COVER STORY: WEST AFRICAN BANKING AND FINANCE

FOCUS ON GHANA

The financial industry in West Africa, particularly in Nigeria and Ghana, can sleep a lot more easily now than it has been able to do for at least the past four years. Even weathered veterans of the industry, a class seemingly inured to the frequent ups and down of their calling, describe the immediate past period as 'very challenging' in their customary understated manner, disguising the panic they may have felt lest it led to customers making runs for the banks.

But the worst is now over and the smiles are back – albeit bankers in particular are still a little jumpy at the slightest hint of bad news. African bankers are nothing if not resilient and having survived the storm, plans for (some) expansion are still being hatched.

Nigeria, as always, call the shots in the region – and oil prices call the shots on Nigeria. It was all doom and gloom when oil went down to $25pb in 2016 and the country slipped into recession. Somehow, Africa's biggest economy managed to come out of recession and now, with oil fetching around $65pb, the stranglehold on forex is being loosened, the stock market is positive and most banks, ever so cautiously, have begun lending again. A rising tide lifts all boats and the financial sector in the region, by and large, can look to the rest of 2018 with confidence that better times are just around the corner.

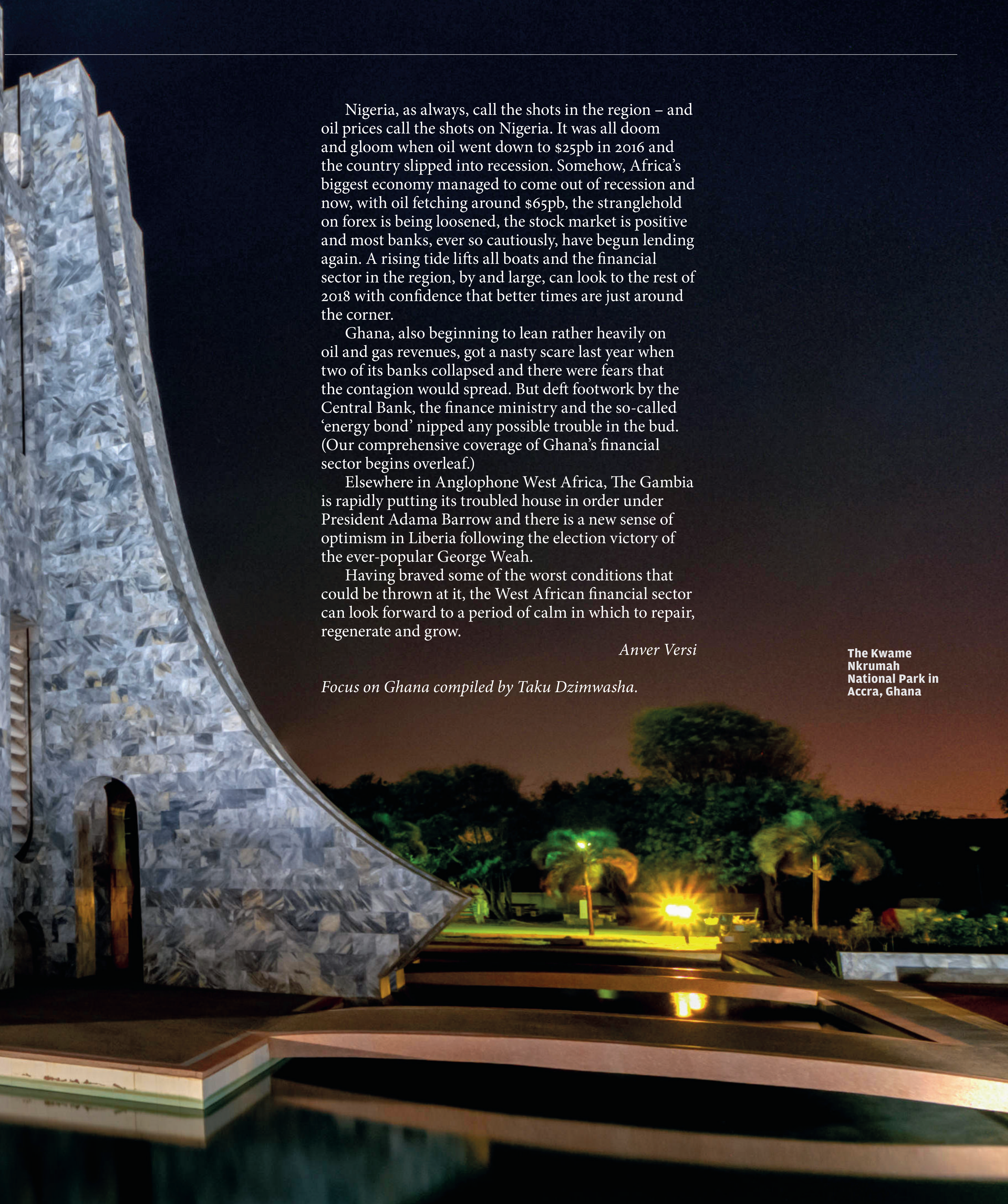
Ghana, also beginning to lean rather heavily on oil and gas revenues, got a nasty scare last year when two of its banks collapsed and there were fears that the contagion would spread. But deft footwork by the Central Bank, the finance ministry and the so-called 'energy bond' nipped any possible trouble in the bud. (Our comprehensive coverage of Ghana's financial sector begins overleaf.)

Elsewhere in Anglophone West Africa, The Gambia is rapidly putting its troubled house in order under President Adama Barrow and there is a new sense of optimism in Liberia following the election victory of the ever-popular George Weah.

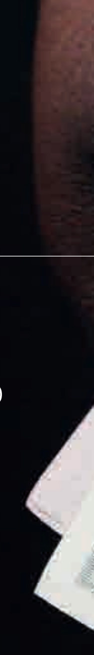
Having braved some of the worst conditions that could be thrown at it, the West African financial sector can look forward to a period of calm in which to repair, regenerate and grow.

Anver Versi

Focus on Ghana compiled by Taku Dzimwasha.



The Kwame Nkrumah National Park in Accra, Ghana



NIGERIA: *FIXED INCOME*

Savvy investors are pulling their deposits out of banks, where interest rates are in the single digits, and placing them in the securities market for higher returns. The securities market has been boosted by rising issuances of treasury bills and bonds by the government. The trend has led to a dip in banks' deposits and less credit being made available to small businesses, writes **Michael Nkwor.**

Investors ditching banks for fixed-income securities

At the beginning of last year, Silas Murphy, a Lagos-based lawyer, set an ambitious income target for himself. That drive for more wealth creation almost went unfulfilled until the second quarter when his financial advisor told him to move his funds from commercial banks and invest them in fixed income securities.

Murphy moved a N10m ($27,700) term deposit in a commercial bank paying 10% interest and invested it in a 180-day Treasury Bill (T-Bill) where he got 15%, with zero tax on the accrued income. He also pulled out another $22,160 from his savings account, where he got 4% interest, and invested it in the monthly Federal Government of Nigeria Savings Bond (FGNSB) paying 14%.

Government has intensified its usage of T-Bills and bonds to raise funds for key infrastructural projects as government agencies have struggled to meet revenue targets. As at 30 September, T-Bills accounted for 30.23% of the Federal Government of Nigeria's (FGN's) domestic debt of $34.62bn, higher than the Debt Management Office's maximum target of 25%.

Aside from individuals like civil servants and private sector employees, commercial banks and asset management firms are also moving deposits from banks and investing them in fixed income securities.

It is therefore not surprising that the banks' deposit base has dipped in recent months, and so have credits to Small and Medium Enterprises (SMEs). In addition, the Central Bank of Nigeria's (CBN's) statistics show that in the last five years, only 0.1% of banks' total loans went to SMEs. Of the total $376.4bn loans disbursed to the economy from 2011 to 2015, only $442.5m was for the SMEs.

Stevens Azu, an SME operator in the food and beverages sector, said his application for a $554 loan to enable him to boost sales was rejected by his bank without reasons being given. He said the bank only called to inform him that the request was denied.

Another entrepreneur, Nancy Okon, gave up seeking an $831 loan four months after her application, as the bank kept asking her to be patient. "It takes longer than necessary for banks to approve SMEs' credits. In several instances, the loans were denied after several months of waiting," she disclosed.

Banks have linked the availability of limited funding to SMEs to the higher risk in lending to the sector, but the biggest challenge to SME lending is the rise in government debt, which is crowding out private sector access to loans.

Kunle Ezun, a senior analyst at Ecobank Nigeria, said regular T-Bills and bonds' issuances are cutting SMEs' borrowing chances. He said the attractive rates on government securities have motivated many investors, including banks, to invest in the segment. "Bank shareholders want improved returns which can only come from safe and profitable investments like T-Bills and bonds. Today, a large chunk of bank revenues comes from fixed income securities. Nearly 21% returns are earned at zero risk," he said.

But he wants government to lower T-Bills and bond rates to discourage banks from investing in such securities. This would make more credit available to the private sector, boost job creation, citizens' income levels and consumption volumes.

Richard Obire, a former executive director at Keystone Bank, said the T-Bills were used by the Central Bank of Nigeria (CBN) to mop up excess liquidity in the system as well as check inflation. He argued that such practices are no longer in wide use globally. He agreed with Ezun that government securities rates should be lowered.

"It is disturbing that lenders simply gather deposits and channel them to T-Bills and bonds instead of giving credit to SMEs and

Drawing on its attractive T-Bills and bonds, government used $5.44bn to service debts in the 2017 budget.

$5.4bn

manufacturers. That practice can tackle inflation, 15.91% as at October, but can never support growth," Obire said.

Private sector credits crowded out

Muda Yusuf, an industrialist, said investments in T-Bills and bonds have become more attractive than investing in manufacturing, agriculture and solid minerals combined. "It has created a serious crowding out effect on private sector credits. Even the financial institutions would rather invest in T-Bills and bonds rather than lend money to entrepreneurs. This condition has been created by the high cost at which the government borrows – the high yield on T-Bills and bonds," he said.

Besides, the practice has led to high debt servicing. Government used $5.44bn to service debts in the 2017 budget, for example.

Ola Belgore, managing director, Afrinvest Asset Management Limited, said the average rate for T-Bills is 15% and once it is marked up with a risk premium, it will hit 18 to 19%, which is a challenge within the operating environment, considering the rate manufacturers will borrow at.

Belgore added that many banks have realised that high-net-worth individuals require more returns. For instance, with deposits as high as $831,000, customers demand an 18-20% interest rate on their funds, whereas, the retail customer will happily accept 5%.

He advises banks to go for cheaper deposits at the retail end of the market, as these enable them to lend at cheaper rates and earn better margins. The manpower required by high-net-worth individuals, who typically demand one-on-one service, is huge. Hence, the retail customer generally seems more attractive. "But high-net-worth customers should be highly valued and receive the attention deserved, while technology is deployed to capture the millions of unbanked in society," he adds.

Nigeria has consistently borrowed from the international capital markets where over the last year, it raised $7bn through Eurobonds. The country raised $1.5bn through Eurobonds in two tranches of $1 billion and $500m, and a fresh $5.5bn in the fourth quarter of last year.

National debt stock

The Debt Management Office (DMO) also issued a Sovereign Green Bond worth $29.6m, a $300m Diaspora Bond and $277m of non-interest bonds (Sukuk bonds) in the year. The positive outlook for crude oil prices this year and attractive yield curve for emerging market papers kept offers attractive to investors. Nigeria's debt stock stood at $55.4bn as at 30 September.

But the borrowings have been justified by Patience Oniha, the DMO director-general. She said that the funds were pre-approved by the executive and legislative arms of government, and would be deployed to finance government projects as appropriate.

For the DMO head, the layers of approvals from both arms of government meant the borrowings were necessary and had been scrutinised. She insisted that as the borrowed funds are channeled to infrastructure development, the benefits of job creation and a stronger economy will impact positively on all Nigerians. ■

WEST AFRICAN BANKING AND FINANCE: THE GAMBIA

Gambia's new leader, Adama Barrow and his administration inherited a bankrupt economy when they took office a year ago. Since then, matters have decidedly changed for the better, with the country expected to register a growth rate of 5% by 2020. **Sanna Camara** reports from Banjul.

Barrow shifts economy out of doldrums

The Gambia's economic growth is expected to gradually accelerate to about 5% by 2020. This is assuming continued good policy implementation and a significant expansion in the electricity supply, irrigation and commercial farming, investment in the tourism and trade sectors, and ongoing infrastructure investment.

This is a far cry from the situation that prevailed a year ago when coalition leader Adama Barrow won a surprise election against the country's dictator, Yahya Jammeh.

When he assumed office in January, The Gambia's international reserves could pay for less than a month's imports of goods and services. Today, international reserves have reached a value of four months' imports. The President said that despite the 120% debt to GDP ratio inherited by his government, his team is working hard to stabilise the economy.

"Government borrowing has gone down, interest rates gone down and 12% debt has already been paid within a year," Barrow said when I interviewed him at his office. The President also stressed that his administration was working on concessions with development partners, so they pay in such a way that it will not suffocate the government.

The Gambia's President Adama Barrow

China has already extended debt relief to Gambia and partners have recommended several levels and standards necessary to maintain stability and boost growth.

The Gambia's debt to GDP ratio went down from 120% in 2016 to 112% in 2017. A further decline is expected in 2018, to 108%. The projected fall in the country's debt is attributed to the government's spending cuts and support from international funding partners that addressed the budget deficit, according to the IMF's *World Economic Outlook* report for 2017.

"The debt service to the GDP ratio has risen from 22% to 46% in 2016. The Gambia has seen a sharp decrease in Treasury bill rate due to budget support [received from development partners]," the IMF country representative in Banjul, Ruby Randall, said.

According to the head of the IMF mission to the country in November 2017, headline inflation is expected to decline to slightly below the Central Bank of The Gambia's (CBG) 5% target in the medium term. "Performance to date under the Staff Monitored Program (SMP) has been broadly encouraging, but more progress is needed," said Ulrich Jacoby, who led the IMF team to Banjul.

The drastic reduction in the government's net domestic borrowing – stemming from increased donor support, fiscal consolidation and the recent pick-up in domestic revenue – has contributed to the decline in interest rates, Jacoby explained.

Looking ahead, Jacoby said the authorities will need to maintain fiscal discipline and implement the remaining fiscal and structural measures committed to under SMP.

Economy stabilised, says Central Bank governor

The Gambia's Central Bank Governor Bakary Jammeh explained to reporters how the situation they faced when coming into office had caused them 'sleepless nights' as his team struggled to turn around a dire situation. Bakary Jammeh was put in charge of the Central Bank soon after the new government was sworn in in February 2017.

The new administration led by Adama Barrow faced its biggest challenge in "fixing and stabilising a broken economy" that Jammeh had left behind. There was no proper handing-over ceremony and the new leaders decried "a serious looting" of the country's coffers.

"During the ensuing political crisis [December to January last year], inflation was at 8%, and reserves of the commercial banks at the country's Central Bank were at minus $20m thanks to uncontrolled government borrowing," Governor Bakary Jammeh said at a press conference. The country was literally bankrupt, he added.

Economic growth was at 2.2% and agriculture, which was the economy's backbone, was suffering from a poor performance in the 2016 harvest season. Ninety per cent of government finance in 2016 was spent on things like wages and salaries, goods and services, and debt servicing.

"As we speak," Central Bank Governor Bakary Jammeh commented, "our reserve is $160m from that negative point. Inflation is dropping, from 8.8% in January 2017 to 7.6% as of September 2017. The dalasi [The Gambia's national currency] is stable, and growth prospects are high – every day we are talking to investors here because there is renewed interest in The Gambia.

"For the past seven years, an IMF programme for the Gambia did not exist. Now, the Staff Monitored Program (SMP) entered into is on track; we negotiated a three years' extended credit facility programme in the first quarter of 2018," Jammeh added.

"Economic growth in 2017 is projected at 3% with a strong rebound in tourism and trade, and renewed interest from foreign direct investors in energy, tourism, agriculture and transportation," confirmed the IMF's Jacoby.

"Inflation has reversed its rising trend, reflecting the stabilisation of the dalasi and a gradual decrease in food prices. With much improved fiscal discipline and external financial support, the dalasi has remained stable since April and international reserves have recovered strongly," he indicated.

Stability of the financial sector

Discussing the role of the Central Bank, Governor Jammeh explained: "The Central Bank has different monetary policy regimes – some do inflation targeting, others monetary targeting and exchange rate targeting. What we do is to control the quantity of money, set targets for it

"Treasury Bills have reflected the policy rate of the Central Bank. We set targets with the IMF and we are on track on all targets... The reduction of the policy rate from 23% in January to 20% on 5 May 2017, and 15% by December, was meant to signal direction, as a normalisation initiative," the governor maintained.

"The fact that it was 23%, that it was decoupled from the entire system, demanded we do something about it. Also, we needed to know which liquidity is attached to the policy rate," he argued.

He said that the policy rate being brought down led to the lending rates of commercial banks coming down. "This is one impact. We understand that their lending rates were linked to it. So the moment we bring it down, we bring down the lending rates in the process. Those who are lucky to have loans from banks would have realised its impact on their interest payments on those loans to the banks," he explained.

In the meantime, reforming public enterprises remains critical, as they pose significant fiscal risks and contribute to high public debt. "The mission welcomes ongoing reform efforts which should continue, including medium-term strategic plans for achieving financial viability," stated the IMF's Jacoby in his end-of-mission statement.

"The Central Bank should continue maintaining a flexible exchange rate regime and further rebuild reserves, given external vulnerabilities and the high debt. Safeguarding the stability of the financial sector in light of the decline in interest rates is also a key priority," he added.

Freeze on Yahya Jammeh's assets

Meanwhile, according to the country's justice ministry, Yahya Jammeh personally, or through others acting under his instructions, directed the unlawful withdrawal of at least $5m of state funds. The Gambian government has since taken action to freeze Jammeh's assets within the country. These figures were only preliminary, and the government acted swiftly by launching a Commission of Inquiry into the assets and financial activities of the former President, his associates and family. In December, the US Treasury announced a global freeze order on Yahya Jammeh's assets, and other international investments related to the exiled dictator.

The Executive Order, signed by President Trump, provides for the US Treasury to impose sanctions against 'malign actors' worldwide, and targets human rights abusers and corrupt people around the world. It builds on the Global Magnitsky Human Rights Accountability Act passed by US Congress in 2016.

"During his tenure, Jammeh used a number of corrupt schemes to plunder The Gambia's state coffers or otherwise siphon off state funds for his personal gain," a US Treasury release said, referring to Jammeh's "large-scale theft". ■

After a difficult past few years when global growth slowed, oil and gas prices slumped and the demand for commodities hit the floor, Ghana's economy is now robust and growing at around 9%. The decision by President Nana Akufo-Addo (*pictured below*) to go ahead with development targets, despite an earlier hostile environment, coupled with a new business-friendly atmosphere, has paid off and market confidence has returned.

The country's banking and finance sector has largely weathered the early storm, although there have been a few casualties, and as the national regulatory bodies roll out new regimes more suitable to current conditions, the sector can look forward to a period of sustained growth.

In this Special Focus report, we analyse the sector in all its aspects and talk to the major players in each segment.

A leaner, fitter, more responsive sector

Akufo-Addo leads the charge

Following a period of economic instability characterised by sluggish growth and rising debt levels, Ghana's economy is on the path to recovery, mainly due to an improvement in the global economy and the policies of President Nana Akufo-Addo's government.

The President, who came into office at the beginning of 2017, inherited an economy which had seen growth shrink from a peak of 14% in 2011 to 3.6% in 2016. The country's economy declined significantly largely because of global price fluctuations of key export commodities, including crude oil, gold and cocoa.

Debt levels also ballooned to unsustainable levels under the regime of former President John Mahama, with debt as a proportion of GDP reaching 73%, and interest payments consuming 42% of tax revenue.

The perilous economic conditions that Akufo-Addo inherited threatened to derail his ambitious plans, which included building a dam in every village in the neglected Northern Region, constructing a factory in each of the country's 216 districts and spending $1m a year on development in every constituency. He also pledged to improve the ease of doing business in the country by introducing sweeping reforms to all areas of the economy.

Shortly after Akufo-Addo's inauguration, the government was forced into securing a $918m IMF loan, which had a series of conditions including slashing public spending and ensuring the banks were properly capitalised, in order to restructure the country's debts.

Opposition parties and many analysts called on the government to scale back on its plans because of the new economic realities; however, Akufo-Addo pressed ahead defiantly.

Speaking shortly after unveiling his economic plans in his inaugural State of the Nation address, the President told parliament: "I have heard it said that I am behaving like a man in a hurry. Mr Speaker, I am indeed in a hurry. The times in which we live demand that we all be in a hurry to deal with the problems we face."

The gamble paid off as Ghana's economy began to recover last year, with the economy growing year-on-year by 9.3% in the third quarter of 2017, and above a 9.0% rise in the second quarter. While the business-friendly environment fostered by the government helped restore fiscal credibility to Ghana, the drivers of growth were a recovery in global oil prices, which rose from a low of $30 a barrel in June 2016 to average above $50 a barrel throughout much of the year; and in gold prices, which rose from $1,100 an ounce at the beginning of 2016 to around $1,300 a year later.

GDP is forecast to reach 8% in 2018, according to the World Bank, and the conditions in Ghana point to sustained economic development.

The oil and gas industry, which accounts for 26.5% of Ghana's GDP, was also boosted by the ramping up of output from the Tweneboa Enyenra Ntomme oil field off the coast.

The government also successfully curbed inflation, which fell from a peak of 19.2% in March 2016 to 10.3% in January 2018. Meanwhile, the cedi stabilised at around C4.35 to the dollar for most of 2017.

Furthermore, the government has managed to reduce Ghana's debt-to-GDP ratio from 73.3% in December 2016 to 68.7% as of November 2017, the last recorded period. The ratio is set to decrease further to 66.1% by the end of 2018.

As a result of the improving macroeconomic conditions, GDP is forecast to reach 8.3% in 2018, according to the World Bank, and while the recovery is still some way off the heights of double-digit growth experienced seven years ago, the conditions in Ghana point to sustained economic development.

Market confidence returns

Akufo-Addo's policies have also restored market confidence across all areas of the economy. In the banking sector, the government issued an energy bond to tackle non-performing loans (NPLs) which had weighed heavily on banks' books (*see banking analysis on page 30*).

The capital markets also benefited through the issuance of long-term debt instruments and market reforms (*see capital markets analysis on page 38*), while the insurance sector saw growth and the government has targeted the industry as a key growth area (*see insurance sector analysis on page 49*).

While the market is bullish about Ghana's prospects, some analysts have warned that chronic economic challenges could hamper development if the issues are not confronted by the government.

Chronic challenges

One of the key challenges facing Ghana, and many other African nations, is dependence on extractive industries to bring in foreign currency and income. The reliance on oil, gold and cocoa revenue leaves the country vulnerable to fluctuations in global prices and inflation.

The government hopes to reduce dependence on commodity exports by pushing through an 'aggressive' industrialisation programme dubbed the Akufo-Addo Programme for Economic Transformation (AAPET). It builds on 'One Village, One Dam' and 'One District, One Factory' programmes which were implemented last year. The former has received investment pledges of $21.2m; while the latter has received $3bn.

The aim of AAPET is to diversify the economy, create jobs, develop infrastructure and increase agriculture investment. Analysts have warned that this could add to Ghana's already large debt stock. But Minister of Finance Ken Ofori-Atta claims that private investors will fund most of the programme (*see Ofori-Atta interview on p. 28*).

President Akufo-Addo has staked his premiership on delivering AAPET and if he is successful the electorate will surely re-elect him in 2020, but if he fails, then Ghana's economy could end up in a worse state than when he started. ■

A worker readying sacks of grain for haulage. The aims of the Akufo-Addo Programme for Economic Transformation (AAPET) include investing in agriculture, to strengthen the economy

IN CONVERSATION **HON. KEN OFORI-ATTA,** Ghana's Minister of Finance

Ghana's Minister of Finance, Hon. Ken Ofori-Atta *(right)*, has overseen a revival of fortunes for the country's economy. He aims to put the private sector at the forefront of economic growth and development.

Ghana can be the regional financial hub

Ghana's key economic indicators (GDP, inflation, etc.) were mostly positive in 2017. What are some of the drivers of this performance?

Over the last four years, the Ghanaian economy has faced severe challenges such as burgeoning debt and an energy crisis. When our government began at the start of 2017, we wanted to be bold and come in with reforms that would unleash the potential of the Ghanaian people.

Our agenda was to create an economy where people feel ownership and buy into a vision of entrepreneurship. The first-year budget, with policies such as reducing taxes, helped sow the seeds for growth and jobs. However, the key success factor for this recovery is the economic relief that was provided in the latest budget, which focused on moving our economy from services to production.

There were also a number of initiatives we implemented such as taking pragmatic steps to strengthen the banking sector, by increasing the minimum capital requirements and tackling non-performing loans, which were a major headache for the sector. The government also took steps to address the challenges in the energy sector (power shortages) which were impairing productivity.

Another key thing that we did was to identify five key pillars of reforms, which were: restoring the economy; transforming agriculture and industry; revamping economic and social infrastructure; strengthening social protection and public service delivery institutions; and streamlining the earmarked funds. We were able to cut the latter to around 25% of GDP. These reforms strengthened consumer and investor confidence last year.

But we didn't stop there. We were also keen to ensure that our economic policy was more transparent, so we focused on the key themes of policy clarity and credibility. We achieved this by being frank and open with investors, the media and key stakeholders across various sectors.

This policy shift allowed us to achieve one of our greatest successes to date, which was reprofiling the debt through the Franklin Templeton (FT) transaction, which was a market transaction that helped us restructure our public debts by raising over \$2.25bn – which was the single-biggest daily transaction in sub-Saharan Africa at the time – with a yield curve of 15 years at 19.75%.

Analysts have raised concerns about the country's debt-to-GDP ratio. What steps have been taken to reduce this? And how has the debt situation affected the President's economic agenda?

We have reduced the debt-to-GDP ratio from around 73.3% at the beginning of 2017 to around 68.7%. By reprofiling the debts and implementing the reforms mentioned above, we have boosted economic growth, which has helped to reduce our debt levels. Also, when I came in, interest rates were above 22%, but we have managed to reduce that figure to 13%.

We also significantly reduced the primary balance last year and we are hoping to have a surplus in 2018, which is a strong indicator that we are not looking to add to the national debt. We will continue to conduct macroeconomic reforms to rein in public debt and to ensure public debt is sustainable.

The 2018 budget has signalled clearly that infrastructure, industrialisation and investment in agriculture cannot happen on the back of government balance sheets, so we have come up with what we call the 'Framework for Economic Transformation', which will put the burden of economic growth and development onto the shoulders of the private sector.

The National Development Bank (NDB) – which will be formed by a merger of the National Investment Bank (NIB) and the Agricultural Development Bank (ADB), and will only be partly owned by the government – will act as a vehicle to attract both foreign and domestic private capital under a private sector model to finance industry and agriculture. We are planning on seeding it for over \$500m.

Additionally, the Ghana Infrastructure Investment Fund (GIIF) will restructure its operations to raise over \$1bn and the Ghana Eximbank will also look to leverage on foreign private money to be able to support exports. Therefore, concerns about adding to the national debt are not valid because you can see our funding model is outside of the government balance sheets.

Our overall strategy is to position Ghana as a regional hub for financial services, where we will be able to attract a lot of private money starting with local sources including pension and insurance funds.

How successful was the energy bond and have you noticed interest in it waning?

The bond was a great success from all stakeholders' point of view. We managed to restructure these energy sector levies that were leading to problems in the banking sector by issuing the energy bond.

We structured the bond in such a way so that we didn't coalesce state-owned enterprises' debt with government debt. Therefore, the taxpayer didn't foot the bill and the banks managed to deal with some of their non-performing loans.

It was also designed in such a way that we didn't give free money to the energy sector companies and there was a strong refinancing element. We cleaned up the debt so that the

'Infrastructure development, industrialisation and investment in agriculture cannot happen on the back of government balance sheets, so we have devised a plan that will put the responsibility for economic growth onto the private sector.'

energy firms were not under as much pressure as they were before, but we also held them accountable for their debts.

However, I disagree that interest in the bond is falling away. As with any type of new policy, especially one as historic as the Energy Sector Levy Act (ESLA) bond, it is prudent to take things slowly.

The energy bond was designed to be issued in tranches, so when the bond was initially issued the key decision for us was to ensure that the coupon on the bond is something that reflects market fundamentals.

We wanted to avoid a situation where investors bid in excess of what we expect but the bids don't make good financial sense – then, it is my interest to protect the public. Therefore, we have ensured that there is a cut-off coupon that reflects strong fundamentals.

We will be issuing the bond in tranches so that as the market improves and the ESLA itself gains a positive track record, then market participants will show greater interest in the next tranche.

How do you plan on further engaging in the bond market? And are you planning on utilising new vehicles similar to the energy bond to tap the market?

We have taken necessary steps to deepen the benchmark yields so that they are more liquid and they serve as an actual benchmark, and we have also taken steps to normalise the yield curve.

Our aim is to go to the bond market to ensure that long-term capital is available across the economic spectrum. So, we have taken very measured steps to ensure that we have a dynamic capital market, including national pensions and insurance reforms announced in the 2018 budget. ■

The collapse of two Ghanaian banks has prompted the central bank, the Bank of Ghana, to raise the liquidity thresholds of commercial banks to avoid contagion. Bonds, issued by the state-owned energy utilities to pay off debts, have also helped stabilise the sector but some analysts worry about the negative impact of the new measures on bank lending.

BoG raises capital threshold to stabilise sector

Ghana's banking sector experienced a tumultuous period starting in 2015, and culminating with two commercial banks – UT Bank and Capital Bank – collapsing in August 2017 due to a "severe impairment" to their capital.

The collapse of the two banks sent shockwaves throughout the country's financial services sector, with some commentators warning that the entire banking industry was at risk of contagion. UT Bank and Capital Bank became insolvent because they carried significant exposure to non-performing loans (NPLs), specifically those held by energy sector firms.

The state-owned energy companies – including Electricity Company of Ghana, Volta River Authority, Ghana Grid Company, Ghana Gas and Tema Oil Refinery – had racked up debts in excess of C10.8bn ($2.4bn), which in turn were sitting on banks' books.

The Bank of Ghana (BoG), wound up UT Bank and Capital Bank, and the customers' deposits and some assets of the two defunct banks were eventually taken over by one of the largest banking institutions in the country, Ghana Commercial Bank (GCB).

Realising the gravity of the situation, the BoG also moved quickly to assess the liquidity levels of the remaining 34 commercial banks, discovering that seven failed to meet the minimum capital requirement of C120m. The vulnerable banks were eventually able to prove that they could recapitalise to the minimum level needed and avoid the same fate as the two liquidated banks.

Following the scare, the BoG mandated that all commercial banks in the country would need to set aside by the end of December 2018 a minimum of C400m in capital or have their licences revoked. Banks in Ghana were last recapitalised in 2012, when the BoG asked them to raise their stated capital from C60m at the time to C120m.

Ghanaian banks are in the process of establishing whether they can raise the required sums by the deadline and a clearer picture should emerge by August 2018.

Bank lending to tighten

However, analysts have warned that the new capital requirements will see banks tighten lending, which would have a knock-on effect on economic growth. However, this viewpoint is not a true representation of the current situation across the industry, according to D.K. Mensah, executive secretary at the Ghana Association of Bankers (GAB).

"I don't think that the minimum capital requirements have affected how banks lend to customers," Mensah said. "What the whole process is about is a fresh injection of capital and if you look at the balance sheets of most banks, they carry a very huge income surplus."

"If the banks can't make enough to meet the minimum C400m threshold then shareholders will have to inject fresh cash, which they could achieve by reducing dividends paid out to shareholders, for example," he added.

Those banks that fail to meet the new requirements will simply have to apply for a licence in a lower tier of banking, becoming a Class II bank or a savings and loans company, where the capital requirements are currently C60m for the former and C7m for the latter.

While the banking sector adjusts to the new regulatory regime, NPLs continue to weigh heavily on the books of banks, despite action by the government to reduce the debts.

Reducing the NPLs' debt burden

To raise funds and help clear the state-owned utilities' debts, the Ghanaian government issued a series of non-sovereign bonds, dubbed the 'energy bond', backed by the Energy Sector Levy Act (ESLA).

The first tranche, worth C2.4bn, was issued in October 2017, with a seven-year yield pegged at 19% interest, while the second tranche was issued a month later for C3.6bn, with a 10-year yield at 19.5%.

The bonds have had mixed success, with the first tranche attracting investors in their droves, while the second failed to meet its target, forcing the government to reopen the 10-year bond in January but for the more modest sum of C137m, with a yield of 19%. The most recent tranche, however, was oversubscribed, raising C616m, which indicates that demand remains strong. Further tranches have yet to be announced, but the money already raised has gone some way to alleviating some of the NPLs which have blighted banks, according to Mensah.

"A large share of the public-sector debts, especially the energy debts, have been paid off using bonds, meanwhile, the indebted private sector firms, whose debts can be traced back to bulk oil distribution companies, have also issued bonds as well to help pay their debts," he said. "This has had an obvious positive effect on the capital reserves of the banks, which in turn has helped stabilise the sector."

The BoG has also initiated a policy directive which mandates that the banks exposed to NPLs need to present plans on a loan-by-loan basis, indicating how each loan can be restructured into a performing one.

There is no doubt that the energy bond has on the whole successfully managed to reduce the burden on the banking sector, but it is important that the burden does not get transferred

Accra, Ghana's capital and its political and economic centre, seen from the air

The banking sector remains upbeat that the energy bond will help reduce the burden of non-performing loans (NPLs) on banks' books.

to the taxpayer, according to Said Boakye, a Senior Research Fellow at the Institute for Fiscal Studies (IFS), an independent think-tank.

"Celebrations over the success of the bond should be tempered because although the government has stressed that the repayments of the debts will fall to the state-owned energy companies, at the end of the day [Ghanaians] are the ultimate custodians of those companies and their liabilities," he said.

Nevertheless, the banking sector remains upbeat that the energy bond will help reduce the burden of the NPLs, leaving scope for most institutions to diversify the products they can offer. One area that could prove lucrative as the economy flourishes is the personal business banking sphere, which remains underdeveloped.

The new capital requirements, meanwhile, will strengthen the banking sector by making it more resilient and leaner, but achieving the threshold should not come at the cost of economic growth, Boakye said.

"We all want a strong banking sector but if it means banks are reluctant to lend then that would affect business," he said. "We are also concerned that the requirements could push domestic banks out because tripling your capital in such a short space of time would be difficult for those institutions but not for the foreign ones." ■

IN CONVERSATION Alhassan Andani – President, Ghana Association of Bankers and MD, Stanbic Bank in Ghana

Alhassan Andani (*pictured right*) holds a bachelor's degree in agricultural economics from the University of Ghana and a master's in banking and finance from Fin Africa Institute in Milan. He was Deputy Managing Director of Barclays Bank Ghana before joining Stanbic Bank in 2006 as Managing Director. Under his leadership, the bank grew from a two-branch operation into a full-fledged tier-one bank. Stanbic received the Best Investment Bank for 2013 award from *EMEAFinance Magazine*. Andani was the Chartered Institute of Ghana's Marketing Man of the Year 2014.

A more positive outlook for 2018

The banking sector has been facing some tough times since 2015. Has the situation stabilised?
Since 2015-2016, the recovery of the banking sector has been very slow, due mainly to the then government's policy for deregulating the energy sector. This is a critical area of the economy, which the government was paying subsidies to prop up.

The deregulation created a grey area where the full cost build-up in the energy utilities hadn't all been passed on to the consuming public.

Therefore, the government was building up unsustainable debts, which translated into receivables on the books of the utility and power companies. These debts then weighed heavily on the books of banks and suppliers, who were the creditors.

This situation came to a head in September 2016, when we started to see non-performing loans (NPLs) and assets really damaging the banking sector. The situation was exacerbated by the poor performance of the bulk distribution companies, such as the oil and gas firms, which also owed lots of money.

We started a discussion in 2016, but it is only because of the government's energy bond that we have been able to get some payments, meaning the banks have been able to stabilise.

How has the drop in the Bank of Ghana's benchmark interest rate affected the sector as a whole?
The rates for government treasury bills have fallen year-on-year, from around 25% in December 2016 to around 19% at the end of 2017. For banks which had large exposures to government securities, this has meant a significant drop in earnings, which we are not crying about because banks should be making money in the 'real sector' of the economy.

Banks take advantage of government treasury bills if they are available in the market because they are safe. However, I don't think any bank sets up only to make money through high interest rates on securities. The rapid decline of the interest rates has meant that banks are looking to replace those treasury bills with risk assets, but this takes time.

So, the first impact here is on the government treasury bills. Risk assets would always be determined on a risk-reward basis, and margins are still pretty good.

I know that the market is still looking to banks to reduce lending rates, but surely we will reduce rates in tandem with all the other factors as they happen.

We see the Bank of Ghana's policy rate is still a bit slow in coming down, even though it announced reductions of 450 basis points recently. Having the policy rate at 20% when inflation is sitting at 13% is still problematic and I don't think that [a reduction of] 700 basis points is out of the question.

Overall, this indicates there is something in the economy we need to look out for, maybe some risk issues that the Bank of Ghana and ourselves will need to be aware of. That gap tells you there is some embedded risk which is not very obvious to everybody else.

That also impacts the rates that we banks are currently lending at. But that said, the policy rate has reduced by 450 basis points and we think that it will continue to come down. So the banking sector is readjusting to actually making money from the real sector, which is good for overall GDP growth.

Multilaterals such as the IMF and World Bank have been warning about exposure to Ghanaian sovereign debt, is that something that plays on the minds of bankers?
Yes, because the sovereign debt position impacts the global rating of the country and therefore, our costs of doing business elsewhere. However, we have an issue with how the debt is assessed. I always say that the IMF and World Bank should revise their notes on what they call 'available foreign international reserves', because today the banking sector holds about $3bn in foreign currency deposits.

The Bank of Ghana's own reserves of foreign currency are what is typically used to measure FX debt cover. Now, if you don't include the funds available to the banking sector, then you are leaving out a significant portion of funds available in the country.

We've had discussions with the local IMF team about this and we hope they take this into consideration. But the rigid way of assessing developing countries won't change just on the basis of a conversation.

The multilaterals have economic models that come from the past, despite the fact that the world has moved on. In the past, in many African countries, local entities had to surrender their foreign exchange earnings to the central bank but they were allowed to hold stocks of

IN CONVERSATION Alhassan Andani – President, Ghana Association of Bankers and MD, Stanbic Bank in Ghana

local currency. However, in Ghana you don't need to surrender your FX to the central bank – you can keep it in your own account and you sell it when you need local currency.

I believe these organisations have got to take this into consideration, especially when these institutions are assessing our ability to meet maturing foreign liabilities.

How is the banking sector adjusting to the new minimum capital requirements? Are most banks on track to meet them by December 2018?

I think there are two sides to it. Already, even at the ₵120m ($26.8m) threshold, some banks have to deal with capital adequacy challenges. This has nothing to do with the increase in the capital base but because of the heavy debt overhang, which has impacted the capital adequacy ratios of the banks. Now the banks have to factor in the increased capital requirement as well.

So it's natural that there has been a bit of pull-back. I think most banks are paying close attention to their balance sheets now and then looking at options as to how they can meet the new minimum capital requirements.

If you didn't have a very clear route map to meeting them, you are not going to be out there creating risk assets, because who would you sell those risk assets to if you were not able to raise your own capital?

In my view, probably the top eight banks have got a clear map which takes account of the equity and allowable reserve that can be capitalised, so the top eight banks can easily meet their minimum capital of ₵400m ($89.34m). But there are others whose capital amount plus allowable reserves won't take them there, so they need an additional injection. Those that won't be able to meet the requirements will need to either merge with bigger banks or simply move down a tier, for example, becoming a savings and loans institution, which has a lower threshold in terms of capital requirements.

So you expect to see significant activity in terms of consolidation in the sector?

Yes, I expect we'll see some moves towards consolidation. However, we are not there yet as banks are still in the first phase of internal management, whereby they assess their books to see if they can meet the requirements and present their findings to shareholders. The shareholders themselves will nod and say, "Okay, do we have it within ourselves to reach a minimum?" If they don't have it within themselves, then they'll have to make sure that they get the right advisory to try and get other people involved.

At this stage the banks will have a few options, including going to the local stock exchange to raise capital. Only once they have assessed all their options do I expect discussions about merging with bigger banks to happen. We should have a clearer idea of the capabilities of most institutions by the end of the first quarter of 2018.

Following on from the reductions in treasury bill rates, the banking sector is readjusting to actually making money from the real sector, which is good for GDP growth.

Do you believe there too many banks?

The Ghana Association of Bankers is a collection of independent banks coming together to ensure that we can contribute to policy discussions to shape a better industry. But with 36 banks and given the size of our economy, we can't do any large transactions. Even the ₵400m capital requirement doesn't allow you to do any significant transactions.

In my view, we need some big banks that can actually take on larger risk and also be able to participate to a greater extent in the economy in West Africa. Ghanaian companies are moving to the sub-region, and the oil and gas sector will be growing significantly, so we need bigger banks that can support this expansion.

In terms of the minimum capital requirement, banks shouldn't sit back once they have reached the target because there's not much business you can do with ₵400m. And only big banks can raise the kind of funds that we need to progress our economy.

Finally, what is your forecast for 2018?

Things look positive this year. If we look at GDP growth, anything north of 6% would be positive for us and the physical challenges, such as the power shortages, that have hindered our economy, seem to be under control.

We are seeing a rise of confidence in the real sector; there is increased activity in agriculture, oil and gas, manufacturing, mining, agro-processing and agribusiness. This means that the economy will need further capital loans.

While the NPLs on banks' books remain an issue, the launch of the energy bond has helped to alleviate some of the associated pressures in the sector. We hope to see the government take further steps this year.

So things look positive for our sector. And it was also reassuring to hear the Minister of Finance saying in his 2018 budget announcement, "I want to continue to consolidate fiscal expenditure". That is the sort of budget discipline that will prevent the government having the kind of issues that we've seen before. ■


BANK OF
GHANA
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One Cedi

Ideal Finance achieved an appreciable growth in profits last year as a result of providing customers with flexible and attractive returns above government Treasury bill rates.

IDEAL FINANCE PERFORMANCE EXCEEDS TARGETS

Ideal Finance – the finance division of Groupe Ideal – performed outstandingly in 2017, with total assets growing year-on-year by 62%, from C359m ($80.1m) to C580m. The strong performance last year saw an appreciable growth in our profits as investment mobilisation exceeded our targets. Customer retention was strong due to our excellent relationship management, great customer service and professionalism.

Our best performing product was the premium investment product, a secure and high yielding product with a minimum of C5,000 investment. This offers customers flexible and attractive returns of about 2-4% above government Treasury bill rates on their placements with us. Our small and medium-sized enterprises (SMEs) loans business performed significantly well as the Ghanaian economy recovered.

A key area to growing our operations is developing our Fintech capacity. We are currently in the process of deploying Fintech products which will aid in handling most aspect of our operations, especially in the field of cash collection. We are moving away from physical cash collections to digital collections as this is more efficient. We hope to launch our Fintech product by the end of the first quarter of 2018. It is an exciting time for our business and moving to utilising information technology will help our business grow rapidly.

The future is digital and we have fully embraced the IT to improve the customer experience. They can now stay abreast of their accounts with us through SMS notification and email alerts, and transfer and receive funds at the click of a button. Clients have more control of their accounts and, therefore, reducing operational costs associated with handling their accounts.

Using IT will also help reduce the number of unbanked and underbanked Ghanaians because banking is now in reach for anyone with a mobile phone. Ideal is developing innovative products that will suit the needs of the unbanked and we are focused on delivering a great service for our clients.

Our SMEs loans business also performed very well in 2017 as the Ghanaian economy recovered.

Nii Kotei Dzani, CEO, Ideal Finance

But the number of people without bank accounts is still high, so the banking sector should concentrate on increasing customer confidence and educating the population in order to improve the financial literacy rate in the country.

Backbone of the economy

We are also a specialist in supporting SMEs and we have made a conscious effort to understand the needs and desires of businesses that bank with us. But the entire banking sector and the government can do more to promote SMEs by, for example, setting up funds purposely to support SMEs and those in the agriculture sector.

These firms form the backbone of the Ghanaian economy in terms of job creation. The government should also guarantee or provide insurance to support lending to the agricultural sector; one way government could achieve this without adding to spending is to give tax incentives to agricultural sector lenders.

Nevertheless, we aim to deepen our client retention by focusing on delivering value to our customers. We will also look to enter into new markets such as the Western, Volta and Eastern Regions with the aim of growing our business further in future. ■

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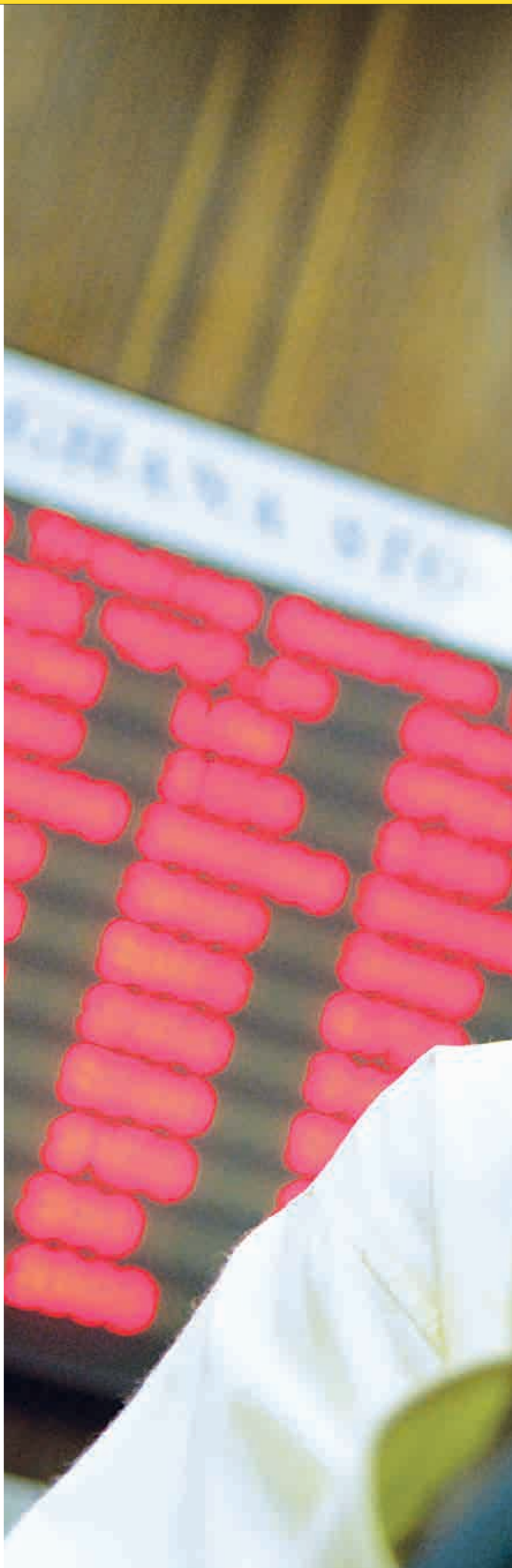
Ghana's capital markets finally emerged from a two-year downturn in 2017, as the economy recovered and President Nana Akufo-Addo's government issued a number of bonds.

Capital markets surge as economy recovers



The equity market saw trading activity surge, with the value of the Ghana Stock Exchange (GSE) growing year-on-year by 52.7% in 2017, and total market capitalisation rising from C52.69bn ($11.77bn) to C58.9bn over the same period.

While there were no major listings on the main exchange in 2017, the exchange expects a major listing in the telecoms sector in 2018, with reports circulating that it will be mobile operator MTN, which is obliged as part of its 4G licence to open up to local investment. The now defunct UT Bank was the most significant delisting last year.

Meanwhile, the debt income market also witnessed increased activity, with turnover more than doubling from around C12.5bn in 2016 to about C27.2bn in 2017.

The main driver of growth in the debt market came from the government restructuring the country's sovereign debt by introducing 15-year domestic bonds to the market. A total of C207bn in securities were issued by various government entities in the first nine months of 2017. Meanwhile, corporate bond turnover also increased, from C2.8m in 2016 to C990.9m last year.

The plethora of activity has boosted market confidence, with participants feeling confident about investing, according to Kisseih Antonio, Managing Director of Ecobank Capital.

"The stock market was up last year and we remain bullish about its performance this year," he says. "We expect that lower yields will lead to investors shifting capital in search of alpha to the stock market.

"With the increase in minimum capital requirements for banks, we expect corporate action, and that the banks will then be more attractive to investors," he added.

The financial services sector, which includes banks, accounts for around 49% of all trading value on the exchange, while the natural resources segment, which includes gold and oil and gas, accounts for over 75% of the total value of Ghana's stock exchange.

The upbeat atmosphere, expected to continue in 2018, in both the equity and debt markets, has also been buoyed by government reforms, introduced to improve liquidity and foster company participation in capital markets.

Market reforms

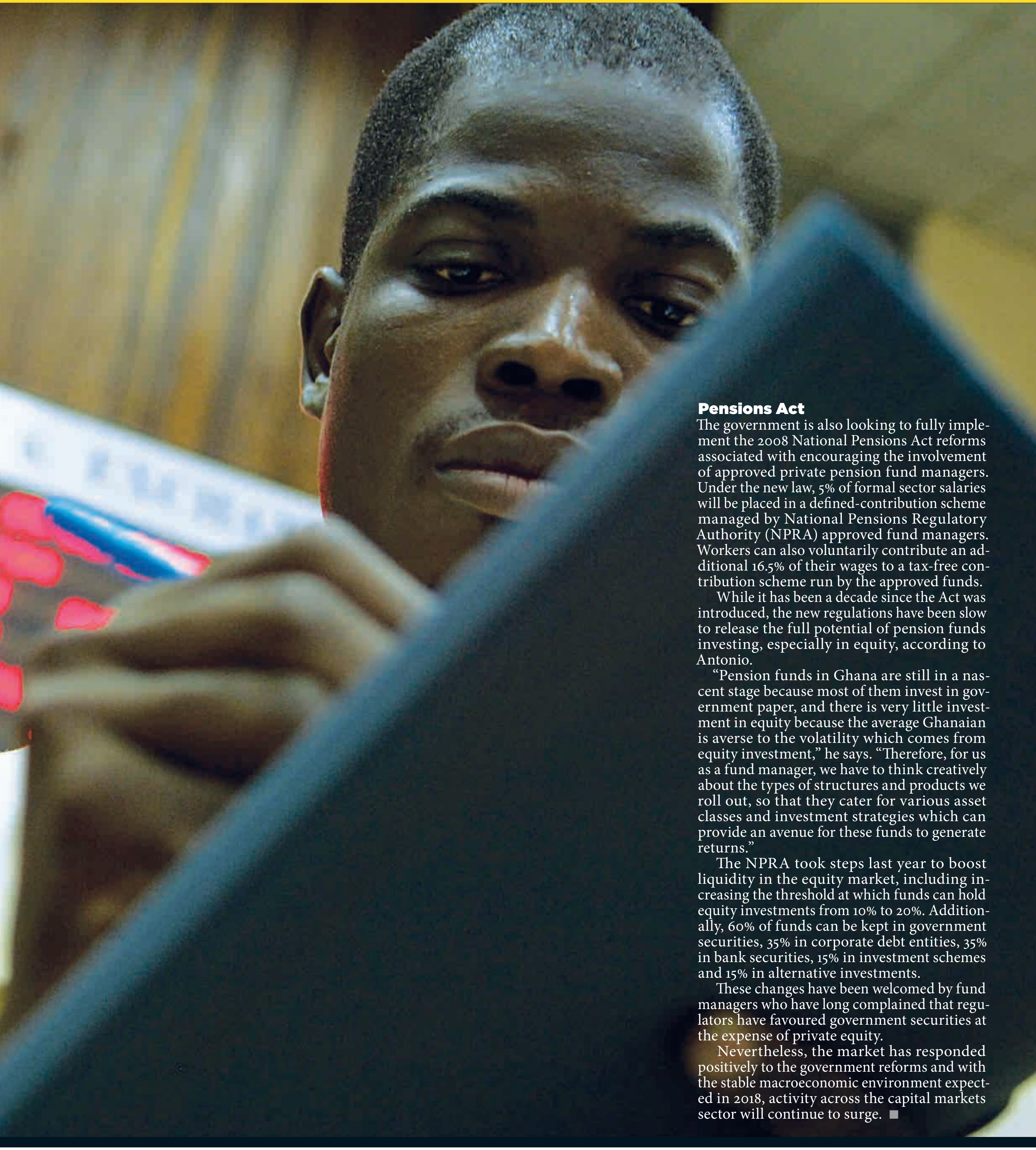
Among the government reforms that have been announced are a five-year capital gains tax exemption and a two-year stamp duty exemption for the financial services industry.

The administration has also outlined plans to divest some of its holdings in state-owned entities and to devise new regulations that govern alternative investment vehicles such as real estate investment trusts (REIT).

"Asset managers are very pleased that the government is looking favourably at opening up alternative investment [areas] such as real estate," says Kojo Ohene-Kyei, CEO of IFS Financial Services. "The government is creating the framework for these types of instruments and once they've finished it is likely that pension funds can tap into this new opportunity."

The alternative investments, especially in real estate, will likely be attractive to pension funds, which are very active in investing in government securities but not as conspicuous in the equity market.

The bullish atmosphere on the exchange has been buoyed by government reforms designed to improve liquidity and foster company participation in capital markets.



Pensions Act

The government is also looking to fully implement the 2008 National Pensions Act reforms associated with encouraging the involvement of approved private pension fund managers. Under the new law, 5% of formal sector salaries will be placed in a defined-contribution scheme managed by National Pensions Regulatory Authority (NPRA) approved fund managers. Workers can also voluntarily contribute an additional 16.5% of their wages to a tax-free contribution scheme run by the approved funds.

While it has been a decade since the Act was introduced, the new regulations have been slow to release the full potential of pension funds investing, especially in equity, according to Antonio.

"Pension funds in Ghana are still in a nascent stage because most of them invest in government paper, and there is very little investment in equity because the average Ghanaian is averse to the volatility which comes from equity investment," he says. "Therefore, for us as a fund manager, we have to think creatively about the types of structures and products we roll out, so that they cater for various asset classes and investment strategies which can provide an avenue for these funds to generate returns."

The NPRA took steps last year to boost liquidity in the equity market, including increasing the threshold at which funds can hold equity investments from 10% to 20%. Additionally, 60% of funds can be kept in government securities, 35% in corporate debt entities, 35% in bank securities, 15% in investment schemes and 15% in alternative investments.

These changes have been welcomed by fund managers who have long complained that regulators have favoured government securities at the expense of private equity.

Nevertheless, the market has responded positively to the government reforms and with the stable macroeconomic environment expected in 2018, activity across the capital markets sector will continue to surge. ■

IN CONVERSATION EKOW AFEDZIE, Deputy Managing Director, the Ghana Stock Exchange.

Ghana's capital markets have been bolstered by the recovery in the country's economy. The stock market has seen a surge in activity, with market participants feeling bullish about the near future. As optimism sweeps across the sector, Ekow Afedzie (*pictured right*), Deputy MD of the Ghana Stock Exchange, discusses plans to expand the market.

GSE is one of the best performing in Africa

How did the Ghana Stock Exchange (GSE) perform in 2017 and what were the significant listings or delistings?
The stock market performed extremely well last year in terms of secondary market activity. If you look at the GSE composite index as of the end of 2017, it had jumped up by 48%, which makes it one of the best-performing markets in Africa by all kinds of measurements. In comparison, the Nigerian stock market index grew by around 30% during the same period.

The main driver for this performance is an improvement in the macroeconomic environment, with inflation and interest rates coming down, and the currency stabilising to some extent. Also, if you follow the government's monetary policy, then we are looking at a positive picture for the Ghanaian economy in 2018. So generally, investor perception about the market looks very good.

In terms of primary market activity, we did not have any major listings in 2017; however, we did have a few smaller listings on the market. Nevertheless, we are expecting a major listing from a telecoms company in the first half of the year, but I cannot divulge the name at the moment.

Moving away from the equity side, the bond market performed tremendously well and we have seen values trading on the market more than double year-on-year from C12.7bn [$2.84bn] to C23.7bn.

The bond market grew substantially mainly because of government debts. There were also a few corporate bonds on the market, however, they were not trading at the level of government bonds, so we are looking to improve things in that area.

But overall, the market has done well due to the economic performance and the positive forecasts for 2018.

There was some criticism that the Exchange did not do enough to help predict the collapse of UT Bank, which was a listed company. How do you respond and what lessons have been learnt to avoid future shocks?
Criticism is always welcome for an institution such as ours. The key thing is that we do have continuing listing obligations which companies must meet, and those obligations will be enforced rigorously.

Going forward, we'll ensure that all the disclosure requirements are met and breaches will have sanctions because we need to try and create confidence in the market by making sure that all participants abide by the rules.

UT Bank was a unique case and you need to discuss it in the context of the issues affecting the banking sector, such as non-performing loans and how the Central Bank decided to deal with the issue.

The financial services sector accounts for 48.9% of all trading value on the exchange. What can be done to encourage greater diversification?
As you say, the financial service firms – especially banks and insurance companies – dominate the GSE. One of the key goals of the exchange in 2018 is to increase the diversity of the types of companies on all three exchanges: GSE; Ghana Alternative Market, which is the parallel market catering for small and medium enterprises; and the bond exchange.

I expect financial services will continue to dominate for some time to come, especially if you look at what is happening in the banking sector, where they have been asked to increase their capitalisation. We are likely to see a few more of them going out there to raise capital, with some doing so by way of a public offer.

Considering the other sectors, such as manufacturing and energy, the large companies on the exchange are mainly multinationals where the board may not be in Ghana. The telecoms sector is also dominated by the multinationals and foreign entities such as MTN, Vodafone and Airtel, and we are expecting one other firm will join the exchange in 2018.

When you take mining, it's the same story – companies like AngloGold and Newmont are all multinational and foreign entities. We have been talking about how to get these multinationals' Ghanaian subsidiaries onto the market to create a more diverse exchange.

We do have the oil firm Tullow listed on the market, but we understand that we need to get more firms from a variety of sectors involved.

The key agenda for 2018 is to get more listings on the market, and fortunately, the economic background is forecast to be positive, making it attractive for companies to list.

The other change that has occurred is pension fund reforms and the development of the pension fund regime, which has created huge demand for long-term capital. While pension funds are already in the market, they are not as active as they should be.

We need to ensure that the stocks available are the type that can maximise the investment for pension funds. But what has been lacking is opportunities on the supply side, so that these funds have viable avenues for investment.

Therefore, it's a case of getting more products on the market as we move towards longer-term instruments such as equities and bonds. I am confident that this year we will see pension funds participating more on the market.

There have been discussions about introducing new instruments including derivatives like futures and options. When will you be in a position to implement these changes?
The regulator came out with the Securities In-

dustry Act in 2016 which made provisions for securities such as derivatives. The key now to implementing the new instruments is to have the correct regulatory framework in order to have these products developed. We are yet to develop all the rules for all these instruments but we aim to introduce new features onto the market in the near future.

Also, in the bond exchange, we are likely to see new products such as repurchase agreements (repos), which the market community and the Central Bank will introduce onto the market. We are also looking at some new features that will improve liquidity on the market such as security lending and borrowing. We are in discussion with the regulator about delivering these features.

In the first quarter of 2018, we will look to implement margin trading and other market-making securities that I have mentioned previously. So, in the very near future, we will see all these new products on the market, and we hope that insurance funds and investment bankers will take advantage of these new instruments.

The GSE composite index rose 48% in the year to the end of 2017, making it one of Africa's best-performing markets by all kinds of measurements.

Exchange technology in more developed economies is getting faster and faster; what are your plans to upgrade GSE's performance?

Technology is another driver of the market and apart from getting more listings and improving liquidity, we are also focusing on how to improve efficiencies in all the markets we have discussed. Technology is key.

We have made some improvements on our trading system over the last few years, including software and hardware updates. We have the clearing and settlement system run by the Central Securities Depository (CSD).

The brokers have also acquired back office systems that allow their clients all over the world to key in their orders because we have the protocol that can link up to our markets.

The next stage for us, which you will see in the first half of 2018, is to implement mobile trading. We are moving from the current technology and utilising the mobile technology to improve efficiencies and liquidity on the market so that many more people can access the market using mobile technology. ■

IN CONVERSATION PAUL ABABIO, Deputy Director General, Securities and Exchange Commission, Ghana

Paul Ababio (*pictured right*) was appointed Deputy Director General of the Securities and Exchange Commission in September 2017 following a two-year stint at UT Bank. Ababio and the Commission's Director General Daniel Ogbarmey Tetteh, have set out ambitious plans to grow private-sector participation in Ghana's capital markets. *African Banker* spoke to Ababio about how they will achieve their goals.

Bonds and equities activity set to increase

You have been in your role for only a short time, but could you outline some of the key changes you hope to implement during your tenure?
The Securities Industry Act 2016 expanded the remit of the Securities and Exchange Commission (SEC) to include private equity funds, hedge funds, real estate and investment trusts, which had been on the sidelines in most economies but are now part of the mainstream. The Act also enhanced our scope and empowered us to better enforce regulations.

Since 2016, the SEC has been implementing new guidelines to ensure that they reflect the Act – for example, minimum capital requirements for firms operating in the securities and capital market have been set at C100,000 ($22,345).

In today's Ghana, that's not a lot of money and it means that anybody can participate, which makes regulation expensive, because it means we have to dedicate resources to monitoring a lot of small-scale players.

It's a difficult task for some of these small players to keep up with anti-money laundering (AML) and 'know-your-customer' (KYC) regulations that we routinely implement because they are required to invest in expensive resources, such as software. AML guidelines have been enacted to prevent criminal activity, while KYC rules require financial institutions to conduct due diligence on prospective customers.

We'd also like to implement performance ratios that the market players would have to abide by, such as liquidity levels, and we will require key officials from the various firms to be registered with us, so that licence renewals take into consideration their performance.

We've already sent out new draft guidelines and we hope to share more with the market before the end of the year so we can get feedback.

What feedback have you had so far?
The market has been expecting these changes for a while so it hasn't come as a surprise. It's a welcome change and when the barriers to entry are so low, it makes competition fierce and it almost waters down the quality.

Therefore, we believe market participants are looking forward to strengthening the framework and making the industry competitive but in a sustainable way.

The collapse of UT Bank and Capital Bank sent shockwaves across the financial services sector. What more could you as a commission have done to spot that these banks were in trouble and what lessons have been learnt?
In terms of Capital Bank, there is nothing we could have done because it was not a listed entity, however, UT Bank was listed. UT Bank wrote to us seeking exemption from the exchange and we liaised with their primary regulator, which is the Bank of Ghana (BoG).

We were quick to understand the gravity of the situation because the issues facing UT Bank were systemic and they could have led to contagion across the banking sector. We wanted to avoid a situation whereby people rushed to withdraw deposits from their banks, so we had to handle the situation delicately.

The BoG also had a short period of time to find a buyer of the two troubled banks, and the situation was compounded by the fact that the industry was aware that the central bank was considering increasing capital requirements.

Eventually, Ghana Commercial Bank (GCB) took on the deposits from the two banks and everything worked out.

In terms of lessons we have learnt, we have enhanced our analysis of the accountant reports because, in the case of UT Bank, there were some early warning signs that its balance sheets were not in good shape. Therefore, we could have potentially warned investors earlier by suspending the bank's shares.

But ultimately, it is up to investors to do their own analysis. However, we are cognizant that we also have a role in spotting issues earlier and the Ghana Stock Exchange (GSE) has been more proactive in suspending or delisting errant companies. Meanwhile, the SEC has also expanded its monitoring and enforcement duties, so we are better prepared now.

The SEC has spoken before about introducing new market instruments, such as derivatives. What progress have you made towards this goal?
The SEC had success last year in advising on the structure of one of the largest energy bonds in Sub-Saharan Africa. The Energy Sector Levy Act (ESLA) bond, which was a Special Purpose Vehicle (SPV) that issued notes against receivables, was an innovative vehicle which helped reduce banks' exposure to non-performing loans.

We're looking to make significant progress on the introduction of additional instruments

'The Securities Industry Act 2016 enhanced our scope and empowered us to better enforce regulations. Since then, the SEC has been implementing new guidelines to ensure they reflect the Act.'

in 2018. But to introduce instruments such as options, we'll need to create a benchmark of instruments because if there are not enough private sector bonds, for example, then you'd have to go with government yields and that might not involve an appropriate risk profile for an investor. Without the right benchmarks, implementing new instruments will be difficult.

If you look at the stock market, the companies that have equity have not issued any bonds, which is a sizeable hindrance to the development of the exchange. Therefore, this year we'll be encouraging more banks and insurance companies to issue bonds. Only after we've addressed these issues can we then look into more complex market issues.

What's the outlook for 2018? Should we expect to see any major listings or new legislation introduced?

We expect market activity in both bond and equity markets to increase this year as macroeconomic fundamentals improve. The debt market is expected to see the most significant activity, especially for corporate issuers, which is something that we've been encouraging. The SEC will also be drafting new guidelines to improve transparency because a few players have told us that they are holding back their investments because of lack of clarity on some issues.

We'll also be targeting very specific sectors such as agribusiness and real estate to bring issuances to market. We're even looking at fintech entities and other emerging areas of the economy that are underrepresented in the capital markets. ■

Zenith Bank Ghana experienced an eventful year in 2017, with growth up and a successful migration to a new head office in the capital city, Accra. The outlook remains positive, with the bank planning on rolling out new products and services this year, according to its CEO, **Henry Oroh**.

ZENITH: THE BANK OF CHOICE FOR GHANAIANS

Zenith Bank Ghana achieved remarkable growth in all aspects of its operations. Profits before tax jumped by 7.5% year-on-year to reach C157m ($35m) in 2017. The growth was mainly driven by new collaborations with strategic players in the industry as well as new developments and upgrades to both our traditional and e-banking product and service offerings.

Our financial performance indicators for 2017 grew in leaps and bounds relative to the previous year, which is testament to the exemplary work done by our hardworking staff. We have consolidated our position as one of the top ten banks in the industry, and part of a select group of banks that have sufficient capital to meet the Bank of Ghana's new capital requirement of C400m ($88.44m), even before the stipulated deadline of 31 December 2018.

Zenith Bank Ghana's Managing Director/CEO, Henry Oroh

Products are key

At Zenith Bank, we pride ourselves on the development of innovative traditional and e-banking products and services that cater to the unique needs of our customers. We take deliberate steps to keep abreast with the global industry and technological trends so that we can remain at the forefront of competition at all times. For example, Zenith GlobalPAY, a secured web-based collection gateway, which enables merchants to accept card payments in real time online from customers worldwide, is a first-rate e-banking product and service supporting merchants to set up shop on the internet and sell to global customers.

We are also tapping into the opportunities and possibilities that mobile money presents. Through the Bank's Mobile Money Bank2Wallet Service, customers are able to link their mobile money wallets (be it with MTN or Airtel) to their bank accounts and conveniently transfer money between their accounts and wallets, as well as to remotely make payments for goods and services at any time of the day.

In the area of cards, we have a bouquet of Mastercard and Visa cards that enable customers to pay for goods and services in-store and online, as well as withdraw cash from Visa or Mastercard enabled ATMs worldwide. Most recent amongst these is the Zenith Bank Platinum Prepaid MasterCard, which is the first prepaid Platinum Card on the Ghanaian market. With this card, the Bank's high net worth customers, who are Platinum account holders, enjoy privileges and discounts from Mastercard and its partners.

Digital is key

Zenith Bank was adjudged "The Bank That Best Promotes Cashless Transactions" in Ghana for three consecutive years (2014, 2015, and 2016) at the Annual Ghana Banking Awards. This is an attestation that the bank has remained a pacesetter in the development of innovative digital products and services that assure its customers of convenience in banking, as well as facilitates financial inclusion for the unbanked.

We are also committed to developing new products and upgrading our robust IT platform, with the sole aim of improving our product and service offerings and by so doing meeting the dynamic needs of our esteemed customers.

Cross-border payments

Intra-Africa trade is low when you compare it to other regions in the world, although this situation has been steadily improving over the past decade. The comparatively low level of cross-border trade and payments may be attributed to the fact that the informal sector dominates in most African economies.

Zenith Bank is, nonetheless, a market leader in cross-border payments in the areas of international trade and card payments. We are making it easier and more efficient for customers to carry out their commercial commitments, while giving them more options and flexibility to settle payments in the West African economic sub-region and increasingly, the entire continent.

Our vision is to be a reference point in the provision of prompt, flawless and innovative banking products and services in the Ghanaian banking industry. Through the right investment in the best people, environment and technology, the bank aims to be the market leader within the next five years focusing mainly on customer service delivery, financial performance, digital banking, a robust retail banking structure and brand repositioning. ■

Ecobank's asset management arm, Ecobank Development Corporation, has ridden the wave created by favourable conditions in Ghana's capital markets. The pan-African institution is positioning itself as the go-to fund manager for investors looking to capitalise on growing markets across the continent. By **Kisseih Antonio** (*pictured below*), Managing Director & Country Head at Ecobank Development Corporation.

GHANA'S ASSET MARKET PRIMED FOR GROWTH– ECOBANK

Ecobank's asset management business, Ecobank Development Corporation (EDC), performed extremely well in 2017, with significant growth in assets under management (AUM). EDC achieved this by leveraging the extensive branch network of our sister company Ecobank Ghana, which helped bring its asset management products to the doorstep of clients by taking advantage of the bank's existing distribution network.

In the last five years, the AUM has grown from C283m ($63m) in December 2013 to C1.6bn in December 2017, which represents a compound annual growth rate (CAGR) of 41%. The fixed income fund achieved strong growth, from C9m at the end of 2014 to C510m at the end of 2017.

EDC's securities business has also consistently been ranked in the top three securities traded on the Ghana Stock Exchange (GSE). In the last year, the firm had an 8.15% market share of trades on the exchange.

One of the key attributes which separates EDC from the competition is the fact that Ecobank operates in 36 African countries, which gives the company extensive local knowledge in each market. As investors in Africa are becoming more sophisticated, they are looking beyond their local markets and going in search of favourable yield. Ecobank's pan-African presence allows its clients to seamlessly explore other markets in Africa, safe in the knowledge that the fund managers have an in-depth knowledge of the local market.

In West Africa, for instance, the asset manager's clients have the capacity to trade on three stock exchanges: Ghana Stock Exchange (GSE), Nigerian Stock Exchange (NSE) and Bourse Régionale des Valeurs Mobilières (BRVM) in Abidjan, Côte d'Ivoire.

Ecobank currently has country- and regional-specific funds in Ghana, Nigeria and the Union Economique et Monétaire Ouest Africaine (UEMOA) region covering various investment strategies and different asset classes.

Kisseih Antonio, MD: EDC performed strongly in 2017

The bank's pan-African products are a central part of its growth strategy, and the Middle Africa Bond Index (MABI) is a perfect illustration of this plan. The index provides a unique investable benchmark that tracks the performance of local currency bond issuances in sub-Saharan Africa, excluding South Africa. The MABI can either index as a standard fund or as a segregated, separately managed account.

The fund, which is currently domiciled in Mauritius, allows investors to have the choice of having a passive or an active share class or a combination of the two. For the passive share class, the asset manager will actually be looking to replicate the performance of the Index, while with the active share class, the objective will be to outperform the index and generate alpha. Investors that have chosen to have a segregated account have the choice of both strategies as well. Additionally, in 2018 EDC will launch a pan-African Eurobond fund and equity funds.

The planned activity in this year follows a groundbreaking 2017 where EDC's parent company Ecobank Transnational Incorporation (ETI) issued a $150m convertible bond on the London Stock Exchange's new International Securities Market (ISM). This was the first ever convertible debt offering by an African issuer in London. The asset management division also listed Ecobank Côte d'Ivoire on the BRVM. Further activity in the bond market is expected in 2018 for a significant bank in Ghana and a major non-bank financial institution. ■

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Whatever your financial goals, we have the expertise to help you reach them. Visit ecobank.com to find out more.

Ecobank Securities, Wealth and Asset Management is the brand name under which the Fund Manager, EDC Investments Limited, operates in Ghana.

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Ecobank
The Pan African Bank

Located in Osu, on the grounds of the former Russian Embassy, La Villa Boutique Hotel provides a truly unforgetettableexperience to visitors with distinctive taste. With its lush green vegetation, mordern service and chic decor from African and Italian style, La Villa Boutique Hotel is undoubtedly Ghana's best boutique hotel for business and leisure

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LA VILLA
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Ghana's insurance sector, still one of the smallest on the continent, has recently seen healthy growth thanks to innovative products – but a great deal more needs to done before it can reach its full potential.

Innovation and tough regulation yielding fruit

Ghana's insurance sector has experienced rapid growth, with the sector's value reaching $600m in 2018, up from $400m in 2014, according to accountancy firm EY. The main growth drivers have been improved economic conditions, increased demand from the emerging middle class and insurance providers selling innovative products such as micro-insurance.

Insurance firms in this West African nation seem to have succeeded in developing products which appeal to customers who had shunned insurance in the past. For example, MicroEnsure has partnered with mobile service providers to offer free basic life and health insurance coverage as a way to identify potential clients for other insurance products.

This type of product innovation has been responsible for the upswing in the sector despite economic fluctuations, according to Gifty Alabi-Fiagbe, CEO of Saham Life Insurance Ghana.

"Over the last three years, investment indica-

Whether it is for vehicles, the home or a business, everyone needs insurance. But insurance premiums only account for around 1% of Ghana's GDP, which has led the industry regulator to target a value of 10% of GDP by 2021

INSURANCE

For those on low incomes, spare cash is in short supply, and one of the challenges facing insurers is developing products that will appeal to them

tors have been favourable to us, but this year, with the huge dip in interest rates, we could have had some problems had we not invested correctly," she says. "We've created a variety of products which have allowed us to spread the risk, and we've also made huge strides in targeting those in the informal sector."

Despite the upturn over the last five years, insurance premiums still only account for just over 1.17% of Ghana's GDP and only one in 10 Ghanaians have some form of insurance.

The industry regulator, the National Insurance Commission (NIC), has targeted penetration yielding 10% of GDP by 2021 by supporting the development of insurance products including micro-insurance and bancassurance. The Commission, led by Justice Yaw Ofori (*see interview, p. 54*), is keen on overhauling the insurance sector by updating the 2006 Insurance Act.

The changes to the legislation include provisions to strengthen the Commission's powers, building local capacity while potentially sidelining foreign firms and doubling the minimum capital requirements for insurance companies from C15m ($3.35m) to C30m.

However, some insurance companies have voiced their displeasure at the proposed changes, according to Alabi-Fiagbe. "We've had discussions with the new regulator and I understand that he wants to make his own impact, but at least three prominent voices in the industry that I have spoken to have told me they are not comfortable with the new direction," she says. "As an industry, we hope, as we did before, that we can have our say to ensure that our growth isn't stunted by the new rules."

Even with the uncertainty surrounding regulatory changes, insurance companies remain bullish about growth continuing, especially when you consider the number of uninsured people in the country.

Even with the uncertainty surrounding regulatory changes, insurance companies remain bullish about industry growth continuing.

However, there are concerns that the industry is oversaturated with market participants, which is leading to needless competition and undercutting of rates.

Increased competition

According to the NIC, there are 22 life insurers and 27 non-life insurers in Ghana, with an additional three reinsurance companies. However, Ghana's population is only around 28m people, with over 55% 25 years old and under.

Previously insurance companies in Ghana had been allowed to offer both life and non-life products, but the 2006 Act banned companies from operating in both segments and composite companies were forced to split up.

Brokers and agents, who act as intermediary between the insurance firms and the customers, number more than 72 different firms, accounting for almost half of the market share in terms of sales. They collect between 10-21% in commission, depending on the type of insurance being purchased. The large number of brokers has contributed to a depression of premium rates, despite the NIC introducing minimum premium guidelines in 2017, according to Nathan Adu, president of the Ghana Insurance Brokers Association (GIBA) and managing director of Akoto Risk Management.

"Undercutting is one of the biggest challenges we face, especially in the area of non-life," he says. "Clients are playing brokers against each other to drive premiums down below the rates the regulator has prescribed. This is leading to a race to the bottom with most brokers preferring to do some business rather than no business at all."

The phenomenon is not only restricted to brokers, with some underwriters also complaining about the practices of their counterparts. Enforcing the minimum premium guidelines has proven to be a challenge for the Commission as insurance firms and brokers find ways to circumvent the regulations.

No premium, no cover

However, one area of success for the NIC was the introduction of the 'no premium, no cover' (NPNC) clause in 2014, which helped boost liquidity across the sector.

The 'no premium, no cover' policy stipulates that customers must pay the full policy premium before coverage begins. Prior to its implementation, insurance firms would provide a line of credit to customers who wanted to pay their premiums in instalments. This created a credit risk for the insurance firms and limited liquidity.

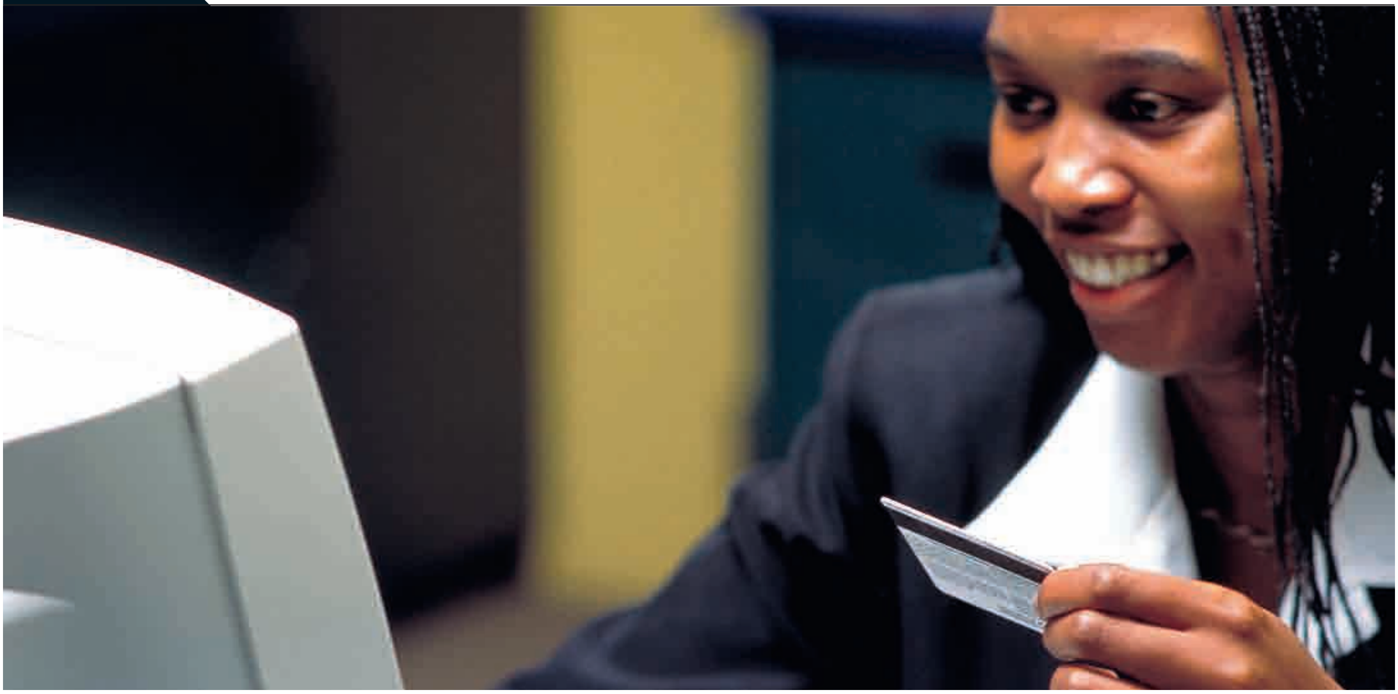
When the policy was introduced, there were concerns that customers, especially those from low-income families or informal workers, would be put off from purchasing insurance because of the potential costly initial outlay.

However, the strong growth of the industry shows that customers are embracing the policy, according to Stephen Kwarteng, general manager of Marine General Brokers.

"I have worked in the industry for about 12 years and I think the policy is one of the best things that has happened to us," Kwarteng says. "One of the reasons penetration is so low is because public confidence in insurance is low – people think that insurance companies take premiums and then renege on settlement of claims because companies won't have the funds to pay out. But now with NPNC, the public can be assured that their claims will be settled.

"Going forward, we should not just focus on collecting premiums, we also need to work on improving the time it takes to settle a claim. That way we can increase public confidence in the insurance industry," he added.

The extra liquidity in the market created by NPNC has allowed insurance firms to diversify their products and attract new customers. However, reaching those from low-income households and in the informal sector will require even more innovative products that appeal to these mostly marginalised groups. ■



UNIBANK, AN ENTERPRISING GHANAIAN BANK

UniBank (Ghana) Limited, the only wholly-owned private Ghanaian Bank, was incorporated in December 1997 to undertake a broad range of banking services.

uniBank is unparalleled when it comes to packaging tailor-made products, services, programmes and initiatives to meet the varied needs of its cherished customers and supporting government's interventions.

Known for its track record in researching customers to determine their service level expectations, uniBank developed an efficacious product, 'Efie ne Fie' to meet the banking and financial demands of Ghanaian residents abroad.

The Efie ne Fie account

Every Ghanaian resident abroad has a particular need back at home: to pay bills, pay school fees, cater for family needs, have a diversified portfolio, etc. It is no longer problematic to handle these requirements. The Efie ne Fie product is a one-stop shop designed to cater for these needs and more.

Efie ne Fie is an inventive, interest-bearing, and multi-currency – Ghana Cedis (GHC), US Dollar ($), Pound Sterling (£) or Euro (€) – operational account administered by uniBank (Ghana) Limited, an indigenous bank headquartered in Accra, Ghana, which enables Ghanaians living abroad to open, manage and monitor their accounts in Ghana.

This account has been enabled by the unique blend of local knowledge with international expertise.

To ensure efficiency, uniBank has appointed internationally acclaimed Agents including Small World, Ria, Sigue, Utility Link, Express and TransFast to help customers transfer money directly into their Efie ne Fie accounts in Ghana.

Efie ne Fie has therefore been tailored to meet the demands of Ghanaian residents with the attendant benefits of cheque issuance against funds in the account. It is also linked to the uniBank MasterCard which can be used in over 221 countries worldwide.

To ensure that customers are given the best financial advice, given their prolonged absence in Ghana, a dedicated Relationship Manager would be appointed to assist clients in managing their account.

The Efie ne fie Account is a well-thought out, professionally designed and uniquely packaged product to provide easy, convenient and safe financial transactions for every Ghanaian resident abroad. ■

IN CONVERSATION **JUSTICE YAW OFORI,** Commissioner, the National Insurance Commission of Ghana

The President of Ghana, Nana Addo Dankwa Akufo-Addo appointed Justice Yaw Ofori (*right*) as the new Commissioner of the National Insurance Commission of Ghana. He took over from Lydia Lariba Bawa in September last year. Prior to his appointment, he was the first Director of the Ghana Insurance College for 11 years and also a Senior Manager of Vanguard Assurance Company for two years, bringing an extensive range of experience to his new post.

Insurance policyholders come first

What are your priorities in your new role as National Insurance Commissioner?
I took over the role with the aim of creating a level playing field for industry and, most importantly, to make sure the insurance policyholder is well taken care of. That is what we have been working on since I started.

We try to regulate the conduct of the insurance companies – sometimes, we get involved in the setting of premiums. We are involved in the approval of products so that we make sure of the wording and other things – we don't take the ordinary person for granted.

Where policy decisions are involved, sometimes we actually have to advise the Minister of Finance, as we operate under the Minister of Finance.

With over 80 companies operating in the insurance field, is the market oversaturated?
In any field when you see a lot of people coming in, it's a good sign; it means that it's a good place to actually do business. Of course, some people don't like the added competition, especially when it comes to companies coming in from outside the industry.

But to describe the industry as oversaturated is not correct. If you compare the number of active companies in Ghana to Western nations then we probably do have a lot of players in the market.

But as the Commission, we are not here to discriminate. We don't want to encourage monopolies, whereby we have a few insurance companies and they determine the future of the consumer.

So, we have to strike a balance; and there are rules and regulations that actually regulate the number of people joining the market. As long as they satisfy the requirements, we have no objection to granting them a licence.

If we included life, health and private medical insurance in the figures, Ghana's insurance penetration would be around 5% or 6% of GDP.

I don't think it is in our interest to see the numbers come down and anyway, demand and supply will actually decide on whether the number of insurance companies will dwindle or not. So, we leave it to market forces.

Some companies have complained about aggressive undercutting, especially by the new market entrants. Do you think it is the duty of the Commission to prevent this type of practice?
Yes, we have to do what is right by implementing the 2006 Insurance Act. If people are undercutting, like the companies are claiming, and if the regulator is hard on them, then those firms will sit up and listen.

I think most of those problems are regulatory issues. If we are doing our work well then people will become prepared to sell insurance products at the correct premiums because they know that we will be hard on them when it comes to claims payment. Those who cannot survive might be compelled to maybe team up into one entity instead of having small companies.

One thing we should realise is that while there are a lot of companies in our market, they are small companies. So we shouldn't just look at it by the number of companies registered but also, the size. The system in Ghana has not developed enough to sustain huge multinationals such as CGU Insurance or Allianz, so the companies are compelled to stay small.

Insurance penetration in Ghana remains low, at around 1.5% compared to 3% in Nigeria and Kenya. What can you as do as a regulator to encourage insurance uptake?
In the first place, the method of calculating market penetration is wrong because in other parts of the world, the figures combine all other forms of insurance. In our part of the world, there is no combination of insurance – only those types we know of: motor insurance, fire, and others. Elsewhere, they include life assurance, pensions, social security and health insurance – which are all forms of insurance.

You can try to increase penetration, but you will never get to the levels that we want until we consider all these other forms of insurance in our calculations. I believe that if we included life, health and private medical insurance, areas that don't currently come under the National Insurance Commission, our insurance penetration would probably be around maybe 5% or 6% of GDP.

But is it still possible to increase penetration using the current system of calculation?
First of all, we have to implement the Act to the letter of the law, by making sure that we have a level playing field for all. The Commission

IN CONVERSATION **JUSTICE YAW OFORI,** Commissioner, the National Insurance Commission of Ghana

should be more proactive than reactive.

We should create market conditions for the industry; we should be looking at areas like agribusiness insurance, which actually covers about 80% of our population. We should be looking at areas like micro-insurance for low-income people.

In Africa, Ghana has the second highest number of people with insurance – after South Africa. Penetration has only become an issue because our method of calculating excludes the other forms of insurance I mentioned previously.

So, in Ghana, a lot of people are buying insurance but the figures perhaps reflect the concentration of micro-insurance, where premiums are relatively low, compared to commercial insurance. But if we had larger entities, then we would see a big jump in penetration rate.

Over recent years the commission has enacted a series of reforms, such as the 'No Premium, No Cover' clause, which requires customers to pay the full policy premium before coverage starts. Has the policy been a success?

'No Premium, No Cover' has been a success because now when the insurance companies are talking about the premiums, you know they will cover 100% of the claims they receive.

Previously, while they mentioned their premiums, they also had so much outstanding debt; but now, at least, they have their monies and they can invest.

It is still, however, a challenge for some people to buy insurance when it's not compulsory. When it's compulsory, they are compelled to buy the cheapest they can get, like third party instead of comprehensive, because of the 'No premium, No cover' clause.

So that also affects insurance penetration. For example, someone who buys a brand new car should buy a comprehensive policy but looking at the premium, he might say, "you know what, comprehensive is not compulsory but third party is compulsory; so, let me buy third party just to take care of myself". And third party now being compulsory, is also very cheap, so the insurance companies are losing because people are not adequately insured.

One solution we might have to look at is a system whereby we can have monthly deductions, where the premiums are spread over a year, rather than having to be paid in bulk, so that people are adequately insured.

And what about minimum premium rates, have they been a success?

It has not been a success. We had a premium rate but the insurance companies are always trying to find a way to give discounts due to the strong competition. The discounts lead to undercutting and it affects the customers, who are under-insured because in many instances the policies being sold are not comprehensive enough.

How can you rectify this problem?

I had a meeting with key industry players and I told them, "I don't see why we should be giving, for example, a no claim discount of 50%". It only makes sense if you are trying to get around the minimum premium.

I said to them that instead of offering the discount, they should offer another incentive to the customer, such as another form of insurance. So, for example, instead of giving back 50% of the premium, they should put that money towards a life insurance investment – that way the money is recycled. That is a proposal that I have made and we will discuss it and see if they think it is a good idea.

Looking ahead, what are you planning for 2018?

We are planning on bringing out, in the first quarter of the year, new software that is going to store data about all vehicles on the roads and their insurance status.

We will make it accessible to the public so that even if I'm travelling and I'm going to use public transport, I can check a vehicle's licences to make sure the vehicle is adequately insured before I put my life at risk. If I have an accident on the road and the other party refuses to give me his insurance particulars, I should be able to key in his driver's licence so I can get information.

That is going to help us know how many vehicles we have on the road; how many accidents there are; how long it's taking for claims to be resolved; all these things will help us actually do our work well.

We are also going to make sure that licence renewals are done on a proactive basis. Product licensing will be done proactively. I will try to have a lot of interaction with our industry. We plan to have four meetings with industry – I will meet with key industry players every quarter to see the way forward. That way, we can address issues before they become problematic. ■

We should create market conditions for the industry; we should be looking at areas like agribusiness insurance, which actually covers about 80% of our population. We should be looking at areas like micro-insurance for low-income people.

Ghanaians watching the inauguration of President John Atta Mills, in Independence Square, Accra. When it comes to insurance, Ghana has the second-highest number of insured citizens in Africa - only South Africa has more