

**BANK OF UGANDA**



**SUPERVISION DIRECTORATE**

**LICENSING POLICY FOR REGULATED FINANCIAL INSTITUTIONS  
IN UGANDA**

**JULY 2021**

**1. INTRODUCTION:**

In a bid to enhance the licensing process and strengthen the prudential regulation of banks, the Supervision Directorate prepared a draft Licensing Policy for Supervised Financial Institutions (SFIs). BOU currently uses a Licensing Manual (June 2014) to guide in the licensing of financial Institutions, which requires updating upon approval of the Licensing Policy.

The Licensing Policy shall introduce key new requirements such as;

- a. Risk Based approach to licensing;
- b. A licensing agreement;
- c. Additional licensing procedures in line with the evolution of the sector.

**2. OBJECTIVES OF THE POLICY:**

- a. Support the Bank of Uganda in achieving its mission and vision;
- b. Introduce additional licensing procedures and requirements that address the emerging regulatory concerns.

**3. JUSTIFICATION/NEW ASPECTS OF THE POLICY:**

The licensing policy shall be an upgrade of the existing licensing requirements through implementation of the following:

- a. A risk based approach in licensing of supervised financial institutions compared to the *compliance based* approach previously used in licensing;
- b. Implementation of the Monetary Affairs Committee decisions on the convergence criteria for licensing of SFIs which included; approval of the financial institution's name by the Central Bank, increase in composition of independent board members to one third and reduction in time frame within which to advise an applicant of decision taken from one hundred eighty to ninety days;
- c. Introduce the license agreement which shall be signed and binding on the institution's Shareholders and Board members and will provide a basis for the annual performance review of each SFIs;
- d. Assessment of emerging trends in Fintechs and regulation of Islamic banks and Islamic product Windows operated by conventional deposit taking financial institutions.

**4. RESPONSIBILITY:**

**Role of the Board**

- a) The Board shall be responsible for the review, formulation and approval of Policy;
- b) Provision of oversight over the implementation of approved policy;
- c) Internal Audit will be responsible for provision of additional assurance to the Audit and Governance Committee of the Board with respect to the implementation of the Policy in accordance with the provisions;
- d) Cause a review of Policy at any time in response to emerging regulatory risks and developments in the financial sector.

**Management**

- a) The Supervision Directorate shall be charged with conducting a risk based assessment of: the applicant, and their business model; using both quantitative & qualitative information;
- b) Preparation of an Assessment Report for the Governor, and include recommendation to approve or decline license application for Governor's consideration.
- c) The Governor shall issue a press statement upon the granting a License and Sign both the License Certificate and Agreement with the new licensee.
- d) Provision of quarterly reports to the Board on entities that have been licensed.

**5. APPLICABLE LAWS AND REGULATIONS:**

The Licensing Policy will be read in conjunction with the;

- i. Financial Institutions Act, 2004;
- ii. Micro Deposit Taking Institutions Act, 2003;
- iii. Foreign Exchange Act, 2004;
- iv. Financial Institutions Licensing Regulations, 2005;
- v. Financial Institutions Credit Reference Regulations, 2005;
- vi. Microfinance Deposit Taking Institutions Regulations, 2004;
- vii. Foreign Exchange (Forex Bureaux and Money Remitters) Regulations, 2006;
- viii. Micro finance Institutions & Money Lenders Act, 2016;
- ix. Financial Institutions (Islamic Banking) Regulations 2018.
- x. Basel Committee on Banking Supervision (BCBS) guidelines and/or best practice recommendation on risk based license application evaluations.

**6. APPLICATION:**

This licensing policy shall apply to all applicants seeking a license to operate;

- a. Conventional Banks: Commercial Banks, Post-Office Savings bank, Merchant Banks and Mortgage Banks

- b. Other Conventional Banks; Digital Banking, fully fledged Islamic Banks and those with Islamic Banking Windows.
- c. Non-Bank financial institutions including but not limited to: Credit Institutions, Acceptance Houses, Discount Houses, Finance Houses, Microfinance Deposit-taking Institutions, Foreign Exchange Bureaus and Money Remitters and; Large SACCOs as defined in the Tier IV and Money Lenders Act, 2016

## 7. LICENSING

- a. Applications for a license shall be addressed to Governor and specify: the proposed type of institution that approval is sought for and will submitted in a specific format and criteria as prescribed under part 4 of the Licensing Policy governing specific types of institution/s.
- b. It is the sole responsibility of the applicant to ensure that all supporting documentation are submitted to Governor for review and assessment.
- c. BOU review of applications shall be **risk based** and focus on;
  - i. The proposed institution's risk management strategy, policies and guidelines, risk management program and risk management structure in order to assess the institutions appreciation of the major risks, which may not be limited to; Strategic, Liquidity, Credit, Operational and Market risks that are associated with the particular business they propose to engage in.
  - ii. Assessment of the risk identification, measurement, monitoring and management mechanisms intended to mitigate impact to the going concern aspects of the business.
  - iii. Interviewing and review of the individual beneficial Shareholders and proposed Board members to ensure that they fit for purpose and comprehend their associated responsibilities to the applying institution, and to the Uganda financial sector.
  - iv. The applicant's knowledge and appreciation of the structural features inherent to the financial sector in Uganda.
  - v. An assessment of the risks, actual or potential, associated with the applicant's entry into the financial sector
- d. The applicant will be informed within a maximum period of **3 (three) months**, from the date of receipt of the complete application at Bank of Uganda, the decision to either be granted or declined a license after a thorough review and assessment of all the required supporting documentation. This is a reduction from **6 (six) months** as per the FIA, 2004.

- e. Review of an application shall not be restricted to only documentation provided by the applicant, but shall include any and or all information related to or about the applicant available in the public domain.
- f. Bank of Uganda will be charged with approval of the proposed bank upon receipt of a name verification from the Uganda Registration Services Bureau.
- g. As part of the approval process Bank of Uganda should ensure that 1/3 (one third) of the Non-Executive Directors are independent.
- i. Bank of Uganda's review shall take into account the emerging trends in the financial sector which will include among others: application of technology in banking, Islamic finance, cloud computing, open banking etc in the license application review process.

## **8. LICENSE AGREEMENT**

The License Certificate granted to a successful applicant shall be accompanied by a License Agreement:

- i. Stipulating the terms and conditions of the License, approved bank activities and financial institution business, Reporting and disclosure requirements, legal compliance obligations among others.
- ii. It shall be signed by the prospective institution's significant Shareholders.
- iii. It will provide the basis for the annual performance review of each SFIs

## **9. CAPITAL REQUIREMENTS**

The applicant shall have a minimum paid-up capital as prescribed by the Bank of Uganda.

No shareholder shall hold more than 49% or whatever percentage shall be specified in the FIA 2004 at the time of license approval, of the shares except a reputable financial institution (a financial institution licensed to conduct banking or other financial institutions business under the laws of any jurisdiction) or a reputable public company (a company that is financially strong, whose ownership is not concentrated in a few hands and which is of good public standing) as defined under Section 3, of the FIA, 2004.

## **10. LICENSE APPLICATION AND ANNUAL LICENSING FEES**

- i. An application fee, as prescribed by notice of the Central Bank, will be paid on or before submission of the license application to Governor.
- ii. A license fee, as prescribed by notice of the Central Bank, is payable as soon as the applicant has received notification of the decision to be granted a license and

thereafter annually on or before the 31<sup>st</sup> day of January of each year in accordance with Section 13 of the Financial Institutions Act, 2004.

**11. IMPLEMENTATION:**

The Supervision Directorate will be responsible for implementation of this Licensing Policy effective **July 1, 2021**.