‘Post Crisis Regulatory Reform Agenda: What it means for Low Income Countries’

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*The views presented are those of the author and do not necessarily represent those of the BOU

Outline

This presentation will touch on three questions;

1. Are Global Regulatory Standards important for Africa?

2. Will the recent global reforms improve banking sector soundness in Africa?

3. Trade off between financial inclusion and financial stability

Are Global Regulatory Standards important for Africa?

- There is a question as to whether global bank regulatory standards are important for Africa given that; (i) the region is largely not involved in their design and, (ii) they are largely aimed at banks in developed countries?

- These standards should be applied in Africa for four key reasons;
    a) To reduce regulatory arbitrage.
    b) International banks operate in Africa and they are expected to conform to these standards.
    c) The public will loose confidence in the banking sector if they believe that our standards are poor.
    d) They help to build political support for reform.

- Since the early 2000s, banking systems in Africa have become more sound, supported by better corporate governance and improved supervisory capacity. Most banks in Africa were not affected by the global financial crisis.

Will the recent global reforms improve banking sector soundness in Africa?

Since 2008, there has been renewed impetus globally to reform the financial regulatory architecture.

The main planks of these reforms are to;

1. Improve the quality and quantity of bank capital
2. Enhance macroprudential regulation
3. Address the 'too big to fail' problem.

- Authorities in Africa must continue to identify and implement aspects of the reform agenda that are relevant to the region.
- More specifically, I believe that the thrust of the global reform priorities will affect banking sector soundness in Africa in several ways.

Will the recent global reforms improve banking sector soundness in Africa?

1. **Basel III Capital**

- The operating environment for banks in Africa is more risky compared to developed countries. The implication is that under Basel III, regulatory capital for banks in Africa should be higher than the Basel minimum.
- In the EAC, we have set c**apital minima at 4% above Basel.**

Table 1: Harmonised Minimum Capital Adequacy Requirements in the EAC region

	Tier 1 Capital/RWA (%)	**Total Capital/RWA (%)**
Basel III minimum capital requirement	6.0	8.0
EAC Harmonised Capital		
EAC minimum capital, with gap of 4% above Basel III	10	12
Add Capital conservation buffer (CCB) of 2.5 %	12.5	14.5
Add Capital for DSIBs (1-2.5%).	15.0	17.0

Will the recent global reforms improve banking sector soundness in Africa?

2. Macroprudential Regulation

The region has made a good start on surveillance of systemic risks. However, important challenges remain.

a) The is still need to strengthen capacity for modeling and stress testing and to address significant data gaps related to real estate prices, corporate and household data.

b) The Basel III Countercyclical buffer may not work to stop a lending boom in Africa, therefore regulators need develop other tools e.g. cap on Loan to Value Ratio (LTV) or ceiling on lending to certain sectors.

- Banks hold excess capital.
- Conceptually, difficult to calibrate; high credit growth but from a low base?

c) The scope and volatility inherent in the risks facing Africa **require a toolkit beyond that presented** in the recent reform agenda. For example to address risks from reversal of capital flows.

Will the recent global reforms improve banking sector soundness in Africa?

3. Addressing 'Too big to Fail'

- Clearly, cross border banks are important in Africa given the growth of banking groups like Stanbic, UBA and KCB.
  - ✓ *While there has not been a collapse of a major cross border bank for 20 years, this is not to say that it cannot happen in future.*
  - ✓ *These banks cannot be resolved individually, but only in cooperation with supervisors of subsidiaries.*
- The FSB 'too big to fail' proposals are interesting and could perhaps bring stability in resolving G-SIBs. But we have several concerns;
  - ✓ *If these proposals are adopted, African subsidiaries should also be treated as material.*
  - ✓ *It might be necessary to extend this approach beyond the 30 Global SIBs and apply it to regional SIBs e.g. Stanbic group in Africa.*
  - ✓ *There is need to strengthen African cross border cooperation, consolidated supervision and resolution of regional cross border banks..*

Will the recent global reforms improve banking sector soundness in Africa?

4. Regional Harmonisation

- We have witnessed rising financial integration in Africa e.g. EAC, SADC.
- This implies the need for harmonisation of the reform agenda at regional level in order to reduce arbitrage and improve efficency.
- The EAC has harmonised the minimum Basel III reforms but gaps remain for example on the resolution of regional banks.

Trade off between financial inclusion and financial stability

- There is no doubt that financial inclusion is important for Africa.
- In Africa, we have witnessed stronger financial sector regulation alongside increased innovation e.g. mobile money.
- The implication is that it is possible to coordinate innovations within a framework that does not weaken standards and regulation.
- Prudent regulation supports financial inclusion.
  - *For example, the growth of mobile money is backed by the requirement that funds should be deposited on an escrow account in a bank to protect the users.*

Thank you!