

REGULATIONS OF THE BANK OF UGANDA

POLICIES AND GUIDELINES FOR THE LICENSING OF FINANCIAL INSTITUTIONS

PART 1: SHORT TITLE, AUTHORIZATION, APPLICATION, AND INTERPRETATION

SEC. 1 *Short Title – Licensing of Financial Institutions*

SEC. 2 *Authorization – Sections 52 (b) of the Financial Institutions Statute (hereafter known as the Statute)*

SEC. 3 *Application – All Financial Institutions in Uganda*

SEC. 4 *Interpretation*

In this regulation, unless the context otherwise requires:

1. “bank” is defined in Section 2 of the Statute
2. “banking business” is defined in Section 2 of the Statute
3. “Central Bank” means the Bank of Uganda operating under the Bank of Uganda Statute 1993
4. “core capital” is as defined in the Statute
5. “credit institution” is as defined in the Statute
6. “director” means any person by whatever title or designation known carrying out or empowered to carry out functions in relation to the direction of a financial institution which are substantially the same as those carried out by a member of the board of directors of a company incorporated under the Companies Act.
7. “license” means a license issued under Section 7 of the Statute
8. “total capital” is as defined in the Statute

PART II: STATEMENT OF POLICY

SEC.5 Objectives

1. To promote the development of a strong and viable financial sector in order to enhance economic growth in Uganda
2. To promote growth of the financial sector through steady means and thus avoiding financial instabilities resulting from a rapid expansion in the number of banks and credit institutions
3. To help ensure all banks and credit institutions that enter into Uganda’s financial sector are well capitalised, well managed and are contributing to Uganda’s economic development.
4. To help ensure that Uganda is not overbanked with too many financial institutions which may result in unsound banks or credit institutions, nor underbanked with too few financial institutions which may result in inadequate access to credit or inadequate financial services to the general public.

SEC. 6 Rationale

1. As the supervisory authority, the Central Bank is charged with the responsibility of safety and soundness of the financial sector; controlling the entry of new banks and credit institutions is a crucial part of this supervisory responsibility;
2. As has happened in other developing countries, an inability to effectively control entry in to the financial sector, and thus restricting such entry to viable financial institutions, has led to financial sector weaknesses; preventing such a situation is a paramount concern of the Central Bank as the supervisory authority.
3. In reviewing the suitability of an application for a license to be a bank or credit institution, the Central Bank needs to take into account the impact of the potential entrant on the overall soundness of the sector; this regulation is intended to help guide that process and toward that objective.

PART III. CRITERIA FOR LICENSING

SEC. 7 Section 6 of the Statute

1. In determining the criteria for granting a license under the Statute the Central Bank in its deliberations shall take into account the six criteria given under Section 6 (1) of the Statute.
2. In reviewing the criteria under Section 6(1) of the Statute, the Central Bank shall take into consideration the overall soundness of the financial sector and the impact of a new entrant on the soundness of existing financial institutions.

SEC. 8 Section 5 of the Statute

1. To ensure the Central Bank has adequate information to make a judgement on an application for a license as a financial institution, the applicant is to submit all the information as called for in Section 5(2) of the Statute and on such forms as the Central Bank may design for this purpose.

SEC. 9 Other Factors Taken into Consideration

In reviewing an application for a license to operate as a financial institution in Uganda, the Central Bank will also take into account the following criteria:

1. The financial capacity of the applicant, i.e. the ability to meet the minimum capital requirements, in the form of core capital, of Section 12 of the Statute, the ability to raise a larger amount of core capital if the Central Bank feels this is necessary, and the ability to inject additional core capital when needed in the future, especially as a result of an inadequate capital position or operating losses;
2. The history, reputation, integrity, experience, and capacity of the proposed ownership, directors, and/or board members;
3. The reputation, relevant banking or financial experience, and administrative capacity of senior management as evidenced by curriculum vitae as to professional background of such proposed management;
4. The intentions of the applicant with regard to its overall contributions to Uganda's economic development, including its plans to bring banking and/or financial services to rural areas where such services have been less than adequate;

5. The projected profitability of applicant supported by detailed feasibility studies, business plans, and projected balance sheets and income statements;
6. The extent of operations and services to be offered, to include a specific description of what financial services will be made available to the public, why such services are needed, the capacity of the applicant to provide them, and the past experience of ownership and/or management in such operations.
7. The proposed method of staff development with written explanations as to how staff banking skills and expertise will be developed, and especially in the case of a foreign based applicant, information as to how, when, and to what extent it will allow Ugandan staff to occupy senior management and overall policy making positions.

PART IV PROCESSING OF APPLICATIONS AND CONDITIONS OF LICENSE

SEC.10 Processing of Applications under the Statute

1. In processing an application for a license under the Statute, the Central Bank shall follow the guidelines given in Section 7 of the Statute
2. The six month time period as called for in Section 7(1) of the Statute shall not go into effect until the Central Bank is fully satisfied it has received all information it needs to properly evaluate the application

SEC. 11 Conditions of the License

1. In granting a license the Central Bank may set conditions as are necessary as authorised under Section 7(5) of the Statute
2. At the discretion of the Central Bank, such conditions may apply to permissible of non-permissible operations or activities and thus may prohibit certain operations from being undertaken.
3. The conditions of the license may be of either temporary or permanent nature and the Central Bank may revise the conditions of the license from time to time, as it sees fit.

PART V: Revoking of a License

1. The Central Bank may revoke a license of a financial institution as is authorised under Sections 10 and 11 of the Statute.
2. Under Section 10 of the Act, a licensed financial institution, which has not begun operations within 12 months from the date of issue, shall have its license revoked by the Central Bank.
3. In determining whether to revoke a license for any of the reasons given in Section 11 of the Statute, the Central Bank shall first take into account the protection of depositor's funds, as well as the overall soundness of the financial sector.
4. In considering its powers under Section 11 for revoking a license of a financial institution already in operation, the Central Bank will also review its alternatives under Sections 31 and 32 of the Statute.