SPEECH BY REV. DANIEL OGBARMEY TETTEH, DIRECTOR-GENERAL OF THE SECURITIES AND EXCHANGE COMMISSION DELIVERED AT THE GHANA RE'S 10TH CEDANT AWARDS NIGHT HELD AT KEMPINSKI HOTEL ON 13TH SEPTEMBER, 2019

Mr. Chairman, Commissioner of Insurance, Directors of Ghana Reinsurance Company, CEOs of Insurance companies, Distinguished Guests, Ladies and Gentlemen;

It is indeed a great privilege and an honour to be invited as a Guest Speaker for this year's "Ghana Re's 10th Cedants' Awards night". Your invitation as a guest speaker requires me to speak on the theme "THE IMPACT OF STANDARDIZATION AND SUPERVISION ON THE FINANCIAL SECTOR IN GHANA"

The theme is not only intellectually stimulating but also very apt in the light of recent developments in the financial sector of the economy. Treating this topic and theme would require a short discourse hinged on the historical development of the various segments of the financial industry in Ghana. This is because the present regulatory architecture in the financial sector of the economy can only be understood from the mirror of economic history and the evolving dynamics of our economy from the colonial period to date. As we all know, the financial market of Ghana is divided into four – Banking and the Money Market; Insurance; Pensions and Securities or the Capital Market. These sectors did not develop simultaneously but evolved with the evolution and developments of the economy and society which in turned shaped or shapes the political economy of Ghana.

Mr. Chairman;

It is instructive to note that historically, banking took an early lead and has been with us for over one hundred years. Bankers always follow the money so as many European traders poured into the Gold Coast to trade in cocoa and other commodities and the colonial public administration also expanded with the influx of expatriates civil and public servants as well as the development and expansion of railway, cocoa, mining and lumbering industries, so did colonial banks. The rapid development of the colonial economy created a band wagon effect for financial services to provide vital services for the economy. It is said that insurers also do not just follow the money but also follow risks that are usually attendant to economic and social developments – loss of life, loss of income, property, goods, capital goods to accidents, fire, flood, theft, war and other insurable causes. Insurance as an industry was the second financial service to be introduced into Ghana and has also been with us formally for about a hundred years if we take into consideration the fact that the first European company to open a full insurance branch before the First World War in Ghana was Royal Exchange Assurance. Similarly, the Pension industry is also said to be as old as banking and insurance in Ghana since the historical records indicates that as far back as 1884 pension benefits were being paid out of the revenues of the Gold Coast Colony to expatriates in the Colonial government going on retirement. The first legislation on Pension was the Pensions Ordinance, 1950, which for the first time brought Ghanaian clerical and mining labourers into a formal pension scheme in Ghana. The coverage was extended to all Ghanaians in 1965 with the establishment of a universal scheme under Social Security National Insurance Trust (SSNIT).

Mr. Chairman;

The latest kid on the block is the Securities or the Capital Market. The first hint of its birth can only be found in the Companies Act, 1963 (Act 179) with the birth of Limited Liability Company as a business model formally introduced into Ghana. It has also evolved with the formation of National Trust Holding Company (NTHC) in 1975, to cater for the Over-The-Counter (OTC) Securities market under the Acheampong regime which compelled foreign companies to cede 55% of their shares to Ghanaians. The establishment of the Ghana Stock Exchange (GSE) in 1990 was the beginning of the birth of a formal securities market in Ghana. Despite the nascent nature of the capital market we are humbly proud to say that it is the fastest growing sector ready to anchor the long-term development of the Ghanaian economy.

Mr. Chairman;

This short historical sketch of the evolution and development of the financial sector and system in Ghana is to provide the canvass for an understanding of the present regulatory architecture of our financial industry. All the sectors have undergone various reforms and are still going through shake- ups as the present or latest clean-up of the banking sector alludes. We understand that insurance is also going to follow suit, so is the securities sector. Because of the sectors' separate development path, each is placed under separate regulatory agencies to oversee their respective developments and regulation. This has giving rise to intense debate whether we should continue to follow our separate regulatory and development paths or whether it is time to converge. In other words, is it time to bring the various financial sectors under one regulatory and development umbrella and adopt a common regulatory and supervisory standard? What are the challenges to envisage? What models of adoption should we embrace? Is the present regulatory arrangement not good enough? Is it possible to adopt a system that will facilitate the adoption of common regulatory and supervisory standards under the present system?

Mr. Chairman;

The increasing inter-connectivity amongst and between the four sectors in the financial industry has brought along contagious risks if not systemic risks that ought to be dealt with collectively. For-instance, the present crisis in the banking sector starkly revealed that inter-connectivity. The Asset Management segment of the Securities Industry has been impacted negatively in view of the fact that most asset managers executed their fixed income mandates by placing huge amount of funds in the time deposits of affected banks, savings and loans and microfinance institutions under the supervision of Bank of Ghana. Revocation of license of such institutions by the Central Bank has put investors' funds under serious risk of impairment. It is conceivable that Pension Funds and Insurance premiums placed with some of such financial institutions were not unaffected. This implies that if regulators in the industry were to share information on their respective regulated institutions, some of this counter-party risk defaults could have been better managed. Such developments have given rise to a renewed debate for a comprehensive review of Ghana's regulatory architecture or standardization of regulatory and supervisory framework across board.

Mr. Chairman, Commissioners, Directors, CEOs, Distinguished Guests, Ladies and Gentlemen;

Given the inter-play of functions, the rapid development needs of the economy and society, in addition to the recent banking crisis and its contagion effect within the financial system, the debate as to whether we should maintain the present **"Multiple Regulatory Architecture"** or adopt the **"Twin Peak Regulatory Architecture"** as pertains in other countries such as the United Kingdom and South Africa has sharply arisen.

The call and demand for a rethink of our financial regulatory architecture or standardization has not come as a result of the current crisis in the banking sector and its effect on the other sectors, but also the increasing crisscrossing of business formations across the sectors is also calling for a regulatory review. For-instance, banks have entered into securities, insurance and pension space. Some insurance companies are also doing the same. Very soon, securities companies may also enter into other financial space creating seamless competition across the industry. Such developments are posing regulatory challenges and risks that have to be mitigated in a way amongst the regulators. We cannot stop this development since it is healthy for the real economy. Despite the commonalities and complementarities amongst the four financial sectors, there are obvious differences and competitive structures that may sometimes impede the principles of regulatory and supervisory standardization.

The proponents of the **"Twin Peak Regulatory Architecture"** have argued that the financial market of Ghana has evolved and the increasing inter-connectivity, complexity, attendant risks, dynamics in the economy and the financial industry and the need to strengthen and speed up the country's competitiveness within the global economy requires urgent reconfiguration of Ghana's Regulatory Architecture**.**

Opponents of **"Twin Peak Regulatory Architecture"** posit that this arrangement may stifle development of other sectors of the financial market, since a single Board may be more biased in favour of one sector against others because of their disposition and limited knowledge of the financial system as a whole. They make reference to the capital market that was once placed under the Governor of the Central Bank. That sector suffered because the Bank was more in favour of money market development that the capital market. It was when the capital market was hived off and given to SEC that the market began to see some growth and development. Those who subscribe to this school of thought however call for more collaboration and harmonization of regulatory standards and supervision among the regulators. The common thread, clearly, is harmonization and collaboration in regulation of the financial sector.

Furthermore Mr. Chairman;

It is obvious that a strong and robust financial market is one within which there is both vertical and horizontal competition with various innovative and competitive products. For-instance it should be possible for a consumer to decide whether or not to invest in a mutual fund, shares or bonds, or buy a life insurance product, or invest in a tier three pension fund or put her money in a fixed deposit interest yielding account in a bank. Competition creates efficiencies, better financial intermediation, reduces the cost of capital in an economy resulting in high levels of productivity, employment and economic growth. In the context of the financial sector in Ghana, information asymmetry, high levels of financial illiteracy and probably inadequate professional capacity of financial industry players reduces competition to shopping for higher returns rather than the overall value proposition.

Mr. Chairman;

Permit me, at this juncture, to underscore the symbiotic relationship between the capital market and the other sectors of the financial industry.

Pensions and Insurance market cannot thrive without a robust and vibrant capital market and vice –versa. The Capital market is also known to provide an efficient and effective transmission mechanism for monetary policy by Central Banks. Insurance and Pension Funds provides patient capital through the capital market for long term development of national economies. In addition to these, the capital market provides three main functions to every economy, namely, wealth creation to the household and corporate sectors of the economy; funding for the corporate and governments sectors including funding for industrial and infrastructure development; and lastly risk management function to the entire economy through the use of derivative and securitization instruments which are yet to be developed in Ghana's capital market.

As a nation, we have not been very successful in resolving housing or mortgage finance and agriculture finance. This is because these two important areas are deemed to be of high risk to financiers. We have over the years attempted to use short-term money market funds from the banking sector to finance mortgages. Obviously such a funding scenario is bound to induce serious asset-liability mismatch and thereby liquidity risk to the funding institutions. The only way this can be corrected is the intervention and deployment of patient capital through the capital market by insurance firms and pension funds. The Securities and Exchange Commission has recently issued guidelines for the introduction of Real Estate Investment Trusts (REITS) and while there is ongoing work to develop the Assets and Mortgage- Backed Securities Market where insurance companies and pension funds will be expected to play dominant roles.

Bond issuance is an important option for raising long term financing to support enterprise and infrastructure development. In most advanced countries, insurance companies and re-insurance firms have entered the bonds market not only as institutional investors but also as providers of insurance services to issuers of debt securities to protect investors in cases of re-payment defaults. This is known as "Monoline Insurance". The bond market in Ghana offers significant scope and opportunities which therefore calls for our respective sectors to act in concert to develop and deepen particularly the corporate, municipal and agency bonds market.

Again, the Securities and Exchange Commission has recently facilitated the introduction of the Commodities Exchange and Warehouse Receipts System in order to link the agriculture sector to the capital market. We are glad to say that some banks and insurance companies are actively engaged in the scheme. Warehouse and crop insurance is set to become a new area of lucrative business for the insurance sector.

Needless to say, the inter-connectivity within the financial sector is undeniable and therefore a conversation around standardization and supervision of the financial sector in Ghana is well placed. The Money market is expected to provide short-term funds and working capital to economic agents, while the capital market is also designed to provide long-term capital. The Insurance and Re-insurance Market is created to take care of all insurable risks in the economy, whilst Pensions ensures that we can be taken care of when we can no longer actively work to earn income.

Mr. Chairman;

The recently established Financial Stability Council (FSC) by this Government is an attempt to put all the financial regulators together to develop a common national risk framework in order to fashion out a common early warning risk management system to avert future occurrence of financial crisis in the country. The Council is also to provide a forum for the regulators to regulate and develop the financial industry in concert. Whether this arrangement will meet the need for greater harmonization in regulation of the financial sector or serve as the harbinger to the adoption of **"Twin Peak Regulatory Architecture"** will be revealed with time.

As part of ongoing efforts to strengthen and enhance the capacity of the financial services sector to support socio-economic development, regulators in the various sectors have recently announced a raft of similar regulatory changes and requirements – This include revision of licensing, financial resources and minimum capital requirements for all regulated entities; improving and strengthening the regulatory framework; introduction of risk-based supervision, new corporate governance standards; Anti- Money Laundering and Financing of Terrorism (i.e. AML/CFT) compliance requirements; and adoption of Regulatory Technologies (REGTECHS) and Financial Technologies (FINTECHS) among other regulatory reforms. I believe that these reforms together with increased cooperation among the regulators are likely to strengthen and deepen the financial sector, restore market integrity, trust and confidence of customers, investors and the public. However regulatory oversight of these reforms would require injection of resources and capacity building of the regulators to engender trust and confidence among various stakeholders so that the reputation of the regulators can also be enhanced for a renewed confidence in the financial system. No form of regulatory architecture or any form of regulatory and supervisory standards can work without supportive legal and regulatory framework, capacity building and injection of resources from Government.

Mr. Chairman, Commissioner of Insurance, Directors of Ghana Reinsurance Company, CEOs of Insurance companies, Distinguished Guests, Ladies and Gentlemen;

In conclusion, I would like to congratulate the Board, Management and staff of Ghana Re-for once again putting together this annual event, the 10th in the series since its inception. I also thank the organizers of this Award Ceremony for inviting me as guest speaker. I will again like to take the opportunity to re-emphasize that increased regulatory cooperation, collaboration in the areas of Financial MARKET DEVELOPMENT, supervision and sharing of information will go a long way of not only building a liquid and robust financial industry but will also enhance seamless interaction and subsequent proactive action against unforeseen disruptive forces of systemic risks. We are learning our lessons very well and therefore wish to assure stakeholders and the Ghanaian public that regulatory mistakes will be avoided with all the passion we can muster.

Long live the insurance industry,
Long live the financial sector,
Long live Ghana. God bless us all.
Thank You.