SPEAKING POINTS FOR BANKING AND FINANCE PANEL-AFRICA LEGAL NETWORK CONFERENCE-21-22 OCTOBER 2015

1. The challenges faced in the role of a central banker in ensuring systemic stability

- Traditional role of central banks is to foster price stability but they are also increasingly taking up financial stability mandates.
- Price and financial stability are interlinked but can also conflict.
- Ensuring price stability through raising interest rates and tightening liquidity increase particularly credit and liquidity risks for financial sector players.
- Usually central banks only have jurisdiction over banks and must collaborate with other regulators with oversight over capital markets, insurance and pensions.

2. The possible impact of the introduction of Basel II and III in your jurisdiction and across Africa.

- Basel II and III capital accords were formulated to promote global financial stability by strengthening capital and liquidity of banks.
- The accords seek to align banks' capital holdings to their risk profile, strengthen supervision, market disclosures and ensure banks' have sufficient liquidity to meet their obligations.
- However Basel II and III also introduced complexities through the use of credit ratings and models to assess capital adequacy.
- Basel III has also introduced the use of high quality liquid assets that may not be available in the shallow financial markets that characterise most of Africa.
- This will be compounded by capacity and resource constraints on the part of banks and regulators.
- African countries therefore are opting to adopt aspects of Basel II and III that are suited to their local circumstances as the necessary financial infrastructure is developed for full adoption of the accords.

3. The possible importance of depositor insurance schemes in the event of the default of a regulated bank.

- Deposit insurance is a safeguard mechanism to assure depositors that they will not lose their funds in case of a bank failure.
- Critical in building confidence in banking sector after various bank failures that have occurred in Africa over the last thirty years.

- Coverage of deposit insurance limited e.g. in Kenya, it is Ksh. 100,000(USD 970) per depositor.
- Need to ensure prudent investment of funds held by deposit insurance schemes and also safeguard against moral hazard problem where banks may engage in risky behaviour drawing comfort that depositors are protected in case of failure.