

FINANCIAL SERVICE PROVIDERS & MAKING PAYMENTS

1. HOW TO MAKE FINANCIAL SERVICE PROVIDERS YOUR FRIEND

1) *The Benefits of Banks*

Many of us are afraid of banks. The bank offices are so formal and intimidating. The products, services and fees associated with them are confusing. Some of us assume that we are too poor to take advantage of them. However, banks are likely to offer ways to save and borrow that can be very helpful to you, including the following:

- *As a saver, you can enjoy the security that banks offer while “growing” your savings with interest income.*
- *The selection of accounts enables you to manage different savings goals simultaneously.*
- *Using a bank imposes discipline that is difficult to maintain when you try to save at home.*
- *Saving at a bank keeps your money out of reach of others who will pressure you to spend it or who will be tempted to spend it themselves.*
- *As a borrower, you have a similar rich selection of loan products from which to choose.*
- *By borrowing from your bank, you can build an official credit history that is more widely recognized than credit experience with informal lenders.*
- *Banks are regulated by the government, minimizing your risk in depositing your funds with them.*

2) *How Do Banks Work?*

A bank takes in money from depositors i.e. clients who save at the bank, and lends money to borrowers. It pays the saver to deposit her funds (in the form of interest paid on the amount of savings) but charges the borrower for using its funds (in form of interest on each loan). Because the interest it charges for loans is higher than the interest it pays on savings, the bank makes a

profit. It also earns income from the fees it charges customers for most bank transactions. These include application fees on loans, fees on ATM transactions, and fees for sending money to another person.

Banking can be a risky business. Banks need to lend money to borrowers in order to make a profit, but they also need to have some cash available for savers who want to withdraw their funds. Maintaining this balance is challenging! Banks also run the risk of making bad loans that are not repaid.

Such risk, combined with the banks' key role in supporting the economy, has led governments to adopt rules and regulations that help manage these risks. Banks are required, by law, to have deposit insurance that protects savers and to hold enough capital to protect them from bankruptcy.

Government regulation distinguishes formal banks from other financial institutions that offer many of the same services. In addition to banks, sources of credit include NGO-sponsored microfinance programs, retail shop owners, employers and local moneylenders. Rotating savings and credit associations come in diverse forms and offer people a place to save and gain access to a larger sum of money. Many people save at home "under the mattress." These options for borrowing and saving range from semi-formal institutions to informal neighborhood groups, but none offer the same security that banks can. Government regulations force banks to be conservative in the way they handle money.

3) If you can, save and borrow with financial institutions which are regulated and supervised by Bank of Uganda

*There are three types of institutions which are regulated and supervised by Bank of Uganda: **Commercial Banks** (Large financial institutions that offer loans and savings), **Credit Institutions** (e.g. Postbank) and **Micro Finance Deposit-Taking Institutions** (MDIs-Financial institutions permitted by Bank of Uganda to collect savings from the public). The advantages for you are:*

- Bank of Uganda's objective is to ensure soundness of financial institutions. This means that Bank of Uganda checks on financial institutions to make sure that they survive. Bank of Uganda makes sure that your financial institution **can be trusted through constant supervision.***

- To protect your savings, all **savings** in financial institutions regulated by Bank of Uganda are **insured** up to UGX 3 million.
- Bank of Uganda made Financial Consumer Protection Guidelines to ensure that regulated financial institutions **treat customers fairly**. The guidelines also ensure that the financial institutions explain to you everything you need to know about their services and products.



4) If there are no regulated financial institutions nearby or they don't serve your needs, you have other options to choose from:

4a) You can take a loan from an unregulated Microfinance Institution (MFI)

MFIs do not take savings or money from their customers but they give credit to help people build their small businesses.



4b) You can join a SACCO, save with it and take a loan from it

Savings and Credit Cooperatives (SACCOs) are formed, owned and operated by the members. They are usually organized around a specific region (e.g. a parish or a district SACCO), an activity or profession (e.g. a farmers' SACCO or a teachers' SACCO). SACCOs can only accept deposits from their members. SACCOs vary in quality and safety. It is wise to know the SACCO officers and ask other members what their experience has been before you join one. Savings at SACCOs are not insured. Every SACCO is supposed to register Registrar of Cooperatives in the Ministry of Trade, Industry and Cooperatives. Check with them whether the SACCO you wish to join is registered.

4c) You can save and borrow with a VSLA

Voluntary Savings and Loans Associations (VSLA) are small member based community groups with up to 30 members that collect savings and make small loans for their members. Make sure

that the VSLA has all its activities done openly and accountability is made regularly. Only join a VSLA if you trust the other members.



4d) You can also save with a ROSCA

Rotating Savings and Credit Associations (merry-go-rounds) are groups where members meet regularly to make contributions that are given to a different member each month or week. Join a ROSCA where you trust the members.

5) Be careful when borrowing from a Money Lender

Money lenders often provide quick loans - but their interest rates are very high. The security they ask for is also often very high (up to two to four times the amount of the loan) and unclear (not easy to calculate). If you fail to pay back their money as agreed, they usually use tough methods to recover it. Many money lenders operate against the law. Carefully read and understand the contract before rushing for a loan. If you decide to borrow money from a money lender, make sure he or she is licensed and has a certificate from the Magistrate in your area.

6) If you want to change money, do so in a licensed Forex Bureau

At a Forex Bureau you can change Uganda Shillings into a foreign currency or vice versa. The exchange rate for different currencies can rise or fall anytime. Make sure that the Forex Bureau you are dealing with has a license from Bank of Uganda hanging on their wall. Usually, the licensed Forex exchange bureaus can detect fake money. After changing your money, make sure you get a receipt with the Bank of Uganda logo.

7) Send and receive money from other countries via licensed Money Remitters

*A **remittance** is a transfer of money by a foreign worker to his or her home country or another country. Money remitters are licensed financial institutions that transfer this money. They usually receive the money in the currency of the country in which they are located. For example, a Ugandan working in Great Britain would give the remitter Great Britain Pounds when making a remittance to his family in Uganda and the person receiving it would collect it in Uganda shillings. Only remit your money at a registered and licensed remitter. Agree on the rate of exchange at which the recipient will convert the money you have sent into local currency. Ask and understand all the charges involved when making a remittance. If someone has sent you a remittance, you should not be required to pay any charges.*

8) Make remittances using your phone

Money can now be remitted through mobile phones. Ask your mobile phone company how to do it and about the charges involved.

9) Ask, Ask, Ask!

It is your financial right to know all the information about a financial product or service you wish to use. Ask for written information for documentation purposes. If the financial institution or person you are dealing with doesn't want to give you information, then they might not be the right ones for you.



10) Know your financial rights and obligations

- You have a right to place a **complaint** and to receive a response from the institution.
- The institution has to treat you with **respect** and minimize the time you take to be served.
- You have a right to information about the services and products and about all the **fees and charges**.
- If the financial institution is not following what is written in a **contract** you have signed with them, you have a right to take it to court.
- A lender should not **force** you to borrow.
- You should be able to **access your savings** whenever you need them. However, money on certain savings accounts can only be accessed after a certain period, as you agreed with the financial institution.
- The information you provide to a financial institution should be kept **confidential** in line with the laws of Uganda. They can only share it with someone else if you agree to it.
- No financial institution is allowed to ask you for a **bribe** to access any of their services or for any other purpose.



2. HOW TO MAKE PAYMENTS LIKE A PRO

1. Understand the costs involved

Before you choose how to make payments, find out about all the fees you will have to pay. For example, if you send money via your phone, ask the mobile money agent about the fees. Only use the service when you are comfortable with the costs.

2. Keep your personal information secure

- *Protect your personal information e.g. names, address, signature (cheques) and PIN (ATM / mobile phone payments/ credit card) from being stolen. Destroy or burn confidential documents you don't need any more.*
- *Don't share your PIN or secret code, password or signature to ensure that no one else can access your money.*
- *Find out about the process for replacing a lost or damaged card, cheque book or other document from your financial institution/ bank.*

3. Know who you are paying

When making payments, make sure that the money is going to the right person. Check for the correct name, number and amount and keep the receipt, payment slip or confirmation message to prove that you have paid.

MOBILE PHONE PAYMENTS

4. You can make payments using your phone

Most mobile phone companies offer mobile payments products, enabling you to do the following directly with your mobile phone:

- *Send money to other people (e.g. to your family),*
- *Pay water and electricity bills,*
- *Pay for fees (e.g. some schools offer you to pay school fees via mobile phone),*

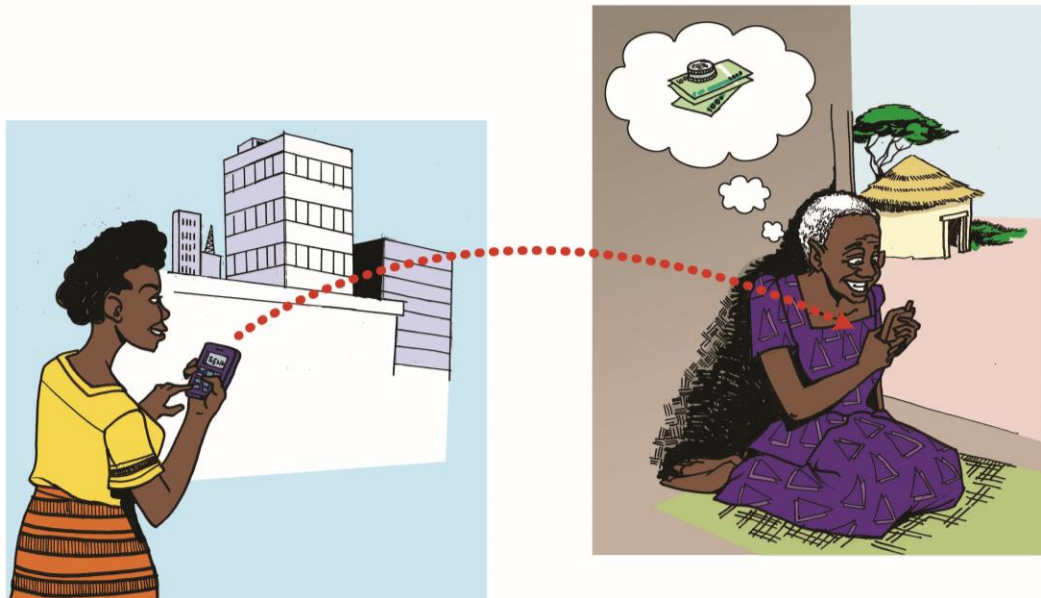
- *Pay other businesses which allow you to make payments using your mobile phone.*

5. Register to make payments using your phone

To be able to make payments using your mobile phone, you need to register for the services with your mobile phone operator. To register, you need passport photographs and proof of identification.

6. Make payments wherever you are – using your phone

The big advantage of using the mobile phone to make payments is that you can use the service wherever your mobile phone company has coverage. This saves you time and the cost of travelling to the nearest bank branch. It works well for any mobile phone user in both rural and urban communities.



7. Keep your PIN separate from your phone

Do not keep your PIN and phone in the same place. Make sure nobody gets to know your PIN. If they do, they can steal your money.

8. **You can access your bank account using your phone**

Some banks enable you to access your bank account via your mobile phone. Bank customers can then use their phones to:

- *Check their account balance*
- *Make transactions (e.g. making payments, transfer money to another account, etc.)*

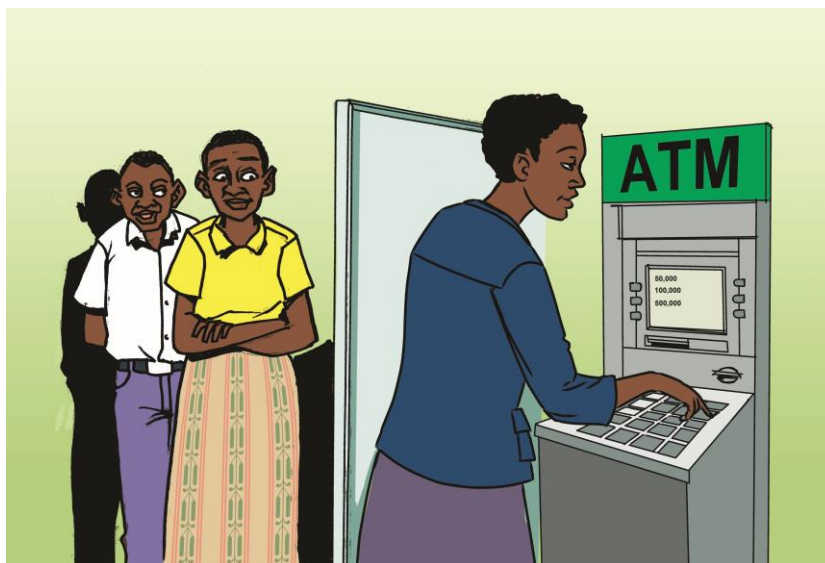
AUTOMATED TELLER MACHINES (ATMs)

9. **It is safer to carry your ATM card than to carry cash**

Most banks today have Automated Teller Machines (ATMs), where you can use your card to withdraw up to a certain amount of money whenever you need it. The ATM card saves you from moving around with cash. This reduces the risk of your money being stolen.

10. **Know your ATM**

Become used to the ATM so that you are able to recognize changes to the machine as some thieves may place fake parts on the ATMs to get your personal information. Don't use ATM machines with warnings posted on the machine. They could have been tampered with.



11. Keep your PIN secret

Don't tell anyone else your Personal Identification Number (PIN). Don't let anyone else see your PIN when you enter it at an ATM. If anyone else knows your PIN, they might be able to draw out money from your account. If you think that someone else has found out your PIN, then change it immediately. If someone else entrusts you with their PIN, treat it as you would your own and keep it secret.

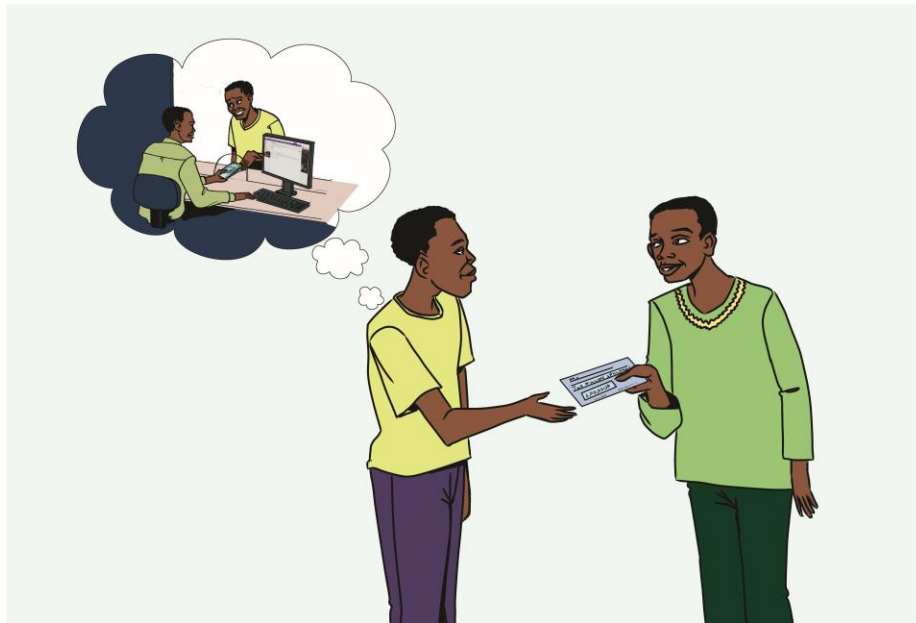
12. Report retained ATM cards immediately

If the ATM keeps your card, call the bank immediately. If the bank is close by and open, you can also report to one of the officers there. Do not ask a stranger to help you get your card back.

CHEQUES

13. Use cheques to make safer payments

It is risky to move around with large sums of cash. Your money could get stolen or you could get tempted to spend it. A cheque allows you to transfer money safely.



14. Keep your cheque book safe to minimize risk

You need to keep your cheque book safe to prevent its loss, theft or damage. If your cheque book is stolen, someone might forge your signature and steal your money.

15. With a cheque, you don't get your money immediately

If you are paid by cheque, it will take up to four days before you can take money out of your account.

16. Make sure your signatures look alike

Make sure that the amounts and signatures on the cheque are correct and consistent. If your signatures don't look alike or look different from the one the bank has in the systems, the bank will not transact your cheque.

17. Do not pay a cheque unless you are sure you have enough money on your account

Before you give out a cheque, check that there is enough money in the account from which the money will be transferred. It is a criminal offense to issue a cheque when there isn't enough money in that particular account. You will have to pay a charge and could face up to six months in prison.

DEBIT AND CREDIT CARDS

18. You can make payments with a Debit or Credit card

Debit cards are linked to your bank account so that the money you spend is automatically deducted from your account. With debit cards you are less likely to overspend than if you use a credit card. Credit cards allow you to use someone else's money (the card issuer's) to buy something and you can pay the money back later. You should note that if you don't pay back within the agreed time, you will have to pay interest. For example if you spend 100,000/= which you pay back in one year at an annual interest rate of 20%, you will pay back a total of 120,000/=. These two cards can be used to make payments in some of the bigger supermarkets,

shops, schools, hotels and anywhere else where they are accepted. They are also needed for online transactions.



19. Beware of credit card fraud

Beware of credit card fraud. Avoid punching your credit card identification number into websites you are not sure of while buying online. Criminals might get access to your credit card information.

20. Understand the fees before getting a credit card

Before deciding whether to apply for a credit card, make sure that you understand all the fees involved. There are various fees: application fees, cash advance fees, transaction fees, late payment fees, balance transfer fees, finance charge, penalty fees, over-the-limit fees and annual or monthly fees.

3. DO YOU KNOW ENOUGH

ABOUT FINANCIAL SERVICE PROVIDERS?

QUIZ – Which is the right information about Financial Service Providers? Make the right connections.

1. Commercial Bank

2. Micro Finance Deposit-Taking Institution

3. VSLA

4. ROSCA

5. SACCO

6. Forex Bureau

A) Small Group where members meet regularly to make contributions that are given to a different member each month or week.

B) This is where you can change Uganda Shillings into foreign currency or vice versa.

C) Large Financial Institution that offers loans and savings.

D) Small member based community group with up to 30 members that collect savings and make small loans to their members.

E) Microfinance Institutions licensed by Bank of Uganda to collect savings from the public.

F) Cooperative formed, owned and operated by members. Usually organized around a specific region, activity or profession.

CORRECT ANSWERS: 1C, 2E, 3D, 4A, 5F, 6B