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The Governor

PRESS RELEASE

QUARTERLY FINANCIAL STABILITY COMMITTEE MEETING

February 06, 2020 – The Financial Stability Committee (FSC) held its meeting and assessed the stability and performance of the financial sector as at end December 2019. The committee noted that the financial sector remains sound and stable. Key observations and resolutions of the committee are elaborated below.

A conducive macroeconomic environment supported stability and growth of the financial sector in 2019. Total assets of the financial sector increased by 13.2 percent to FRW 5,268 billion. All financial sub-sectors registered notable growth in 2019: Banking sector assets increased by 12.5 percent (year-on-year) to 3,476 billion, while insurance sector's assets increased by 13 percent to FRW 510 billion, microfinance sector's assets by 14.7 percent to FRW 321 billion, and pension assets by 15 percent to 891 billion.

The financial sector has sufficient capital buffers

Banks and Microfinance institutions (MFIs) continue to meet the minimum regulatory capital requirements and maintain high quality capital. As at end December 2019, the banking sector total Capital Adequacy Ratio (CAR), that compares the total qualifying capital of banks to their risk-weighted assets, stood at 24.5 percent, higher than the minimum regulatory requirement of 15 percent. All banks have capital funding in excess of the current regulatory minimums. The microfinance sector also maintained sufficient capital buffers with aggregate MFI sector CAR at 35.5 percent, higher than the minimum prudential requirement of 15 percent.

Private insurers' solvency position stood at 170 percent in December 2019, above the minimum prudential requirement of 100 percent. This high solvency position depicts the sector's resilience to shocks.

The Non-Performing Loans ratio (NPLs) has steadily dropped in banks and MFIs

In the banking sector, the NPLs ratio dropped from 7.6 in December 2017 to 6.4 percent in December 2018 and to 4.9 percent in December 2019, which is within the NBR benchmark of 5 percent. Similarly, the microfinance sector NPLs ratio dropped from 8.2 percent in December 2017 to 6.5 percent in December 2018 and to 5.7 percent in December 2019. The robust economic performance in 2019 largely supported this reduction of NPLs over the years through increasing the debt service capacity of both corporate and individual borrowers. The write-off of loans that have been non-performing for two years and more has also contributed to the reduction of NPLs in banks and MFIs.

Profits steadily improved across the financial sector

The aggregate profit of the banking sector increased from FRW 29 billion in 2017 to 57 billion in 2018 and further to FRW 76 billion in 2019. Similarly, in the microfinance sector, profits increased from FRW 2.4 billion in 2017 to FRW 7.3 billion and recently to FRW 12 billion in 2019, while profits of the insurance sector increased from FRW 3.3 billion in 2017 to FRW 7 billion and further to FRW 7.1 billion in 2019. In Banks and MFIs, growth of profits is underpinned by increased lending, efficiency gains and, recovery of bad loans. In the insurance sector, revised motor premium rates, improved fraud and claim management supported growth of profits.

In addition to these sub-sector specific factors, a conducive macroeconomic environment (robust economic growth and stable interest rates, low and stable inflation) supported profits of the financial sector over the last 3 years. This improvement in profitability is expected to further strengthen the resilience of the financial sector through increased capital.

Banks and MFIs maintain significant liquidity buffers

The banking sector continued to hold liquidity buffers above the minimum prudential requirements. The Liquidity Coverage Ratio (LCR) that indicates the proportion of high quality liquid assets held by banks to their short-term obligations on a 30-day horizon stood at 215 percent as at end December 2019, higher than the 100 percent minimum prudential requirement. Banks also continued to finance their long-term assets using stable resources– the aggregate Net Stable Funding Ratio (NSFR), which compares the long-term assets of banks to their long-term liabilities, stood at 111 percent as at end December 2019, well above the 100 percent regulatory requirement. The liquidity ratio of the microfinance sector stood at 100.4 percent, higher than the prudential minimum of 30 percent.

Key risks identified

The stock of written off loans continues to be of concern for the banking and microfinance sector. The National Bank of Rwanda will continue to engage various stakeholder to ensure improvements in the collateral realization process.

In the insurance sector, reliance and underwriting losses in the motor vehicle and medical insurance products was highlighted as a major risk. The Bank will continue to work with the sector to diversify products and revenue sources, ensure appropriate pricing as well as rationalize costs.

February 07, 2020

RWANGOMBWA John
Governor, Chairperson of FSC

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