

FGDR - IADI ERC INTERNATIONAL CONFERENCE

DIVERSITY AND HARMONIZATION OF DEPOSIT INSURANCE

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Deposit Insurance Standards for Strengthening Financial Stability

Uganda's Experience

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48TH IADI EXECUTIVE COUNCIL AND STANDING COMMITTEES MEETINGS - INTERNATIONAL IADI - ERC CONFERENCE • 23-26 MAY 2016 • PARIS



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2005 – 2016 Executive Director - Bank of Uganda

Function: Executive Director in charge of Bank Supervision and Financial Stability Directorate
Regulation and supervision of all banks and non-bank financial institutions in Uganda
Chairperson, Microfinance Support Centre
Board Member, Financial Intelligence Authority

Bank of Uganda



2002 – 2005 Bank of Uganda - Director Commercial Banking

Function Regulating and supervising Commercial banks only, to ensure compliance with statutory laws

Miscellaneous :

Contact person for IMF/World Bank FSAP
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Presentation outline

- Introduction
- Membership to IADI
- New Developments
- Assessment of Compliance with the Core Principles
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Introduction

- **The Deposit Protection Fund (DPF) in Uganda was established in July 1994 but became operational in 1997.**
- **It has been a Pay Box mandate since it was basically responsible for the reimbursement of insured deposits;**
- **From inception, the DPF has been administered by the Supervision Directorate of the Bank of Uganda.**



Introduction (cont'd)

- **Membership is compulsory for all licensed deposit-taking financial institutions. Currently, 25 commercial banks and 4 credit institutions contribute to the first category of DPF. The second category is the DPF for 4 microfinance deposit-taking institutions.**
- **The DPF is funded from annual premiums contributed by the licensed deposit-taking institutions. Financial institutions whose overall performance is rated marginal or unsatisfactory pay additional risk adjusted premiums on a quarterly basis.**
- **The minimum annual amount of contribution to the DPF is currently 0.2 per cent of the average weighted deposit liabilities of the financial institution in its previous financial year.**



Membership to IADI

- **Following an invitation from the International Association of Deposit Insurers (IADI), Bank of Uganda, as the statutory manager of DPF subscribed to the membership of IADI in January 2013.**
- **Bank of Uganda's membership to IADI has assisted in enhancing the effectiveness of Uganda's DPF through promoting guidance and collaboration with other national and international organizations.**



New Developments

- In January 2016, amendments to the then Financial Institutions Act, 2004 were passed. The New Law – the Financial Institutions (Amendments) Act 2016 was enacted. The Act allows creation of a separate legal entity with an independent Board of Directors to administer the DPF with a mandate that is in line with international best practice.
- The DPF will have its Board and staff separate from the Bank of Uganda. With assistance from the World Bank, Uganda will develop an overall transition framework and roadmap to establish this independent entity.



Assessment of Compliance with the Core Principles

- Since inception of the DPF in Uganda in 1997, the first and limited assessment of Uganda's compliance with Core Principles was done by the World Bank in March 2016.
- The limited assessment covered 6 out of the 16 Core Principles.



Summary of Ratings

	Core Principle	Assessment	Assessor's comments
1.	Public Policy	Compliant	Intensify public awareness.
2.	Mandate	Largely Compliant	Clarify that DPF can directly obtain timely, accurate and comprehensive information from banks and will share information within the safety-net.
	Powers	Materially Non-Compliant	
3.	Governance	Materially Non-Compliant	DPF should be subject to sound governance practices, including appropriate accountability, internal controls, transparency and disclosure regimes. DPF should have a Charter of the Board, Conflict of Interest Rules etc.



Summary of Ratings (cont'd)

	Core Principle	Assessment	Assessor's comments
			DPF should have the capacity and capability (<i>e.g. human resources, operating budget</i>) to support its operational independence and fulfilment of its mandate.
4.	Relationship with other safety-net participants	Non-Compliant	Ongoing information sharing and coordination of actions should be formalized through regulation or MOUs. Rules regarding confidentiality of information should apply to the DPF, Board and its staff.
5.	Cross-border issues	Non-Compliant	Execute MOUs with other foreign deposit insurance systems and safety net participants.



Summary of Ratings (cont'd)

	Core Principle	Assessment	Assessor's comments
6.	Deposit Insurer's role in contingency planning and crisis management	Non-compliant	<p>Deposit insurer should develop its own effective contingency planning and crisis management policies and procedures as well as methods to test this plan. Existing contingency plans for the financial safety-net should be rewritten to recognise the independent status of the DPF.</p> <p>Safety net arrangements should ensure that DPF is a member of any institutional framework for ongoing communication and coordination involving safety-net participants related to system-wide crisis preparedness and management and contingency planning and crisis simulation exercises.</p>



Uganda 's Experience: What wasn't surprising at all?

- The results of the limited assessment were not surprising largely because of Uganda's DPF narrow mandate of the pay box and the fact that the administration of the DPF was undergoing transitional arrangements to an independent entity.
- **Bank of Uganda agrees with all issues raised and will implement the recommendations arising out of the assessments.**



The Uganda Experience: Was any Core Principle problematic?

- Principle 3: **Governance** appeared problematic. As per the essential criteria, The deposit insurer should be operationally independent, well governed, transparent, accountable and insulated from external interference

Under external interference there should be no government, central Bank, supervisory or industry interference that compromises the operational independence.



The Uganda Experience: Was any Core Principle problematic? *Cont.....*

In Uganda the proposed DPF Board will consist of:-

- ✓ Chairperson who shall be appointed by the Minister of finance;
- ✓ The Central Bank Governor or his or her representative;
- ✓ The Secretary to the Treasury or his or her representative;
- ✓ Two representatives of contributing institutions;
- ✓ Two persons appointed by the Minister, with experience in the business of banking or other financial services to represent the public.

How Can Interference of Such bodies be minimized?

Can they easily be separated from the Deposit Insurer?



The Uganda Experience: What was the main issue? The solutions found?

The main issue was planning for DPF transition in line with the new mandate (FIA,2016).This involved coming up with the overall transition plan. Planning of necessary structures, resources and documentation required as well as role of each participant.

- The solution is for BOU to Identify key staff, create the body corporate and initialise the appointment of the DPF board members.
- World Bank is to Hire a consultant for the technical assistance.



Way forward

- Public Awareness Campaigns on DPF have started and will be continuous.
- Plans are underway to update the current crisis management framework to take into account the independent status of the DPF.
- Adequate resources have been budgeted for to support operational independence of DPF.
- Skilling the staff of DPF has also started.
- MoUs will be signed with other foreign DIS once the DPF becomes fully operational.



Way forward (cont'd)

- The role of IADI and the importance of building strong relationships with other bank examiners and Central Bankers are critical in addressing problem bank conditions and will therefore continue to be encouraged and included in the legal and supervisory framework.
- Uganda is committed to fully implement the IADI Core Principles to enhance effectiveness of the deposit insurance system and practices in the country.
- Uganda requests for regular FSAPs to assess the quality of the deposit insurance system in order to identify gaps in the deposit insurance practices and measures to address them given the teething problems that come with transition.