

GUIDELINES FOR PROSPECTIVE APPLICANTS

The initial step for establishing a bank in Malawi is to contact the Reserve Bank of Malawi. This booklet is provided as a source of information and direction for making an application. The applicant must ensure that all the application forms are duly completed and supported with information as required. When submitting the completed application forms, an applicant is required to pay a licence assessment fee amounting to the Malawi Kwacha equivalent of US\$1,250. If certain areas are not clear, applicants should contact the Reserve Bank or seek professional advice from an accountant or attorney. Sometimes issues can be resolved over the telephone or a meeting can be arranged with staff of the Reserve Bank to discuss the proposal. Information submitted with the application forms is essential to the Reserve Bank's review of the application; therefore, care should be taken so that it is thorough and complete.

Basic Banking Laws

In Malawi, the basic set of laws applicable to banking is the Banking Act of 1989. While there are many different laws within the Act, a few of the more important ones are as follows: - (a) Only companies licensed by the Reserve Bank of Malawi may conduct banking business. A person found conducting banking business without a valid banking licence shall be liable to a High Court charge. (b) Before a banking licence can be issued, the applicant must show that: - (i) The proposed bank will be managed by at least two persons in executive capacity. (ii) The proposed bank will be adequately capitalised at all times. The current statutory minimum for a bank is the Malawi Kwacha equivalent of US\$1.5 million and US\$750,000 for other financial institutions. (c) The Reserve Bank may revoke a licence for the following reasons:- (i) Applicant supplied false information. (ii) A licence holder fails to commence business within twelve months after obtaining a licence. (iii) A licensee ceases to conduct business for which the licence was granted. (iv) A licensee fails to meet conditions of the licence. (d) All banks will be subject to periodic inspections by the Reserve Bank, must submit periodic financial data, and must have an annual audit done by an independent auditor. (e) The maximum loan or credit to one customer or group of related customers is 25.0 per cent of the capital base of the lending institution. (f) Any institution wishing to engage in fiduciary activities must submit a separate application to the Reserve Bank.

Illustration of Activities and Requirements

A graphic illustration of the various classes of banking business is provided below. It shows permissible activities and the statutory requirements applicable to each class of banking business.

Table 1. Classes of Banking Business in Malawi

TYPES OF BANKING AND FINANCIAL INSTITUTIONS							
PERMISSIBLE ACTIVITIES AND STATUTORY							
PERMISSIBLE ACTIVITIES				STATUTORY REQUIREMENTS			
TYPE OF INSTITUTION	Demand Deposits	Savings	Fiduciary Activities	Lending Limit	Minimum Dep. Limit	Capital Minimum	Reserve Requirement
Commercial Bank	Yes	Yes	If approved	25% total Capital	None	US\$1.5 Milli on or Equivalent MWK	35% of total Deposit balances and Savings
Merchant Bank	No	Time only	If approved	25% of total Capital	K10,000	US\$750,000 or Equivalent MWK	
Finance Institution	No	Time only	If approved	25% of total Capital	K10,000	US\$750,000 or Equivalent MWK	–
Mortgage	No	Yes	If approved	25% of total Capital	None	US\$750,000 or Equivalent MWK	–

Other Requirements

Once a licence has been granted a premises inspection will be conducted by the Reserve Bank prior to opening the institution to the public. A Premises Inspection Certificate will then be issued upon satisfaction that the banking premises and security facilities meet minimum required standards for conducting banking business. Assessment is also made of the presence and adequacy of operational procedures (operational manuals) and staff compliment for the level of operations.

Application Process

When an application form and all supporting information are received by the Reserve Bank, a review is made to ensure that the necessary information has been adequately provided. In the event of inadequate information, the applicant is informed in writing to provide the missing details. When all the necessary information and data have been furnished, a detailed analysis is conducted and a recommendation sent to the Minister of Finance accordingly. The Reserve Bank will communicate to the applicant, the Minister

of Finance's decision to grant or refuse a licence, within ninety days after receipt of a complete application

Licensing Criteria

When assessing the information submitted by an applicant, the Reserve Bank will base recommendation to grant or refuse a licence on the following factors: -

- Competence and experience of management.
- Adequacy of capital strength.
- Profitability prospects of the new institution.
- The need for the services in the community to be served and the need for competition in the financial system.
- In the case where a foreign owned banking institution proposes to own 20 per cent or more of the shares of a bank in Malawi, The Reserve Bank will consider the rating of the foreign bank as assigned by internationally recognised rating agencies.

In the event that an application is rejected, the applicant may resubmit the application for reconsideration. In the re-application there must be significant facts, developments or circumstances not previously considered by the bank.

**BANK SUPERVISION DEPARTMENT
RESERVE BANK OF MALAWI**