

RECENT DEVELOPMENTS IN BANKING SUPERVISION IN GHANA

STRUCTURE OF THE BANKING INDUSTRY

- ▶ At the apex of the banking structure in Ghana is the Bank of Ghana with authority to regulate and supervise the banking sector.
- ▶ Before the Banking (Amendment) Act, 2007 (Act 738) banks were classified into commercial, development and merchant banks.
- ▶ New classification provides for General, Class I and Class II banking licences.
- ▶ For analytical purposes, banks are classified as either domestically-controlled or foreign controlled.
- ▶ We also use 'large', 'medium' and 'small' based on asset size relative to the industry.
(>10% of total Assets=Large; 5% -10%= medium; <5% = small)
- ▶ 13 foreign controlled vrs 13 domestically controlled banks.
- ▶ Only 2 banks can be described as state –controlled, ADB and NIB; GCB is ? (Gov't 21.4%, SSNIT 29.8%)=51.2%

ORGANIZATION STRUCTURE – BANKING SUPERVISION DEPARTMENT

The Banking Supervision Department functions broadly under seven offices and units and their activities are as provided below:

▪ Licensing/Regulation Office

- ✓ Processing of applications for licenses and renewals, review of legislation and reforms of the laws relating to banking business
- ✓ Approval for new products/services, new Directors, mergers and acquisition, branches and agencies, opening and closure of agencies

▪ Supervision Office

- ✓ Conduct on-site and off-site reviews, follow ups on review or examination findings, making supervisory interventions where necessary, appointment of conservator and revocation of license.

▪ Investigations/Consumer Reports (ICRO) Unit

- ✓ Investigate reports of fraud, consumer complaints and market misconduct
- ✓ Closure of unlicensed institutions and formal liquidation of failed institutions

- **MCA/ACP Unit**
 - ✓ Administer funds under the MiDA and ACP

- **Technical/Research Unit**
 - ✓ Provide quality assurance, research and develop supervisory practice
 - ✓ Implementation of Basle II, and post review and monitoring
 - ✓ Produce supervisory guidance/reference materials for use by

- **IT/Data Centre Unit**
 - ✓ Provide and maintain statistical data and information on the financial sector for use by BSD and industry

- **Administration Unit**
 - ✓ Process request for the administrative and welfare needs of BSD staff

LEGAL AND REGULATORY FRAMEWORK

Ghana's banking system has undergone substantial transformation over the last few years: – In terms of

The legal and regulatory framework;

The key legal reforms include:

- ▶ Banking (Amendment) Act, 2007, Act 738, (Act 673)
- ▶ Anti-Money Laundering Act, 2008, Act 749
- ▶ Borrowers and Lenders Act, 2008, Act 773
- ▶ Credit Reporting Act, 2007, Act 726 117-154
- ▶ Foreign Exchange Act, 2006, Act 723 168-186
- ▶ Home Mortgage Finance Act, 2008, Act 770
- ▶ Non-Bank Financial Institutions Act, 2008, Act 774

Banking Act, 2004, Act 673

Functions of the Bank of Ghana under the Banking Act

- ▶ (1) The Bank of Ghana shall have an overall supervisory and regulatory authority in all matters relating to banking business and shall be responsible for
 - ▶ (a) promoting an effective banking system;
 - ▶ (b) dealing with any unlawful or improper practices of banks, and
 - ▶ (c) Considering and proposing reforms of the laws relating to banking business.
- ▶ (2) The Bank of Ghana shall establish within its organization, a Banking Supervision Department.
- ▶ (3) The Bank of Ghana may authorize the Head of the Banking Supervision Department or any other official or person to exercise a power and do an act that it considers appropriate in order to discharge its responsibilities under this Act.
- ▶ (4) The Bank of Ghana may, in relation to the operation of a bank, authorize any other person either generally or in respect of a particular matter, to perform a function that otherwise would be performed by the Bank.

Banking (Amendment) Act, 2007, Act 738,

- ▶ The Banking Act, 2004 ACT 673 was amended in 2007 to take care of some new developments in the Banking industry
- ▶ Examples of some these new developments includes the new payment system as well as the different types of Banking license.

Anti-Money Laundering Act, 2008, Act 749

- ▶ The ACT prohibits money laundering, establish a Financial Intelligence Centre and provide for related matters.
- ▶ The Financial Intelligence Center has already been established

Borrowers and Lenders Act, 2008, Act 773

- ▶ This Act provides the legal framework for credit, to improve standards of disclosure of information by borrowers and lenders, to prohibit certain credit practices, to promote a consistent enforcement framework related to credit, and to provide for related matters.
- ▶ The Act requires the establishment of a registry known as the Collateral Registry.
- ▶ The registry has been established

▶ Object of the Registry

The object of the Registry is to register charges and collaterals created by borrowers to secure credit facilities provided by lenders.

Credit Reporting Act, 2007, Act 726

- ▶ Act 726 provides a framework for credit bureaus, to establish the conditions for credit reporting and to provide for related matters.
- ▶ The Bank of Ghana shall have overall supervisory and regulatory authority of the credit bureaus
- ▶ One credit reference bureau is currently in operation

Foreign Exchange Act, 2006, Act 723

- ▶ The ACT provides for the exchange of foreign currency, for international payment transactions and foreign exchange transfers; to regulate foreign exchange business and to provide for related matters.
- ▶ The Bank of Ghana is the licensing, regulatory and supervisory authority to give effect to this Act.

Home Mortgage Finance Act, 2008, Act 770

- ▶ Act 770 regulates home mortgage financing and other related matters.
- ▶ This Act is in addition to the Mortgages Act, 1972 (NRCD 96) and does not derogate from the provisions of that Act, except as otherwise provided in this Act.
- ▶ This Act applies to transactions between financial institutions and their customers for the provision of finance for
 - (a) the construction or purchase of a residential property,
 - (b) the completion of a residential property;
 - (c) extension to or renovation of a residential property;
 - (d) improvement to a residential property for ownership, sale or rental;
 - (e) construction of residential properties for sale or rental; or
 - (f) purchase of fixtures and chattels related to residential properties.

Non-Bank Financial Institutions Act, 2008, Act 774

- ▶ This Act provides for the regulation of non-bank financial institutions and for related purposes.
- ▶ The Act applies to non-bank institutions and non-bank financial services as set but does not apply to:
 - (a) operators of micro finance services with risk assets which are not more than the amounts prescribed by the Bank of Ghana and whose sources of funds do not include deposits from the public; and
 - (b) any other institution or person as the Bank of Ghana may specify by Notice published in the Gazette.

SOME OF THE REGULATORY REFORMS INCLUDES:

- ▶ New minimum capital requirements
- ▶ Shift to Risk-based supervision
- ▶ Preparatory work for Basel II adoption in 2012
- ▶ Modernization of the payments system platform.
- ▶ Compliance with Basel Core Principles
- ▶ Abolition of secondary reserve requirements
- ▶ Issuance of Guidelines for branchless banking
- ▶ Adoption of IFRS by banks

Recapitalization of banks

- ▶ The Bank of Ghana increased the capital requirements of banks from GH¢7million to GH¢60 million in 14th February, 2008.
- ▶ The minimum capital requirements for deposit taking non bank financial institutions (NBFIs) and finance houses has been increased from GH¢1.0 million (and GH¢1.5 million) to GH¢7 million.
- ▶ This has become very necessary given that Ghana's economy is fast growing and becoming increasingly complex and high value financial transactions are likely to result in the near future.
- ▶ The economy is also getting increasingly integrated with the global economy and as these developments are opening up opportunities for banks, they also expose banks to more risks.

Risk Based Supervision

- Efforts to strengthen the supervisory role of the Bank of Ghana can be seen in a shift towards risk-based supervision which is a signal of preparations towards implementing the Basel II objectives.
- ▶ *The Bank of Ghana introduced Risk Based Supervision in 2007 to enhance supervisory oversight and build risk management culture in banks*

Generic Features of Risk Based Supervision

- Allows for prompt intervention and timely action.
- Encourage strong risk management in financial institutions
- Continuous monitoring
- Anticipatory/early warning
- Flexibility
- Reduce regulatory burden

Preparatory work for Basel II adoption in 2012

- ▶ The BOG has so far engaged all the industry players with discussion towards the possible implementation of Basel II in 2012

- ▶ The Universal Banks have also submitted their ICAAP to the Bank of Ghana for review
- ▶ Training of Banking Supervision staffs is currently ongoing

Modernization of the payments system platform.

- ▶ The introduction of Ezwich; i.e. a common electronic platform
- ▶ Introduction of cheque clearing codeline
- ▶ Collaboration between Banks and telecommunication service providers for the provision of mobile phone banking services

Compliance with Basel Core Principles

- ▶ Bank of Ghana has complied with almost all the 25 Basel Core Principles