

Regional Integration in the EAC: Making the most of the Common Market on the Road to a Monetary Union

Financial Sector Integration: What are the Key Goals and Challenges?

Regulation and Supervision aspects

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Outline of Presentation

Context

Short-term priorities

Some lessons from international experience

Longer term challenges

Context



The EAC treaty, Common Market and Monetary Union Protocols, and draft EAC documents and draft legislation on financial system integration



Delays of progress in convergence agenda - EAC common market



In the Harmonization phase - slow and steady progress, with some gaps



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Context



Banks and financial firms have already started to expand intra EAC



Divergent views and understandings of goal and ultimate objective



International norms and standards evolving

Financial sector oversight: making the most of the common market



Key Goal: A progressive strategy that consists of well sequenced building blocks to a structure that fully covers the regulatory & supervisory need, adapted to the EAC.

Harmonization - remaining priorities



Asset classification and provisioning (urgently needed to support consolidated supervision)

Licensing; minimum capital requirements

Prudential and reporting requirements

Legal definition of Insurance

Funded deposit insurance schemes

Resourcing and tasking of Ministries of Finance with ownership and accountability for financial sector development issues.

Use of different types of legal acts for the harmonization should be reviewed and (e.g., Community Act for insurance and Directives for capital markets)

Institutional Mandates -EAMI



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Some lessons from International Experience

Two other banking unions in Africa (WAEMU and CEMAC), Caribbean (ECCU), and Euro area

Shared responsibility for licensing and resolution (with ministries of finance), together with the lack of a funded backstopping has resulted in long delays in resolving failed banks

Lack of a credible resolution threat in turn undercuts credibility of supervisor actions, which results in regulatory forbearance

Weak central institutions results in poor results

Passporting (common market) without a common regulator/supervisor (banking union) can be very problematic (e.g: Icesave)

Key Challenges



Monetary Union

- Convergence; dealing with asymmetric shocks; fiscal funding aspects

Common Market in Financial Services

- Suggests passporting of licenses from one jurisdiction to another
- Suggests a banking union

Regulation

- One common rulebook

Supervision

- A single common supervisor, starting with an effective and common supervisory approach, with equivalent supervisory tools and techniques

Key Challenges



Supervisory model

Each supervisory model has its advantages and disadvantages. In the EAC context:

A single integrated supervisor for the entire financial system appears too cumbersome, with possibly conflicting objectives

Banking supervision should stay with central bank(s)

Insurance and pensions can be supervised by a common entity (common concerns).

Securities markets should be separately supervised (different needs, largely conduct).

Conduct supervision should not be combined with the competition authority (different objectives).

Central supervision of regional firms and activities essential.

A Possible Oversight Structure

10 A Variation on the Integrated Approach with a Single Conduct Supervisor

	Macroprudential Oversight	Microprudential Supervision	Conduct Supervision
Banking	EAC Central Bank with MoF and other regulators	EAC Central Bank and national authorities	EAC Conduct Supervisor
Insurance		EAC Prudential Supervisor	
Pensions			
Capital Markets			



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Key Challenges

Phasing of Community vs. National Arrangements

The Center-Lite approach to microprudential supervision would appear to be a good place to start with a progressive move towards a community model

A more centralized model (banking union) fits better with the needs of a common market in financial services -- can be achieved progressively.

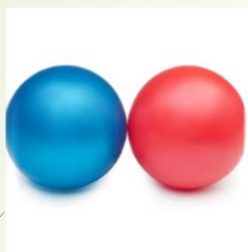
Avoid premature introduction of passporting or mutual recognition of bank licensing until common supervision (EACB)

In securities, insurance and pension supervision, centralization of supervision of community firms and activities end objective; domestic business can continue to be supervised by Partner States' authorities

Need **smooth transition** from the EAMI to the EACB (with financial stability role)

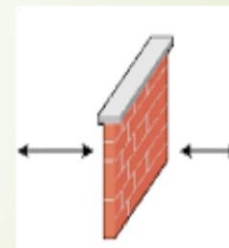
Key Challenges

Crisis Management/Resolution



Likely best if crisis management and resolution framework separate from the regulation and supervision structure, however, there are resource costs

If EACB designated as resolution authority (in addition to its regulatory and supervisor roles), strong internal firewalls needed.



Pre-funded community-level deposit insurance scheme and stability fund are key elements to avoid potentially pro-cyclical calls on fiscal backstopping and allow for more effective resolution, which in turn strengthens supervision.

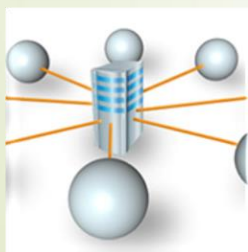
Key Challenges

Financial Stability



The EACB should lead on financial stability, in coordination with Ministries of Finance and other regulators.

Macroprudential oversight led by the EACB, in coordination with other supervisors and the ministries of finance.



A strong mandate for the EAMI/EACB from the start for macroprudential and financial stability.

Banking: A Sequencing of Regulatory/Supervision Models

1. Current

- Decentralized Subsidiary Model

2. Center-Lite

- Decentralized Subsidiary Model
- EACB regulator and responsible for cross-border coordination

3. Center-Lite

- EACB regulator*
- EACB responsible for supervision of cross-border banks

4. Regional

- EACB regulator*
- EACB responsible for supervision:
 - Conducting of supervision of all large banks;
 - Delegation of supervision of the small banks to national supervisors (EU Model)

5. Banking Union

- EACB regulator*
- EACB supervising all banks

Insurance and Pensions: A Sequencing of Regulatory-Supervision Models

1. Current

- (Decentralized) National Regulatory and Supervision Model

2. Center-Lite

- Continue National Supervision Model
- Central Authority or committee (such as CMIPC) responsible for harmonizing regulatory requirements for regional firms and activities, as well as domestic firms and activities

3. Regional

- Central Authority Regulator
- Central Authority responsible for supervision of regional firms and activities
- Delegation of supervision of domestic firms and activities to country supervisors

Thank you!



Questions?