Impact of COVID-19 on the Rwanda Banking Sector

Rapid Survey and Assessment

April-May 2020

FOCUS NOTE

1. Context

The COVID-19 pandemic has caused abrupt shock to the global economy and currently, there remain uncertainty around the means, speed and the required structural changes to be adopted by different countries to strengthen their economic recovery.

More specifically, governments across the world have prompted responses by putting in places different measures to sustain their economies and ultimately their people. In this regard, the banking sector is given considerable priorities as a mechanism for supporting borrowers and businesses facing job losses, slowed sales and declining profits. In addition, banks have to put in place measures to protect employees and customers from the spread of COVID-19 by promoting digitized and remote customer-centered transactions.

In Rwanda, the measures put in place to curb the spread of the COVID-19 pandemic (including closure, suspension of domestic travel, cancellation of public gatherings, institutions teleworking, closure of schools, and places of worship and non-essential businesses) have had negative effects on the livelihoods of many Rwandans, especially those who earn their living on a daily basis. The measures also considerably affected the Banking sector which serves the majority of the SME's, Corporates, Consumers/Salaried class and general population. The Rwandan Banking Sector consists of 16 banks of which 13 are commercial banks and three microfinance banks, with nearly 36% of Rwandan population use banking services as per Finscope Report 2020. The Rwandan Banking sector registered continued growth year after year with loans increasing by 11.4 % between December 2018 and December 2019.

Banks in Rwanda depend mainly on domestic funding as savings constitute 80% of banks liabilities, as per the BNR monitory policy Dec 2019 report.

In order to understand the extent to which Rwanda's financial sector has been affected by COVID-19, Access to finance Rwanda (AFR) in partnership Rwanda Bankers Association (RBA) conducted a rapid survey that aimed to inform policy debates on how to support the financial sector cope with the negative effects of the COVID-19 pandemic throughout the recovery processes.

1.1. Objective of the study

The study is expected to inform various stakeholders and policy makers on ways to provide support to banking sector and for peer learning, so that banks can continue their work, sustain their own business and extend financing to their customers post COVID. We anticipate that, with well-designed interventions and support the Banking sector re-bounces, normalize and build strong resilience to this kind of epidemic now and in future.

This focus note only highlights the critical findings and needs of the banking sector. Detailed survey findings can be availed by AFR upon request.

1.2 Methodology and response

This study was conducted during the lock-down period, limiting movement and physical interactions with potential respondents. This study used mixed methods in collecting data, including a pre-designed questionnaire for commercial banks that was uploaded on "surveymonkey" between April 27 to May 30, 2020 and semi-structured interviews held with the selected banking institutions. However, due to lockdown and social distancing measures that followed the progressive re-opening, physical interactions remained limited.

The survey questionnaire was filled by 11 commercial Banks, of which eight of the banks were in operations in Rwanda for more than five years.

The survey reported diversity in the number of clients served. There were new entrants and experienced banks in Rwanda. There was no clear average on the number of clients served by majority. Based on responses approximately 1.2 million active clients were collectively served by the respondents.

2. Summary of rapid survey

Nearly 91% of the banks were serving SME sector and were anticipating that more than 50% of their business clients would approach them for loan repayment relief measures like Moratorium, and restructuring of their existing loans in the next three to six months.

The Banks displayed good preparedness for the crisis and continued to serve the clients with minimal disruptions.

A total of 91% of banks had a digital platform and had linked to MNO’s (MTN & Airtel). Mobile money proved to be a lifeline to many during COVID-19 lockdown and eight out of 11 respondent banks had toll free lines to support the customers during the lockdown and were using various communication channels.

COVID-19 has already inflicted serious stress on banks with more than half of the surveyed banks reporting rising PAR, stress on sustainability and profitability, Customer Relationship Management, Business Continuity and Staff Engagements as their major challenges due to COVID-19 situation.

Some of the banks reported that they did not stop lending and continued to lend to existing and new customers, although 55% of banks said that they have tightened their lending criteria. This displays a good liquidity position in the banking sector and positive measures, despite the fact that clients were withdrawing their savings to sustain their livelihoods and meet fixed costs of their business with no revenue inflow. Some clients were also not meeting their loan repayment commitments.

A total of 45% of banks did express the need for liquidity in the next three to six months to the tune of RWF 65 billion based on the assumption that the COVID-19 situation normalises, and especially hospitality and tourism picks up.

In conclusion, banks may have diverse effects of COIVID-19, due to exposure to big ticket loans especially to the hospitality, real estate and manufacturing sectors, which is most affected. All banks predict upcoming losses due to decline in profit, low credit demand and increased credit risk, however, banks display strong resilience.

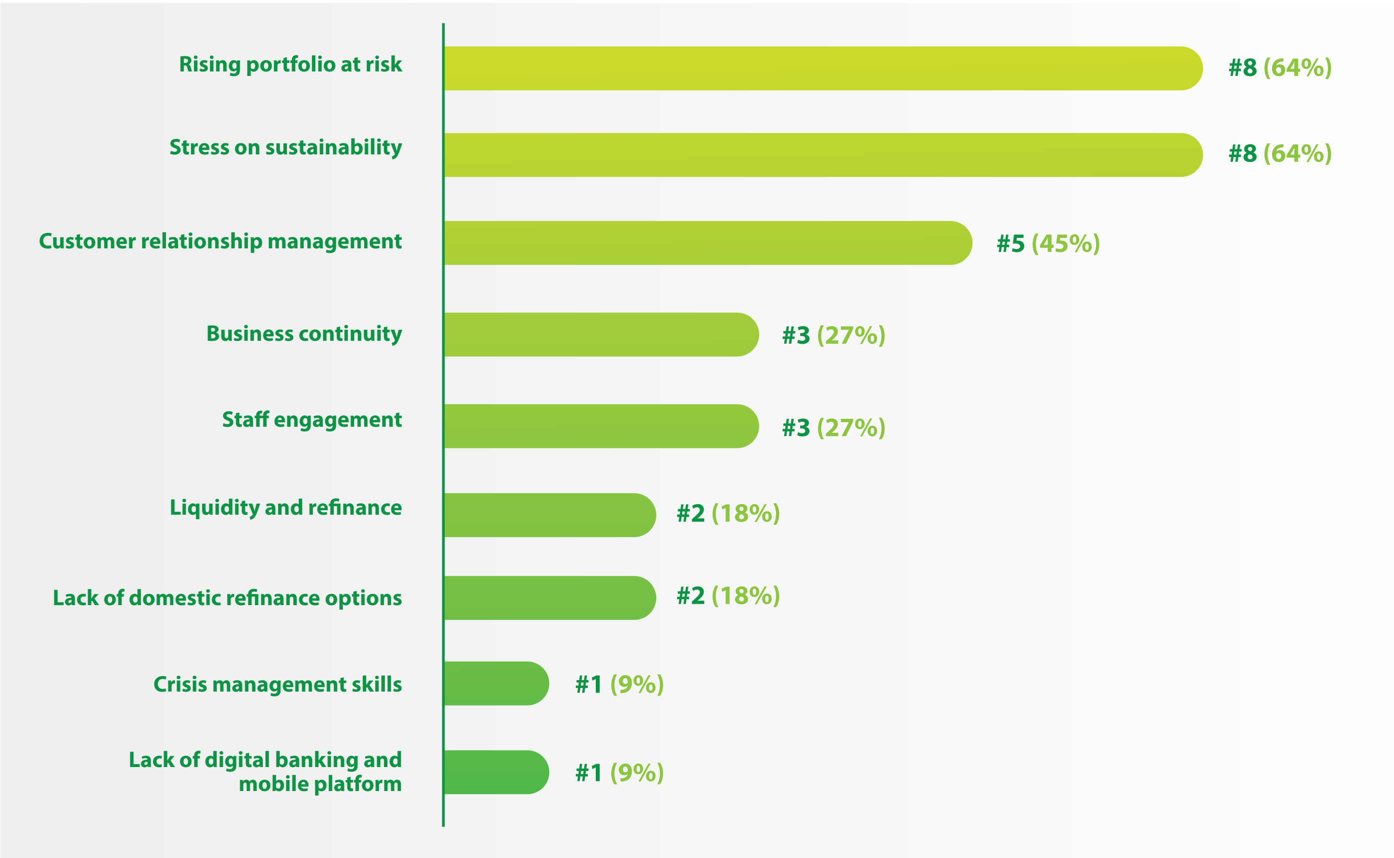
The sector, apart from capacity building, needs support from regulators in easing prudential norms requirements, especially to ease the loan loss provision requirements for COVID default related loans. This measure can reduce losses due to increased provision requirements. The sector also expects the stakeholders to provide them with timely updates and keep the institutions engaged in the decisions and measures put forth to support the sector.

3. Key findings

3.1 Challenges faced by banks due to the COVID-19 situation

The survey findings revealed that COVID-19 has already inflicted several challenges to banks in Rwanda as illustrated on the figure below. Nearly 64% of the Banks expressed rising Portfolio at risk and Stress on sustainability and expected mounting losses due to the clients not meeting their commitments, which is sure going to increase the loan loss provisions, in turn hitting the bottom-line. This situation is leading to strain on Customer Relationship Management for many institutions, as this situation came unexpected and banks are challenged to strike a balance between regulatory compliance and empathy.

Figure 1: Major challenges experienced by banks during the COVID-19 crisis



Implication of the findings

This may lead to low morale among staff and clients and will restrict the growth of the Banking industry and affect the economy in general. It has to be noted that banking industry was in a good profitable position and this may reverse this growth trend.

The Regulators may consider relaxing few prudential norms for next 6 months, for eg. Not considering provisions to be made for loans, which have gone into delinquency in the COVID -19 period. This can improve the sustainability by reducing losses. The regulators can issue directive to banks for reports separating the periods.

3.2 Adjustments of the lending approaches due to COVID-19 effects

Although COVID-19 had negative effects on the banks , 10 out of 11 (91%)of the respondent banks reported that they did not stop lending and continued to lend to existing and new customers, although 55% of banks said that they have tightened their lending criteria. This displays a good liquidity position in the banking sector and positive measures, despite the fact that clients were withdrawing their savings to sustain their livelihoods, and meeting fixed costs of their business with no revenue inflow. Some were not meeting their loan repayment commitments.

Figure 2: Changes in the banks' lending approach

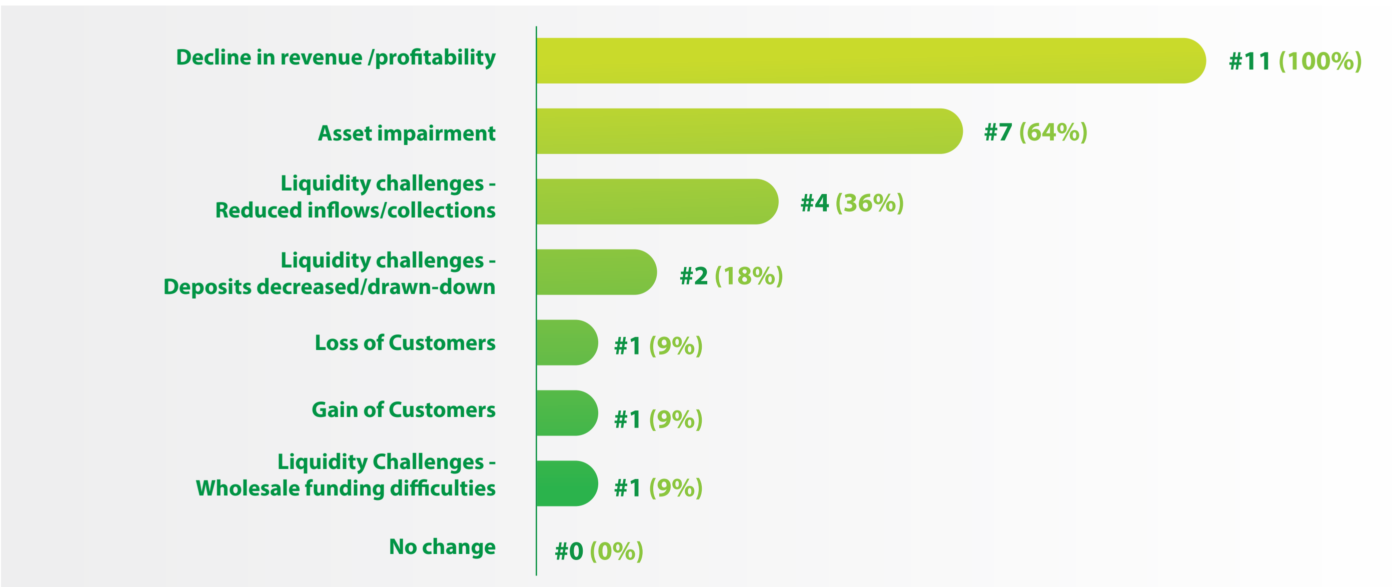
Implication of the findings

This reaction by the sector to continue lending to new and existing clients is going to have positive effect on the credit market post COVID19, but banks may need to go slow or discourage non-productive loans. This will support the business sector, who are in real need of working capital to bounce back from the COVID 19 impact. The stakeholders of the banks need to ensure that liquidity is available for the banks to revive the business ecosystem and economy in general.

3.3 Effects of COVID-19 on banks' businesses

COVID-19 has already revealed negative effects on banks businesses with 100% of banks reporting decline in their revenues/profitability, 64% experiencing asset Impairment, while 36% of them reporting liquidity challenges due to reduced inflows and reduced collections.

Figure 3: Business impact by COVID-19



Implication of the findings

The banking industry needs to gear itself up for potential losses and needs to take measures to keep costs and expansions at bay till the situation stabilises.

3.4 Mitigation measures adopted by banking sector to support clients as a response to COVID-19

The Banking sector has been the highest contributor and backbone to the growth of business and economy in general. According to the latest 2020 Finscope study, 93% of Rwandans are financially included, of which 36% are being served by formal banking services. COVID-19 measures put enormous restrictions on physical gathering and inconvenienced the population in general to a great extent.

The findings revealed that a number of measures have been put in place by banks to support the clients, as illustrated in the figure below.

Figure 4: Mitigation measures adopted by banks

1. Restructuring loan with repayment difficulties and easing repayment condition.
2. Granting moratorium period. Restructuring loans with a grace period. Granting temporally overdraft for some clients.
3. Removing online transaction fees.
4. Adopted a sharper risk identification and monitoring approach which can identify clients with higher vulnerability to primary and secondary effects of the COVID-19 outbreak.
5. Businesses most likely to be affected or already affected have been approached and active engagement to ensure facilitation is in place.
6. Waiver of penalties of late payment. Keep branches operational and implement temporally solution on push via mobile money.
7. Advanced funding to sectors that are currently thriving and need to enhance their capacity.
8. We have waived all the digital platform charges and also no restructure fees charged to customers seeking for it.
9. 1. Business continuity plan 2. Digital platforms for transaction 3. Introduction of toll free lines 4. Structured engagements for relationship management 5. Moratoriums.
10. The bank has been proactive to identify sectors that might be vulnerable as well as clients that might need a moratorium period to make sure their loans are rescheduled on time.

4. Conclusions and recommendations

1	**Acceleration of Digital Transformation** Increase customer adoption of online and digital banking, technology and in particular digital transformation post COIVD-19. Leverage on the opportunity.
2	**Relaxation of loan loss provision** The regulators need to ease the loan loss provision requirements for COVID-19 default related loans, to reduce losses for banks due to increased provision requirements.
3	**Relaxation of capital requirements** Request regulators to give more time to banks, (especially microfinance banks) requirements to increase capital as per the new requirement, to ease banks liquidity.
4	**Liquidity for Banks** BNR relief measure of RWF 50B fund for distressed commercial banks to support their liquidity may need to be increased as per demand and support longer term liquidity.
5	**Keep operations cost low** The impact of reduced income is anticipated to increase the Cost to Income ratio, important to survive.
6	**Increased Customer Relationship** The customers need banks more than ever during this crisis and vice versa. Hear their voices and needs, show empathy and put their needs first.

For more information

AFR
KG 5 Avenue, House #13 – Kacyiru
The road behind the Netherlands Embassy
P.O. Box 1599, Kigali – Rwanda
E: communications@afr.rw - P: +250 788 270426