

The role of Bank of Uganda in Managing Digital Financial Risks

2nd Financial Stability Symposium

November 23, 2022



BANK OF UGANDA

MISSION To Promote Price Stability and a Sound Financial System in Support of Socio-economic Transformation in Uganda.

Outline

❑ General Developments

- ✓ Trends for Digital financial services
- ✓ Legal & regulatory developments
- ✓ Emerging threats

❑ Policy Interventions

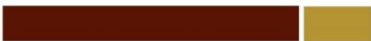
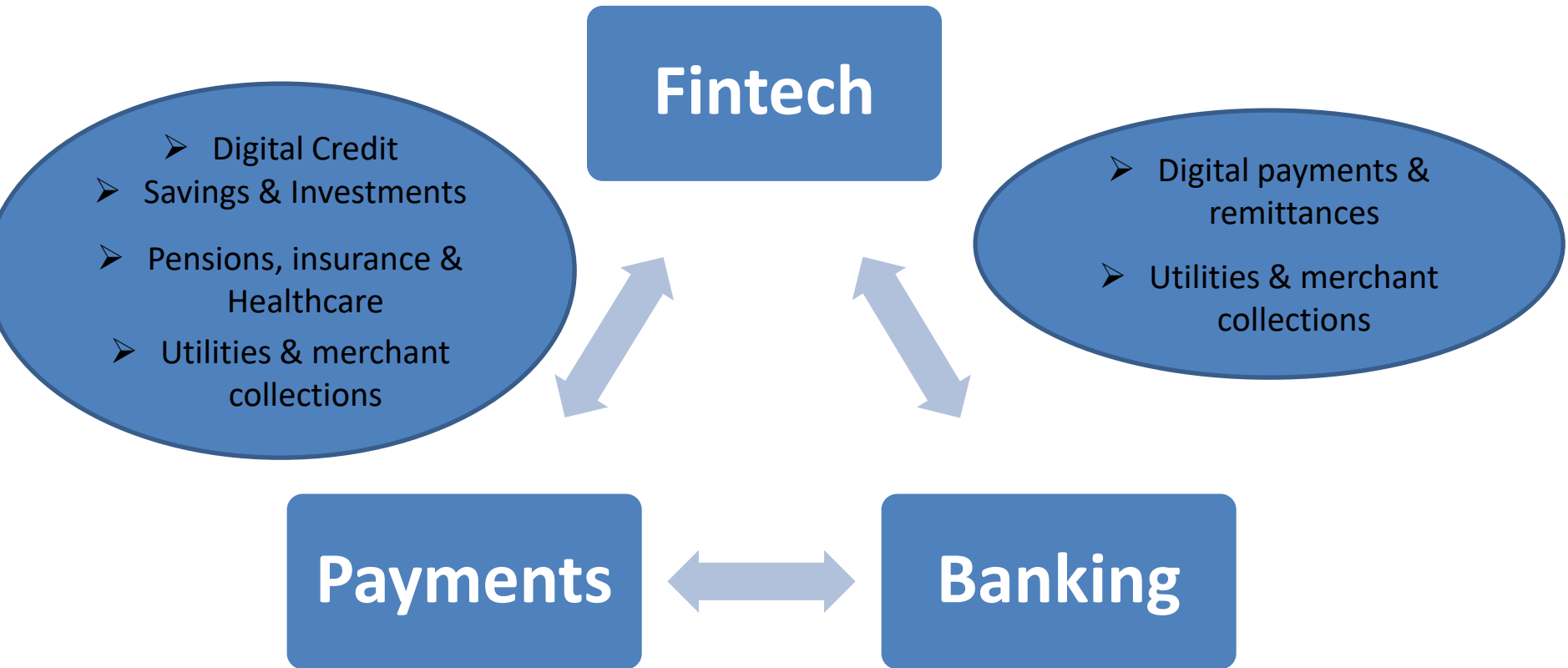
❑ Discussions



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Fintechs, Payments & Banking



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Key Trends - Wholesale Systems - June 21 Vs June 22

1) RTGS:

- ✓ Volumes increased by 16.7% YoY from 1.2 million to 1.4 million ending June 2022.
- ✓ Values up by 10.7% YoY from 501.6 trillion to 555.5 trillion ending June 2022.

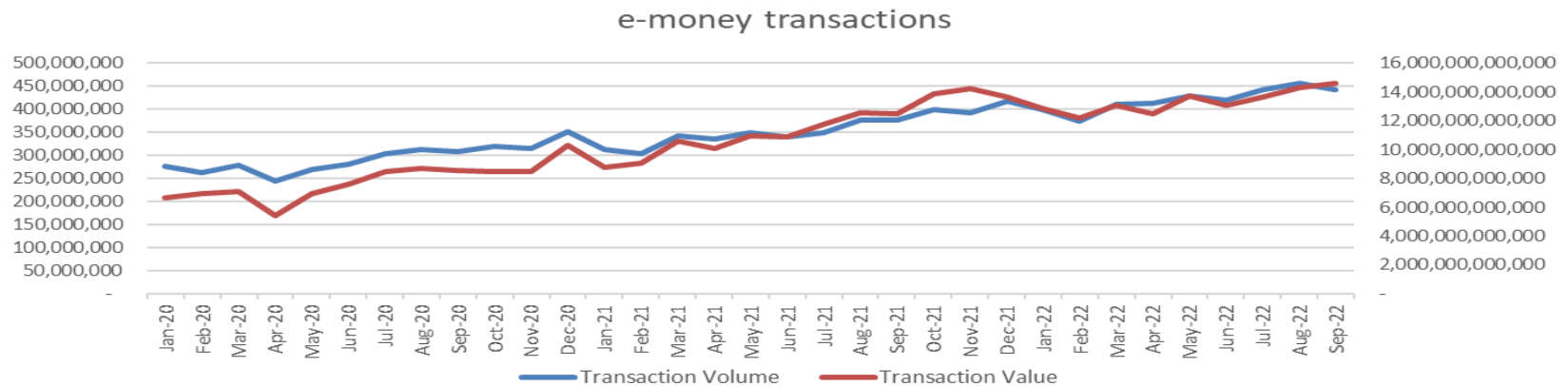
2) Automated Clearing House

- ✓ Value of EFTs increased modestly by 13.74% (Y-T-D up by 23.5%)
- ✓ Cheque values decreased by 7.10% (Y-T-D down by 11.5%)
- Overall Cheques accounted for approximately 9% of transaction activity
- Reduction in cheque use consistent with the BOU policy measure to cap interbank cheques w.e.f January 15th 2022

		July 2020 – June 21	July 2021 – June 22	% change Year to Year
UNISS	Volumes (millions)	1.2	1.4	16.70%
	Values (trillions)	501.6	555.5	10.7%
ACH	Cheque Volumes (millions)	1.17	1.20	-4.00%
	Cheque Values (trillions)	7.00	6.5	-7.1%
	EFT Volumes (millions)	11.05	12.07	8.45%
	EFT Values (billions)	41.98	47.75	13.74%



Mobile Money June 21 Vs June 22



- No of active customers stood at **22.7mn** reflecting 7.1% growth from 21.2 mn in 2021.
- Transaction value increased by 37.6% from 113.38 tn to 156 tn while the Vol **↑** by 23.1% from 3.9 bn to 4.8 bn transactions
- Trust a/c balances **↑** by 46.5% from UGX 1.14tn UGX 1.67 tn

Trends attributed to increased use case innovation, licensing of more PSPs, public awareness initiatives and public adoption of e-payments as public opts for faster means of payment.



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Shared Agent Banking & Card Payments

2) Agent Banking:

- ✓ Significant increase in volume & value at 53.6% and 27.63% respectively.
- ✓ Number of agents on the shared network nearly doubled from 11,262 to 20,487.
- ✓ Deposits (77.2%); & bill payments (6.6%) are dominant.

3) Debit & Credit cards & Points of Sale

- ✓ POS volumes increased by 11.4% while the values declined by 15.5% - **possible increase in use by low value clients.**
- ✓ Debit card transaction volumes decreased by 10.3% but values increased by 18.8%
- ✓ Credit card transaction volumes and values rose by 58.8% and 60.1% respectively.

4) Value of internet and mobile banking transfers significantly rose by 98.9% (80 tn) & 164.5% (17 tn) respectively.

		July 2020 – June 2021	July 2021 – June 2022	% Change YoY
Agent platform	Volume in millions	5.6	8.6	53.57%
	Value in trillions	7.6	9.7	27.63%
Debit cards	Active No. of cards mn	2.74	3.34	21.8%
	No. of txns in millions	6.8	6.1	-10.3%
	Value in trillions	1.6	1.3	18.8%
Credit cards	Active No. of cards	10,719	9,281	-13.4%
	No. of txns (millions)	0.17	0.27	58.8%
	Value (billions)	41.3	66.4	60.1%
POS	No. of txns (millions)	3.5	3.9	11.4%
	Value in billions	837.3	707.1	-15.5%



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Emerging Threats....

1. Lapses in Operational Risk Management

- ✓ Cyber security
- ✓ Digital Fraud
- ✓ Identity theft > Sim Swaps > compromise on banking Apps
- ✓ System Downtime & Denial of Service Attacks

2. Third Party Risks – Outsourcing, Cloud computing

3. Increased sophistication of the digital financial services yet digital literacy remains low > **Social engineering**



Legal and Regulatory Provisions

1. BoU Act | FIA, 2004 (as amended) | MDI Act 2013 | Foreign Exchange Act, 2004
2. NPS Act gazetted on 4th September 2020 & NPS Regulations gazetted on 5th March 2021.
3. Oversight Framework published – June 2021
4. Data Protection and Privacy Act, 2019
5. National Payment Systems Consumer Protection Regulations, 2022 | NPS (Amendment) Regulations, 2022
6. Guidelines on the Management of Trust Accounts
7. Credit Reference Regulations, 2022
8. Increment in minimum paid up capital for SFIs – Shore up risk absorption capacity



Policy Interventions - (E-Payments Strategy 2021-2026)

1. Operationalisation of the Legal Framework - NPS Act & Regulations
2. Strengthening Payment Systems Oversight -
3. Promote Infrastructure Development & Interoperability
 - ✓ Data replication
 - ✓ National Switch - Innovation | Customer Experience | Security & Privacy | Affordability.
4. Foster Competition, Consumer protection and Stakeholder Collaboration



Other Interventions – enhanced oversight

1. Trust Account monitoring - all e-money backed up by cash.
 - **Balances up from UGX 1.14tn UGX 1.67 tn, all held in liquid assets.**
 - **All PSPs adequately capitalised**
2. Guidance on the operation of Trust Accounts – reporting obligations & governance matters for Trustees
3. Guidance to PSPs on cyber defenses & general systems resilience
4. Annual IT Systems Audits (twice a year for banks)
5. NPS Consumer Protection Regulations 2022
6. Testing of innovations under the Regulatory Sandbox – limited access to the ecosystem



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Other Interventions Cont'd

1. **Consumer empowerment through digital literacy** and financial inclusion in general
2. Cyber security guidelines for the financial sector – WIP
3. Stakeholder Collaboration > BOU and UCC; NIRA, Police etc
4. Policy think tanks – PSPs Association; E-Payments Apex Steering Committee UBA & PSPs; Minimum integration standards



Outlook

- 1. Operational Risk to remain high with an upward trajectory**
 - ✓ Low levels of digital literacy
 - ✓ Increased public adoption of DFS
2. BOU to continue engaging the sector players on strengthening of risk management frameworks – focus on operational risk and related exposures
3. Financial literacy efforts to continue – bias towards digital literacy
4. Overall – Customer funds remain safe, PSPs remain well capitalized & operational risk exposures expected to stabilize in the medium term



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Our Aspiration

To empower Ugandans with a broad range of innovative e-payment options which are **safe, efficient**, accessible, and inclusive to promote social economic transformation.



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Thank you

Discussions / Q&A



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