



UGANDA  
MICROFINANCE  
REGULATORY  
AUTHORITY



# DIGITAL LENDING GUIDELINES

FOR

TIER 4  
MICROFINANCE  
INSTITUTIONS AND  
MONEY LENDERS

JANUARY 2024

VOL. 1



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**PART I: PRELIMINARY****1.0 Citation**

1.1 These guidelines may be cited as the Tier 4 Microfinance Institutions and Money Lenders Digital lending guidelines.

1.2 These guidelines shall apply to —

- (a) an institution or money lender providing credit using digital channels and licensed under the Tier 4 Microfinance Institutions and Money Lenders Act, 2016.

**2.0 Interpretation**

2.1 In these guidelines, unless the context otherwise requires- “Act” means Tier 4 Microfinance Institutions and Money Lenders Act, 2016;

“Digital Credit Provider” means any Tier 4 Microfinance Institution and Money Lenders providing credit using digital channels.

“Customer” means a person who obtains digital credit from a digital credit provider;

“Digital channel” means the internet, mobile devices, computer devices, applications or any other digital system as may be prescribed by the UMRA;

“Digital credit” means a credit facility or arrangement where money is

lent or borrowed through a digital channel;

“Digital credit business” means the business of providing credit facilities or loan services through a digital channel.

“KYC” means Know Your Customer

“non-performing loan” means a loan in which the principal or interest is due and unpaid after the due date as per the contract between the digital credit provider and the customer;

“Pricing principles” include customer centricity, transparency and disclosure, fairness and equity, and affordability;

“UMRA” means Uganda Microfinance Regulatory Authority

“Authority” means Uganda Microfinance Regulatory Authority

## **PART II: LICENCING OF DIGITAL CREDIT PROVIDERS**

### **3.0 Authorized activities**

3.(1) A digital credit provider shall engage in the following activities —

(b) provision of credit;

(2) A digital credit provider shall not invite or collect deposits in any form in the course of carrying out digital credit business.

### **4.0 Licensing**

4. (1) No person shall establish or carry out digital credit business in Uganda or otherwise hold himself out as carrying out digital credit business in the Tier 4 sector unless licensed under the Act, regulations and these guidelines.

(2) Any person who was at the commencement of these guidelines

conducting digital credit business which is not regulated under any other written law shall apply to the Authority for a license within 3 months of publication of these guidelines.

(3) An applicant under sub-guidelines (2) shall —

(a) ensure that its significant shareholders, directors and chief executive officer meet the fit and proper criteria under UMRA guidance.

(7) An application under sub-guidelines (1) shall be submitted together with the following additional information —

- (a) Description of the information and communication technology system to be used in the operations of the digital credit provider;
- (b) Description of delivery channels or platforms to be deployed by the digital credit provider;
- (c) Description of, and terms and conditions of credit products and services which the proposed digital credit provider intends to provide;
- (d) Agreement with a telecommunication or other service provider for provision of channel or platform for the provision of digital credit.
- (e) The proposed digital credit provider's Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) policies and procedures;
- (f) The proposed digital credit provider's data protection policies and procedures;
- (g) Description and evidence of sources of funds to be invested in the digital credit provider;
- (h) Credit policy, code of ethics and market conduct;
- (i) The proposed digital credit provider's pricing model and parameters;
- (j) Corporate governance policy;
- (s) A certificate issued pursuant to Data Protection Act, 2019;



(u) Any other information as may be required by the Authority.

## **5.0 Issuance of a license**

5. (1) In assessing the application, the UMRA shall consider the following factors —

(a) the history of the applicant;

(b) the professional and moral suitability of the persons proposed to manage or control the proposed digital credit provider;

(c) sources and evidence of funds to be invested by or in the digital credit provider;

(d) the adequacy of the digital credit provider's systems, policies and procedures.

(e) the governance and risk management arrangements of the applicant;

(f) the public interest.

(2) The Authority may endorse on a license granted under sub guidelines (1), such conditions as it considers necessary and may, from time to time, add, vary or substitute such conditions.

(3) A license granted under these Guidelines shall remain valid unless suspended or revoked by the Authority in accordance with these guidelines.

(4) The Authority shall cause the name of a licensed digital credit provider to be published on the Authority's website within thirty days of grant of license.

## **6.0 Fit and proper obligations**

6. (1) A person shall not be a director, a chief executive officer or a significant shareholder of a digital credit provider unless the Authority has certified the person as fit and proper in accordance with the criteria set out in UMRA fit

and proper form.

(2) The Authority may, from time to time, where it deems it necessary, carry out an assessment of the professional and moral suitability of the persons managing or controlling a digital credit provider.

(3) The Authority may direct a significant shareholder who is deemed by the Authority as not fulfilling the fit and proper criteria to dispose off all of his shares in a digital credit provider within such period as the Authority may direct.

(4) The Authority may disqualify any director or chief executive officer from holding any office in a digital credit provider if he is determined not to meet the fit and proper criteria or for any other good cause shown.

## **7.0 Amalgamations and transfer of assets and liabilities**

7.1 A digital credit provider shall not enter into an amalgamation or an arrangement to transfer all or any part of its assets and liabilities to another entity except with the prior written approval of UMRA.

### **PART III: GOVERNANCE**

#### **8.0 Corporate governance**

8.1 A digital credit provider shall practice sound corporate governance principles based on ethics and integrity, good reputation and legitimacy, sound risk management and compliance with the law.

## 9.0 Confidentiality

9. (1) A digital credit provider shall put in place appropriate policies, procedures and systems to ensure the confidentiality of customer information and transactions.

(2) A digital credit provider shall not share customer information with any person without the customer's consent.

(3) A digital credit provider shall not use digital means or applications that allow the software to access customer contact list, frequent dialed contacts and phone messages as a way of e-KYC or delinquency management.

(4) Directors, officers, employees and agents of a digital credit provider shall protect the confidentiality of customer information and transactions.

(5) No director, officer, employee or agent of a digital credit provider shall during, or upon and after termination of engagement or employment with the digital credit provider (except in the proper course of his duty and or with the digital credit provider's written (consent) divulge or make use of any secrets, copyright material, or any correspondence, accounts of the digital credit provider or its customers.

## PART IV: CREDIT INFORMATION

### 10. Exchange of credit information

10. (1) Notwithstanding any other provision in these Guidelines, a digital credit provider shall disclose any positive or negative information of its customers to the credit reference mechanism through measures

implemented by the Authority, where such information is reasonably required for the discharge of the functions of the digital lenders and the credit reference mechanism.

(3) A digital credit provider submitting credit information to a mechanism shall ensure that such information is complete and accurate.

(4) A suit, prosecution or other legal proceedings shall not lie against the Authority, a digital credit provider or chairperson, director, member, auditor, adviser, officer or other employee or agent of the Authority, digital credit provider for any loss or damage caused or is likely to be caused by anything which is done or intended to be done in good faith in pursuance of these Guidelines.

## **10.2 Customer's consent**

14. (1) A digital credit provider shall ensure that the customer's consent may be obtained through a clause in loan agreement before the submission or sharing of credit information with a credit reference mechanism established by the Authority.

(2) A customer may give consent through oral, print or electronic means, subject to the satisfaction of the digital credit provider as to the authenticity of the electronic consent.

(3) A digital credit provider shall furnish positive or negative credit information to a credit reference mechanism with respect to a customer within thirty days or immediate as such a shorter period as the contract between the digital credit provider and the customer may provide.

**PART V: PLACE OF BUSINESS****11.0 Places of business**

11. (1) A digital credit provider shall operate in at least one registered physical office in accordance with the requirements of licensing under the Tier 4 Microfinance Institutions and Money Lenders Act, 2016 and regulations here under.

11.(2) A digital credit provider shall indicate its business address in the digital channel means.

**PART VI: DIGITAL CREDIT****12.0 Provision of credit**

12. (1) A digital credit provider using any loan app shall register the trading business name under the Company, Act if it differs from the registered company name.

(2) A digital credit provider may extend digital credit to customers according to its credit policy.

(3) A digital credit provider may set borrower limits in its credit policy and the limits shall comply with any requirements prescribed by the UMRA.

(4) A digital credit provider may extend loans to its customers subject to its credit policy and any requirements of the UMRA, and shall provide clear disclosures of the terms and conditions of the loan to the borrower including —

(a) charges and fees and the circumstances under which they may be imposed;

(b) interest rate to be charged and whether on a reducing balance or not;

- (c) total cost of credit which shall include the principal amount, interest, fees and charges;
- (d) the date on which the amount of credit and all interest, charges or fees are due and payable; and
- (e) customer complaint handling procedures.

### **13.0 Credit appraisal**

13.1 A digital credit provider shall not advance digital credit to a customer unless it has first taken reasonable steps to satisfy itself on the customer's ability to repay the credit facility.

### **14.0 Limit on interest recoverable from non-performing loans**

14. (1) A digital credit provider shall not charge interest penalty on default which exceeds half the initial interest at the time of offering a loan and may recover a maximum amount from a customer with respect to a non-performing loan.

(2) The maximum amount referred to in sub-guidelines (1) is the sum of the following—

- (a) the principal owing when the loan becomes non-performing;
- (b) interest, in accordance with the contract between the customer and the digital credit provider, not exceeding the principal owing when the loan becomes non-performing; and

(5) A digital credit provider shall not recover through a court of law any interest which is affected by the requirements of these Guidelines.

## 15.0 Credit Collection

15.1 A digital credit provider, its officers, employees or agents shall not in the course of debt collection engage in any of the following conduct against the customer or any other person—

- (a) use of threat, or violence or other criminal means to physically harm the person, or his reputation or property;
- (b) use of obscene or profane language;
- (c) make unauthorized or unsolicited calls, social media channels or messages to a customer's contact list which were not party to the loan transaction;
- (d) improper or unconscionable debt collection tactic, method or conduct.
- (e) any other conduct whose consequence is to harass, oppress, or abuse any person in connection with the collection of a debt.
- (f) "If the loan turns delinquent and the recovery agent has been assigned to the borrower, the particulars of such recovery agent assigned must be communicated to the borrower through email/SMS before the recovery agent contacts the borrower for recovery."
- (g) Besides, the Digital lender also needs to provide to the borrower the names/details of empaneled agents at the time of sanctioning the loan. Only those agents are authorized to contact the borrowers when there is a default on the loan.

## PART VII: CONSUMER PROTECTION

### 16.0 Transaction receipts

16.1 A digital credit provider shall generate and issue e-receipt or instant

messages to acknowledge the transactions carried out by or with a customer.

### **17.0 Customer complaints resolution**

17. (1) A digital credit provider shall establish a complaints redress mechanism, including a channel for communicating customer complaints, and shall ensure proper communication of this mechanism to its customers.

(2) A customer complaint shall be addressed within thirty days of a customer reporting a complaint to a digital credit provider.

(3) A digital credit provider shall keep a record of all complaints lodged by customers and the outcome of their resolution.

### **18.0 System integrity**

18.1. A digital credit provider shall use systems that are secure and which ensure customer information confidentiality and security.

18.2 A digital credit provider shall only use authorized applications by the Authority and the trade business name shall always reflect the licensed company name.

18.3 A digital credit provider shall not use systems with duplicated apps offering the same product to the public.

### **19.0 Customer information**

19.1. A digital credit provider shall: -

(a) prepare and maintain key information in a summarized form that informs the consumer of the fundamental benefits, risks and terms of the product or service.

(b) ensure that any information given to a consumer on among other things benefits, prices, risks and the terms and conditions; whether in writing,



electronically or orally is fair, clear and transparent.

(c) ensure that information on its products and services is updated and current and easily available at its websites and any other communication channels which it uses.

(d) ensure that it discloses at its websites, advertisements, promotional materials and any other communication channels which it uses that it is regulated.

(e) disclose its identity licensed under the Act in the correspondence, documents and other written instruments that the institution issues in the course of its business generally or while dealing or contracting with a consumer

(f) educate its customers on its services and products, and in particular, make its customers aware of the need to keep their personal details and information such as National Identification Number (NIN) secure.

## **20.0 Terms and conditions**

20. (1) The terms and conditions provided by a digital credit provider shall highlight to a consumer the fees, charges, penalties, relevant interest rates and any other consumer liabilities or obligations in the use of the financial product or service.

(2) A digital credit provider shall inform a consumer of all fees, charges, penalties, relevant Interest rates and any other consumer liabilities or obligations relating to a product or service a consumer is interested in and shall explain to the consumer how these pecuniary liabilities may be calculated and when they will accrue.

(3) A digital credit provider shall solicit for only one or two contact numbers to be used as guarantors to the loan and a confirmation from the stated

contact shall always be processed through electronic means with evidence.

### **21.0 False advertisements**

21. (1) A digital credit provider shall ensure that any advertisement that it publishes or authorizes does not include any false, misleading or deceptive representation, or is otherwise misleading or deceptive.

(2) Without prejudice to the generality of sub-guidelines (1) a false, misleading or deceptive representation include—

(a) a representation that the provision of the credit has an approval, benefits or qualities that it does not in fact have;

(b) a representation that the digital credit provider has an approval, status, affiliation or connection that it does not in fact have;

(c) an inaccurate or incomplete representation as to the interest rate, costs or charges payable under a digital credit facility.

### **22.0 Variation of credit terms**

22. (1) A digital credit provider shall not increase charges or limits or have a provision in the credit agreement that purports to vary credit terms without the customer's consent.

(2) A digital credit provider shall not change its interest rate without the prior written approval of the Authority.

## **PART VIII: ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM**

### **23.0 Sources of funds**

23.1. A digital credit provider shall provide to the Authority the evidence and sources of funds invested or proposed to be invested in the digital credit provider.

## **24.0 Customer identity**

24.1. A digital credit provider shall satisfy itself as to the identity of its customers while performing transactions and shall use only the licensed name under the Authority through its digital credit products.

## **25.0. Proceeds of Anti-Money Laundering (Amendment) Bill, 2022**

25.1. A digital credit provider shall comply with the requirements of the Proceeds of the Anti-Money Laundering (Amendment) Act, 2022, in conducting its business.

## **PART IX: REPORTING REQUIREMENTS AND OVERSIGHT BY THE AUTHORITY.**

A digital credit provider shall make its books and records readily available to the Authority for inspection and other supervisory purposes.

## **26. Reporting Requirements, On-site and Off-Site Monitoring**

26.1. A digital credit provider shall be subject to the UMRA's on-site and off-site monitoring and shall make such periodic reports and returns as may be specified by the UMRA.

## **27.0 Information sharing**

27.1 The Authority may disclose any information received in the performance of its duties or responsibilities under the Act to any financial regulatory authority, fiscal or tax agency or fraud investigations agency within or outside Uganda, where such information is reasonably required for the proper discharge of the functions of the Authority or the requesting financial regulatory authority, fiscal or tax agency or fraud investigations agency.

27.2 Provided that the sharing of information with institutions and entities outside Uganda shall only apply where there is a reciprocal arrangement.

## **28.0 Powers of UMRA to advise and direct.**

28.1. (1) If, at any time, UMRA has reason to believe that —

(a) the business of a digital credit provider is being conducted in a manner contrary to the requirements of the Act, these Guidelines or any other guidelines issued by the UMRA or in any manner detrimental to or not in the best interests of its customers or members of the public; or

(b) a digital credit provider or any of its officers is engaged in any practice likely to occasion a contravention of any of the provisions of the Act, these Guidelines or any other guidelines issued,

UMRA may —

(i) give advice and make recommendations to the digital credit provider with regard to the conduct of its business generally;

(ii) issue directions regarding measures to be taken to improve the management or business methods of the digital credit provider or to secure or improve compliance with the requirements of the Act, the issued guidelines or any other written law or guidelines;

(iii) in any case to which paragraph (b) applies, issue directions to the digital credit provider, officer or other person to cease such practice;

(2) UMRA may, before issuing a direction under sub-guidelines (1), serve upon the digital credit provider, officer or other person, a notice of such

intent specifying the reasons therefore, and requiring the digital credit provider, officer or other persons, within such period as may be specified in the notice, to show cause why such direction should not be issued.

(3) A digital credit provider which receives a direction under the provisions of this guidelines shall comply with the direction within such period as may be specified in the direction and, if so required, shall produce evidence that it has done so.

(4) UMRA may issue directions to digital credit providers generally for the better carrying out of its functions and in particular, with respect to —

(a) the standards to be adhered to by a digital credit provider in the conduct of its business; and

(b) guidelines to be adhered to by digital credit provider in order to maintain a stable and efficient financial system.

## **29.0 Enforcement and Administrative Sanctions**

29. (1) The Authority may impose any or all of the following administrative sanctions with regard to a digital credit provider that fails to comply with the Act, these Guidelines or its directives and against its board of directors, or its officers —

- a) suspension from office of the defaulting director, officer or employee;
- b) undertake more frequent inspections of that digital credit provider;
- c) order the digital credit provider to submit to the UMRA, within forty-five days, a plan to resolve all deficiencies to the satisfaction of the UMRA;

- d) suspension or revocation of the license; and
- e) Any other action as the Authority may consider appropriate.

### **30.0 Review of the Guidelines.**

The Authority may review these guidelines from time to time as a result of new market developments in the Tier 4 subsector.



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