



Banque Nationale du Rwanda National Bank of Rwanda

Bank Supervision Department

NATIONAL BANK OF RWANDA

BANK LICENSING POLICY

DECEMBER 2008

INDEX

INTRODUCTION	- 3 -
FINANCIAL SECTOR OVERVIEW	- 3 -
LICENSING POLICY	- 4 -
LICENSING CRITERIAS	- 6 -

INTRODUCTION

Rwanda places a high priority on financial sector development and sees it as an integral element in its long-term plan to transform itself into a middle-income country and an economic trade and communications hub.

With improved macroeconomic conditions and prospects, the banking industry in Rwanda is striving to diversify in geographical origin, corporate character and reach in the global financial markets. Rwanda wants, as well, to develop an inclusive financial market that operates on the financial principles of efficiency, stability and consumer protection, but also one that provides access to financial services to the majority of the population so that those individuals who want to can use them.

Rwanda seeks to build a financial sector that is effective, in particular, by:

1. Expanding access to credit and financial services;
2. Enhancing savings mobilization, especially long term savings;
3. Mobilizing long-term capital for investment
4. Developing an appropriate policy, legal and regulatory framework for nonbank financial institutions; and
5. Developing an efficient, secure and technology-based modernised national payment system. The national payments strategy is embracing the use of all payments services instruments such as checks, credit and debit cards, ATMs, etc

FINANCIAL SECTOR OVERVIEW

On 31st December 2007, the Rwandan financial sector is made up of 7 commercial banks; a development bank; a housing bank; a micro-finance bank; a discount house and 116 microfinance institutions, from which 90 are cooperatives while 12 are public limited companies and 3 private limited companies. Among other financial institutions operating in Rwanda, there is the unit of the Giro Account of the Post office, 5 insurance companies and the Social Security fund of Rwanda (CSR).

Access to banking services outside of Kigali and the major towns is still very limited as they are only being served by the network of BPR and a few other micro finance institutions that offer very limited financial services. There are only 29,000 commercial bank borrowers and only 123,000 bank depositors but they account for roughly 75% of Rwanda's deposits and loans. In terms of nation-wide outreach, commercial banks operate only 38 (7%) of the branches. BPR, on the other hand, has 145 branches, 83,000 borrowers and 499,000 depositors. Three banks still hold a large 66% market share and inadequate competition within the banking system has led to high interest rate spreads (8.6% in 2005), a modest 16% per annum growth in deposits over the past 5 years, and lending primarily to a core group of about 50 relatively large customers concentrated in Kigali and a few sectors.

The insurance sector in Rwanda is small and underdeveloped; the sector is relatively young, with the oldest existing company founded in 1975, and life insurance introduced only in 1999. With a GDP per capita below a dollar a day, household demand for insurance products remains weak

because the overwhelming majority of the population has few possessions to insure and can ill afford insurance premiums. Similarly, there is little demand for life insurance as most Rwandans find it already difficult to set aside funds for short-term precautionary purposes and are therefore unable to provide for their long-term financial needs. As is usual in less developed markets, non life business, in particular mandatory motor third party liability insurance, is by far the larger component of the sector (respectively 47 percent and 80 percent on average for two out of the four companies that have provided reports per business lines).

The 2005 Financial Sector Assessment Program (FSAP) report prepared jointly by the World Bank and IMF described the Rwandan financial sector as a “narrow, shallow and oligopolistic banking sector with very low penetration of insurance services as well as undiversified financial products”. The FSAP identified a number of weaknesses in the financial sector which included poor saving rates, scarcity of long term capital, unregulated pension and insurance sectors, and a malfunctioning payment system, and made recommendations for reforms to address these weaknesses.

Government, within the context of, and looking beyond the FSAP, launched the Financial Sector Development Plan (FSDP) to come up with a strategy to develop a robust financial sector that, as a key component of the Economic Development and Poverty Reduction Strategy 2008-2012 of Rwanda (EDPRS), is capable of financing sound economic growth.

The vision of the FSDP is to **“develop a stable and sound financial sector that is sufficiently deep and broad, capable of efficiently mobilizing and allocating resources to address the development needs of the economy and reduce poverty”**.

LICENSING POLICY

It is with this background that the National Bank of Rwanda has prepared this bank licensing policy. However this licensing policy will evolve as the Rwandan financial sector expands and improve in terms of strength, depth and outreach.

The National Bank of Rwanda has been given the mandate to license and supervise banks under the Central Bank law n° 55/2007 of November 30th 2007 specifically in its articles 53, 56, 57 and 58. The legal and regulatory framework for licensing and supervision financial institutions is detailed in the Banking law n° 007/2008 of June 8th 2008. Furthermore the National Bank of Rwanda licenses and supervises banks in accordance with the Core Principles for Effective Banking Supervision (BCP's) issued by the Basel Committee on Banking Supervision.

The granting of a banking licence is discretionary: it is a privilege to be extended or withheld – it is not a right of any applicant. The key point of control in the regulation of the banking sector is when an application is being considered by the licensing authority. Applicants should understand that the proper investigation of their application may take some time and they should plan accordingly.

The supervision of banks engaged in cross-border operations requires close ongoing co-operation between the respective national supervisory authorities. East Africa member countries have taken steps to ensure that legal gateways exist within their banking legislation to permit a free exchange of regulatory information with other recognised banking supervisory authorities where such information will assist those authorities in carrying out their responsibilities.

The purpose of this policy statement is to set forth the framework within which the National Bank of Rwanda (NBR), the Central Bank, seeks to fulfil its responsibilities to determine whether a proposed bank is likely to be operated in a safe and sound manner, possesses reasonable prospects for success and can be expected to help meet the credit needs of the community.

This policy statement is also intended to facilitate applicant and public understanding in promoting the development of a strong and viable financial sector in order to enhance economic growth.

In evaluating licensing applications, the NBR's underlying objective is to promote growth of the financial sector through steady means and thus avoiding financial instabilities resulting from a rapid expansion of the number of banks and credit institutions.

NBR seeks to ensure that the country is either not over banked with too many financial institutions which may result in unsound banks and credit institutions, nor under banked with too few financial institutions which may result in inadequate access to credit or inadequate financial services to the general public.

One of NBR's primary responsibilities is to maintain a sound banking system and to supervise all financial institutions licensed under the banking law and other relevant laws. It has the power to ensure that financial institutions are adequately capitalized and properly managed, and that they satisfy appropriate reserves and liquidity requirements.

As NBR receives, applications from both foreign financial institutions or potential investors and local investors for licences under the banking law to operate as full service commercial bank or as credit institution in Rwanda, it evaluates such application firstly on the basis of the criteria laid down in applicable laws and regulations and secondly in accordance with its general mandate "to enhance and maintain a stable and competitive financial system without exclusion".

Each application is carefully considered on its merits, taking into account the likely impact of any new financial institution on the existing domestic financial sector and its potential contribution to Rwanda's development.

The NBR principal concerns, as spelled out more fully in the introduction, are to ensure that any new entrant to Rwanda's financial sector should be adequately capitalised, well managed, properly supervised, competitive and responsive to local needs.

The NBR also insists that the responsibilities of financial institutions with regard to the maintenance and expansion of branch networks, exchange control administration, improvement in the payment system and the training and development of local staff should be shared on an equitable basis by all licensed banks operating in Rwanda

While this licensing policy is more directly applicable to commercial banks, they also have relevance to applications for all class of financial institutions as defined in the relevant laws

Where an application is satisfactory, NBR will provide preliminary approval to the management containing conditions and procedural requirements that the management must fulfilled before final approval for the bank to open for business. When an application is not approved, the management shall be informed in writing

LICENSING CRITERIAS

NBR shall grant a license only after it has been satisfied of the following:

Ownership structure and suitability of shareholders: The National Bank of Rwanda should be able to clearly assess the ownership structure of banking organizations to insure that it is satisfactory. This assessment will include the bank's direct and indirect controlling and major direct and indirect shareholders.

Development strategy: In reviewing an application for a license to operate as a bank in Rwanda, the Central Bank takes into consideration the ongoing process of the East African Community integration.

Applicant, within these dynamics, should be nationally, regionally and internationally relevant banks, seeking for global coverage while providing local and sophisticated products. In addition, small scale banking applicants should be of strong retail banking experience, rural area-oriented organizations while respectively driven by the strategy of merger and acquisition and open to the international market.

Regional banks will be encouraged to merge with locally owned banks in order to create a significant financial institution able to undertake the mandate set forth by the central bank and to survive in a very competitive regional banking environment.

International banks should be banks with a true international presence, sufficient capital strength and relevant experience. The concerned International Bank should have carried out banking/financial (commercial and retail) services on a global basis over the last ten years.

The Central Bank of Rwanda intends to reduce at a minimum possible the number of corporate banking institutions and promote the retail banking one as the corporate clientele base is too small to accommodate an important number of large banks

Competition: any new financial institution shall be committed and able to provide effective competition in the banking sector, with particular emphasis on the following areas:

- Access by the public to the banking services offered (e.g. banking hours, branch location ATMs, etc.)
- Cost of banking services provided (e.g. fees and commissions)
- The quality and range of banking services provided including rural and agricultural finance

- The development of new banking business
- Local staff training and development
- Financial terms offered with regard to deposit and lending rates.

Overall impact on the banking sector: In reviewing the suitability of an application for a license to a bank, the Central Bank of Rwanda will also take into account the impact the potential entrant on the overall soundness of the sector.

The licensing process: In evaluating an application for a license to conduct bank business in Rwanda the Central Bank shall follow the criteria prescribed in the 2008 Banking Act specifically in its articles 4 to 11 as well as all requirements stated in regulation n° 03/2008 on licensing of banks