



GHANA ASSOCIATION OF BANKERS

CONDUCT OF BUSINESS STANDARDS

KEYNOTE ADDRESS

BY

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Mr. Chairman,

The President of the Ghana Association of Bankers,

Chief Executives and Directors of Banks and Industry,

Distinguished Guests,

Ladies and Gentlemen,

Thank you for inviting the Bank of Ghana to join you at the Eleventh Annual Working Luncheon of the Ghana Association of Bankers. There is never a free lunch and I accept your invitation to pay for this meal by making some remarks in connection with the launch of the "Ghana Association of Bankers Conduct of Business Standards".

I appreciate the Association's foresight in putting together this code to guide intra-bank conduct in Ghana. The code complements your 2003 'Banking Code' that set standards for dealing with customers and the general public. As competition increases in the banking industry, through the licensing of more banks and the emergence of other intermediaries, the scope for unfair business practices can increase. It is for this reason that it is opportune to launch a code of conduct that seeks to guide behaviour of member banks.

Mr. Chairman, the code seeks to cure a number of potential ills and other anti-competitive practices, including discrimination among banks, abuse of dominance, unfair luring of customers and interference in the business of other banks. Thus, the Code seeks to entrench ethical business practices, which is good for the long-term sustainability of your business.

While commending the Association for this effort, it is important to recognise that the value of the code lies in compliance with its prescriptions. The Association must therefore invest in educating Staff, Management and Boards of Banks on policies and actions that can breach the code.

The Association must also invest time in monitoring compliance as well as create avenues for redress where there are breaches. An annual review of banking practices and their compliance with the code and publication of the assessment will inform stakeholders about the progress being made in building an ethically sound banking system.

Mr. Chairman, let me abuse the privilege your invitation has offered to address a subject that is critical to the evolution and progress of our banking system. About a fortnight ago, the President of the Ghana Association of Bankers made some remarks

about the problems faced by indigenous banks in attaining the minimum capital prescribed for the industry. He questioned the rationale for 'forcing every bank to be big' and wondered why some banks cannot 'by choice' remain small and serve their chosen market niche.

Mr. Chairman, I was surprised by these sentiments and wondered whether they were privately-held views or those of this Association. Luckily I met Mr. President a few days later and served notice to him that I was hoping for an early opportunity to counter the views he had eloquently expressed.

We must recognise, first of all, that technology has made the world smaller. The competition our institutions face is not only domestic, but global. In an increasingly interconnected world therefore we cannot afford to just think "local". We are in competition with banks beyond our borders and our customers are looking beyond us to what opportunities are available elsewhere.

I went to a school whose motto can be translated literally as: 'Think Ahead'. It taught us we need not be comfortable with what we have achieved but strive to keep ahead of competition. We must not just focus on maintaining our comfort zone, merely

satisfying today's needs but rather on how to position ourselves to survive in an increasingly competitive world.

Our forefathers may have thrived with canoes along the coastline, because they did not have trawlers chasing the same fish. Today the economic terrain is completely transformed and we cannot expect to be competitive with canoes anymore. Thus to remain competitive and relevant we have to think about size, structures, technology and expertise and these come with higher capital outlays.

Mr. Chairman, the impression should not be created that the only source of funds for investment is beyond our shores. How many of our banks have explored the opportunities offered by our local Stock Exchange? At least it is on record that one bank's offer was over-subscribed when it listed, while other banks have successfully raised capital on the GSE. So until we have exhausted these opportunities, we should not create the impression that capital cannot be found domestically.

The real challenge may be cultural; how to eliminate the unwillingness of Ghanaian owners to share control with fellow Ghanaians. I have wondered whether the next set of reforms should not require every bank to be listed on the stock market.

That way we provide another pair of eyes in addition to the regulators to superintend operations, which will be a definite boost for corporate governance and enterprise-wide risk management.

With the passage of the Banking Act 2004, Ghana moved to a universal banking system with higher and uniform minimum capital requirement for all banks. The hitherto compartmentalized system of banking, comprising commercial, development and merchant banks was eliminated.

In 2008, the Bank of Ghana through a consultative process revised minimum capital requirements for all banks, with a phased implementation (at the request of the indigenous banks), for foreign and domestically controlled banks between 2009 and 2012.

The first phase was successfully completed in December 2009 as all eligible foreign-controlled banks re-capitalized to GH¢60 million.

The second phase, which requires the domestically-controlled banks and two foreign banks (licensed in 2008) to re-capitalize to GH¢25 million was also completed at the end of 2010. The final phase of capitalization is expected to be concluded by December 31, 2012 with all banks attaining the GH¢60 million minimum capitalization.

Mr. Chairman, hindsight cannot fault the Bank of Ghana for acting on the recapitalization of banks at that time. The new capital requirements were set in anticipation of the growth in the economy, especially the emerging oil sector. The re-capitalized banks are better positioned to finance large transactions at the expense of the domestic banks; further augmenting their competitive advantage

Mr Chairman, even with the higher levels of capital; there are still serious challenges with financing transactions in the oil sector.

It is a matter of some regret to the management of the Central Bank that we are regularly invited to grant waivers of single obligor limits in order to enable the importation of crude oil and petroleum products. We have granted this waiver reluctantly in the past, because it amounts to abandoning the prudential norms that have been introduced to minimize risks to banks.

Mr. Chairman, this practice cannot be continued. It should be possible for our banks to grow to enable them finance large transactions or, in the event, to use syndication as a tool for handling occasional extraordinarily lumpy transactions.

I want to encourage banks to apply this code and spearhead a system of syndication that achieves risk sharing while enabling the financing of critical imports such as oil.

Mr. Chairman, I don't get many opportunities to speak to so many bankers, so let me take advantage of this opportunity to comment on one other issue that is important for the continuing development of the banking industry.

Because of the shortage of qualified bankers in the economy, a number of staff dismissed for unethical or fraudulent behaviour from some banks have found their way back into the banking system and continue to engage in malfeasance. As this Code emphasizes, banking thrives on good ethical practice, trust and confidence. Therefore people who fail the integrity test should not be entertained in the banking sector, otherwise you risk exposing the sector to loss of credibility and reputation in the eyes of the public.

Accordingly we require that due diligence be carried out on prospective staff in order to ensure that our personnel meet the fit and proper test. The Bank of Ghana will be happy to collaborate with the banks to create a database of staff that can be consulted before decisions on appointments are made.

Finally, Mr. Chairman, following the global financial crises, the maintenance of financial stability has become very important for the very survival of the financial system.

In response to the crisis, many Central Banks have established a system that continuously monitors the entire financial system and identifies risks to stability with a view to making recommendations for corrective action. The responsibility extends beyond the banking sector and encompasses the entire financial system as well as its interaction with the industrial sector.

Consequently, the Bank of Ghana has established a Financial Stability Department to assess the macro-prudential risks facing the economy and make suggestions for dealing with these risks.

One of the key outputs of the Financial Stability Department will be the publication of a Financial Stability Review, which will attempt to draw lessons from the systemic risks on our banking and financial systems. We intend to share the report with you, our stakeholders. It is our hope that all of us will cooperate in our pursuit for information for analysis and discussion of the outcomes.

Mr. Chairman, Distinguished Guests, Ladies and Gentlemen, let me once again express my appreciation for the opportunity to be a part of the launch of the Ghana Association of Bankers Conduct of Business Standards. I wish you the greatest success in the implementation of this code and look forward to a vibrant banking system that is supportive of Ghana's economic growth agenda.

Thank you all for the attention.