IN THE THIRD SESSION OF THE SEVENTH PARLIAMENT OF THE FOURTH REPUBLIC OF GHANA

REPORT OF THE FINANCE COMMITTEE ON THE REQUEST FOR APPROVAL OF THE SUM OF FIFTEEN BILLION, SIX HUNDRED MILLION GHANA CEDIS (GH¢15.6 BILLION) TO PROTECT DEPOSITORS AND INVESTORS OF FAILED FINANCIAL INSTITUTIONS AND TO IMPROVE LIQUIDITY OF THE FINANCIAL SECTOR

1.0 INTRODUCTION

The **request for approval of the sum of Fifteen Billion, Six Hundred Million Ghana Cedis (GH¢15.6 Billion) to protect Depositors and Investors of Failed Financial Institutions and to improve liquidity of the Financial Sector** was *presented* to the House on Monday 2nd December, 2019 by the Hon. Deputy Minister for Finance, Mr. Kwaku Agyeman Kwarteng on behalf of the Minister responsible for Finance.

Pursuant to Article 103 of the 1992 Constitution and Orders 169 and 171 of the Standing Orders of the House, the request was *referred* to the Finance Committee for consideration and report.

The Committee subsequently met and discussed the request with a Deputy Minister for Finance, Hon. Charles Adu Boahen, the 1st Deputy Governor of the Bank of Ghana (BOG), Dr. Maxwell Opoku-Afari, the 2nd Deputy Governor of the Bank of Ghana, Mrs. Elsie Awadzi, Director General of the Securities and Exchange Commission (SEC), Rev. Daniel Ogbarmey Tetteh as well as officials from the Ministry of Finance (MoF), the Bank of Ghana (BoG) and the Securities and Exchange Commission (SEC).

The Committee hereby submits this report to the House pursuant to Order 161(1) of the Standing Orders of the House.

The Committee is grateful to the Honourable Deputy Minister for Finance, the Deputy Governors of the Bank of Ghana, the Director General of the Securities and Exchange Commission and the accompanying officials for attending upon the Committee.

2.0 REFERENCES

The Committee referred to and was guided by the following documents *inter alia* during its deliberations on the request:

- The 1992 Constitution of the Republic of Ghana
- The Standing Orders of the Parliament of Ghana
- The Public Financial Management Act, 2016 (Act 921)
- Banks and Specialized Deposit-Taking Institutions Act, 2016 (Act 930)
- Securities Industry Act, 2016 (Act 929)

3.0 BACKGROUND

In 2015, the Bank of Ghana conducted an Asset Quality Review (AQR) on Commercial Banks with the objective of determining the quality of the loans and investments in the industry and to ascertain whether the banks hold adequate provision for potential loans and investment losses. The review revealed that twenty (20) banks, mostly indigenous banks, had impairment in loan books, capital deficiencies, credit concentration in the energy sector and some latent vulnerability in the banking industry. They therefore required additional provision for loan losses as their capital adequacy ratio (CAR) fell below the required 10%.

By 2017, some banks showed visible liquidity challenges, with clients unable to withdraw money from their accounts. The levels of capital held by these banks were in violation of the minimum regulatory capital required by Act 930 and their capital adequacy levels were below acceptable levels.

Most of the banks were still involved in excessive risk taking without the required risk management practices whilst others used depositors' funds to finance personal or related-party projects or businesses on terms that were not commercial. Most of them suffered from weak corporate governance and board oversight, weak accountability and internal control as well as the adoption of creative accounting practices, under-provisioning for impaired assets and other regulatory breaches.

Eventually, many of these financial institutions failed and there fell the need for Government to put measures in place to protect the affected depositors and investors.

4.0 <u>OBJECTIVE OF THE REQUEST</u>

The objective of the request is to secure Parliamentary approval for an amount of approximately GH¢15.6 Billion being expenditure to protect depositors and investors of failed financial institutions and to improve liquidity of the financial sector.

5.0 OBSERVATIONS

5.1 Revocation of the licenses of UT Bank and Capital Bank

The Committee was informed that a related party examination and inspection conducted by the Bank of Ghana on UT Bank and Capital Bank disclosed that there had been inter-group lending, involving significant amounts, where several high-profile directors of these banks used carefully spun web of related party transactions to grant huge loans to themselves and their associates; thus resulting in negative capital adequacy positions. Even though the two banks were given over three and a half years to turn around their negative capital adequacy positions, they were unable to do so.

The central Bank therefore revoked the licenses of the two commercial banks and their deposit liabilities and selected assets were taken over by GCB Bank in 2017.

5.2 Failure of 7 Additional Banks

The Committee noted that despite the weaknesses identified in the ailing indigenous banks, the Bank of Ghana continued to provide them with liquidity support in addition to directing them to reclassify all downgraded facilities and book the appropriate provisions. Those that went beyond their single obligor limits were requested to provide plans of restoring their capital adequacy levels. Unfortunately, most of the indigenous banks that were failing could still not comply with these directives.

It eventually became necessary for the Central Bank to revoke the licenses of 7 additional banks, including Beige Bank Limited, UniBank Limited, The Royal Bank Limited, Sovereign Bank Limited, Construction Bank Limited, Heritage Bank Limited and Premium Bank Limited.

The Consolidated Bank Ghana Limited (CBG) was established and capitalised as a universal bank to, *among other things*, take over the deposit liabilities and some selected assets of these 7 failed banks.

5.3 Solvent Banks unable to meet the New Minimum Capital

The Bank of Ghana in 2017 announced a new minimum capital requirement for banks from GH¢120.00 Million to GH¢400.00 million and all banks were required to comply with the directive by December 2018. However, five (5) indigenous banks were identified as solvent but unable to meet the minimum capital requirement by the close of the December 2018 deadline. They include Agricultural Development Bank (ADB), Universal Merchant Bank Limited (UMB), National Investment Bank (NIB), OmniBSIC Bank Ghana Limited (OmniBSIC) and Prudential Bank Limited.

Due to the development, indigenous banks petitioned H.E. the President for support. Following the petition and in recognition of the need for Government to support indigenous banks to meet their minimum capital requirement, a special purpose vehicle (SPV), *Ghana Amalgamated Trust Plc (GAT)* was created to mobilise funds to support the five indigenous banks and to provide those banks with business development support.

5.4 Failures in the Specialised Deposit-Taking (SDI) Industry

The Bank of Ghana undertook a comprehensive assessment of the Specialised Deposit-Taking Institutions (SDIs) including Savings and Loans Companies (S&Ls), Finance Houses (FHs) and Microfinance Institutions (MFIs). This assessment revealed that capital levels held by some of these Specialised Deposit-Taking Institutions were in violation of the minimum regulatory capital requirement. There were evidences of excessive risk taking, poor management of risk exposures, diversion of depositors' funds, weak corporate governance and weak internal controls.

Additionally, the MFIs particularly showed severe distress as a result of heavy undercapitalisation, high cost of operations largely from unsustainably high interest rates offered to depositors, poor lending and investment practices leading to excessive losses, unprofitable and speculative ventures and non-compliance with prudential norms.

Some of these SDIs engaged in creative accounting practices to conceal their true state of affairs.

These infractions led to the revocation of the licenses of 15 Savings and Loans Companies, 8 Finance Houses, 2 Non-Bank Financial Institutions and 347 Microfinance Companies.

5.5 Failures in SEC Regulated Asset Management Companies

In the year 2018, the SEC undertook a forensic review of the Asset Management Industry and noted that Fund Managers were investing heavily in fixed deposits within the non-banking sector. As at 2018, the Asset Management Industry had a total asset of over GH¢19.00 Billion held up in pension funds, collective investment schemes and other funds (discretionary funds).

The SEC also established that about GH¢6.3 Billion of funds under management were locked up in risky investments such as short-term unlisted bonds, direct private-equity stakes and related party deals for small and medium sized businesses. With the failure of some banks and SDIs, these risky investments have become toxic. In consequence, the licenses of 53 Asset Management Companies were revoked in November 2019.

5.6 Inter-connectedness and Financial Implications

The Committee observed that Ghana's financial sector is heavily interconnected. A mapping exercise conducted by the Bank of Ghana shows that as at September 2019, total exposure of banks to other financial institutions was approximately GH¢1.54 Billion, the Pension Industry's exposure to banks was approximately GH¢863.63 Million whilst the Insurance Industry has placed an amount of GH¢839.33 Million with banks. Total exposure of SDIs to the universal banks was approximately GH¢933.64 Million.

Total exposure of Savings and Loans Companies (S&Ls) to other financial institutions was approximately GH¢637.61 Million whilst the S&Ls in turn held approximately GH¢467.73 Million of other financial institutions' funds.

The Committee noted therefore that whatever happens to one sector of the financial system significantly affects other sectors due to the heavy inter-connectedness and cross-exposures.

5.7 Fiscal Consequences

To prevent the financial system from running into crisis, Government took emergency measures to protect depositors and investors whose funds were locked up in failed financial institutions. The measures included the issuance of non-marketable securities to cover the toxic assets and make whole depositors in the 9 universal banks that failed, paying a capped amount of GH¢20,000.00 to validated clients of failed SDIs as well as providing liquidity to validated, solvent financial institutions whose funds were locked up with the failed financial institutions.

The break-down of the GH¢15.6 Billion request is thus as given in the table below:

Resolved sub-sectors	Bailout (GH¢ Billion)	Liquidity Interventions (GH¢ Billion)	Total (GH¢ Billion)
Banking Industry: Bailout (9 banks) CBG set up	 11.2 	 0.45	11.65
Special Deposit-Taking Industry: MFIs S&Ls Microcredit interventions	 0.925 1.20 	 0.30	4.425
Securities & Exchange Commission: Bailout Intervention to solvent institutions	 1.00 	 0.50	1.5
TOTAL	**14.325**	**1.25**	**15.575**

5.8 High Net-worth Depositors and Investors

The Committee expressed concern about the plight of high net-worth depositors and investors whose funds are locked up in the failed financial institutions far and above the GH¢20,000.00 capped pay-outs. The Committee therefore strongly implored the Ministry of Finance and the Bank of Ghana to put mechanisms in place to make whole all the depositors and investors in the failed licensed financial institutions as was done in the case of the failed universal banks.

To this, the Deputy Minister for Finance, Hon. Charles Adu Boahen intimated to the Committee that Government was already mindful of the plight of the individuals and entities who held significantly high amounts of money in the failed licensed financial institutions. He assured the Committee that the Ministry is working with the Bank of Ghana on a plan to make every depositor and investor whole in respect of the principal amount deposited/invested. He was firm that before the close of the 1st Quarter of 2020, the Ministry will bring a further proposal to the House for approval in respect of such 'big-time' depositors/investors.

6.0 CONCLUSION

The Committee, in view of the foregoing, respectfully recommends to the House to adopt this report and approve by resolution, the **sum of Fifteen Billion, Six Hundred Million Ghana Cedis (GH¢15.6 Billion) to protect Depositors and Investors of Failed Financial Institutions and to Improve Liquidity of the Financial Sector** in accordance with the 1992 Constitution of the Republic of Ghana, the Public Financial Management Act, 2016 (Act 921) and the Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930).

Respectfully submitted.

....

HON. DR. MARK ASSIBEY-YEBOAH
(CHAIRMAN, FINANCE COMMITTEE)

....

MS. EVELYN BREFO-BOATENG
(CLERK, FINANCE COMMITTEE)

14TH DECEMBER, 2019