



# **Regional Financial Co-operation: Addressing Regulatory Gaps**

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# STRUCTURE OF THE PRESENTATION

- ✓ Introduction
- ✓ Salient features of the crisis
- ✓ Some key lessons
- ✓ Addressing regulatory gaps
- ✓ Caveats
- ✓ Concluding remarks



# INTRODUCTION

- ✓ Integration of financial markets worldwide
- ✓ Enhancing flow of resources
- ✓ Initially linked to Asian crisis
- ✓ Emergence of the European Monetary Union
- ✓ African countries: mobilise resources, improve regulation  
& avert crises
- ✓ Examples: SADC – Finance & Investment Sector, Council of  
Ministers of Finance, Committee of Treasury Officials  
& Committee of Central Bank Governors
- ✓ Eastern and Southern African (ESAF) Banking Supervisors Group

## INTRODUCTION CONT...

- ✓ **SADC: Initially European Community Model**
- ✓ **Inappropriate: divergences in economic development**
- ✓ **Bottom-up approach**
- ✓ **Advanced harmonisation at a later stage**
- ✓ **Regional financial co-operation: key agenda item of SADC**



# SALIENT FEATURES OF THE CURRENT CRISIS

- ✓ Surprised policy-makers & private-sector players
- ✓ US-only event – global phenomenon
- ✓ Exposed fundamental weaknesses in the financial systems
- ✓ G-20 nations taking steps to address the crisis
- ✓ Key lessons will determine the way forward

# GLOBAL FINANCIAL CRISIS – KEY LESSONS

- ✓ (1) Consequence of both macro and micro factors  
Macro: persisting global imbalances; credit expansion; under-pricing of risk; divergence of asset prices etc.  
Micro: financial innovation; securitisation process; loosening of lending standards; establishment of off-balance-sheet investments etc.
- ✓ (2) Interconnectedness between institutions, markets, sectors: vulnerabilities can come from other sectors of the economy
- ✓ (3) Implications of increasing global financial integration: cross-border distribution and propagation of systemic risk etc.
- ✓ (4) Effective crisis prevention & management needs: information and data sharing; co-operation within and across countries.
- ✓ (5) Microprudential supervision was inadequate to identify accumulating risks in a timely manner (Papademos, 2009).

## ADDRESSING REGULATORY GAPS

- ✓ (1) Adoption and implementation of a bottom-up approach
- ✓ (2) Pledge of G-20 nations: align policies along G-20 guidelines
- ✓ (3) Collaborate and co-operate with international institutions
- ✓ (4) Co-operate in the financial stability work generally:
  - Strengthen regulation and supervision
  - Adopt a macroprudential approach
  - Develop early-warning models & stress testing techniques
  - Co-operate in: data and information-sharing; crisis management, resolution & risk management; conglomerate & consolidated supervision; capacity-building

# CAVEATS

- ✓ **Financial crises occur even with good regulation & supervision**
- ✓ **Moral hazard – overly confident financial market participants**
- ✓ **Use of complex models based on wrong assumptions**
- ✓ **IMF failing to pick the crisis despite having been following macroprudential approach**





## CONCLUDING REMARKS

- ✓ **Global financial crisis raised awareness for co-operation & co-ordination of supervisory & regulatory policies**
- ✓ **System-wide financial regulation & supervisory collaboration and cooperation need to be complemented by market discipline**
- ✓ **Macroprudential supervision approach should be adopted (despite the caveats mentioned) to complement microprudential approach**

**END**

**THANK YOU**



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