THE BANKING ASSOCIATION SOUTH AFRICA

BANKING REGULATIONS - WHERE THE DEVELOPED WORLD MEETS THE DEVELOPING WORLD

CAS COOVADIA, MANAGING DIRECTOR
The Banking Association South Africa
Hotel Sofitel Munich Bayerpost, Munich

Introduction

- Financial crisis started in USA and spread to EU;
- Has created a “new normal”;
- Bad banking practice and conduct of some bankers must take some blame;
- Regulators also failed;
- Result: BASEL III and raft of intrusive regulations;
- Broader impact of economic crisis, which also affected parts of world not impacted by financial crisis;
- So, BASEL III global regulations impact on countries that did not go through financial crisis, but experienced economic impact;
- The regulations thus impact on developed and developing countries.

Broad Impact

- "One size fits all" approach;
- Slows down economic growth, at time when real economies need to grow to address downturn;
- Affects long-term financing in some jurisdictions, with impact on financing of infrastructure, including housing;
- Increase in cost of banking;
- The need to raise significant amounts of additional capital

Impact on developing countries

- Using South Africa as an example:
  - an estimated 75 basis points increase in lending rates;
  - an estimated 0,1% to 0,7% decrease in GDP;
  - we could have a shortfall of R 240 billion ($ 22,7 million) in meeting the liquidity coverage ratio and a shortfall of R 680 billion ($ 64,15 million) in meeting the net stable funding ratio;
  - the impact on mortgage finance, which constitutes 61% of total retail bank loans, could be significant;
  - already, we have experienced some of this, with the overall growth in mortgage finance being a mere 2,2% in the last year, whilst the overall growth in credit was 4,2%;
  - property price growth pre-crisis was 16% on an annual average, but has been 3% on annual average post crisis.

Impact on developed countries

- lower return on capital
- higher transaction costs
- slower growth potential
- impact on longer-term financing.
- Smaller banks in developed countries having difficulty in applying regulations, with impact on financing long-term assets

IMF Working Paper

- The IMF conducted some research on the impact of BASEL III and produced a working paper, with the following broad conclusions:
  - the world's 100 largest banks may have to increase their equity - asset ratios by 1,3 % points;
  - this could lead to an increase in lending rates by 16 basis points;
  - loan growth could decline by 1,3% in the long run;
  - volume of loans in countries that went through the crisis could decrease by 4,6% in the long term;
  - volume of loans in countries that did not go through the crisis could decrease by 14,8% in the long term;
  - there could be an average increase of 0,09% in the cost of lending in countries that went through the crisis;
  - there could be an average increase of 0,13% in the cost of lending in countries that did not go through the crisis;

Continued: IMF Working Paper

- potential shift to "shadow banking‟;
- estimated that a corporate could save $ 1,6 million on a $ 1 billion loan if it borrows from a financial institution not regulated under BASEL III.

Broad potential impact in developed and developing countries

- reduction in long-term lending, including mortgage finance
- impact on THE development of primary mortgage markets where these do not exist
- increase in the cost of banking services and lending rates
- possible diversion of business from banks to "shadow banks"
- impact on the ability of smaller banks, like community banks, mutual banks and niche banks to withstand the regulations and continue innovating in the area of housing finance
- impact on the ability of banks to lend in the real economy to create much needed economic growth
- potential increase in government debt to meet demand for government bonds.

Role for IUHF

- Opportunity to offer additional suite of services
  - collate relevant research undertaken on the potential impact in different environments, and make relevant data available in a user-friendly format;
  - This would be useful to non-members as well, who could then be enticed to join work with regional and national bodies to develop appropriate lobby and advocacy strategies. This should include papers that reflect the impact on both developing and developed country environments, including the impact on smaller banks in both environments. The IUHF need not lobby the BASEL Committee and other multilateral structures directly on these, but could do so via bodies like the International Banking Federation.
- Do some work on how to responsibly mitigate some of the impacts of the regulations.

THANK YOU