crimes;
2. Improve the effectiveness of ML/TF&P investigations, prosecution and asset recovery;
3. Strengthen domestic and international cooperation;
4. Strengthen capacity and create awareness on ML/TF & P amongst the Financial Intelligence Centre (FIC), Regulators, Reporting Institutions, Civil Society Organisation and private sector;
5. Develop and maintain a national AML/CFT database/statistics; and
6. Facilitate the implementation of the National Financial Inclusion Policy based on the AML/ CFT & P framework.

The National AML/CFT Policy and Action Plan was developed in accordance with the revised FATF Recommendation 2 provision, which among others, requires countries to:

1. Develop and continuously review their national AML/CFT Policy;
2. Designate an authority or some coordination/ mechanism responsible for implementing such policies; and
3. Establish mechanisms to enable cooperation and coordination among policy makers such as the Financial Intelligence Unit (FIU), Law Enforcement Agencies, Supervisors, and other competent authorities, at the policymaking and operational levels.

8.2.2 YEAR UNDER REVIEW: STRENGTHENING OF THE AML/CFT REGIME

To consolidate laws relating to the country's AML/ CFT regime, Ghana enacted a new Anti-Money Laundering Act, 2020 (Act 1044). The new Act has widened the definition of money laundering penalties and that of the objects and functions of the FIC. With the passage of the new Act, Ghana has further strengthened its AML/CFT regime and has the needed tools to prevent, detect and prosecute money laundering and financing of terrorism activities.

The Way Forward

Combating ML/TF and other related issues requires continuous support and political commitment. The country should continue allocating adequate funding and other resources to fight money laundering and effectively implement relevant asset forfeiture laws

[13] The first country within the subregion, to do so

and regulations. The regulatory and supervisory bodies should ensure compliance of the AML/CFT &P requirements and sanction institutions that do not submit/file their mandatory returns as required by the Act.

Accountable Institutions are required to;

1. Demonstrate leadership on AML/CFT and ensure that policies and procedures reflect the leadership roles and responsibilities;
2. Make adequate resources and experienced personnel available to facilitate AML functions;
3. Ensure that AML responsibility lies with all staff, with the Anti-Money Laundering Reporting Officer (AMLRO) playing a central role;
4. Review effectiveness of controls regularly – Transaction Monitoring and Suspicious Transaction Reports (STRs);
5. Deploy mitigants and ensure an understanding of ML/TF risks; and
6. Demonstrate willingness to exit customer relationships where there are unacceptable ML/TF risks (De-Risking).

Published by Bank of Ghana Press, Accra