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Banking and Financial Reforms in the Post Global Financial Crisis: Lessons for Africa

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Introduction

- Global financial crisis:
  - EU and US financial crisis, not global!
  - Economic impact on Africa because crisis impacted negatively on economies in EU and the US economy, significant trading partners.
  - Not a single bank on continent had to be baled out and banks remained well capitalised and liquid
- Banking sectors across Africa diverse and at very different levels of development, so impact differs.
- Industrialised country economies still recovering from impact of crisis, with pedestrian growth levels and low or negative interest rates.
- Not surprising - $5 trillion written-off and 5 million jobs lost.

Banking and financial reforms

- Primarily driven by stimulus packages to inject investment into economies.
- The EU introduced the European Economic Recovery Plan (EERP) to:
  - Restore confidence and bolster demand through coordinated injection of purchasing power, complemented by strategic investment measures to shore up labour markets
  - Introduce overall fiscal stimulus amounting to 5% of EU GDP
- The EU also introduced the Stability and Growth Pact to ensure that fiscal stabilisers were allowed to operate in an unfettered way.
- The EU also introduced measures for appropriate labour market policies during crisis.

Banking and financial reforms – cont

- The USA introduced the Troubled Asset Relief Program (TARP) of $700 billion to purchase distressed assets. Also introduced a $ 1 trillion federal spending package.
- Australia introduced a $ 10.4 billion stimulus package.

Regulatory structures and mechanisms to make financial sector more resilient

- Financial crisis showed criticality of resilient sector to economies
- It also demonstrated globalised financial sector.
- Establishment of G20 and Financial Stability Board critical developments and have driven regulatory response.
- BASEL III is the vehicle for a regulatory response, with intention of ensuring banks are resilient to external shocks.
- It introduces capital requirements and quality of capital held by banks. Also introduces liquidity buffers.
- The increase in capital requirements and buffers is to ensure shareholders of banks take the first loss in event of capital failure.

Regulatory structures and mechanisms to make financial sector more resilient - cont

- The building of liquidity buffers is to ensure banks use the liquidity to absorb shocks and enable markets to continue to function.
- While these structures are critical, cognisance must be taken of other standard setting bodies like the International Swaps and Derivatives Association. The Basel Committee, G20 and FSB must consider regulatory reforms within context of numerous other bodies impacting on banks.
- We would urge the Basel Committee to complete the existing round of standard setting, then stop to assess impact and consequences.

Results of reforms adopted

- The "one size fits all" approach has not considered the diverse banking sectors and impact on economic growth in some jurisdictions. We commissioned an economic impact study by the Stellenbosch Bureau of Economic Research to look at the impact of the BASEL III reforms in 2012. The study estimated the reforms could increase bank lending spreads by 75 basis points or translated into a loss of output equivalent to 1.1% of GDP.
- There has been a significant increase in regulatory costs, which ultimately results in an increase in the cost of banking.
- The regulations fail to consider development challenges faced by developing countries because their implementation makes it difficult and more costly to address such challenges.

Results of reforms adopted - cont

- The regulations affect the business models of banks, with significant impact. An example is the decision by Barclays to divest from ABSA because it needs to account for 100% of risk taken by the group.
- There has been a degree of increase in confidence and trust in the sector, but at considerable cost.
- The reforms have raised awareness in banks to look at conduct and culture issues and ethics in business practice. The G30 Conduct and Culture Report is an example of this.
- The reforms have not allowed for sufficient national discretion to respond to the diverse macroeconomic conditions in different countries.
- There is little coordination of implementation.

Lessons for African countries

- A reason banking sectors of numerous African countries were not directly affected by the crisis is the rudimentary nature of banking in some countries and a lack of global connectedness. While this can be seen as positive, a lesson is that we need to improve banking regulations, coordinate and learn from best practice and deepen capital markets.
- The crisis exposed the dangers of the over-reliance of African economies on the EU and USA as trading partners. We need to diversify our trading relationships, particularly to the East.
- A further lesson talks to the nature of our economies. There is still an over reliance on minerals and commodities and a significant drop in demand from EU and USA led to downturns. We need to diversify our economies.

Conclusion

- The causes of the financial crisis relate to both banks and regulators. Banks conducted business with optimal returns in mind without identifying and managing risk. Regulators were not proactive in identifying this and intervening earlier.
- The response from regulators must not result in banks not being able to operate optimally and produce reasonable returns. This will result in investors moving from banks to other sectors of the economy, with negative impacts.
- Regulators must also factor in the rapidly changing and developing banking environment. Fintechs, robotics and other innovations are changing the face of banking. Regulators must take these into account.
- Banks must learn from the crisis and change their business models to being customer centric and take a longer term approach to growth

Conclusion - cont

- Banks must also recognise the critical role they play in economies and their impact on people. We thus need to conduct our businesses in ways that contribute to socio-economic growth, in an inclusive way.