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Regional Economic Integration in Sub-Saharan Africa: Adaptability and Responsiveness of South African banking regulations to Sub-Saharan Africa

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ABSTRACT

Shockwaves from the 2007–2010 financial crises caused a huge economic downturn and impacted countries and market centres globally. This blemished the reputation of the banks with many blaming the global financial crisis on reckless banking and lending practices. As a result, there was an increased focus on regulatory reform. The Sub-Saharan Africa regional integration is aimed at strengthening the effectiveness and credibility of economic policies, economic performance and trade improvement. Africa embarked on global integration of economic and financial systems to reduce poverty and sustain economic growth.

This research examines the adaptability and responsiveness of South African banking regulations in Sub-Saharan Africa in relation to regional economic integration. An improved understanding of this relationship provides key principles and a greater understanding for regulatory bodies and banks to enhance their management of regulatory change in emerging markets. Unstructured interviews were held in this research with banks and financial and regulatory authority members in South Africa and Sub-Saharan Africa.

The research results were inconclusive in terms of the adaptability and responsiveness of South African banking to the rest of Sub-Saharan Africa. Bank challenges were identified in terms of regulatory development, implementation and regional integration. The lack of empirical data indicated the need for quantitative research and understanding integrational factors that could be used to measure the rate of integration and adaptability. New categories were identified which need further research to gain a comprehensive understanding on the adaptability and responsiveness of South African banking to the rest of Sub-Saharan Africa.

Keywords

Integration, regulatory development, adaptability, responsive, cost, challenges, language barrier, culture, transparency, competitive environment, integration, change

DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

Name

Signature

Date

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DEDICATION

Two years older and hopefully two years wiser since this journey began … To my companion, my cheerleader; my partner in crime and my tenacity when I procrastinated; my motivator; my confidant, my strength in tough times, and my best friend … To my husband, Roy Thompson: Words cannot express how grateful I am for all your support, your patience and sacrifices throughout this journey. You have been my pillar of strength. Thank you for your encouragement and laughs when I needed it the most and walking this journey with me.

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ABBREVIATIONS

AEC	African Economic Community
BLNS	Botswana, Lesotho, Namibia, Swaziland
CMA	Common Monetary Area
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IMF	International Monetary Fund
PPP	Purchasing power parity
REC	Regional economic community
RIFF	Regional Integration Facilitation Forum
SACU	Southern African Customs Union
SA	South Africa
SADC	Southern African Development Countries
SARB	South African Reserve Bank
SSA	Sub-Saharan Africa

CHAPTER 1: INTRODUCTION

1.1 RESEARCH TITLE

Regional Economic Integration in Sub-Saharan Africa: Adaptability and Responsiveness of South African banking regulations to Sub-Saharan Africa.

1.2 RESEARCH PROBLEM

The impact of the 2007–2010 financial crises caused a huge economic downturn as a result of their far reaching disruption in global markets and associated recessions (Elliott & Santos, 2012). The shockwaves which impacted countries and market centres globally resulted in an intense focus on regulatory reform (Lo, 2009, p. 2). This has tainted the reputation of financial institutions, with many blaming the global financial crisis on reckless banking and lending practices (Sepe, 2012, p. 330).

Political and socio-economic challenges globally have resulted in stronger regulatory and risk management practices, heightened technological development and an increased focus on knowledge transfer (Haq, 2012, p. 38). Sepe (2012) further developed the argument in support of regulatory reform as a key component of economic development. Such economic development could be achieved through safe and collaborative governance structures (Sepe, 2012, p. 331). There has been a major shift in the global political environment where regulatory reform is now in the forefront of government and industry agendas in achieving economic growth (Lo, 2009, p. 4).

While the concept of regulatory and risk management has become more prevalent, it is, however, not a new debate. Modigliani and Miller (1958) argued that complex risk management is irrelevant under perfect market conditions, and “drastic simplification of rules which are relaxed in the direction of realism and relevance” is necessary to deal with the problems at hand (Modigliani & Miller, 1958, p. 296). The Modigliani-Miller Theorem promotes the concept of “even footedness” and argues that company value is independent of dividend policy calculations (Villamil, 2008, p. 4). This argument was supported by Bhattacharya in 1979, who demonstrated that dividend policy can be a costly tool to indicate a company’s position, similar to other “signalling models” in terms of policy requirements. This is in relation to time and energy spent on collating information for the complex models which may not even be a true disclosure (Villamil, 2008).

Research conducted by Parker and Kirkpatrick (2012) also indicated the lack of quantitative evidence to indicate the impact and benefit of risk-based regulations (new and amended). This can be seen as a challenge for future research on the financial impact of regulatory changes as well as on pre- and post-regulatory management processes, which include governments having independent regulatory oversight bodies managing this process (Parker & Kirkpatrick, 2012, p. 42). Whilst the need for "better regulation" is often stated, that need is only partially understood, therefore the knowledge gaps required for judging the importance and benefits of "better regulations" must be clearly understood (Parker & Kirkpatrick, 2012, p. 43).

Finance-related regulatory and risk management practices have become a key component to economic development, especially within developing countries (Haq, 2012, p. 38). Africa, in particular, may be the least globalised region however it has become the hub for seeking new business opportunities. This is evident by the increased number of international trades which amounted to approximately 20 per cent of gross domestic product (GDP) and "growing private capital flows" (Saville & White, 2013, p 16). Saville and White (2013) further stated that the African economy is anticipated to continue its growth especially after it "just emerged from its best growth decade on record".

The importance of regional integration is to improve the region's growth and facilitate market access. It is meant to enhance the economic power of the combined states and reduce the cost of trade between nations (Masalila, 2010). Masalila (2010) adds that integration for Africa is a key "developmental necessity" for strengthening the effectiveness and credibility of economic policies, economic performance and trade improvement. It is also aimed at supporting institutional initiatives to improve regional infrastructure development, improve foreign investment and administration efficiency as well as minimise politically induced corruption of macroeconomic policies (Masalila, 2010). Sako (2006) argued that convergence of macroeconomic policies promotes growth and efficiency by eliminating transaction costs and exchange rate uncertainty. This is to ensure monetary stability in relation to price stability and lower interest rates. According to the World Economic Forum, "Africa needs to create an enabling business environment for domestic and foreign investment to realise its potential and ensure sustainable and inclusive growth" (Mathuros, 2014, p.1).

Developing countries now face pressure to conform to the principles of international regulatory reforms, and regional integration is expected to support inclusive growth within the African continent to sustain human development outcomes (Zepeda, Mermet, Nkurunziza, Bernal & Riva, 2011, p. 7). Sako (2006) adds that “Africa has no choice but to integrate into world economic and financial systems” to reduce extreme poverty and ensure sustainable growth. African regional economic communities play a significant role in regional cooperation and integration which is essential for the facilitation of the integration process (Sako, 2006, p. 4).

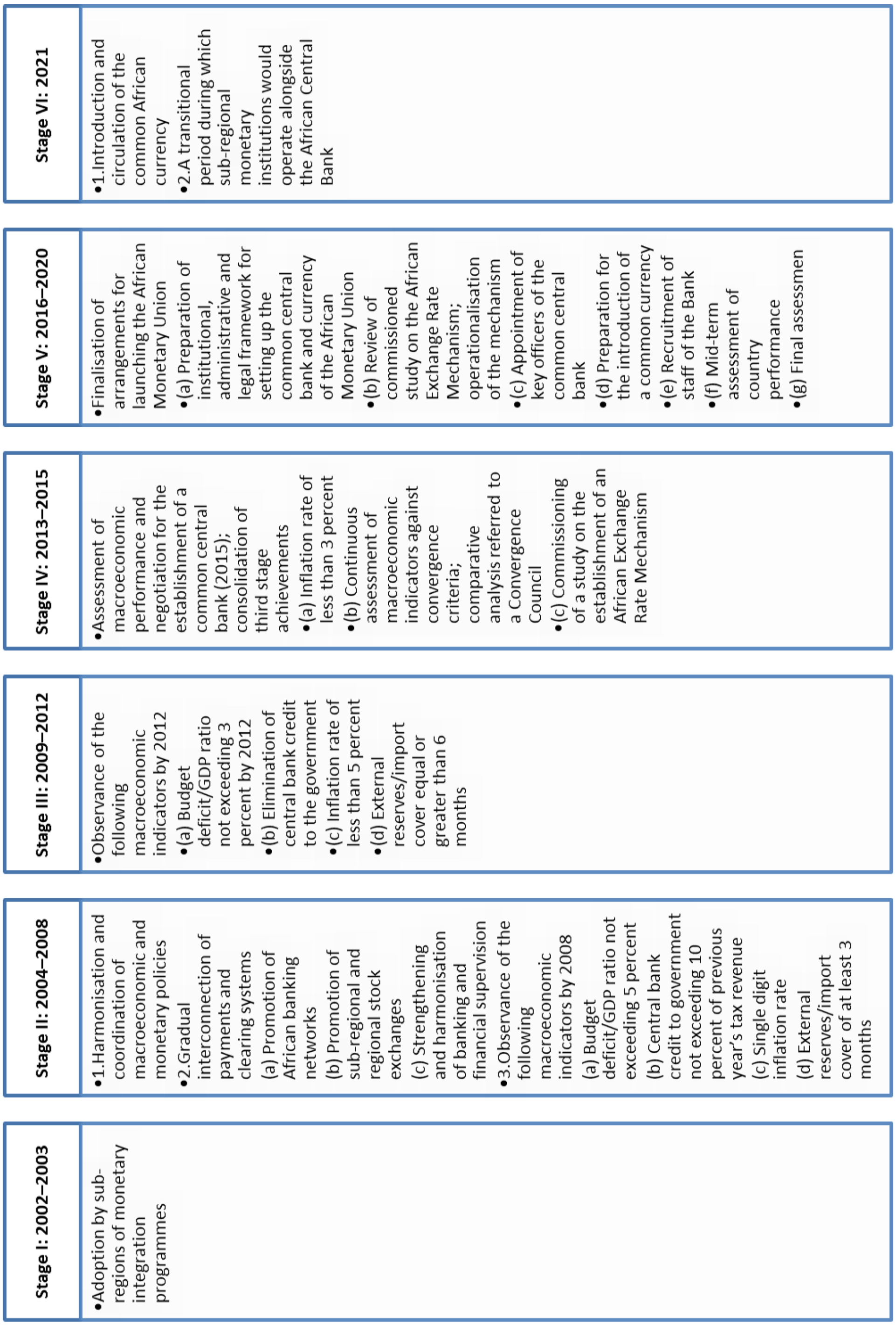
Effective implementation of regional integration contributes to improved trade links amongst developing countries, strengthens their ability to participate in world trade as well as promotes harmonisation of legal and regulatory reforms (Sako, 2006, p. 4). It is advantageous to the streamlining of the banking payments system and to tax system coordination and in supporting the countries involved to combine their intellectual property and human capital to achieve economic growth (Masalila, 2010, p. 7). A compartmentalised approach in the integration process has posed key challenges for South Africa (SA) and SSA due to “rapid acceleration of economic activity” and the adaptation to standards and regulatory requirements when conducting cross-border trade and business activities (Ranganathan & Foster, 2011, p. 27).

1.3 SCOPE OF THE RESEARCH

The argument of regional integration advocating that developing countries be best positioned to compete in the global economy is most relevant for those developing countries which aim to achieve substantial economic growth fuelled by the regulatory environment (Sako, 2006). According to the United Nations (2014), regional integration is “expected to produce considerable economic gains for Africa”. Zyuulu (2009), however, argued that, depending on the degree of integration, participating countries must meet certain convergence criteria which include stable financial institutions, harmonisation of regulation and supervisory standards for financial institutions as well as elimination of barriers to the flow of capital.

The African Monetary Cooperation Programme is meant to provide an outline for macroeconomic integration in Africa and ensuring the “adoption of collective policy measures that foster a harmonised monetary system” as well as “common management of institutions”. The ultimate objective of this programme is a “single monetary zone by 2021 with a common currency and continental central bank” (Masalila, 2010, p. 7).

Figure 1.1: Stages for implementation of the African Monetary Cooperation Programme



Source: (Cattaneo, 2009)

Many SSA countries are said to be relatively undeveloped and therefore likely to experience periods of financial instability (Jefferis, 2007, p. 90). Jefferis (2007) added that country efficiency gains can be achieved through economies of scale by creating an integrated capital market. This would therefore require standardised financial sector supervision (Jefferis, 2007, p. 90).

Masalila (2010) also argued that integrating and harmonising regulatory standards of financial institutions can enhance governance and adherence to these standards, resulting in improved social and economic development. Integration infers the “adoption of the highest standard or optimal policy over which there are monitoring mechanisms and sanctions for non-performance” (Masalila, 2010, p. 7).

Regional integration requires “self-imposed policy and regulatory discipline” that encourages compliance and adds to policy credibility which stimulates market opportunities and foreign investment (Jefferis, 2007, p. 90). Jefferis (2007) also stated that the process requires strong partnership and consultation between participating governments, as well as with regional surveillance to assist in mitigating macroeconomic risks slippage for a more stable and predictable environment.

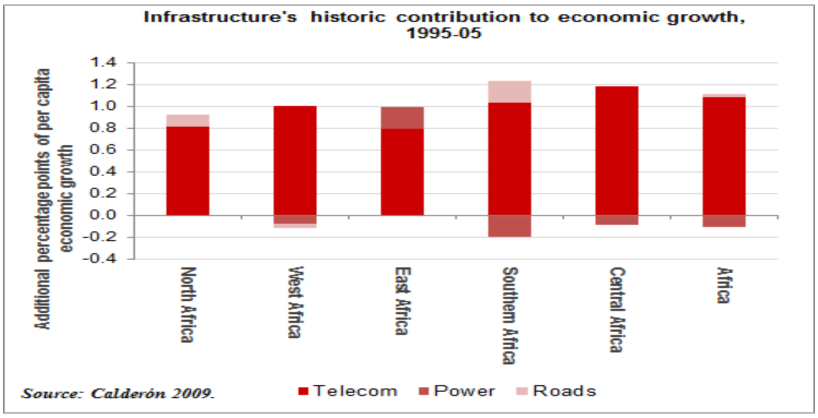
Developing countries, and mainly the rural areas within them, have a challenging environment and hence require robust regulatory frameworks to protect the economy (Simba, Mwinyiwiwa & Mjema, 2011). The International Monetary Fund (IMF) stated that, should the Euro crisis escalate further and global growth slow down, “SSA's prospects will be less favourable” and SA, due to its strong links to Europe, may be affected “with possible repercussions for some economies in Southern Africa” (Fides, 2014).

The regional integration project requires a number of conditions and obligations to be fulfilled by each participating bloc as part of the reform programme. Some of these requirements include exchange rate performance, government debt to GDP ratios, interest rates and inflation levels budget deficit (Jefferis, 2007, p. 90). This is to cultivate harmonised polices and ensure adoption of key policy principles for a common management of institutions.

Collaboration amongst banks, banking associations and stock markets in SSA is moving at a rapid pace (Handley & Mills, 2001). There is an increased flow of private capital for investment from SA to other SSA countries and there is potential for continued cross-border investments (Ranganathan & Foster, 2011). There is also strong commitment and fortitude from the various blocs to build a solid financial infrastructure to facilitate regional integration and policy harmonisation (Aziakpono, Kleimeier & Sander, 2007). Figure 1.2 below refers.

The purchasing power parity (PPP) estimates the exchange rate adjustment required between countries, for the exchange to be equivalent to each country's currency purchasing power (Parkin, Kohler, Lakay, Rhodes, Saayman, Schoer & Thompson, 2010). The PPP was greater than 4 per cent for all regions in Africa from 2003 to 2007 (refer to figure 1.2) (Ranganathan & Foster, 2011, p. 2). Ranganathan and Foster also indicated that growth in infrastructure and mobile connectivity contributed approximately 1.2 per cent to Southern Africa's economic growth during this period.

Figure 1.2: Historic infrastructure contribution to economic growth in SSA.



Source: (Ranganathan and Foster, 2011)

Some of the challenges experienced with respect to regional integration, regarding financial regulations and bank supervision, iinclude the operation of securities exchanges and the lack of skilled supervisory and management resources (Jefferis, 2007, p. 91).

The disparity across countries within SSA concerning poor macroeconomic performance over the years, including policy differences and political instability, has posed major challenges to SSA in achieving financial and monetary integration (Khamfula & Tesfayohannes, 2004). Infrastructural development, skills scarcity as well as poor connectivity also pose a threat to financial institutions wanting to expand in SSA (Haq, 2012). Parker and Kirkpatrick (2012) argued that it is difficult and sometimes impossible to provide credible quantitative data on the impact of regulatory change on economic growth while avoiding anti-competitive behaviour. Parker and Kirkpatrick (2012) also argued that the current data available is not sufficient to draw empirical inferences on the actual cost of regulatory change and its subsequent impact on economic indicators or outcomes. It is therefore clear that there is a strong need to evaluate the impact of regulatory change, and the management thereof, in order to build credible and meaningful legislations that are adaptable to other SSA countries to enable increased capital flow across borders, thus having a positive impact on economic growth.

1.4 RESEARCH AIM

The purpose of this research was to establish the adaptability and responsiveness of SA banking regulations in SSA in relation to regional economic integration. An improved understanding of this relationship would provide key principles and a greater understanding for regulatory bodies and industries to enhance their management of regulatory change in emerging markets in order to become more competitive as well as to contribute to the growth of the economy.

In answering the central research question, three key objectives were identified for the research. These objectives comprise of a deductive assessment of the responsiveness of SA banking regulatory landscape to the changing SSA economic environment, the challenges faced in the adoption and implementation of banking regulations in SA and SSA and the extent to which legacy "operational processing", specifically, people, process and systems is aligned to meet new and existing regulatory requirements.

CHAPTER 2: LITERATURE REVIEW

2.1 INTRODUCTION

Policy makers in Africa ranked financial and economic integration high on their agendas (Aziakpono, 2008, p. 2). Economic, social and political instability are still challenges facing the African continent therefore international financial institutions, financial agencies and donor countries have suggested stronger economic integration to improve the macroeconomic factors and institutional concerns in Africa (Wunnava, Warin, Tengia & Wandschneider, 2009, p. 2). The SSA region has a history of economic, social and political convergence dating back to colonial times therefore understanding these regional blocs is crucial to the future success of the SSA regional integration project (Aziakpono, 2008, p. 3).

SSA has become the focus area for regional integration focused on policy and trade and, more recently, monetary integration with a single central bank (Aziakpono, 2008). The SSA region consists of a diverse group of countries including Angola, Botswana, Democratic Republic of Congo (DRC), Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, SA, Swaziland, Tanzania, Zambia and Zimbabwe (Rossouw, 2006). There is currently a common monetary area between Lesotho, Namibia, SA and Swaziland (Aziakpono, 2008, p. 2).

Previous empirical studies, such as analyses of bilateral trade flows across borders in a common currency zone, indicated a positive impact on economic and trade growth (Bénassy-Quéré & Coupet, 2005). According to Ahmed (2010), SSA's inclusion in the French African Community has resulted in increased productivity and investment growth. Although the expected benefits of financial integration were well received, there were still concerns about the feasibility of the programme due to the varying economic conditions of participating countries (Kleibl, 2013). This has hindered attempts to conduct feasibility studies for the broader and more advanced economic areas in the region (Kleibl, 2013).

SA, in particular, has a different economic structure and was seen as more diversified and industrialised, whereas the other countries were not as diversified and are smaller (Jefferis, 2007, p. 92). According to Jefferis (2007), these countries' GDPs therefore varied substantially because of their dependence on a smaller range of primary export commodities that differed across those countries. Empirical studies conducted by Demetriades and Hussein (1996) on financial development and real GDP, highlighted the risks of treating different economies as similar entities when conducting statistical inferences.

The speculation, however, that a common currency could be seen as a “super-Rand” by international markets. This may create gaps for negative scrutiny of smaller countries whose currencies were below the radar and could now be seen as a threat because of increased currency exposure to international markets (except for the Rand, which was already seen as having been impacted on by external factors) (Jefferis, 2007). Falkena, Bamber, Llewellyn & Store (2001) also stated that the regulations have become more extensive and some of these requirements may be conflicting and demanding. The administrative and opportunity costs associated with the implementation and supervision of these new and emended regulatory changes are however extremely high and difficult to quantify (Parker & Kirkpatrick, 2012).

Financial institutions have always experienced regulatory change however they are now faced with significant change in the regulatory landscape in terms of new and amended regulations, as well as changes with banking regulators and supervision (Kleibl, 2013). These institutions are expected to face continuing regulatory challenges over the next decade in order to adapt and reflect the shifting competitive and structural landscape (Falkena et al, 2001).

In this study, firstly, the importance of and need for regional integration is discussed. This included an exploration of the macroeconomic factors with an emphasis on Foreign Direct Investment (FDI) and levelling the playing field in terms of regional convergence and financial integration in SSA. Secondly, the SSA banking regulatory landscape is discussed and insights provided on the development of regulations, implementation and adoption of these regulations and the challenges experienced. Thirdly, the adaptability of the SA banking regulations is reviewed with a discussion relating to regulatory pressures and the consequences for businesses which could threaten their competitive advantage. Clarity on the concepts of over regulation and their impact on economic growth are also provided. This provides the basis for considering the relationship and adaptability of banking regulations between SA and the rest of SSA. Previous studies have been examined to confirm or contradict the relationship in assessing the empirical and theoretical literature that deals with adaptability of SA banking regulations in SSA.

2.2 REGIONAL INTEGRATION IN AFRICA

Integration and "convergence" of African regional economies, including Southern African Development Countries (SADC), for poorer countries that form part of a regional economic community (REC) to be aligned with that of more developed member states. Regional integration and collaboration are central for fast-tracked economic and social development in SSA countries (Yeats, 1999). Andresen, Brandth, Gsänger and Otzen (2001) built on the argument based on impact and benefit of globalisation, economies built on agricultural structures and raw material exports, financial market conditions and budding infrastructure development. Yeats (1999) argued that these countries would find it difficult to attract foreign investment for future development without the integration of the above factors.

The concept of regional economic integration is broader than removing trade barriers but is a fundamental role-player in human development (Zepeda et al, 2011). The integration process creates a common denominator for fiscal and monetary policies by harmonising regulatory frameworks and standards. As a result, there are fewer constraints on the movement of financial capital (Inoue & Hamori, 2013).

The depth of integration is just as important as its breadth or extensiveness in establishing the outcomes for human development (Zepeda et al, 2011). Human development, as defined by Zepeda et al (2011), refers to broadening human freedom with respect to empowerment and sustainability.

The aim of the African Union was to transition to an African Economic Community (AEC) recognised under the auspices of the Abuja Treaty signed in June 1991 (Masalila, 2010). Regional integration was the foundation for the building blocks to achieving an AEC. The integration process foresees an evolution to free-trade areas, common markets and monetary unions, managed under a central bank and single currency (Chaturvedi, 2012). Member countries removed tariffs and non-tariff barriers in free-trade areas while retaining tariffs for non-members (Hammouda, Njuguna & Jallab, 2010). Although this argument was challenged by Masalila (2010) because countries lose their independence on monetary policy, this loss was offset by the benefits of enhanced trade, application of principle-based policies and improved living standards.

Successful regional integration required regulatory reform, restructuring of the financial sectors, harmonisation of policies and standards, tariff reduction, streamlining of banking payment systems and investment (Hammouda et al, 2010). This would allow for member countries to gather skilled resources and competencies to ensure successful implementation of the various sub-projects.

2.2.1 Changing economic environment

The link between economic growth and financial intermediation has shaped a profound interest among economists, academics and policy makers globally. Several studies have focused on the possible links between economic growth and financial development; however, the findings were not conclusive (Hammouda et al, 2010). According to Hammouda et al (2010), empirical evidence on the links between economic growth and financial development were limited at the time these studies were done when cross-border capital movements were very limited.

2.2.1.1 Historical economic landscape

Research conducted by Kokko, Mathä, & Tingvall (2007) indicated that globalisation and economic integration have become dominant features of the world economy. Hammouda et al (2010) added that capital flows to emerging economies grew from almost zero in the early 1970s to approximately $US1.3 trillion by the late 1990s. Jansen and Vennes's (2006) findings highlighted that the financial sector in most African countries was portrayed as being influenced by government interventions of different forms between the 1970s and 1980s. Governments owned banks and credit allocation shares and often enforced controls over interest rates and barriers to entry in the banking sector (Jansen & Vennes, 2006). This resulted in shallow financial markets and harm to the consumers. This pre-independence period inspired most African countries to embark on fairly bold privatisation programmes between the 1980s and the 1990s to increase the banking sector efficiency.

2.2.1.2 Financial Liberalisation

The African continent initially considered economic integration to overthrow colonial barriers; it has, however, been encouraged by the successful economic integration efforts of America and Europe hence their objectives have changed from pursuing integration for political decolonisation in Africa to focusing on socio-economic integration for the mutual benefit of enhanced growth and development (Maruping, 2005).

The Regional Integration Facilitation Forum (RIFF) was established in 1992 to facilitate market-driven integration in the Eastern and Southern African region (Aziakpono, Kleimeier & Sander, 2007). The economic reform programs in SSA were aimed at accelerating the pace of economic growth by increasing cross-border investment and trade flows through regional integration. The difference between this and the previous regional integration programs was a renewed global focus on outward-orientation and openness. This was to ensure greater integration of regionalism into the global economy to avoid the establishment of new financial institutions as well as to have direct involvement in the development and implementation of a fluid policy environment that enabled mobility and access (Chaturvedi, 2012).

2.2.2 Macroeconomic environment

The macroeconomic context in which the liberalisation of financial institutions occurred has not always been suitable because it was based on high inflation levels or large budget deficits. This was pointed out by Brownbridge and Harvey (1998) when many banks were badly managed and corrupt and attracting deposits into those institutions disabled the efficiency of financial intermediation. The lack of professional and administrative capacity in the banking sector was also a concern in some SADC countries, due to extensive political interference Brownbridge and Harvey (1998).

2.2.2.1 Financial impact on SADC during global financial crisis

SADC was most impacted by the secondary effects of the global economic crisis. The SADC public debt from 2006 to 2010 is reflected in Figure 2.1: SADC public debt 2006-2010 during the global economic crisis. The financial crisis caused a decline in the per capita income from 2006 to 2009 and the real GDP increased slightly in 2009 by 0.1 per cent. This reduced international exports from the region which resulted in low foreign reserves and government revenues. The decline in economic growth resulted in expanding fiscal balances (Modlane, 2010).

In 2010, opportunities looked more promising based on the indicators in figure 2.1. The challenge that remained was the vastly diversified economies within the region and the flexibility or responsiveness of other economies to the region (Modlane, 2010; Chetty, 2012). Countries within SSA that registered varied economic growth rates created a bigger drive for regionalism and harmonisation of financial policies to improve overall economic growth and foreign investment within the region (Modlane, 2010).

Figure 2.1: SADC Public Debt 2006–2010

	2006	2007	2008	2009	2010
Inflation (excludes Zimbabwe)	8.5	8.8	13.9	12.8	7.7
GDP (%)	6.8	7.4	5.9	0.1	3.9
Real Per capita GDP (%)	4.3	4.7	2.4	-1.2	2.5
Fiscal balance (% of GDP)	3.0	1.1	1.1	-4.1	-5.6
Public Debt (% of GDP)	52.7	48.4	23.7	26.2	25.8
Current Account (% of GDP)	-2.1	-3.7	-8.4	-10.5	-12.3
Reserves (months of Imports)	4.6	4.8	4.1	4.6	4.2

Note: Public debt for 2008-2010 excludes domestic debt.

Source: (Modlane, 2010)

2.2.2.2 Foreign Direct Investment in Sub-Saharan Africa

Studies on foreign direct investment (FDI) flows conducted by Hartzenberg (2005) revealed that the FDI process mirrored international trends with less investment into manufacturing and more on service industries. Hartzenberg (2005) strongly suggested policy makers concentrate on the impact of their domestic regulatory reform on attracting the necessary FDI that was crucial to enhancing economic growth within their jurisdictions.

Hansohm and McCarthy (2005) argued that the concept of policy harmonisation was instrumental in the success of regional integration. These common policies were meant to create a balanced and level economic playing field to improve industry and service development in smaller member countries (Hansohm & McCarthy, 2005).

Tjonneland (2004), however, indicated that the future development of SSA is uncertain due to the vast difference between SSA countries in respect of development challenges, strategic priorities and regulatory complexities. Tjonneland (2004) also argued the need for early completion of institutional reform as a solid base to transparency and accessibility, which is vital for SSA's success.

Meyn (2005) built on the argument of economic partnerships and its importance to economic regionalisation in SSA. Meyn (2005) highlighted the challenges faced during SSA trade negotiations with the European Union (EU) and their subsequent impact on regional institutions and argued that the level of integration has not yet been reached to facilitate an effective negotiation process between SSA and the EU. Most countries in

SSA have varied degrees of national position in terms of Economic Partnership Agreements (EPAs) and follow their own protocols whereas a common approach within SSA with respect to trade and investment policy at a national and regional level covering key policy is crucial for enhancing trade and investment within SSA.

SA was seen as an important destination for FDI in SSA and has accounted for more than 70% of FDI inflows into SSA since 1997 (Hartzenberg, 2005). South African financial service industries focussed on the need to service clients moving into the region by either investing in a local bank or acquiring an entire local bank (Hartzenberg, 2005).

2.2.3 Levelling the playing field

"Shadow economies", also known as the black market, refer to goods and services that are paid for in cash and not declared for tax purposes (Schneider & Williams, 2013). Shadow banks, as described by Kodres (2013), are financial intermediaries that act and look like banks and are involved in the facilitation of credit creation in the global financial system. Shadow banks are, however, not subject to traditional bank regulations and regulatory oversight. In light of the global financial crisis, shadow economies and banks are on the rise (Kodres, 2013, p. 12).

Collins, Morduch and Rutherford (2009) argued that relaxed regulation and unconstrained market forces aimed at opening up financial markets to bottom-of-the-pyramid consumers, could be harmful to these consumers as result of over indebtedness, predatory lending (loss of savings) or falsely promised short-term gain assets. According to the World Bank in 2010, high prices may be warranted in some markets but, if not monitored and controlled appropriately, some banks could overcharge consumers (Alliance for Financial Inclusion, 2010).

Ghemawat and Altman (2013) mentioned that increased protection measures have led to a less globalised world and more focus placed on localisation. They added that policymakers and business leaders were now focusing on investments locally rather than their previous globalisation business models.

2.2.3.1 Regional convergence

Regional convergence was aimed at bolstering regional integration throughout Southern Africa. Successful regional convergence required all member countries within the state to strive towards a common macroeconomic environment with similar policies to build on the concept of financial inclusion. The objective of macroeconomic convergence in the SSA region is a stabilised regional economy that protects the region from volatility caused by external factors (Sako, 2006).

The concept of macroeconomic convergence has been widely advocated because of its underlying principle of economic growth while not weakening other economies (Zyuulu, 2010). This was accomplished through appropriate coordination and collaboration of economic policies to achieve specific goals. It was argued that macroeconomic policy convergence supported growth and proficiency by ensuring monetary stability, elimination of transaction costs and exchange rate uncertainty (Masalila, 2010).

Zyuulu (2010) re-emphasised Hungarian economist Bela Balassa’s theory from the 1960s on the importance of macroeconomic convergence as the basis for regional integration and the future of trade barrier removal. Some of the benefits for macroeconomic convergence and harmonisation of policies included open capital and labour movements across member countries. Balassa further argued that macroeconomic convergence and coordination of fiscal and monetary policies paved the way for political integration (Zyuulu, 2010).

Macroeconomic convergence in SSA is a key instrument to attract FDI through the successful harmonisation of Central Bank policies, banking reform of current account payments, systems and tax policies (Nathan, 2006). The debate on the impact of regulatory changes for financial institutions and their subsequent impact on the macroeconomic environment has deepened (Bivens, 2012). The argument was based on the growing costs for implementation resulting in reduced productivity and profit margins thus impacting on the broader macroeconomics of society including employment rates. Bivens (2012) indicated the growing consensus and lobbying for de-regulation because of its impact on a broader scheme.

Previous research by Bivens (2011) made reference to the impact of regulatory change on employment in the power sector. The implementation costs include Regulatory Impact Analysis (RIA), new technology and right competencies to build the necessary infrastructures which will ultimately impact household costs because of increased tariffs (Bivens, 2011). Bivens (2012) however indicated that, in the long run, these regulatory changes will result in job creation because more work will be required in this sector to comply with the new regulations. Bivens’ (2011; 2012) findings of regulatory change have been however challenged by Sepe (2012) who stated that the shockwaves of regulatory change implementation on productivity would ultimately impact societal wellbeing.

2.2.3.2 Financial integration in Sub-Saharan Africa

Jefferis (2007) mentioned that the SADC macroeconomic convergence was an initiative to achieve regional macroeconomic stabilisation and sustainable economic growth through monetary union and regional integration. This was supported by Zyuulu (2010) who stated that the concept of macroeconomic convergence was the underlying principle for economic growth while not weakening other economies. SA, Lesotho, Namibia and Swaziland currently fall under a common monetary area (CMA) where the South African Rand serves as the base currency and the South African Reserve Bank (SARB) serves as the central bank, owing to the strength of the South African economy in this area (Rossouw, 2006). According to Inou and Hamori (2013), SA's GDP was approximately 1.5 times that of Namibia.

Data from 2004 revealed that SADC countries have managed to contain their budget deficits and hence have displayed the "largest degree of macroeconomic convergence" (Jefferis, 2007, p.98). Barrientos (2007), however, highlighted the calculation difference between the central bank credit for government and budget deficit ratios. The difficulty in calculating government debt was because of the lack of credible data on internal and public debt (Barrientos, 2007).

As mentioned above, the South African Rand serves as the central currency for the CMA but, because of the exchange rates and difference in regional currencies, the calculation of Rand values of GDP has been problematic for other SADC countries and provided a misrepresentation of regional economic activity (Jefferis, 2007). Zimbabwe was a particular example; the dollar exchange rate between 2002 and 2003 dropped "from Z$1 = R0,1902 to Z$1 = R0,0259" which equated to an 86% loss of its official market value (Jefferis, 2007, p. 98).

The purpose of the integration of financial and banking systems in SADC was to have a common currency and a weakening of exchange rates to find an economic balance. The expectation was that SA's large economy would have a positive effect in other SADC countries. The regulatory integration process was not just focused on monetary union but was meant to provide an economic environment that enabled market-related reforms (Khamfula & Tesfayohannes, 2004).Cattaneo (2009) advocated that this could be possible through institutional and infrastructure development.

Financial integration has become more prevalent for regionalism where countries and regions expanded their economic space and market size to protect themselves and strengthen their economic base (Sako, 2006). SA banks have a strong presence in SSA and own most banks in Botswana, Lesotho, Namibia and Swaziland (BLNS). This high level of SA presence and ownership linked to their CMA membership protected the banking sector in other countries that adapted SA trends in terms of pricing and product innovation. There was still, however, a high degree of inconsistency relating to the levels of development of the banking systems in these four countries (Aziakpono, 2008). There was a concern that SA's dominance of the regional market and relatively developed regulatory landscape could pose a risk of polarisation from other SSA countries which could accelerate or delay regional integration initiatives (Aziakpono, 2008).

SA has a sophisticated and well developed banking sector which is highly competitive in comparison with the BLNS countries that are not as developed in terms of infrastructure and connectivity. These countries have high market concentration and minimal internal industry competition which resulted in high costs in opening up businesses (Aziakpono, 2008).

The banking sector in the greater SSA region was challenging in some local countries where there were low investments available to local private investors because of poor credit facilities. This resulted in low deposits linked to inefficient banking operations. The communities of these countries found it time consuming to wait in long queues at the banks where they were charged high rates for the banking services. This has resulted in these customers having dual accounts; a local and SA account (Mold, 2005).

Studies conducted by Aziakpono (2008) indicated that the role of financial intermediation on growth was weak in certain countries such as Botswana and Swaziland. These findings were confirmed by studies done by Behar and Edward (2011) as well as very early studies conducted by Allen and Ndikumana (1998) for countries in the SADC region.

Allen and Ndikumana (1998) argued that economic growth may require stronger banking regulations and bank supervision to improve efficiency in the financial sector. Their study was conducted quite early in the process therefore could not provide conclusive country-specific data. Hammouda et al (2010) confirmed the lack of empirical data available from studies conducted earlier because of limited cross-border capital movements. It would therefore be unfair and difficult to generalise Allen and Ndikumana's (1998) argument.

Aziakpono's (2008) findings showed that SA was a huge beneficiary of financial intermediation in the Southern African Customs Union (SACU) region which included the BLNS countries. Aziakpono (2008) suggested that deposits from other SACU countries were invested in SA for higher returns.

This suggestion was contradictory to the conclusion made by Guillaume and Stasavage (1999) based on Botswana's economic dependency on the export of diamonds. Guillaume and Stasavage (1999) argued that Botswana's increased development on the financial sector was closely aligned to SA and its economy was guided by the management efficiency of the diamond industry by their government. According to Guillaume and Stasavage (1999), the economy could therefore be driven by the government's management efficiency rather than the investment in private sectors by banks. As Hammouda et al (2010) suggested, more discussions may need to happen or research conducted to obtain conclusive country-specific data that could provide better insights on the relationship between economic growth and stronger banking regulations and supervision.

2.3 THE BANKING LANDSCAPE: SOUTH AFRICA AND SUB-SAHARAN AFRICA

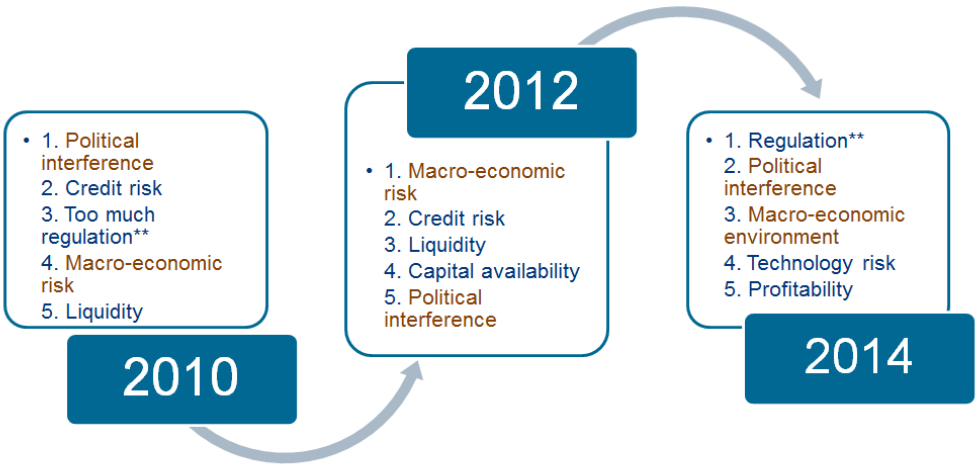
The role of financial institutions in relation to economic development has become increasingly significant over the past decade and, despite the growing number of entrants into the banking sector, competition in the industry still remained low (Okeahalam, 2005). This lack of competition in this sector was mainly due to the lack of capital markets. Capital markets, as described by Okeahalam (2005), concentrated on buying and selling of long-term debt or equity-based securities. The long-term savings were channelled into productive use such as investments. This field was heavily regulated to combat fraud and protect investors (Ojo, 2011).

The debate on whether SSA should promote stock market capitalism has been challenged by Singh (1999) in a comprehensive argument on why stock market capitalism is not necessary for SSA at this stage of regional integration. Singh (1999) argued that more emphasis should be placed on the banking sector in SSA to enhance and strengthen institutions and formal savings before embarking on market capitalism.

Regulatory compliance and sustained revenue generation threatened the banking sector however, the two requirements conflicted with each other in that regulatory requirements impeded revenue generation, but regulatory compliance is required for the business to operate (Mowatt, 2002). Some executives alleged that their businesses were now steered by regulatory requirements, which limited entry into new markets and therefore impacted on strategic intentions and the competitive environment (Ojo, 2011). Shadow banks and mobile banking threatened the traditional banking sectors in Africa because they were less regulated hence having more freedom to innovate and take banking to the unbanked (Stone, 2009). According to Stone (2009), there needed to be greater collaboration between policy makers and banking institutions as well as mobile industries to promote cross-border trade. There needed to be a discussion on whether this should be a regional, principle-based regulation or whether necessary regulations were dictated by the individual countries.

Hubbard (2013) explained that the banking regulatory landscape was seen as onerous and over-regulated which challenged the growth strategies of banks. He clearly expressed the need for profound analysis and rethinking regulatory reform to reduce systemic risk, improve transparency and make banks more adaptable by modernising the regulatory institutions. The 2014 Banking Banana Skins survey revealed that the key risks that challenge the banking environment included the pace of regulatory change, complexity and political interference which impacted on growth strategies (Patel & Lascelles, 2014). Figure 2.2 below highlights the top five risks to banks from 2010 to 2014.

Figure 2.2: Risk Landscape: Top Five Risks



Source: Patel & Lascelles, 2014

SA's banking risk landscape differed from the world in that political interference was seen as a high risk, followed by technology, pace of regulation and the macroeconomic environment. Figure 2.3 below indicates the risks in South Africa versus the world's top five banking risks.

Figure 2.3: Risk Landscape: Top Five Risks

Source: Patel & Lascelles, 2014, p. 43

More governments were setting the regulatory rules for banks, which could be seen as "ill-motivated" and could result in crippling banks and creating market distortions. The survey also revealed respondents' concerns about political interference in pricing and ring-fencing economic activities which increased costs and could impair their ability to function. Although credit risk was seen as a falling risk globally, SA still considered it to be among the top five risks because of the increased Basel III capital and liquidity requirements (Patel & Lascelles, 2014, p. 14).

According to Barth, Caprio and Levine (2008), the objective of Basel III, as stated by the Basel Committee on Banking Supervision, was to improve the ability of the banking sector to absorb shocks resulting from both financial and economic pressures. This was achieved by applying tighter capital and liquidity requirements that enable improved risk management and governance standards. This also assisted in strengthening the bank's transparency and disclosures (Barth et al, 2008).

Diversity in the Southern African region banking landscape has been a challenge and a hindrance to the advancement of the regional integration program in the development of cross-border and banking supervision framework for the region. The improvement of banking regulations have been placed high on the SADC agenda and a critical requirement was collaboration and agreement. Although all SADC countries committed to implementing the Basel core principles to ensure adequate bank supervision, the varying levels of supervisory capabilities within the SADC countries created a complex environment for information sharing among supervisors (Cabello, Hands, Grossman, & Hayes, 2013).

SA and Mauritius have well entrenched banking regulations and controls; therefore reliance on the accuracy of data from certain SADC countries was a concern. This was because of those countries non-compliance to Basel's core principles and International Financial Standards. The local banking supervisors of those countries found it challenging to analyse and integrate with more developed countries like SA (Cabello et al, 2013).

2.3.3 Regulatory development

The regulatory development process in SADC is a complex multi-faceted and often contentious landscape. Despite progress towards becoming more professional and having modernised policy development processes, including the use of established project management methods, there were concerns that clouded the positive attempts made in conceptualising implementation in a constrained environment (Sako, 2006). One of the concerns as highlighted by Cabello et al (2013) above is the development of the cross border and supervision framework which is impacted by the diverse banking landscape in Southern African countries.

2.3.3.1 Regulatory development in SADC

According to Meacham (2010), the need for regulatory oversight and understanding was crucial hence the importance for regulatory developers to provide oversight and contribute to the regulatory review and evaluation processes. Zongwe (2011) added that regulatory development is differentiated between regulatory development and implementation. Jarvis (2012) built on Meacham (2010) and Zongwe's (2011) argument and stressed that regulatory development and implementation formed part of a fundamental process and regulations were expected to be adapted and changed by the responsible departments.

Zongwe (2011) emphasised the importance of adherence to strict timelines during the research phase of existing regulations and potential gaps within the region. Strict adherence to timelines was a requirement because as SADC countries increased investment in the information technology space and in banking sectors, banks were becoming more involved as an intermediary in the SADC regional integration program.

The review process demonstrated the need for regulatory development process which defined the cost and capacity requirements (Zongwe, 2011). According to Zongwe (2011), engagement with the relevant regulatory authorities during the infancy phase increased the chance of regulatory adoption.

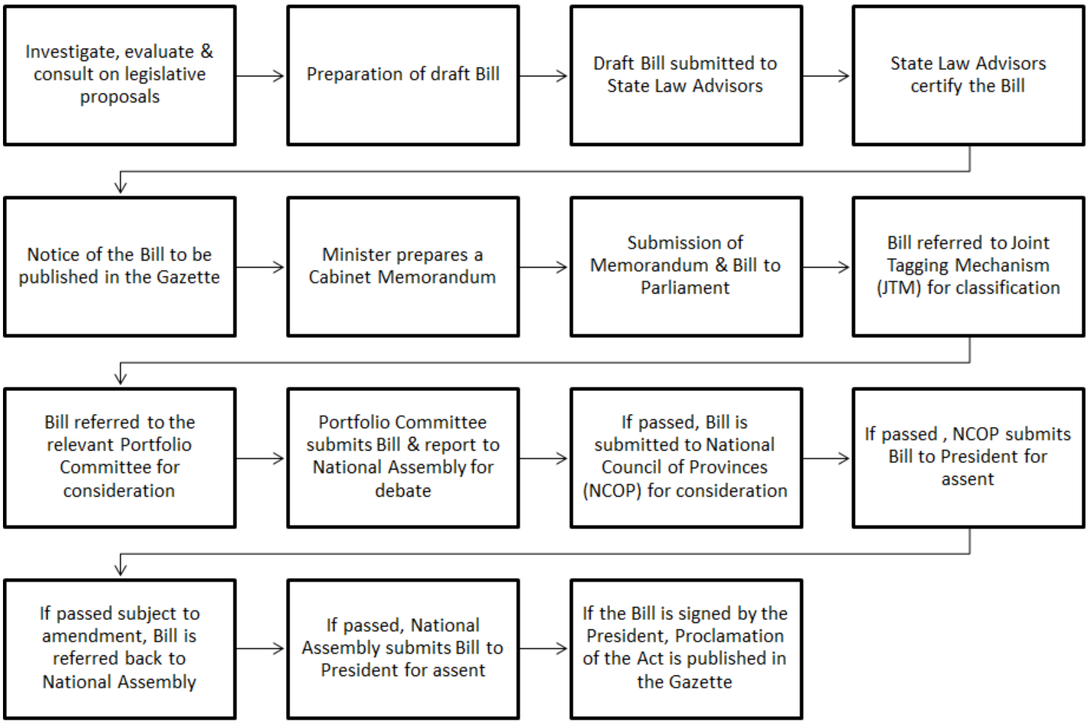
The importance of the SADC regional integration program as stated previously by Masalila (2010) was to improve the region's growth as well as facilitate market access. This program was meant to address the diversification challenge mention by Zongwe (2011) in the development of an integrated cross-border supervision framework.

Cabello et al (2013) added to the argument by Zongwe (2011), in that cross-border banking operations take place from different regulatory backgrounds. This makes it extremely tough for the host country regulators to ensure they are appropriately aware of the quality of information they receive and the confidence that can be placed on that information Cabello et al (2013).

Meacham (2010) stressed the importance of having a proper learning and engagement process with the relevant regulators and policy developers including affected stakeholders in regulatory development and execution. Overall as much as there was a need for robust banking regulations and supervision, there was a need for self-awareness and self-criticism in the regulatory development process where nothing should be taken for granted and nothing was harmless (Meacham, 2010).

2.3.3.2 Brief overview of regulatory development in SA

Figure 2.4: Regulatory development process in SA



Source: The Legislative Process, 2004

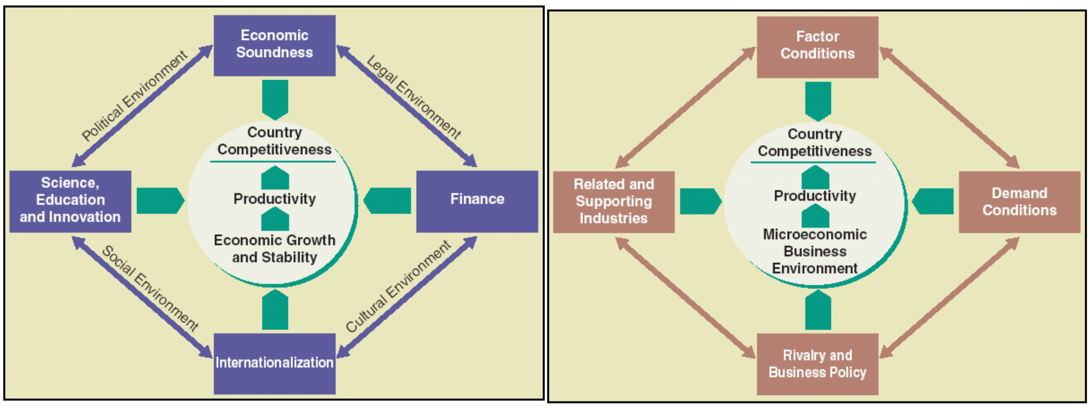
Figure 2.4 provides an overview of the regulatory development process in SA. Falkena et al (2001) emphasised the importance to distinguish between directional, strategic and operational policy in determining the policy development process. Clarity on internal roles and responsibilities at each phase is equally important (Falkena et al, 2001).

Legislative developers should contribute to the development of the policy evaluation and review process. The formulation and implementation process is an essential process to ensure adaptability of these policies hence the co-construction of policy frameworks is required for alignment and strong engagements. Focus has been placed by government on development of policies that provide a socio-economic value add. The formulation process is meant to provide the costs and capacity requirements. Early engagement with Treasury is equally important for successful adoption. It is imperative that relevant stakeholders contribute to the comments process and concerns highlighted. This process is meant to be extremely consultative with thorough field work conducted prior to publishing (Falkena et al, 2001).

2.3.4 The competitive environment

Competition is known as the driving force of change in any industry and the competitive landscape is likely to be vastly different in future years (Shenkar & Luo, 2013). Country competitiveness as described by Stone (2009), is a country's capability of generating wealth when compared to other countries globally. This requires government support in creating a competitve environment that enables domestic and international competition which backs productivity and operation in more than one industry. Government policies, culture, values, economic structures and government institutions all add to the competitive nature of a country. This includes governments promoting economic development by publicising their competitiveness factors to multinational enterprises (Stone, 2009). Refer to figure 2.5 below on country and industry-level determinants of competitiveness.

Figure 2.5: Country and industry-level determinants of competitiveness



Source: Stone, 2009

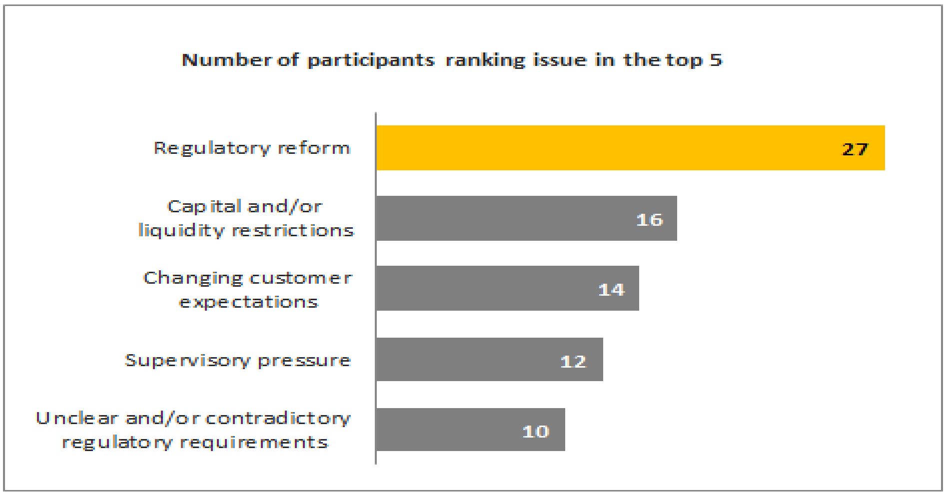
Porter (1988) identified three stages of development as opposed to Rostow's (1960) version of efficiency-driven economies (Acs & Autio, 2011, p. 1). The three stages identified by Porter (1988) include a factor-driven stage, an efficiency-driven stage and an innovation-driven stage as well as two transitions. Rowbotham (2011, p. 23) explains the innovation-driven stage as competition based on new and different goods whereas the factor-driven stage focuses primarily on unskilled labour and natural resources.

A country's competitive advantage lies in economic trade, shipping centres, highly developed communication and network systems (Zhao, 2013). Zhao (2013) also mentions that market access, with adequate economic and financial freedom, a reasonable tax system and a stable political and economic environment promote a good competitive reputation in order to enter markets and compete with the world. The role of banks in this process is to decide on the price of goods and to organise capital-raising and financial risk management (Zhao, 2013, p. 23). Chaturvedi (2012) articulated the importance of government's role in this process. He explained that governments' support in transparency, fair markets, and efficient legal and regulatory programmes is crucial for a healthy competitive environment (Chaturvedi, 2012).

Chaturvedi (2012) provided a comprehensive argument on the role of government in financial and institutional reforms that have shaped India's economic development programmes. He expressed the need for government to work in collaboration with other developing nations to achieve a common goal and that a key lesson in this process is to understand what it feels like to be the recipient of foreign investment. Zhao (2013), however, argued the importance of having less regulated entry barriers that may hinder new entrants into a market thus restricting economic development and competitive trade activity due to high trade barriers. Chaturvedi (2012) also expressed the importance of having economically viable regulatory guides and supports to the inflow and outflow of foreign investments. He explained the rationale for knowledge-sharing and capacity-building rather than just promoting "altruism" from a larger economy (Chaturvedi, 2012, p. 574). Being adaptable and collaborative play a vital two-fold role which are a country's entrance to new markets and the encouragement of foreign investment to increase economic growth and competition (Driver & Wood, 2001).

The traditional banks will need to consider new ways of running their businesses which will ultimately re-shape the banking environment due to regulatory and competitive pressure (Fides, 2014). Refer to Figure 2.6: Critical issues identified when considering structural changes.

Figure 2.6: Critical issues identified when considering structural changes



Source: (Fides, 2014)

Banks that are well capitalised are in a position to borrow at cheaper rates from wholesale banks and are also able to win over clients from their struggling competitors. International clients may also change banks due to their product requirements in each jurisdiction (Fides, 2014, p. 14). Fides (2014) argued that domestic banks in developing countries are also prone to severe competition from regional banks that want to expand their global footprint in search of growth opportunities.

New and smaller entrants focusing on a particular niche, where the regulators have enforced stricter requirements or restrictions, are likely to emerge (Driver & Wood, 2001). These entrants are likely to leverage the latest technological developments to capture that market segment which may impact on shadow banks because of increased scrutiny on their operations from the regulators. A major concern for banks is that shadow banks may capitalise on their market share while they are concentrating on implementing new and amended regulatory requirements (Kleibl, 2013). Technology also plays a major role in reshaping banking activities such as mobile banking and online investment options (Stone, 2009). This may result in a loss of bank charges as well as a breakdown of more personal customer relationships.

2.4 NEED FOR FINANCIAL REGULATORY REFORM IN THE SOUTHERN AFRICAN DEVELOPMENT COMMUNITY

Convergence was described by Barrientos (2007) as the point at which member states reached a similar level of wealth and economic development. The benefits of convergence and integration to SADC included, amongst other things, monetary cooperation, a wider bargaining base and secure macroeconomic and financial stability (Zyuulu, 2010).

Barth et al (2008) challenged the fact that reforms put forth by the Basel Committee under Basel II guidelines would not improve stability or efficiency of participating banks. Almost ceremoniously, uncertainty regarding stability in the financial industry has increased since the global financial crisis in the mid- to late 2000s. As a result, the emergence of tighter controls, more transparent processes and improved integrity of data within banking institutions are on the rise Barth et al (2008).

A front runner in driving this change was the European Commission, supported by the European Central Bank. The European Commission has implemented regulations that seek to standardise Euro payment processes through the creation of the Single Euro Payments Area in which all electronic payments were seen as domestic. Differences in payment times, levels of fraud risks and data capture elements were meant to be eliminated as a result of straight-through processing of cross-border payments and direct debits within this zone. The adoption of an international standard authorises the use of an international bank account and a bank identifier code to enable seamless electronic cross-border payments (Williams, 2012).

Sepe (2012) argued that a contractarian approach to regulating risk in banks should be undertaken especially considering that the banking sector was incentivised to take risks because of their hedged position from depositor insurance and bank bailouts. This undermined the risk-return trade-offs made when deciding to utilise debt financing and instead incentivise distorted risk-taking. Of three potential solutions, the promotion of corporate governance in which regulators impose costly penalties on banks in the same way that debt providers would need costs of debt on these banks in a world without insurance, is the most preferred option (Sepe, 2012).

In recent years, banks in developing countries explored expansion options for growth opportunities. They increased their product offerings and customer branch networks in order to develop their structures to enable them to compete in bigger markets with more established players (The Banker, 2014).

Regulatory and risk management practices required strengthened operational risk capabilities to minimise their risk exposure due to an increase in the number of clients coupled with increased staff members. The required technology to manage these operations was an important investment in order for these banks to ensure compliance with local and international regulatory standards (The Banker, 2014).

The heightened foreign interest in these countries prompted partnership opportunities with foreign banks or companies therefore those banks had to demonstrate sound regulatory risk and governance processes, which is a prerequisite for any deal (The Banker, 2014).

2.4.1 Regulatory challenges

As banking industries became more complicated, regulators tried to keep up by adopting increasingly complicated rules (Kenneth, 2012). Much of the blame for the financial crisis was placed on regulators who "reinforced the ideology of the efficient, 'self-correcting' free market" (Nyambura-Mwaura, 2012). According to Alan Greenspan, former Chairman of America's Federal Reserve, "[t]he era of 'Great Moderation' where regulatory aspects were a 'light touch' is over" (Nyambura-Mwaura, 2012). The Institute of International Finance further mentioned that, because of stronger regulations, banks' shareholders should be content with "lower average returns that are associated with steadier returns" and a reduction of balance sheet as well as deleveraging are not the only alternatives to complying with new regulations(Nyambura-Mwaura, 2012).

Regulators found it increasingly difficult to find the right balance of suitable regulation which fosters financial stability as opposed to regulation that limits economic growth. An important question raised by Cohrs (2012) was related to the potential that the cost of regulation can outweigh the benefits of avoiding another financial crisis, basically, that increasing regulatory costs do not necessarily improve regulators' ability to manage or avoid future financial crises.

In 2009, the regulatory transformation of the banking industry resulted in the agreement of Basel III requirements. It has taken many years for governments to interpret the global standards into national requirements as well as implement these requirements together with other regulatory aspects. These delays, together with the slow economic recovery, have obstructed banks' efforts in implementing these regulatory or ptocess changes and therefore many banks have decided to wait for a clearer regulatory agenda instead of starting implementation. This added to the cost of implementation based on inflation at the time of implementation (Ernst & Young, 2014–2015).

Many of these rules, once implemented, took effect after a certain period, in some cases years. However banks have been pressured into providing feedback on compliance to these new standards as well as raising additional equity capital which may extend to tighter liquidity and leverage ratio requirements (Ernst & Young, 2014-2015).

Another challenge faced was the gap between global design and local execution of these standards or the inconsistency in the application of these standards. The main reason for this was local interpretation therefore implementation of these standards were not in line with a globally consistent framework (Ernst & Young, 2014-2015).

The economic and regulatory challenges experienced by the banking industry could be seen in their revenues. In addition, banks across jurisdictions have been fined for compliance and regulatory breaches which cost them billions of dollars (Ernst & Young, 2014-2015).

2.4.2 Challenges experienced in regional integration

Regional integration is not a new concept in Africa and has been in existence for a long time within SSA, however, regional trade agreements in SSA have a poor maintenance record for sustaining regional frameworks (Kimbugwe, Perdikis, Yeung, & Kerr, 2012). Mold (2005) and Yeats (1999) argued that there were successful examples of regional cooperation where trade and exchange rate policies have improved more than service delivery. Collier and Gunner (1999) also agreed that Africa's economic policies have improved despite differences between countries and policies. The different views on the impact of economic growth suggest variations in observation hence different predictions could be expected for future growth rates (Collier & Gunning, 1999).

The result of increasing cost burdens to comply with more intrusive methods of bank regulation has placed strain on smaller systemically important financial institutions. Globally, there is a consensus that regulation would be the key determinant for shaping a new bank model in the future; however, the details of this new model were still unclear (Ernst & Young, 2011). Given the constrained operating environment of global banking players at both a financial and risk level, SADC member states had to consider the potential integration implications as a result of a new model in driving its agenda to engage with the rest of the world on the reshaping of economic, financial and political systems (Sako, 2006).

The Sako (2006) highlighted a number of challenges experienced by "Regional Economic Communities" in Africa in trying to integrate into world financial systems. These included the lack of complementarity of member countries' production structures and the lack of political will to mainstream regional commitments and agreements into national plans to ensure the success of the process.

Key lessons were taken from the European financial and monetary integration where government support played a critical role in regulatory framework and standards development (Sako, 2006). Jefferis (2007), Handley and Mills (2001) and Ranganathan and Foster (2011) all stressed the importance of political integration and collaboration amongst governments and relevant industries for the success of the programme.

Africa's highly fragmented financial and political landscape is different to that in Europe and acts as a growth constraint to smaller countries in the region. While Europe is less fragmented than Africa, financial and monetary integration has undoubtedly demonstrated positive financial benefit to its smaller member states (Ocampo, 2011). Jefferis (2007), however, stated that proper analysis on the suitability of macroeconomic integration and monetary union in Africa had not been considered. The biggest challenge for financial integration was the vast difference in independent regulatory requirements. On the other hand, Jefferis (2007) mentioned that a standard regulatory formwork could also restrict how individual countries respond to economic and social circumstances.

Developing countries, and mainly the rural areas within them, had a challenging environment hence they required a stronger regulatory framework to protect their economies (Simba, Mwinyiwiwa & Mjema, 2011). The IMF stated that, should the Euro crisis escalate further and global growth slow down, "Sub-Saharan Africa's prospects will be less favourable" and South Africa, due to its strong link to Europe, may be affected "with possible repercussions for some economies in Southern Africa". The IMF further mentioned that commodity prices would negatively affect the region's natural resource exporters (Nyambura-Mwaura, 2012).

2.4.3 Reputational damage

Both politicians and regulators in certain jurisdictions were under immense pressure to show their capability to effectively manage banks and take the necessary steps to penalise those who did comply with regulatory requirements (Parker & Kirkpatrick, 2012).

The era where bankers had “moral legitimacy” because they appeared to be the only people who understood the financial market, has long gone. Banking has developed a social dimension since its operations directly impact society, and social interest in boards of directors has increased due to the risk return and trade-offs that would impact the greater community. Therefore, there were strong arguments to ensuring that directors in banks face intense personal liability so that if banks fail, there is a category of “automatic sanction” for directors, which does not apply in other sectors of the economy (Parker & Kirkpatrick, 2012).

There has been increased focus on reforming banks’ cultures by promoting responsible business practices which was directly linked to the pressures received from shareholders to increase revenues (Baxter, 2012). Banks were expected to understand the “principle of shared value” whereby the economic value created also benefited the society. Business, however, viewed more regulation as increased costs therefore a long-term vested interest was required where banks needed to evaluate the benefit of the products to the customer. While legislation was meant to enhance “shared value” which enabled businesses to think about how they treated their customers, regulations that discourage “shared value” appeared to enforce compliance rather than societal improvements (Baxter, 2012).

2.5 SUMMARY OF LITERATURE

The literature showed that there is a general agreement on the need for a well-managed banking regulatory landscape to protect the SSA economy and improve FDI. The rapidly changing economic environment in SSA, however, requires more literature and empirical evidence as mentioned by Hammouda et al (2010) in order to understand the adaptability and responsiveness of banking regulations in SSA as well as its broader impact on the region. The management of this adaptability and responsiveness to SSA was also not clearly identified by the literature consulted. Previous studies have proven that discussions around banking regulations are part of a much larger and interconnected network of decisions for banks in SSA.

CHAPTER 3: RESEARCH QUESTIONS

3.1 INTRODUCTION

Research objectives have been developed based on the literature review conducted. The existing literature has revealed the need for regulatory reform and integration in SSA and the resolution of conflicting views on challenges faced by banks with respect to the regulatory landscape in SSA. It has also evaluated the knowledge base in regulatory reform. Finally, the literature review explored the impact of varying regulatory requirements and their subsequent effect on creating a competitive economy. The impact of the literature review conducted revealed that the regional integration and harmonisation of financial policies would either improve a bank's cross-border expansion strategy or constrain it.

3.2 RESEARCH QUESTION ONE

Responsiveness of SA banking regulatory landscape to the changing SSA economic environment

3.3 RESEARCH QUESTION TWO

Challenges faced in the adoption and implementation of banking regulations in SA and SSA

3.4 RESEARCH QUESTION THREE

The extent to which legacy "operational processing" (people, process and systems) is aligned to meet new and existing regulatory requirements.

CHAPTER 4: METHOD

The summary of the literature review allowed for the exploration of existing knowledge on the subject of regulatory change, its application, and its impact on banks' profit efficiency.

This chapter presents and explains the research approach selected for this study. It includes the research design, unit of analysis, defined population and sampling method and concludes with the data collection and analysis process. The chapter highlights the limitations to the proposed research method.

4.1 RESEARCH DESIGN

A key benefit of qualitative research is to provide an understanding of the context within which decisions and actions have occurred. Human decisions and actions can only be understood in context therefore it is best to discuss the reasons for those decisions and actions with the people concerned (Myers, 2013, p. 19). Exploratory research diagnosed the dimensions of a problem and identified priorities for future research (Clough & Nutbrown, 2007, p. 32). This also provided management with information on a topic that required more investigation (Clough & Nutbrown, 2007, p. 33). The research design followed a qualitative and exploratory study as there were aspects that had not been explored when regulatory changes in an emerging market were considered.

The qualitative process included unstructured interviews with expert risk practitioners in various banks. According to Myers (2013), interviews are one of "the most important data gathering techniques" for business qualitative researchers. The aim of the interviews was to gain deeper understanding on the impact of regulatory change on banks' profit efficiency, with specific focus on banks in SSA. The interview process was expected to display elements of an unstructured as well a narrative process through which primary data was obtained.

Qualitative interviews examined what was not ordinarily on view (Myers, 2013). This method allowed participants to share their experiences and the researcher to gain a deeper understanding of the subject matter and probe for more tacit information. Participants that were not available for a meeting responded to questions from the interview schedule via email. Follow up questions were mailed to these participants to obtain clarity and further information.

Based on the literature review process, no formal process or framework was identified for managing and implementing regulatory changes. There was also a lack of quantitative data that could be used to explain the relationship between regulatory change and its associated impact. The qualitative process was expected to further demonstrate the need for the co-creation of knowledge by risk practitioners as business today is more active, networked and global (Ospina & Dodge, 2005).

4.2 UNIT OF ANALYSIS

The unit of analysis included risk experts from the banking industry who had interacted with regulators and had experience in the implementation of regulatory requirements in their areas.

The proposed scope of this research was limited to banks and regulators in South Africa and SSA.

4.3 POPULATION AND SAMPLE

4.3.1 Universe

The population included banking industries in the Gauteng region and SSA because of convenience of access. The population for this research was subject matter experts in the banking industry who were involved in ensuring the implementation of regulatory requirements, as well as senior executives who had a vested interest in this topic.

4.3.2 Sampling method

This study did not have access to the entire population of expert risk practitioners, therefore interviewees selected were not a random selection (Saunders & Lewis, 2012). This was referred to as a non-probability study, where units of sampling were selected on the basis of convenience or personal judgment (Zikmund, Babin, Carr, & Griffin, 2008, p. 397).

The sampling techniques, which supported the sample selection, were a convenience-based sampling approach due to ease of access to the sample members as well as a cost benefit (Zikmund et al, 2008, p. 398).

While a non-probability, convenience-based sampling technique facilitated the selection process and ensured that the relevant sample members were selected in a cost effective manner, it was also regarded as the best sampling technique for qualitative research when “additional research will subsequently be conducted with a probability sample” (Zikmund et al, 2008, p. 398).

Ten risk practitioners were selected for the interview process and they were based within banks in SA and SSA. These individuals were selected on the basis that they had provided banking services to the SADC region, as this was relevant to the assessment and implementation of regulatory requirements.

The sample members are senior managers and executives who were involved in the implementation of these regulatory changes relating to decision making and costing of regulatory projects, and had engaged with the necessary regulators. In addition, interviews with other experts in this field were carried out with, amongst others, regulators, consultants and senior management in businesses that were involved in implementing regulatory change requirements. Five financial and regulatory authority members were selected for the interview process and they were based in SA and SSA.

It was important that a valid qualitative process was applied that would result in credible and trustworthy data (Suter, 2011). The researcher conducted initial discussions with these senior managers and executives and ensured their access to regulators. The researcher confirmed the interview schedule prior to the official research. A stakeholder check that confirmed interview findings was conducted in order to validate the interpretation and explanation extracted from the data received (Zikmund et al, 2008, p. 393).

4.4 DATA COLLECTION

One-on-one interview sessions were conducted and each session was expected to be of one hour’s duration. All sessions were held at the participants’ head offices and this mitigated inconvenience relating to travel and enhanced the accessibility of the participants. The researcher ensured that the interviews were carried out with integrity, patience and tact, and that participants were comfortable in their participation with the interview process. This was achieved by the researcher’s explanation of the purpose of the study, the confidentiality agreement as well as by an explanation of the importance of openness to the study (Zikmund et al, 2008, p. 452). Participants that were not available for a meeting responded to questions from the interview schedule via email and follow up questions were mailed to these participants to obtain clarity or further information.

The interview schedule that was developed consisted of open-ended questions. This was a data collection method that allowed participants to speak openly about the relevant topic (Saunders & Lewis, 2012). A Dictaphone was used in each interview and recordings from the interviews were transcribed after each session. The transcription was tested against personal notes that ensured the accuracy of data. The stakeholder check that confirmed interview findings was conducted in order to validate the interpretation and explanation extracted from the data received, as mentioned above.

4.5 METHOD OF ANALYSIS

Qualitative data analysis is a research technique known for “making replicable and valid inference from text to the context of their use” (Myers, 2013).

An in-depth review of the transcribed data and responses to questionnaires, which identified meaningful units of analysis, was conducted. This ensured that the data was coded correctly and meaningfully (Clough & Nutbrown, 2007, p. 41). Coding refers to the process of “defining segments of data” with applicable symbols, descriptive words or category names (Suter, 2011). The software program Atlas.ti was used to facilitate the coding, categorisation and identification of relationships.

Of the 50 codes developed, the researcher identified key codes that were flagged more than once under the different categories. The researcher, however, retained the repeated codes in order to emphasise the focus on certain issues and the link through these themes. The repeated codes were quantified in terms of their appearance in the data set. Refer to Figure 4.1 below for the order of appearances. These 50 codes (including repeated codes) were classified into categories then placed into themes based on the literature review, as illustrated in table 4.1.

Figure 4.1: Codes repeated in data collection

Table 4.1: Themes, categories and codes

Theme	Regional Integration		
Category	Changing environment	Macroeconomic environment	Levelling the playing field
Codes	Culture	Barriers	Commonality
	Engagement	Commonality	Culture
	Pace of change	Integration	Integration
	Responsiveness	Politics	Partnership
	Threats	Risk and investment	Politics
	Transparent	Standardisation	Standardisation
	Understanding	Strategic planning	
	Transparent		
	Understanding		
Number of Codes per categopry	9	7	6
Total codes per theme	22		

Theme	Banking Landscape	
Category	Regulatory development	Implementation challenges
Codes	Consultative	Culture
	Engagments	Engagement
	Innovation	Execution
	Interpretation	Language and interpretation
	Process	Resources
		Skills development
		Standardisation
		Timelines
Number of Codes per categopry	5	8
Total codes per theme	13	

Theme	Competitive environment	
Category	**Regulatory pressures**	**Cost of compliance**
Codes	Culture	Business expansion
	Competitive environment	Infrastructure
	Deadlines	Opportunity costs
	Engagement	Processes
	Legacy system issues	Skills
	Pace of regulatory change	Strategic planning
	Standardisation	Systems
		Value add
Number of Codes per categopry	7	8
Total codes per theme	15	

The table of categories and codes was developed from key quotes identified from the interviews (Appendix 7). Table 4.1 emphasises codes referred to by each respondent that were obtained from the transcripts using Atlas.ti. The following chapter will present some of the key data gathered from these in-depth interviews, specifically framed from the context of the research questions outlined in chapter 3.

4.6 RESEARCH LIMITATIONS

The research was expected to contain certain exclusions or limitations based on the method selected. According to the Competition Act (1998), any agreement, decision or practice that can potentially prevent or reduce competition in a market, is considered anti-competitive behaviour and is not allowed (Acts Online, 2013). Competitors must come to their own business decisions independently, without discussion or influence from their competitors and in a manner that does not limit competition. This could have limited the information provided that relates to assessments and implementation of regulatory changes or regulatory interactions during the process of implementation.

Based on company confidentiality agreements, important information required for this study could not be disclosed by participants, which may have limited crucial findings in this research and possibly future research options.

Qualitative research allows for exploration of new ideas and interpretations of market phenomena without depending on numerical data. It is, however, often difficult to generalise to a larger population and normally impossible for qualitative researchers to “make generalizations from a sample to a population” (Zikmund et al, 2008, p. 133). Qualitative research therefore needs to be followed up with more detailed quantitative analysis such as descriptive or causal studies to provide more dependable results (Zikmund et al, 2008, p. 133).

Participants that were not available for a meeting responded to questions from the interview schedule via email. Even though follow up questions were sent to obtain more information, key aspects may have been missed that could have been obtained in a one-on-one interview.

The use of non-probability sampling indicates that the sample did not represent the population statistically due to incomplete population lists. The chance or probability of member selection was unknown therefore results could not be generalised to the whole population (Saunders & Lewis, 2012, p. 134).

Convenience sampling means that the study used interviewees who are readily available therefore the data collected may not represent the whole population (Saunders & Lewis, 2012, p. 134).

The researcher could not provide leading content to the interviews which may have led to subjectivity on the topic. Participants may also have wanted to appear positive regarding the subject which may have skewed the data collected.

Researchers should not impose their personal views onto the study and should capture the content from the view of the participants (Zikmund et al, 2008, p. 297). The researcher must also ensure that meaning is not lost during the interpretation process because of misunderstanding the terminology used.

Summary

Chapter 4 explained the research approach selected for this study. It included the research design, unit of analysis, defined population and sampling method and concluded with the data collection and analysis process. Research limitations to the research method were presented.

Chapter 5 presents the data obtained during the unstructured interviews and responses to questionnaires emailed, specific to the research questions in chapter 3.

CHAPTER 5: RESULTS

5.1 INTRODUCTION

Chapter 4 explained the method used to explore the research questions in chapter 3. The research questions outlined in chapter 3 was derived from the literature review in chapter 2. The research questions were:

Research Question One: Responsiveness of SA banking regulatory landscape to the changing SSA economic environment

Research Question Two: Challenges faced in the adoption and implementation of banking regulations in South Africa and Sub-Saharan Africa

Research Question Three: The extent to which legacy "operational processing" (people, process and systems) is aligned to meet new and existing regulatory requirements.

This chapter presents the findings from the fifteen interviews held with ten subject matter experts in the banking industry and five financial and regulatory body members in SA and SSA. The findings from these interviews are presented in the categories discussed in chapter 4.

5.2 THE INTERVIEWS

The interviews were conducted with ten subject matter experts in the banking industry who are involved in ensuring the implementation of regulatory requirements as well as five financial and regulatory body members in SA and SSA. The findings of the interviews will be presented below according to the categories discussed in chapter 4.

The ten banking members interviewed hold different positions within the organisations, ranging from strategic decision making to implementation of regulations either in SA or the broader SSA region. The five financial and regulatory body members in SA and SSA interviewed are involved in the development of regulations, field research and monitoring of industries in terms of execution and compliance to the regulatory requirements. Whilst it is unfortunate to not have more diversity in the universe sample in terms of banking members and regulatory bodies, these interviewees were found in an organisation and regulatory development context.

5.3 THE BANKING, FINANCIAL AND REGULATORY AUTHORITY MEMBERS

As mentioned in chapter 4, ethical approval has been obtained for this research on the basis that the interviewees will remain anonymous and no identification would be presented or stored in this research report. The banking, financial and regulatory members were presented in numerical order based on the industry and geographic responsibilities and a brief description of their responsibilities are provided below.

Table 5.1: Respondents and geographic responsibility

Respondants	Geographic Responsibility	Involvement in day to day operations
SA Bank Member 1	SA and SSA	Mostly SA
SA Bank Member 2	SA	Mostly SA
SA Bank Member 3	SA and SSA	Mostly SA
SA Bank Member 4	SA and SSA	Mostly SA
SA Bank Member 5	SA and SSA	Mostly SA
SA Financial and Regulatory Authority Member 1	SA	SA
SA Financial and Regulatory Authority Member 2	SA	SA
SA Financial and Regulatory Authority Member 3	SA and SSA	SA and SSA
SSA Bank Member 1	SA and SSA	SA and SSA
SSA Bank Member 2	SA and SSA	SA and SSA
SSA Bank Member 3	SA and SSA	SA and SSA
SSA Bank Member 4	SSA	SSA
SSA Bank Member 5	SA and SSA	SA and SSA
SSA Financial and Regulatory Authority Member 1	SSA	SSA
SSA Financial and Regulatory Authority Member 2	SA and SSA	SA and SSA

The banking members interviewed have extensive knowledge and experience in the field of risk management and the implementation of regulatory requirements. They are of senior authority and involved in strategic decision making in relation to the regulatory environment both in SA and SSA as well as have interaction with financial and regulatory authorities. The financial and regulatory authorities interviewed have years of experience and knowledge of the regulatory development process and landscape in SA and SSA. They have worked closely with various financial and regulatory authorities in SA and SSA. Their roles range from conducting filed research on the regulatory landscape, drafting of or proving input into country regulations or the monitoring of banks compliance to applicable regulations.

Interview questions were unstructured and allowed participants to respond freely. 3 themes and 7 categories were identified in total and quotes were linked to those categories. Table 5.2 below illustrates the categories and response received relating to each category.

Table 5.2: Participant response to each category

Number of Key Responses Related to Research Question Categories		Respondents																				Overall Total	
		Bank Members										Bank Total		Fin. and Reg. Authority					FRA Total			
		SA					SSA							SA			SSA					
Theme	Categories	1	2	3	4	5	1	2	3	4	5	10		1	2	3	1	2	5		15	
Regional Integration	Changing Environment		✓	✓	✓	✓	✓	✓		✓	✓	8	80%	✓	✓			✓	3	60%	11	73%
	Macroeconomic Environment			✓			✓	✓	✓	✓	✓	6	60%	✓		✓	✓	✓	4	80%	10	67%
	Levelling the Playing Field	✓		✓	✓	✓	✓			✓		6	60%		✓	✓	✓	✓	4	80%	10	67%
Banking Landscape	Regulatory Development		✓		✓	✓		✓	✓		✓	6	60%	✓		✓	✓	✓	4	80%	10	67%
	Implementation Challenges	✓	✓	✓	✓		✓	✓	✓	✓		8	80%	✓	✓		✓	✓	4	80%	12	80%
Competitive Environment	Regulatory Pressures	✓	✓	✓	✓		✓	✓		✓	✓	8	80%	✓	✓	✓	✓	✓	5	100%	13	87%
	Cost of Compliance	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	10	100%	✓		✓			2	40%	12	80%
	Total:	4	5	6	6	4	6	6	4	6	5	Avg: 74%		6	4	5	5	6	Avg: 74%		Avg: 74%	

5.4 RESEARCH QUESTION ONE

Responsiveness of SA banking regulatory landscape to the changing SSA economic environment

5.4.1 Introduction

The first research question relates to responsiveness, specifically, how responsive the SA banking regulatory landscape is to the changing SSA economic environment in relation to macroeconomic convergence and regional integration and potential impacts on foreign direct investment.

5.4.2 Changing environment

Changing environment seems to be of high importance as 8 out of 10 bank members interviewed and 3 out of 5 financial and regulatory authority members made reference to the changing environment. Some respondent's had more than quote in their responses relating to changing environment. Key aspects were identified and quotes were separated accordingly.

5 respondents made reference to the pace of change relating to the changing environment: The following are some key quotes relating to pace of change in the changing environment. Refer to Appendix 1 for more quotes.

…there is so much planned in the last two and a half years, there has been 1.2 regulatory changes every week, coming out from Government in South Africa (SA Bank Member 2).

…we getting new changes on a regular basis, you mustn't forget Moz is quite far behind a lot of countries so every year there is more and more changes to the law (SSA Bank Member 4).

…the fundamental pillar of banking is trust, the unfortunate thing is that in an environment that we are seeing more and more changes we really need to make sure that were able to adapt, (SSA Bank Member 5).

4 respondents made reference to the engagement relating to the changing environment: Below are some key quotes relating to engagement in the changing environment. Refer to Appendix 1 for more quotes.

…the key is to understand your regulatory landscape and who has the right relationships and making sure your keep them informed, being transparent and making sure there are no surprises (SA Bank Member 3).

…work is placed directly on the monetary areas and Namibia, Botswana. Lesotho and Swaziland, they fall directly in the ambit of every business decision we make, including other SSA countries that participate … and people are struggling with exactly the same question, as to how do I get the Bank X to work effectively together as one entity (SA Bank Member 5).

…when we engage at industry levels, a key function is to mobilise SME's who have to take these regulatory developments to the relevant business areas. A potential gap is we are not discussing these with our jurisdictional colleagues therefore we don't have a good understanding of what's happening in country or vice versa. We should have an integrated forum to discuss these developments and projects so that we can identify gaps and similarities with our broader African colleagues for effect planning and execution (SSA Bank Member 2).

4 respondents made reference to responsiveness of process relating to the changing environment: Below are some key quotes relating to responsiveness of process in the changing environment. Refer to Appendix 1 for more quotes.

…Basel guidance note 3 on risk data aggregation and risk data reporting, basically has as one of its principles, that one needs to have adaptable and flexible systems, They set it out as a principle under which one must comply and so the regulators are recognising their own demands are placing more and more requirements on the banks and that they therefore have set a principle that the banks need to set up their infrastructure in such a way that they are capable of responding to adhoc regulatory requests (SA Bank Member 4).

…even a lot of South Africans are opening accounts elsewhere, especially if they have multiple businesses in cross multiple geographies, it can become a lot easier to open something in another country, and simply by-pass SA in the process. Once it's in SADC, they bring it into SA (SSA Bank Member 4).

…it is interesting to note that the US and EU often postpone implementation to a period that suits domestic circumstances even when they contributed to, or defined the original implementation timing. Political process is a common reason for their delays (SA Financial and Regulatory Authority Member 1).

2 respondents made reference to the threats in a changing environment: Below are some key quotes relating to threats in a changing environment.

…get the mobile network operators into the play as well because mobile phones outnumbers banks by, it's like hundreds to 1, it's like literally the penetration rate of mobile phones versus banking infrastructure is chalk and cheese (SA Financial and Regulatory Authority Member 2).

…we find outside of SA in some of the growing SSA economies, there is either a lack of regulation, or there is regulation, not as much as SA, I don't think I have ever seen as much as in SA but these financial markets are not really sophisticated as SA. You have to consider that from a supply side if you do regulate the industry, what is the ability of the industry to respond to regulations and the changing regulatory landscape (SSA Financial and Regulatory Authority Member 2)?

5.4.3 Macroeconomic environment

6 bank members interviewed and 4 financial and regulatory authority members made reference to the macroeconomic environment. Some respondent's had more than quote in their responses relating to macroeconomic environment. Key aspects were identified and quotes were separated accordingly.

5 respondents made reference to risk and investment relating to the changing environment. Below are key quotes relating to risk and investment. Refer to Appendix 1 for more quotes.

…regulators are having to step up their game and they are all now having to comply to stricter regulations around the world. They can't be seen to be risky because investors will not go there. If you take Kenya, there are certain pockets of regulations where the level is really high compared to here, because they need to have it and be able to transfer the information from one country to the next and if you don't have the laws in place as strong as the United States and the UK, then you are not allowed to take certain information and transfer anywhere else. So why is that important, well if you want to be seen as a market leader and attract investors, they want to know their information is protected, (SA Bank Member 3).

…imposing some SA regulations into “less” regulated areas will restrict growth and trade in these areas (SSA Bank Member 3).

…standardisation makes a country easier to do business and increases foreign investment which is what we need right now (SSA Bank Member 4).

…SA is seen as the corridor to the region but they are the most expensive. This is impacting on trade across the region and slowing down mobility across the region (SSA Financial and Regulatory Authority Member 1).

…we assess proposals, its capacity, empowerment and skills transfer. So how will that company do in a particular country and contribute to that process as part of the work that they do for us. So whether that be providing training, for local drafters or building capacity for members of national treasury provided by our steering committee and our technical teams; so we are quite big on the empowerment side (SSA Financial and Regulatory Authority Member 2).

2 respondents made reference to politics relating to the changing environment. Both respondents were financial and regulatory authority members. Below are key quotes relating to politics. Refer to Appendix 1 for more quotes.

…ensure there is policy that is accepted from an economic rather than a political agenda, quite frankly and avoid policy making decisions that’s agnostic or politically driven as possible but to ensure that one is meeting a social imperative, because generally if you do meet the social imperative appropriately you will not meet the economic imperative (SSA Bank Member 1).

…the regional payments integration project appears to have the apparent backing of the powers that be in each of the countries so you look at the which is a very important factor., if it doesn’t have political will (in the form of support from all the key stakeholders) it can be obstructed (SA Financial and Regulatory Authority Member 3).

3 respondents made reference to integration relating to the changing environment. Both respondents were financial and regulatory authority members. Below are key quotes relating to integration. Refer to Appendix 1 for more quotes.

> …Eurocentricism is increasingly prevalent in developing regulations, little recognition of integrational factors associated with other jurisdictions and especially non emerging markets or Africa (SA Financial and Regulatory Authority Member 1).

> …we need uncomplicated regulations that impact on cross border activity that eventually impact on the economy which is against the objective of regional integration (SSA Financial and Regulatory Authority Member 1).

5.4.4 Levelling the playing field

6 bank members and 4 financial and regulatory authority members interviewed mentioned the need and importance of having a level playing field. There were, in some instances, more than one quote from a respondent relating to levelling the playing field. Key aspects were identified in this category relating to levelling the playing field and the quotes were separated accordingly.

5 respondents made reference to standardisation related to levelling the playing field. Below are key quotes relating to standardisation. Refer to Appendix 1 for more quotes.

> …I think the need for regulations is multiple needs, one is around a level playing field or an appropriately differentiated playing field whether it's across geographies or across types of activities but basically trying to treat the same things in the same way so I think the need for regulation is around the levelling of playing fields so that's probably a case of saying there is a regulation, let's ensure that it reinforces level playing fields rather than introducing anomalies (SA Bank Member 4).

> …regulations standardise the playing fields amongst competitors (SA Financial and Regulatory Authority Member 2).

> …we don't necessarily propose that the global standards are applied rigidly, we look at it but we also look at those and we say how do these standards or how do these recommendations; 1, fit into our context, 2, support financial inclusion; do they support it, do they act as a barrier or are they prohibitive for financial inclusion, because convergence is an issue in our region, so we want to look at it in relation to that, so what may come out for example, we may make a recommendation that says that this is the FATF recommendation and CDD, we find that countries at varying levels, firstly in their interpretation of that particular recommendation, but also some countries will apply it very

conservatively that results in a barrier for financial inclusion (SSA Financial and Regulatory Authority Member 2).

4 respondents made reference to integration related to levelling the playing field. Below are key quotes relating to integration. Refer to Appendix 1 for more quotes:

…there will be challenges in the integration because it's going to be a "my currency is stronger than yours" and why must we go with that currency etc (SA Bank Member 3).

…the region is moving toward joint platforms and common currency. If your systems and regulations are too complex, how do you expect to be part of the integration program, how do you expect other countries in the region to work with you (SSA Financial and Regulatory Authority Member 1)?

…major focus is on financial inclusion and regional perspectives across SADC but also looking at integration and harmonisation so how do countries in SSA, harmonise policy, regulations, processes, systems (SSA Financial and Regulatory Authority Member 2).

2 respondents made reference to partnership related to levelling the playing field. Below are key quotes relating to partnership:

…we do not have that entrenched partnership with regulators in SSA. We are always reactive in SSA. There is a huge disconnect where we Bank X has robust systems but trying to integrate into our systems in Africa is a major challenge (SA Bank Member 1).

…consultative relationship with the aim to agree on a common framework (SSA Financial and Regulatory Authority Member 1).

1 respondent mentioned politics related to levelling the playing field. The following quote is related to politics in levelling the playing field:

…SA sees themselves as potentially first world economies and I think there's a sense of arrogance that comes with that as South Africans and some of the other countries don't like that (SSA Financial and Regulatory Authority Member 2).

5.5 RESEARCH QUESTION TWO

Challenges faced in the adoption and implementation of banking regulations in SA and SSA

5.5.1 Introduction

The second research question relates to the banking landscape, specifically looking at challenges faced in the adoption and implementation of banking regulation in SA and SSA.

It is extremely important to note that the view across banks and regulatory authorities are very similar in that they all agree on the need for regulations as well as understand the importance of having sound regulations in place. Below are some of the quotes relating to regulatory reform and the need for regulations.

All participants were asked the following question:

“What is your view on the importance and reason for regulatory requirements?”

The participants had the following to say:

Table 5.3: Participants response to the importance and need for regulations

Participants	Response
SA Bank Member 1	*"Given the financial, global misconduct in specifically the banking industry and African Bank is the latest example; the need to have regulation in place continues to increase in order to protect the economy"*
SA Bank Member 3	*"because the American economy still drives a lot of the inter-banking requirements of the world together with Europe, they can dictate the rules, and if you don't want to play by their rules, they won't allow you to operate in their jurisdictions so it's quite simple, do you want to or not. So I think positive in a way that we are seen to be a country that adheres to best practices and we don't want to be seen as a country that has bad practices and therefore be cut out of the global sphere."*
SA Bank Member 5	*"SA is one of the countries that are brilliant in that the country laws were not done just yesterday, it was done many years ago, but now has been revised several times over, whether it was old apartheid or the new government, either way, our countries laws are brilliant, especially that it's based on our constitution."*
SSA Bank Member 1	*"…as society got more complex and the world became more populated, some form of system had to emerge that allowed structure and organizations to work well"*
SSA Bank Member 2	*"…bring about a sense of comfort from a consumer point of view especially after the market collapsed in 2008. This was because there were not many insights on regulatory requirements and the whole economy suffered."*
SSA Bank Member 3	*"Since banks are the custodians of public deposits it is vital for banks to manage the risks that they are exposed to in a prudent and responsible manner."*
SSA Bank Member 4	*"…regulations, if I look at the country as a whole, is very important for the stability of the economy and financial institutions, mainly because of the monetary role they play and the harsh consequences if something goes wrong."*
SSA Bank Member 5	*"...we are being regulated more and more and it's because of the environment we are in and its broader impact on the economy and the financial crisis and the fraudulent activities."*
SA Financial and Regulatory Authority Member 1:	*"Empowering authorities that regulate the institutions subject to regulations to sanction and penalise institutions against practices and measures that represent risk to the participants, clients, depositors, investors or tax payers"*
SA Financial and Regulatory Authority Member 1:	*"Regulations provide a set of rules and thus provide parameters within which to work. This also makes the relevant institutions more comparable and in being more comparable – the ability to regulate becomes easier"*
	"...regulations helped the SA banking industry to come through relatively unscathed through the 2008 financial crisis. Practically all the other banks across the world were being impacted, you had banks falling down left, right and center in America and in SA we never had an impact at all"
SSA Financial and Regulatory Authority Member 1	*"regulations are important in any environment and in the banking environment where you are really dealing with peoples livelihoods. It becomes very important to not only to safeguard the institution but the public at large."*
SSA Financial and Regulatory Authority Member 2	*"working with national treasury and the FSB, a lot of focus on that particular sector because of the high levels of the lack of consumer protection, lack of transparency in terms of total cost, non-disclosure to customers etc. in the African countries."*

The following participants, although agreed on the importance of regulations, mentioned their concern on the new wave of regulations.

Table 5.4: Participants response to the importance and need for regulations

Participants	Response
SA Bank Member 3	*"There's no one size fits answer to that depending on where you sit, but if you take a step back and if you look at the world of banking globally over the last 10 years, there has been an incredible increase on regulatory focus. Whether it is capital requirement, lending practices, talking to customers daily, finding the right products, fully transparent, profit and investment, if banks have conducted themselves reasonably well and behaved responsibly, no need for regulatory requirements in an ideal world would be required. You would only require basic regulations but because banks behaved irresponsibly, they kind of deserve now what's in their laps... So to some extent are they needed? Yes, are they needed to the extent that it is competitively challenging or difficult to come on board is a bit of a discussion point."*
SA Bank Member 4	*"Look, regulations are extremely important but I think the jury is out in terms of the new wave of regulatory requirements, to what extent are they going to leave us any better off than we were, when I say we, I mean the financial markets and all their stakeholders, whether they would leave us better off or not,Look, regulations are extremely important but I think the jury is out in terms of the new wave of regulatory requirements, to what extent are they going to leave us any better off than we were, when I say we, I mean the financial markets and all their stake holders, whether they would leave us better off or not, the jury is still out"*

SA Bank Member 2 was the most vocal when it came to the issue of importance and the need for regulations. SA Bank Member 2 was of the view that implying banks are over regulated is because of self-interest and not seen through the view of the regulator or consumer. This individual also expressed their view on not leaving banks to self-regulate because "bad things" have happened in the past.

Table 5.5: Participant response to the importance and need for regulations

Participant	Response
SA Bank Member 2	*"Over and over again we can see the bad things that happen when financial institutions are allowed to self-regulate. So there has to be regulations in place and continuous review of those regulations to protect both financial stability and health of the system as a whole, and to protect consumers."*
	"...don't think anyone can argue with the fact that after the global financial crisis, there are going to be stricter regulations. So maybe it has gone too far, but we obviously are very self-interested in saying that they have gone too far. We are not looking at it from the point of view of either the regulators or from the people who were hurt from bad regulation in the past.

5.5.2 Regulatory development

A total of 6 bank members and 4 financial and regulatory authority members mentioned factors related to regulatory development. The responses received were related to varying aspects that talk to regulatory development. The following are key quotes obtained from the interviews that are related to regulatory development. Refer to Appendix 2 for more quotes.

> …engagements are happening where the group governance function is providing training so that the local in country board gets to understand the context or the regulations, the governance environment within which the group operates and how it should or could affect them in country (SA Bank Member 4).

…new legislation is a lot less in our country; it is about change of existence legislation, and impact of implementing it (SA Bank Member 5).

…most regulatory changes is a process and in some instances takes years before promulgated (SSA Bank Member 2).

…what is important is for banks to be awarded an opportunity to provide input or even to participate in workshops before the regulatory requirements are issued. In some Sub-Saharan countries this is a big challenge because requirements are sometimes issues with retrospective implementation dates or new legislation contradicts existing legislation or circulars issued are back dated, which makes implementation a challenge (SSA Bank Member 3).

…we are probably over regulated, and the reason for that is probably that we fail to self-regulate and execute what we need to (SSA Bank Member 5).

…occasionally banks affected by cross-border operations host supervisory colleges in South Africa at which the regulators of non-South African operations meet together with us to discuss the performance and trending risk profile of the consolidated institution and the variances between our regulatory standards (SA Financial and Regulatory Authority Member 1).

…it is important that the bank's interpretation of regulatory requirements are in line with and reflect the intention of the regulator because implementing regulatory requirements comes at a huge cost, especially from a system perspective. Meeting timelines from a reporting perspective, especially from a system point of view, given the development and testing phases can also be a challenge (SA Financial and Regulatory Authority Member 3).

…whether it's in SA or Zimbabwe, you are always going to have concerns on the kind of infrastructure and the type of things like addresses and so forth. One needs to look at the ratio of urbanised versus non-urbanised and connectivity, and then be able to look at that as feeding into regulatory development decisions such as AML laws and so forth (SA Financial and Regulatory Authority Member 3).

…so one of the things we bet on is building capacity within that country so we don't want to come in and import skills and do everything and then leave so we encourage our confidence in those countries to be a part of the process, we also strongly encourage them to make financial contributions to the regulatory reform so that they have ownership of it. We don't want to, I think, we see it a lot of countries, this hand-out mentality, we need to shift that and say okay what are you bringing to the table and even if it's small in the grand scheme of things, slightly insignificant but it's still the principal of encouraging partnerships and not just getting hand-outs (SSA Financial and Regulatory Authority Member 2).

5.5.3 Implementation challenges

A total of 8 bank members and 4 financial and regulatory authority members mentioned factors related to implementation. The responses received related to varying aspects that talk to regulatory development. Some of these include engagements, skills development, standardisation and execution. The spread was quite big hence key quotes obtained from the interviews will be presented below. Refer to Appendix 2 for more quotes.

The following quotes relate to language and interpretation:

> …language barrier is huge. We don't always interpret their regulations correctly and our policies may come across as too complex because many of our SSA colleagues are not as fluent in English (SA Bank Member 1).

> …I think our one big challenge, a challenge for any bank is to take these regulations and translate them into practical readily accessible either checklists or material that can be readily referred to and in as many cases as possible, wherever possible, to actually systematise it so that there are system controls that would flag or escalate an issue, I think it's physically impossible to expect the average staff member to understand the complexity of the regulations and quite honestly I don't think our governance framework helps (SA Bank Member 4).

The following quotes relate to execution:

> …what is also supposed to happen, but it is not happening enough, is we are supposed to find ways to look for the overlap in different regulatory requirements for example where TCF and POPI overlaps, so that we could have one control that helps you comply with both. We are not really getting that right yet. So there is still a lot of scope to save the bank money (SA Bank Member 2).

> …the consultation around the content is probably quite robust, I think the consultation around the implementation is less so, and I am not sure there is enough of a connection that connects between the practicalities and the implementation on the principles of legislation (SSA Bank Member 1).

The following quote relates to engagement:

> …working on the changes in isolation and not including all impacted stakeholders may also impact on the interpretation of the requirements and overall implementation across jurisdictions because of a lack of understanding of process, system and regulatory gaps or overlaps (SSA Bank Member 2).

The following quote relates to standardisation:

> …in Sub-Saharan African countries, most Regulators expect internationally active banks with operations in their jurisdiction to comply with the local requirements and regulations as a minimum, but will hold them to higher standards, expecting them to implement international best practice standards that their parent banks are required to adhere to. This is a major challenge because of poor infrastructure and connectivity. Managing that information becomes difficult from a central or integrated view because of cross border transfer of information which in some countries don't allow for it (SSA Bank Member 3).

The following quotes relate to skills development:

> …you are having to invest a lot of time and money in building people up so to me the biggest obstacle in managing the regulatory and compliance I would say is skills. I would say that's the same for quite a chunk of the region (SSA Bank Member 4).

> …a challenge in SSA where there is a huge skills shortage to implement and monitor such requirements (SA Financial and Regulatory Authority Member 2).

The following quote relates to timelines:

> …mutual understanding between regulators and regulated institutions. Global implementation timelines for implementing new standards are occasionally ridiculous (SA Financial and Regulatory Authority Member 1).

5.6 RESEARCH QUESTION THREE

The extent to which legacy "operational processing" (people, process and systems) is aligned to meet new and existing regulatory requirements.

5.6.1 Introduction

The third and final research question relates to the extent to which legacy "operational processing" in terms of people, process and systems, specifically, the alignment to assist in implementation of new and existing regulatory requirements in SA and SSA.

This question was approached by taking note of the aspects of people, process and systems being flagged under the previous categories.

5.6.2 Regulatory pressures

8 bank members and 5 financial and regulatory authority members made reference to regulatory pressures. The responses received related to different aspects that talk to regulatory pressures. The aspects flagged included culture, engagements, standardisation, legacy system challenges, pace of regulatory change and competitive environment. Below are some key quotes relating to each aspect, refer to Appendix 3 for more quotes.

The following quotes relate to culture:

> …it comes back to culture. It is ethical culture. If we really believe and we really build our culture and our reward system,…you don't need regulations (SA Bank Member 1).

> …most important thing is probably the appreciation and standardisation of culture across an organisation and how effectively it manages to embed it's culture and values and ethics across its employee database (SSA Bank Member 1).

> …skills is a challenge because we don't have historical culture of compliance in Africa, we don't have a lot of people that have studied in it, worked in it, have experience in this particular field (SSA Bank Member 4).

The following quotes relate to engagements:

> …the balance between prescribing and consulting is a fine line for example, in some instances the SARB would literally give a few months to implement major system changes which is not doable. Hence banks have to increase costs i.e. additional resources and tactical systems have to be implemented to meet these sometimes unrealistic deadlines (SA Bank Member 1).

> …the deadlines are not discussed, it's given. It's sometimes 6 months but can be longer based on the project or changes required (SSA Bank Member 2).

The following quote relates to legacy system challenges:

> …banks have lots of legacy systems. What we are putting on the table now is to redesign the system architecture so that enforcement of system specific rules is centralised so we don't have to change rules on 10 or 20 different systems. Our systems are not fully

integrated and get complicated when trying to achieve a preferred outcome (SSA Bank Member 2).

The following quote relates to Standardisation:

> …as the economic landscape especially with the regional integration projects taking place, changes and new and innovative ways of doing business emerge; the regulations need to be adapted to take account of this. If the regulations do not evolve to make room for this, they will be ineffective and could lead to market arbitration. This is currently proving to be difficult because of infrastructure, skillset (language is part of it) and connectivity challenges. It does impact on the collaboration process which needs to be continuously worked on (SA Financial and Regulatory Authority Member 2).

The following quote relates to the pace of regulatory change:

> …when you get something new coming in, you get other things, you get country regulation and then you get like American regulation that affects us, European regulation that affects us, so you are getting all that coming in, so it's not just a country regulation or a SADC regulation, it's what's happening in America, FATCA is the latest one coming into play, that affects us as well and what is the latest thing out of Europe, that also affects us, so you are getting regulation from quite a lot of countries, whereas Africa doesn't affect America in our regulation, their regulation affects us, so that's why I say there are far more changes than people think you get (SSA Bank Member 4).

The following quotes relate to competitive environment:

> …focus on being more innovative and focus on their core business than trying to interpret but the regulations are saying. That is in no way helping the growth of the economy. It is creating more admin and less room for core business activities to take place (SSA Financial and Regulatory Authority Member 1).

> …we have observed in some countries there are no regulations around mobile players entering the financial sector and that's a risk to the economy, it's a risk to their consumer base, opens up all sorts of risks but those countries deem that, they don't see it as a problem (SSA Financial and Regulatory Authority Member 2).

5.6.3 Cost

10 bank members and 2 financial and regulatory authority members mention costs in their interviews. Cost has been flagged as the biggest concern for banks. There were a number of aspects related to costs such as value add, opportunity costs, increased

operation costs relating to people, process and technology. The following are some of the quotes obtained during the interview that's related to costs. Refer to Appendix 3 for more quotes on costs

> …business has to ensure that they show value to our stakeholders and this can only be done through increasing their income thus their resources are focused on doing exactly this and regulatory requirements very seldom increase income. It is not seen as a value add to the business income statement (SA Bank Member 1).

> …our deadlines to get things done are not always aligned to SSA priorities and they sometimes feel imposed on. Our procedures are written according to SA regulatory requirements which do not necessarily fit in line with SSA legal entities and to implement SA requirements may be costly for the SSA banks because they sometimes don't even have the infrastructure to build these requirements (SA Bank Member 1).

> …cost are huge, I mean some of the costs first of all would be opportunity costs. The bank spends its time on looking how to comply rather than looking at innovation and coming up with things that could be good for our customers and good for our shareholders (SA Bank Member 2).

> …if you looking at it from a rand perspective, you would look at technology costs; what are the costs of changing IT systems to support the requirements. Also need to look at areas of change management to educate and train staff. Cost of learning and training is another contributor to cost of implementation. Need to update learning materials and travel all over country to ensure compliance to the changes. People need to sometimes be pulled out of their jobs for training. The few conversations I was party too in terms of cost was said to be a competitive thing and people see it as collusion therefore don't discuss these things in any open banking forum (SSA Bank Member 2).

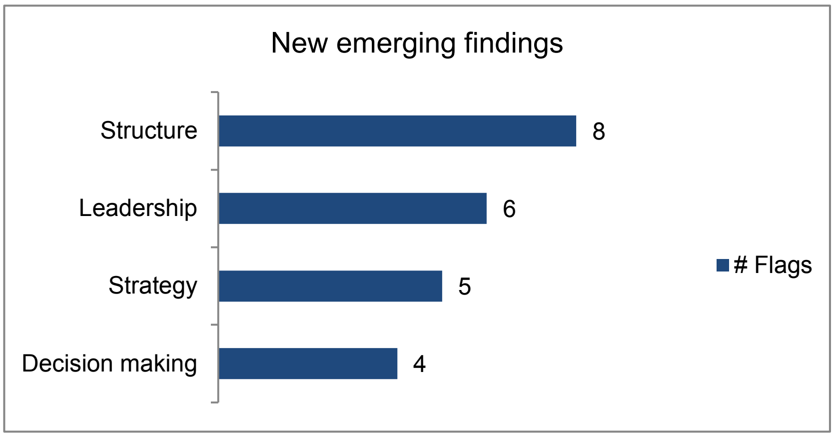
> …important that the bank's interpretation of regulatory requirements are in line with and reflect the intention of the regulator because implementing regulatory requirements comes at a huge cost, especially from a system perspective (SSA Bank Member 3).

5.7 NEW EMERGING FINDINGS

There were 4 aspects that were identified from the interviews and quotes as factors that impact on the overall management and implementation of regulatory changes. These include structure, leadership, strategy and decision making.

Figure 5.6 below illustrates the number of times these appeared or made reference to in the identified quotes. Refer to Appendix 4, for the related quotes on each aspect.

Figure 5.6: New emerging findings



5.8 SUMMARY

The research objective required an investigation into the adaptability of SA banking regulations to SSA. This chapter presented the data that emerged from the in-depth unstructured interviews of 10 bank members and 5 financial and regulatory authority members. 50 codes were identified and the results indicated that 13 codes appeared more than once in the overall data.

Chapter 6 discusses the findings in relation to the previous research on the adaptability of SA banking regulations to SSA.

CHAPTER 6: RESULTS

6.1 INTRODUCTION

Chapter 5 presented the results from the research that investigated the adaptability of SA banking regulations to SSA. Three research questions were asked during interviews with 10 bank members and 5 financial and regulatory authority members. Chapter 6 discusses the findings from chapter 5 in relation to previous research done on regional integration, monetary convergence and the banking landscape including challenges faced globally which is a study that has gained momentum in the African context, mainly in Sub-Saharan Africa.

There was a general agreement in the literature that regional integration will present challenges in terms of systems, skills and disparities across SSA countries in respect of poor macroeconomic performance including policy differences and political interference. However, the costs, adaptability and challenges experienced were not always conclusive from the interviews.

The findings of Parker and Kirkpatrick (2012), in terms of difficulty in providing credible quantitative data on the impact of regulatory change on banks and economic growth, were broadly supported by the data obtained. However, certain aspects and concerns emerged as more prevalent than others within Sub-Saharan Africa. The results, although concurrent with the literature on many levels, brought a different perspective to existing findings while raising new findings.

6.2 DISCUSSION OF RESEARCH QUESTION ONE

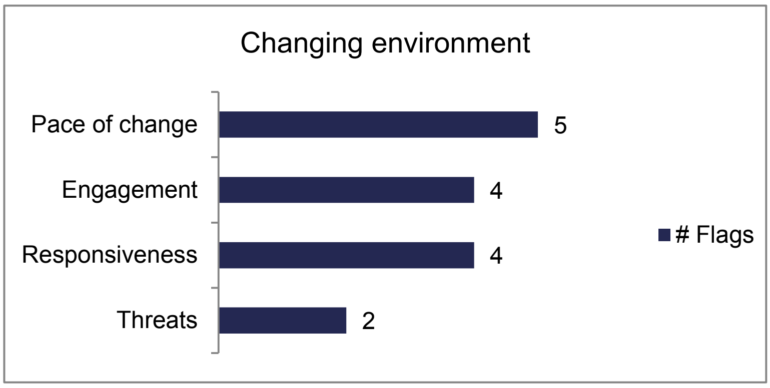
Responsiveness of SA banking regulatory landscape to the changing SSA economic environment

In chapter 5 of this research project, cultural aspects, relationships, processes and socio-economic aspects were identified by bank members and financial and regulatory members.

6.2.1 Changing environment

According to table 5.2 in chapter 5, the changing environment had a high response rate where 80% of the banks' members and 60% of the financial and regulatory authority members responded. The overall response for this category was 73%. The key themes that were flagged were pace of change, engagement, responsive and threats.

Figure 6.1: Responses to the changing environment



Five respondents in total responded to the pace of change and their responses varied according to the pace of change. According to SA Bank Member 4 and SSA Bank Member 5, trust and mutual respect have been questioned because trust is the pillar of banking. Linked to the rate of change, trust and respect from the regulators have changed to scepticism and intolerance. SSA Bank Member 5 accepted that change is inevitable in an industry like banking and therefore the banks should be more adaptable. This is supported by Falkena et al (2001) who mentioned that banks are expected to face continuous regulatory challenges over the next decade in order to adapt and reflect the shifting competitive and structural landscape.

Based on the literature review, it can be seen that banks have been blamed for the global financial crisis because of bad practices which resulted in stronger regulatory and risk management practices globally to protect the economy. In order to overcome this perception, banks must become more adaptable. Both of these factors allow banks to support the rate of change. Participants mentioned the need to understand the regulatory landscape and build transparent relationships with key stakeholders.

SSA Bank Member 2 mentioned the gap in engagement between themselves and their jurisdictional colleagues that leads to a lack of understanding of what is happening in the region as a whole and the factors that are impacting the legal entities in other jurisdictions. SSA Bank Member 2 stressed that it has become necessary to have an integrated forum to share this knowledge which can identify gaps and similarities. According to Sako (2006), SADC member countries must consider the impact of integration and engage with the rest of the world on the reshaping of economic, social and political systems.

Competitive threats were raised by two respondents. SA Financial and Regulatory Authority Member 2 mentioned the need to work with mobile networks because of their high penetration rate into the SSA market. SSA Financial and Regulatory Authority Member 2 also mentioned that over regulation could impact on the ability of the industry to respond to these regulatory changes. Stone (2009) explained that shadow banks and mobile banking threaten the traditional banking sectors in Africa because of they are less regulated and concerned with taking banking to the unbanked. Stone (2009) also said that there is a need for collaboration and engagements between policy makers and banking institutions as well as mobile industries to promote cross-border trade.

Summary

The common theme throughout the responses was the challenges faced by the industry due to the pace of change. This concurs with Falkena et al (2001) who said that banks should expect continuous regulatory challenges over the next decade.

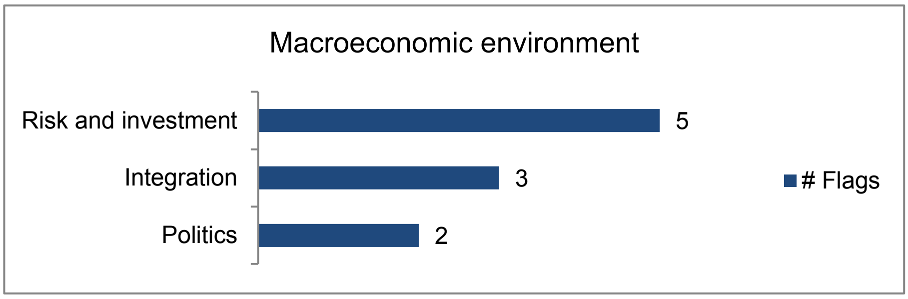
Sako (2006) highlighted the need for engagement with and response to the changing environment which can inform banks and policy developers on the need for greater collaboration regarding policy development (Stone, 2009). Self-awareness evaluation and self-criticism is essential in the regulatory development process where anything could be a threat (Meacham, 2010). This will improve the learning and engagement process with the relevant regulators and policy developers, including affected stakeholders.

Other key aspects were spread across the top four categories. These were: understanding, transparency and culture. From the literature and findings of this study, engagement is meant to improve understanding, gain mutual respect and build transparent relationships which are responsive and adaptable to the rapidly changing environment

6.2.2 Macroeconomic environment

Table 5.2 in chapter 5 indicates that 60% of the bank members and 80% of the financial and regulatory authority members interviewed made reference to the macroeconomic environment. The overall response for this category was 67%. Financial and regulatory authority members appeared to have greater concern about the macroeconomic environment. Key factors highlighted under this category included risk and investment, integration and politics where risk and investment was most flagged in the responses, followed by integration and politics. Some respondents had referred more than once to the macroeconomic environment. Key aspects were identified and quotes were separated accordingly.

Figure 6.2: Responses to the macroeconomic environment



SA bank member 3 mentioned that regulators globally are having to strengthen regulations so that they are not seen as risky because that could make the country appear less attractive to investors. SSA bank member 4 emphasised the need to standardise regulatory requirements in SSA to improve the ease of doing business and attract more FDI. Hubbard (2013) concurred with these views that the banking regulatory landscape is seen as over-regulated which challenges the growth strategies of banks. He expressed the need for profound analysis and rethinking of regulatory reform to reduce systemic risk, improve transparency and make banks more adaptable.

The financial and regulatory members made reference to the need for integration relating to the changing environment. The need to identify integrational factors for SSA's regional integration program has been given little recognition. According to SA Financial and Regulatory Authority Member 1, having integrational factors would avoid institutions imposing their cultures and rules on other countries.

The interviewees also said that policies should be accepted from an economic rather than a political agenda and policy decision making should not be politically driven but it must ensure that the social imperative is met because, if it is not met appropriately, the economic imperative will not be met. This is supported by Patel and Lascelles (2014) who mentioned that a recent survey revealed that the key risks which challenge the banking environment include the pace and complexity of regulatory change and political interference which impacts on growth strategies

Summary

Risk and investment featured as a major concern for the macroeconomic environment. Reference was made to strengthening regulations to improve FDI in the region by removing the negative perception of a high risk region. The diversity of the various economies threatened the integration of the development and strategic priorities therefore standardised processes and polices and a less complex environment are required to conduct business. Other key aspects identified included barriers, commonality and strategic planning. A key point mentioned above is that there needs to be clearly defined integrational factors that can measure the rate of integration and economic performance.

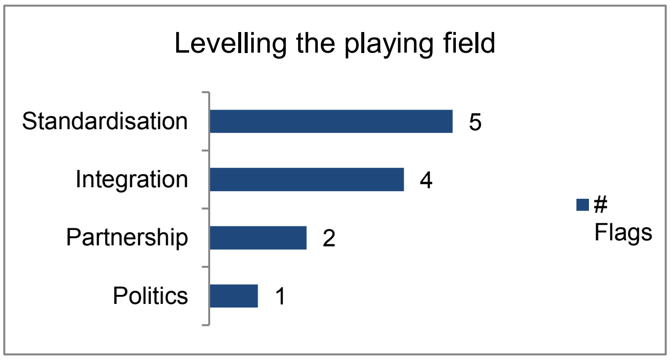
Chetty (2012) mentioned that countries within SSA registered varied economic growth rates which heightened the need for regionalism and harmonisation of policies to improve overall economic growth and foreign investment within the region.

The social needs of a country should be taken into account during policy development in order to meet economic development. This is supported in the literature by Inoue and Hamori (2013) who stated that the integration process creates a common denominator for fiscal and monetary policies by harmonising regulatory frameworks and standards. The concept of regional economic integration is broader than simply removing trade barriers but is a fundamental role-player in human development which, in turn, improves the economic state of a country (Zepeda et al, 2011).

6.2.3 Levelling the playing field

Table 5.2 in chapter 5 indicates that 60% of the bank members and 80% of the financial and regulatory authority members interviewed mentioned the requirement of a level playing field. The overall response for this category was 67%. There was, in some instances, more than one quote from a respondent relating to levelling the playing field. Key aspects were identified in this category relating to levelling the playing field and the quotes were separated accordingly.

Figure 6.3: Responses to levelling the playing field



Five respondents made references to standardisation. Six bank members interviewed mentioned the need and importance of having a level playing field in terms of regulatory rules in SA and SSA. They indicated a disconnect and gaps in the region. SSA Bank Member 1, however, indicated that there are limits to the degree of aggregation. Four financial and regulatory authority members mentioned the need to have an inclusive and common regulatory framework. This viewpoint was supported by Aziakpono's (2008) findings where, because SSA has a history of economic, social and political convergence, understanding these regional blocs is crucial for the success of the SSA regional integration project.

Similar to the macroeconomic environment and changing environment categories, reference to standardisation, politics and integration has been flagged under 6.2.3 Levelling the playing field. There seems to be a common theme threading its way through all categories under regional integration. Partnerships and having a consultative relationship with regulator and industry partners was also flagged as a development area in regional integration in order to level the playing field. Commonality and culture featured as aspects in the previous categories. All respondents mentioned the need to find the commonality within the region to support integration. This is meant to assist in complying with regulations in different countries and it should be principle based. Respondents also mentioned that infrastructure and skills difference across the region, has been challenging to integrate systems and processes.

SSA Bank member 4 mentioned that essential in banks has not been following up on the implementation of banking regulatory requirements. This has resulted in the banks following the stricter supervision banking regulatory requirements from their head offices which are harder to implement because of system challenges. SSA Bank member 4 also highlighted the need to standardise the requirements across borders, including international entities because this need to have different standards across jurisdictions will be difficult to implement when dealing with multiple geographies.

In response to the above, Jefferis (2007) stated that regional integration requires strong partnerships and consultation between participating governments, as well as regional surveillance to assist in mitigating risks slippage for a more stable and predictable environment. Ghemawat and Altman (2013) added that richer countries are more globally connected from a breadth and depth perspective and sharing a common language improved their connectedness. Chaturvedi (2012) added that the need for government to work in collaboration with developing nations to achieve a common goal is a key lesson in this process to understand what it feels like to be the recipient of foreign investment.

Cultural differences in terms of interpretation and economic issues come across strongly as challenges to regional integration. SA is regarded as arrogant because of its dominant position in the region. Aziakpono (2008) mentioned the concern that SA's dominance of the regional market and relatively developed regulatory landscape could pose a risk of polarisation from other SSA countries which could accelerate or delay regional integration initiatives.

Summary

In regional integration and in levelling the playing field, common aspects such as politics, standardisation, integration and engagements play a crucial role in economic development. Even though it is based on different economic landscapes, an inclusive and common regulatory framework is required.

Standardisation featured as the highest concern in this category followed by integration. Based on the literature findings, standardisation and integration go hand-in-hand and it becomes necessary to find the commonality in regulations in order to standardise and integrate.

Systems were also flagged as a concern because of the various requirements of each country. SA has strong regulations which are difficult to implement from a system and also a bank supervision side due to either the lack of specialist skills or the failure to follow through on the implementation of regulations.

Many respondents stressed the harmonisation of policies and having similar principle based rules in the region which do not disadvantage any country. This difference poses a challenge for more developed countries to integrate with less developed countries.

It can be seen from the above examples and the related literature that engagements and standardisation play a vital role in the integration process in cross-border situations. Zepeda et al (2011) asserted that the concept of regional economic integration is broader than simply removing trade barriers because it is a fundamental role player in human development.

It can be concluded that there is a huge gap in terms of understanding the various SSA country requirements and standardising on a principle base. Understanding cultures and speaking with one voice came across as fundamental when dealing with cross border interactions. Engagements, partnerships and working together to achieve a common goal are crucial in upskilling people across jurisdictions.

This finding informs banks, regulators and policy developers on the need for greater partnership and engagement when working across jurisdictions in SADC to close the gaps and to highlight key commonalities for standardisation. These are key inputs into integration and levelling the playing field while protecting the economy.

6.3 DISCUSSION OF RESEARCH QUESTION TWO

Challenges faced in the adoption and implementation of banking regulations in SA and SSA

The second research question related to the banking landscape, specifically looking at challenges faced in the adoption and implementation of banking regulations in SA and SSA.

A common question was asked in terms of the importance of banking regulations and all respondents agreed on the requirement for banking regulations.

6.3.1 Regulatory development

60% of the bank members and 80% of the financial and regulatory authority members mentioned varying aspects of regulatory development. The overall response for this category was 67%.

From the interviews, it was clear that both banks and financial and regulatory authority members agreed on the need to upskill and learn from each other. According to Stone (2009), greater collaboration between policy makers and banking institutions is required but the debate on whether banking regulations should be regional and principle-based or whether they should be dictated by the individual countries, is yet to happen.

SA Bank member 2 stated that banks should change the way they operate and be more innovative in order to become market leaders. They have the opportunity to influence government policies but are reluctant to get involved. This is supported by Falkena et al (2001) who mentioned that early engagement with Treasury is important for the successful adoption of regulatory requirements. All relevant stakeholders must be able to contribute to the comments process which is intended to be consultative.

SA bank member 4 mentioned that it is the pace of regulatory change and not new regulations that impact on the implementation of regulatory requirements in SA. SSA bank member 5, who provides support to SA and SSA, referred to SA being over regulated and said that this could be because of the failure to execute on regulatory requirements. The need for more engagement and participation in SSA regulatory developments was raised. Zongwe (2011) mentioned that the regional integration program is meant to address diversification challenges in the development of an integrated cross-border bank supervision framework. Meacham (2010) stressed the importance of having a proper learning and engagement process with the relevant regulators and policy developers, including affected stakeholders.

The issue of the interpretation of regulations was also raised because incorrect interpretations could be costly for the banks. The regulations that are developed should consider those areas that do not have proper infrastructure to support regulatory requirements such as anti-money laundering that requires proof of address because, in some countries, this is not available. Understanding the ratio between urbanised and rural areas in these countries is important when developing bank standardisation regulations.

In line with the observations above, Zongwe (2011) emphasised the importance of adherence to strict timelines during the research phase of existing regulations. Zongwe also mentioned that potential gaps exist within the region because the banks are becoming more involved in SSA as investment in SSA increases. There is a need to consider the cost and capacity requirements in the development of banking regulations and to engage with the relevant regulatory authorities during the infancy phase of this development which will affect the success of regulatory adoption by banks (Zongwe 2011).

Summary

The observations on regulatory developments involved innovation, engagements, processes, interpretation and the use of a consultative approach.

The above observations indicated that SA has a sound regulatory development process where consultations and participation is a requirement. However, banks need to be more involved in the infancy stages of this process. There is also a need for banks to become more adaptable and flexible in order to accommodate regulatory changes. The engagement and consultative process between financial and regulatory authority members and banks in the rest of SSA requires much more focus and commitment than is currently the case.

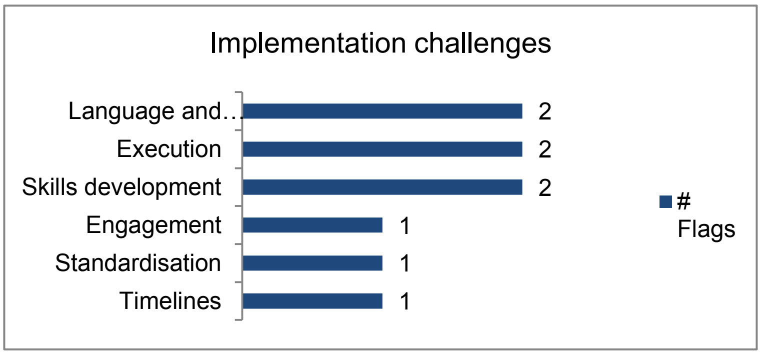
What is not seen from the literature review and the interviews is a discussion of the consultative process that took place in SSA countries during their individual regulatory development processes. That could potentially be a gap that SA policy makers could close by being more involved in the SSA regional integration program and banks could get involved to highlight potential challenges in the requirements prior to promulgation of the regulations.

There is also a gap in understanding the cost impact of implementing regulations. This study should be broader than just SA and should include operations in other SSA countries in order to understand the cost impact of the SA banking landscape on the greater SSA. Clearly defined integrational factors as suggested under Research Question One (6.2.2 Macroeconomic Environment), could support regulatory development.

6.3.2 Implementation challenges

80% of bank members and 80% of financial and regulatory authority members mentioned factors related to implementation challenges. The overall response for this category was 80%. Figure 6.4 illustrates the implementation challenges faced.

Figure 6.4: Responses to implementation challenges



The challenges relating to implementation have been mentioned under the previous categories. Culture and resources were also mentioned and added to the list of codes.

SA bank members raised the issue of regulations being too ambiguous and complex. If there is a language barrier between SA and the rest of SSA, that would make the interpretation of SA regulations potentially even more difficult therefore impacting on their execution. Skills shortage in SSA to implement and monitor SA requirements was raised as an issue by regulatory authority members. Studies by Haq (2012) confirmed that infrastructural development, skills scarcity as well as poor connectivity pose a threat to financial institutions wanting to expand in SSA. These concerns impact on the execution of the regulatory requirements.

SSA Financial and Regulatory Authority Member 2 mentioned that Lesotho has only just started implement foreign identification. This member questioned how complying with SA's anti-money laundering regulatory requirements would be executed in Lesotho. Stone (2009) expressed the view that shadow banks and mobile banking could threaten the traditional banking sectors in Africa. This is because they are less regulated which allows them the freedom to be innovative and acquire the unbanked customers because of the simplicity of their processes. This could challenge the SA banking sector.

Unrealistic timelines to implement the regulatory requirements was mentioned, however, there was no mention of setting realistic timelines in the literature. There is a lack of consultation and engagement process in the development process where reasonable timelines for implementation should be considered. This could be a gap that leads to further research on the management of regulatory changes.

Differences in culture were raised as a concern when implementing the SA regulatory requirements because implementation depended on each country's attitude towards regulations. Baxter (2012) also confirmed the relevance of culture in the compliance and adoption of regulatory changes and stated that there has been increased focus on reforming the cultures of banks by promoting responsible business practices which is directly linked to the pressures received from shareholders to increase revenues.

Summary

From the observations and related literature, it can be concluded that banks have challenges in implementing regulatory requirements because of the lack of skills, language barriers, complex systems and regulatory requirements that specify operational requirements that are not principle based such as the anti-money laundering example above.

SA banks face difficulties in interpreting and executing SA regulations. This is due to a skills shortage which is also experienced by the rest of SSA. It can be concluded that SA faces many challenges in adopting their banking regulatory requirements in SA as well as in their legal entities in other SSA countries.

6.4 DISCUSSION OF RESEARCH QUESTION THREE

The extent to which legacy "operational processing" (people, process and systems) is aligned to meet new and existing regulatory requirements in SA and SSA

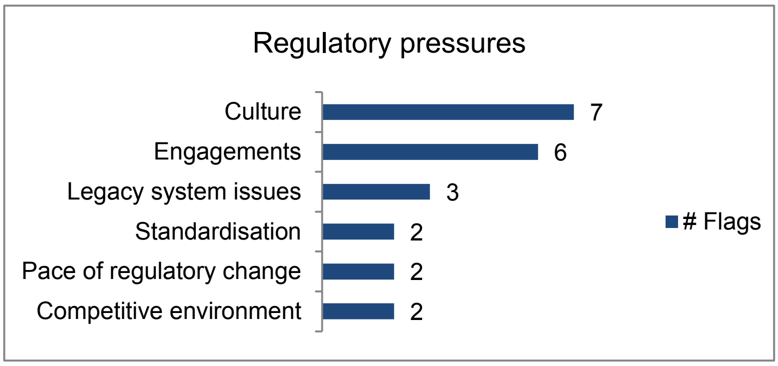
The third and final research question relates to the extent to which legacy "operational processing" in terms of people, process and technology, specifically, the implementation of new and existing regulatory requirements in SA and SSA are able to meet new and existing regulatory requirements in SA and SSA.

This question was approached by taking note of the aspects related to people, process and technology that were flagged under the previous categories.

6.4.1 Regulatory pressure

80% of bank members and 100% of financial and regulatory authority members mentioned factors related to regulatory pressures. The overall response for this category was 87%.

Figure 6.5: Responses to regulatory pressure



Culture and engagements featured as extremely significant issues under regulatory pressure. Standardisation, legacy systems and pace of regulatory all appeared in previous categories indicating the links with these categories. A new aspect flagged on this category was the competitive environment.

In this category, competitive environment is related to being more innovative and having fewer complex regulations. The SSA financial and regulatory authority members support clear and simple regulations that are easy to interpret and adopt. These members stressed the importance of banks spending less on interpretation and being more innovative and focusing on their core business. They also mentioned the risk of mobile players that are not well regulated in terms of mobile banking entering the markets. This could potentially be a risk to the economy and the consumer.

Regulatory compliance as mentioned by Mowatt (2002) and sustained revenue generation threatens the banking sector where the two requirements conflict with each other when regulatory requirements impede revenue generation. Ojo (2011) added that there are executives who allege that their businesses are now steered by regulatory requirements which limit their entry into new markets and therefore impact on strategic intentions and the competitive environment.

The pace of change was raised as a concern similar to the changing environment above because it impacts on systems, mainly legacy systems. These are costly to change because they involve upskilling staff and changing processes and documentation. Sako (2006) highlighted the need for engagement with and response to the changing environment.

Summary

Depending on the environment, regulatory pressure could pose a threat to the economy because of the varied levels of regulation for certain industries. Mobile banking is becoming a threat to banks in SSA because it is not well regulated in certain countries.

The SSA financial and regulatory authority members prefer simple and clear regulations because banks can spend time focussing on their core business and executing practice controls rather than interpreting regulations and creating complex environments.

The respondents from the banks agree that is necessary to get the culture right in order to execute and implement controls that meet the needs of the regulations.

6.4.2 Cost of compliance

100% of bank members and 40% of financial and regulatory authority members mentioned factors related to the cost of compliance. Cost is the biggest concern for banks.

There were a number of aspects raised that related to costs such as value add, opportunity costs, increased operation costs relating to people, process and technology and business expansion. There was a general agreement that the cost of compliance is high because it includes raising staff numbers, upskilling people, training staff on the new requirements, changing processes and documentation and updating training materials. Banks will also have to change legacy systems because they are costly to run. The costs of maintenance which increase year-on-year in terms of licences and resources to implement and monitor the controls must also be taken into account. As new regulations are introduced, the compliance costs increase but businesses cannot be innovative to increase revenue while meeting regulatory requirements.

It was clear from the interviews that there are also opportunity costs to consider where strategic intents are curtailed due to priority given to regulatory requirements. There is also the cost of interpretation because of the language barriers of SA operating in the greater SSA region. These costs were, however, not properly quantified or understood hence there was no clear information on the cost impact of compliance to banking regulations in SA and SSA.

In line with the above observations, Parker and Kirkpatrick (2012) argued that it is difficult, and sometimes impossible, to provide credible quantitative data on the impact of regulatory change on economic growth while avoiding anti-competitive behaviour. They argued that the current data available is not sufficient to draw empirical inferences on the actual cost of regulatory change and its subsequent impact on economic indicators or outcomes.

Summary

It is clear from the observations and literature that compliance with banking regulations comes with a cost, however, there is a need to conduct a proper analysis on the cost impact of regulatory change and the maintenance of these processes. The legacy systems and processes are being impacted because of increasing regularity changes required.

Business wants to understand the value add of regulatory requirements because there is no benefit shown on their revenue generation as most time is spent removing staff from their core responsibilities to implement regulatory changes. The legacy systems and processes are being impacted because of increasing regulatory changes required. The legacy systems are not adaptable to the changing requirements and more cost is spent on modifying these or purchasing new systems.

Improved decision making and interpretation is required for regulations and requests need to be practical and aligned to the organisation's goal of generating revenue. There is a high cost in hiring new staff members and training them, however, business is not seeing the benefit because the resources are not appropriately allocated. This is impacting on the execution of regulatory projects and the revenue generation of the business. Opportunity costs and strategic intents should be accounted for in the cost of regulations.

6.5 NEW EMERGING FINDINGS

There were four aspects identified during the interview process which were not identified in the literature. These included structure, leadership, strategy and decision making. Many of the concerns were around the internal banks' structures that were not correctly positioned to ensure successful execution of regulatory projects. Reference was made to the role of a compliance team and the role of an execution regulatory project team. It was also noted that the current central structures in SA are impeding communication and engagement across jurisdictions. This is impacting on the sustainable growth of banks. This is also affecting strategic decision making and the execution of regulatory requirements. There is a common need for a central or group strategy team that has a broad view of the internal and external environments and is involved in the day-to-day strategic decisions of the bank. This team must have a view of where the banks are going in order to ensure long term decisions are made rather than short term decisions.

The issue of leadership was also raised where leaders are able to make judgement calls and invest in the areas where execution takes place. Leadership is also required to embed a culture of compliance to regulatory requirements across jurisdictions. There is a need for facilitation of engagements across jurisdictions in order to make informed decisions.

There is a need for a strategic area that looks at new avenues for the business as well as makes informed decisions on business expansion initiatives that are impacted by external factors including regulatory changes.

Decision making has been flagged as many respondents raised the concern of poor decision making or short term decision making. This was also linked to a lack of engagements and business participation to understand the needs of the business. Business has to remove people from their daily revenue generating jobs to implement regulatory requirements which impacts on the revenue generation.

6.6 CONCLUSION

A common theme from the responses was the challenges faced due to the pace of change. This concurs with Falkena et al (2001) who mentioned that banks should expect continuous regulatory challenges over the next decade. From the literature and findings of this study, engagement is meant to improve understanding, gain mutual respect and build a transparent relationship which assists in being more responsive and adaptable to the rapidly changing environment. These aspects must be embedded into the culture of the organisation. Culture came across as an underlying factor for successful regional integration because understanding culture and speaking with one voice appeared to be a fundamental role when dealing with cross border interactions.

Regulatory compliance and sustained revenue generation conflicted with each other in that regulatory requirements impede revenue generation because of the costs and time involved in implementation by business areas which are also impacted by the complex banking systems and processes. There was a strong need for banks to be more innovative in their processes to make them more adaptable and flexible to accommodate regulatory changes and manage their costs.

Strengthening bank regulations to improve FDI in the region and to stimulate economic growth was contra-indicated by Guillaume and Stasavage (1999) therefore more research, both qualitative and quantitative, should be conducted to obtain conclusive country-specific data that could provide better insights on the relationship between economic growth and stronger banking regulations and supervision. There is a need for clearly defined integrational factors in SSA to measure the relationship between the rate of integration and economic performance.

What is not seen from the literature review and the interviews is that the consultative process in SSA countries during their individual regulatory development processes could be a gap where SA policy makers and banks could be more involved in the SSA regional integration program. This will provide an understanding of the landscape and highlight potential challenges in the requirements prior to the promulgation of the regulations.

A gap in understanding the cost impact of implementing regulations in SSA was observed. This requires a study that should be broader than SA and should include operations in other SSA countries in order to understand the cost impact of the SA banking landscape to the greater SSA. The execution of this study will require the right skillset, however, there exists a skills shortage in the greater SSA area to interpret and implement the regulations because of their complex requirements.

It could be concluded that SA faces many challenges in adopting its own banking regulatory requirements as well as applying them in other SSA countries. Depending on the regulatory environment, regulatory pressure could pose a threat to the economy because of varied levels of regulation for certain industries. Mobile banking and shadow banks, which are not well regulated in certain countries, were highlighted as a threat to banks in SSA.

There were four emerging categories identified during the interview process which did not appear in the literature. These include structure, leadership, strategy and decision making which were identified as major concerns in managing and implementing regulatory requirements.

CHAPTER 7: CONCLUSION AND RECOMMENDATIONS

The purpose of this research was to establish the adaptability and responsiveness of South African banking regulations in SSA. An improved understanding of this relationship would provide key principles and a greater understanding for regulatory bodies and industries to enhance their management of regulatory change in emerging markets in order to become more competitive as well as to contribute to the growth of the economy.

There is a general agreement from the literature on the need for a well-managed banking regulatory landscape to protect the SSA economy and improve FDI. The rapidly changing economic environment in SSA, however, requires more research (Hammouda et al, 2010) in order to understand the adaptability and responsiveness of banking regulations in SSA as well as their broader impact on the region. The management of this adaptability and responsiveness to SSA was also not clearly identified. Previous studies have proven that discussions around banking regulations are part of a much larger and interconnected network of decisions for banks in SSA.

51 codes were identified from the in-depth unstructured interviews of 10 bank members and 5 financial and regulatory authority members and the results indicated that 13 codes appeared more than once in the overall data.

7.1 FINDINGS

7.1.1 Research Question One

Responsiveness of SA banking regulatory landscape to the changing SSA economic environment

Bank members experienced challenges relating to the pace of change of regulations which impacted on their operations and costs. Systems were also flagged as a concern because of the various requirements from each country and because SA has complex regulations which are difficult to implement from a system and also a bank supervision point of view. This is due to the lack of specialist skills or follow through on the implementation of regulations. Culture came across as an underlying factor for successful regional integration when dealing with cross border interactions.

Risk and investment featured high as a concern for the macroeconomic environment however there is a lack of clearly defined integrational factors that can measure the relationship between rate of integration and its impact on economic performance.

Engagement between banks and policy developers is meant to improve understanding, gain mutual respect and build a transparent relationship which assists in being more responsive and adaptable to the rapidly changing environment. This is in line with Sako (2006) who highlighted the need for engagement with and response to the changing environment.

It can be seen from the above examples and related literature that engagements and standardisation play a vital role in the integration process in cross border situations (Zepeda et al 2011).

7.1.2 Research Question Two

Challenges faced in the adoption and implementation of banking regulations in SA and SSA

Regulatory compliance and sustained revenue generation conflicted with each other where regulatory requirements appear to impede revenue generation because of the costs and time involved in implementation by business areas. This is also impacted by the complex banks' systems and processes. There was a strong need for banks to be more innovative in their processes to make them more adaptable and flexible to accommodate regulatory changes and manage their costs.

Strengthening bank regulations to improve FDI and economic growth in the region was not conclusive as and was contra-indicated by Guillaume and Stasavage (1999) therefore more research, both qualitative and quantitative, is required to understand the relationship between economic growth and stronger banking regulations and supervision. There should clearly defined integrational factors in SSA to measure the relationship between rate of integration and economic performance.

The cost impact of implementing bank regulations in SA and the greater SSA is not comprehensively understood. There is a shortage of skills in SSA to interpret complex regulations from SA and to implement these complex requirements.

7.1.3 Research Question Three

The extent to which legacy "operational processing" (people, process and systems) is aligned to meet new and existing regulatory requirements

The observations from the interviews indicated that SA faces challenges in adopting its banking regulatory requirements in the country and in their legal entities in other SSA countries. Depending on the regulatory environment, regulatory pressure could pose a threat to the economy because of varied levels of regulation for certain industries. Mobile banking and shadow banks, which are not well regulated in certain countries, were highlighted as a threat to banks in SSA. There is an agreement between banks that it is necessary to consider culture when executing and implementing controls that meet the needs of the regulations.

It was clear from the observations and associated literature there is a huge cost impact on compliance to banking regulations in implementing regulatory requirements. There is a strong need to do a proper analysis on the cost impact of regulatory change, and the maintenance of the processes caused by these changes. The legacy systems and processes and current skillset are not adaptable to the increasing regulatory changes required and this has an impact on systems, changing of documents and investment in staff.

7.1.4 New emerging finds

There were 4 new categories identified during the interview process which was not identified in the literature. These included structure, leadership, strategy and decision making.

Many of the concerns related to strategic positioning of recourses for decision making and execution. It was also noted that the current central structures in SA are not enabling effective communication and engagement across jurisdictions. This problem was also highlighted with the SA banks' internal structures because this has impacted on the sustainable growth of banks. Decision making has been raised as being poor and focused on the short term. This was also linked to a lack of engagements and business participation to understand the needs of these businesses.

7.1.5 Conclusion to Findings

Based on the results in chapter 5 and discussion of the results in chapter 6, this research can conclude that there are challenges in adopting complex SA banking regulations in SSA. The results are, however, inconclusive in terms of the adaptability and responsiveness of SA banking to the rest of SSA. There is a lack of empirical data and integrational factors to reach a conclusion. There have been new categories identified which need further research to gain a more comprehensive understanding of the adaptability and responsiveness of SA banking to the rest of SSA.

7.2 RECOMMENDATIONS

This research was inconclusive on the adaptability and responsiveness of SA banking regulations to the rest of SSA. There is a lack of empirical data to establish the relationship between stronger banking regulation and the economy (Hammouda et al, 2010). There were, however, a number of opportunities identified for future research that could lead to an understanding of the consequences of regional integration.

SA banks expanding into SSA face a number of operational challenges. They require an investment in time to understand the SSA banking landscape and to share that knowledge throughout the organisation. The jurisdictional banking partners should be part of the process to provide input and highlight potential challenges.

Banks should focus on improvements in efficient banking systems, engagement models and a revision of their internal structures. A better understanding of internal systems and their capabilities will enable the streaming of banking systems. Focus must be placed on investing in the right areas to ensure sustained growth.

Banks should also encourage engagement and participation throughout the organisation and create platforms to incentivise innovative thinking which should be applied across jurisdictions. SA banks going into Africa should place emphasis on understanding the culture and the external environment. Banks should understand the ratio of urban versus rural areas in each jurisdiction to be able to make informed decisions.

7.3 NEW MODEL FOR IMPROVING ADAPTABILITY AND RESPONSIVENESS FOR BANKS

Based on the results relating to the research questions, the following models in figure 7.1 and figure 7.2 have been proposed. They are intended to assist banks to manage the adaptability and responsive of banking regulations across jurisdictions in a changing economy while managing their internal costs.

Figure 7.1: Rate of adaptability and profit model

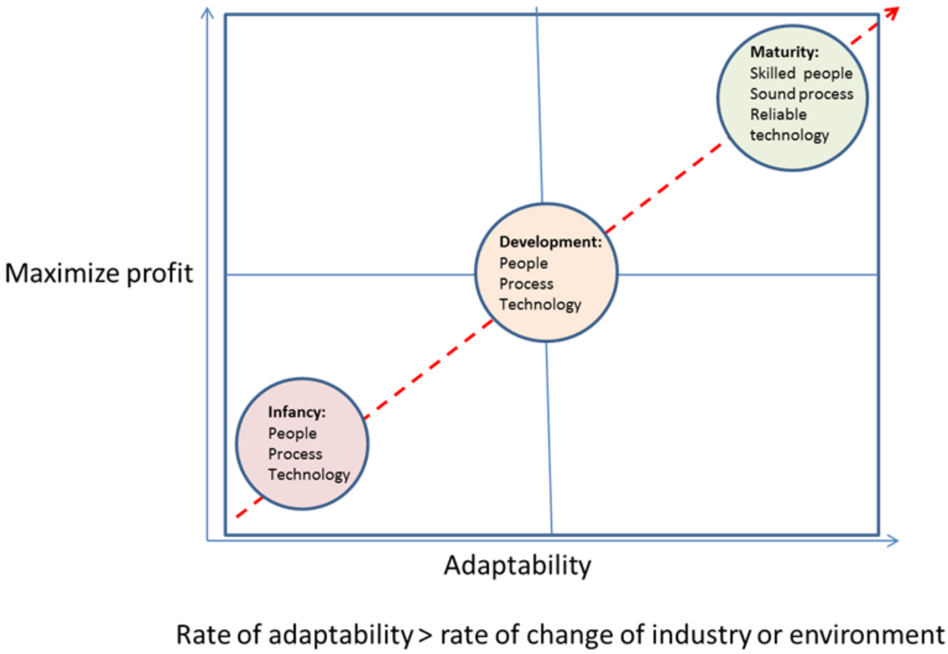


Figure 7.1 demonstrates the need to be more adaptable as the business matures in order to maximise on profits. Depending on how processes and technology respond to change, the position of each aspect within the 4 quadrants will impact on the business's adaptability and profitability. The rate of adaptability must, however, be quicker than the changing environment in order to retain a competitive advantage. Adaptability, based on the findings and the literature, requires staying informed of the changes in the external environment, the effective engagement across all sectors and simplifying or standardising rules.

The complexity of regulations and the pace of change linked to the changing economic environment were seen as challenges because they mainly impact on legacy systems which are costly to replace or modify. They also impact on upskilling staff and changing processes and documentation. According Falkena et al (2001), banks should expect continuous regulatory challenges over the next decade.

During the infancy phase, that is, when business or the external environment changes and those impacts on an organisation's internal operations, systems are built or modified to accommodate operational processes, monitoring and reporting. Most banks have established operational legacy systems and the processes are generally built into these systems and are therefore limited to that individual system. This makes adjustment and efficient delivery of new and customised processes, monitoring and reporting very difficult. Lack of adaptability forces business to take action and slow down core business activity to focus on adjustments which may result in incomplete execution and information required for the development phase (Rajterič, 2010).

The development phase is meant to understand the business needs from information obtained from the infancy phase. It also invests in people development, processes and documentation updates including best practices based on past experience (Rajterič, 2010).

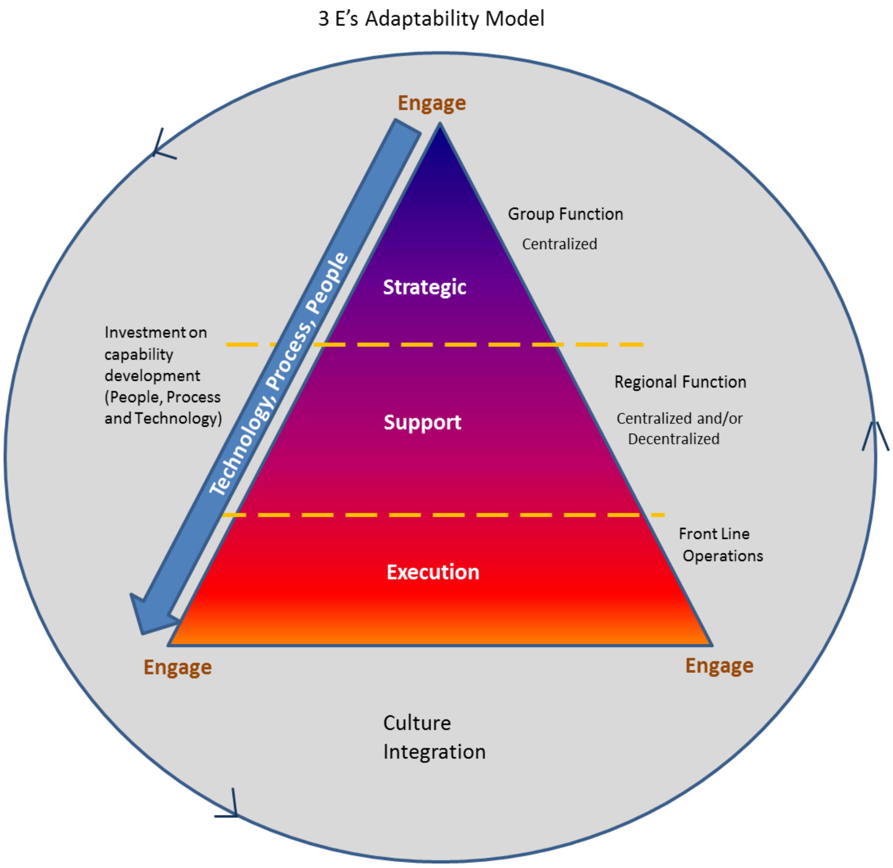
The maturity phase is when a business moves from being tactical to a more strategic level in driving its daily operations. During this phase, embedded monitoring and reporting on revised key performance indicators and business performance takes place to compare the actual state against the strategic goals (Rajterič, 2010).

It is clear from the observations and literature that there is a huge cost impact on compliance to banking regulations. There is a need to upskill staff and learn from each other; there is a need for banks to be more innovative in their processes to make them more adaptable and flexible to accommodate regulatory changes.

There were a number of aspects related to costs such as value add, opportunity costs, increased operational costs relating to people, process and technology and potential business expansion. The cost of compliance mentioned included having more people, upskilling staff on the new requirements, changing processes and documentation including training materials. There is also the cost of maintenance to be factored in which will increase annually in terms of licences and resources to implement and monitor the controls.

According to Rajterič (2010), inadequate and fragmented processes at the infancy phase result in conflicting views of the business information required for the developed and maturity phases. This prevents accurate and consistent views on the various processes within the business environment. It undermines effective decision-making which is supported by strategic goals.

Figure 7.2: 3 E's Adaptability Model



Many of the concerns raised related to strategic positioning of recourses for decision making and execution. According to SSA bank members and SSA financial and regulatory authority members, the current centralised structures in SA prevent effective communication and engagement across jurisdictions. The lack of engagement was also noticed within SA banks' internal structures. This impacts on the sustainable growth of banks.

Resource allocation was raised as a concern where resources are not appropriately positioned for execution. There was a common need for a central or group strategy team that will be involved in the daily strategic decisions and will have a broad view of the internal and external environments in order to make business decisions and foresee the future of banking to ensure long term decisions are made rather than short term decisions.

Figure 7.2 is the 3 E's Adaptability Model. The 3 E's refer to engagement in all corners of the organisation. This model addresses the adaptability and responsiveness concerns related to figure 7.1 in terms of people, process and technology. It takes into account the four new categories; structure, leadership, strategy and decision making that were identified during the interview process but were not identified in the literature.

Figure 7.2 illustrates the need for a lean top structure that is involved in strategic decision making and provides competent guidance for the organisation. This strategic area of leadership should be a centralised function to ensure that a consistent view of the organisation's strategy is communicated and where informed strategic decisions take place. This area should be appropriately resourced to allow for quick and informed decision making and roll out of the group's strategy.

The support functions should be centralised in terms of development and management of group standards and decentralised according to the jurisdictions where in-country support functions customise these standards according to their jurisdictional standards.

The front line operations are where execution takes place. This area is the revenue generating area of the organisation and requires the support of the functions above. This is where investment in people, process and technology should take place to empower the area to continue with the core business activities and revenue generation while ensuring execution and compliance to regulatory requirements. This model should apply across all jurisdictions. Investment on execution capability should not be maximised in the support or strategic areas.

Investment in people process and technology should increase according to execution roles or where revenue is generated. This is to avoid grey areas in terms of roles and responsibilities which could impact on the overall effectiveness of execution.

Culture came across as an underlying factor for successful regional integration. This is where understanding culture and speaking with one voice appeared to play a fundamental role when dealing with cross-border interactions. This concept should be applied across an organisation where culture is embedded into the organisation and this process should be treated as a continuous cycle and reviewed when change occurs.

Engagement should be at all levels and corners of the organisation and across jurisdictional operations. Engagement across jurisdictions is important in learning about the external environment and individual jurisdictional requirements so that better and more informed decisions can be made and processes developed. Effective engagement also supports people and skills development.

7.4 FUTURE RESEARCH

These recommendations suggest future research, using the theory covered and observations made during this study.

Future research could focus on integrational factors required to measure the relationship of regional integration against economic growth in SSA. Sector based analysis could also be performed to understand the relationship between economic growth and stronger banking regulations (Hammouda et al, 2010).

There is no conclusive empirical data on the cost of implementing regulations (Parker & Kirkpatrick, 2012) because certain interviewees could not disclose that information. According to the Competition Act (1998), any agreement, decision or practice that can potentially prevent or reduce competition in a market, is considered anti-competitive behaviour and is not allowed (Acts Online, 2013). A sector-based study could be explored where independent bank's costs are calculated confidentially and only aggregated values made public. This could be an annual study against regulatory development to provide better insights on the cost of implementing banking regulations against the pace of regulatory change. This model could be applied to other banks in SSA.

The inclusion of further descriptive variables, such as governance structures, culture, language and other country specific variables could lead to a more refined adaptability model and potentially more insightful results relating to regional integration in SSA. This was an unanticipated outcome from the unstructured interviews. Exploration of commonalties in SSA countries to amplify standardisation in supporting regional integration could be explored.

Finally, the complexity of cross border transactions in SSA requires further understanding. The adaptability of bank systems could be investigated to understand its impact on the industry's cross border transactions using a central banking system.

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APPENDIX 1: RESEARCH QUESTION ONE QUOTES

a) Changing environment:

Pace of change

…the pace of change and introduction is historically high. However it is important to note that a current initiative of the committee focuses on simplification, transparency and consistency in the complete framework (SA Financial and Regulatory Authority Member 1).

…it's changed over the last few years, from one of mutual respect and understanding to a greater scepticism and less tolerance on the part of the regulator so they have become harder in a sense in the last 2 years and that's not only in terms of the type of regulation, it's also in terms of the way they interact with us (SA Bank Member 4)

Engagement

…in general we are satisfied with the levels of bilateral cooperation in the region (SA Financial and Regulatory Authority Member 1).

Process

…in the Excon environment major changes happen every three to four years but Excon circulars to communicate new requirements or to change existing requirements are issued on a monthly basis, sometime weekly basis (SSA Bank Member 3).

…it's happening all the time, a degree of dynamic attention is created because essentially a lot of financial institutions are becoming as if it were agents for government implementation, and that obviously complicates the process because there's costs, education, it's all of these things and I think majority of the time the financial institutions are willing participants to the process but there are huge costs involved in implementing these and a clear understanding of what is the conflict between profit generation of private enterprise and executors of government policy on the other, I think it's' a challenge, especially for top executives of financial institution (SSA Bank Member 1).

…there is an initiative run by SARB's payments area called SIRESS to create an RTGS type Rand payment area in the SADC region. Currently all the SADC countries outside the common monetary area can still trade in all their own currencies preventing one to call it a "common monetary region". No directive has been given yet on that. Also the current exchange control rules and regulation reporting makes straight through processing impossible and always requires manual stop-start intervention (SSA Bank Member 4).

b) Macroeconomic environment:

Risk and investment

…if your investment and trading partners or people you do business with are seeing an economy or principals and laws being enacted, that is seeming to accommodate sub-optimal policies from a regional perspective; that in fact is not going to be well-perceived outside of the region and it's not going to be good for growth of the local economy (SSA Bank Member 1).

…let's look at foreign investment; people will go where money flows the easiest or where it's easier to do business. By having a regional payments system it becomes easier to do business in less complex environments and the integrated payments landscape makes it much easier for money to flow. What does that mean for trade and export and FDI in the region, who gets ahead and who is left at a disadvantage (SSA Bank Member 2)?

…on the 15th September, the SADC regional payments system goes live and there will be a central banking platform for payments across jurisdictions. A bank that does not have geographic presence does not have to worry that much because of the central payments systems. Therefore as a bank, we need a new strategy to align to these regulatory changes because the geographic competitive advantage may be eroded and we may be looking at a common monetary zone sooner than we think (SSA Bank Member 2).

…the systemic impact on any country, and impact of its stability to attract foreign investment is high so the fundamentals are, that you have got to have a sound business practice and if it is not regulated properly, and you don't have proper recovery plans you will find that the country index in terms of popularity and investment will drop.. FDI flows become a factor and will be impacted. So we need to understand that we need to plan for both in SA and the African continent or even in a small country on the outskirts of Africa or a small place in the world, but you have to play the game that we play internationally and play the governing rules (SSA Bank Member 5).

…looking at rural finance where we focus on small farmers, not commercial farmers at all, looking at small scale farming and value chain in farming including the finance elements of that and how we can support that so that there is improved growth in that small scale farming sector (SSA Financial and Regulatory Authority Member 2).

Politics

…I think one's got to differentiate between what appears consolidation from a geographic convenient perspective and what is actually applicable more from a political socio-economic and cultural perspective, not just because one's in geographic proximity. Actually means that there are similarities or commonality between people and interest groups and I think that's something politicians do have to be cognisant of, however there is a lot to be said for facilitating trade and working on normative values that don't compromise individual cultural values and I think that differentiation needs to be made (SSA Bank Member 1).

Integration

…in SADC the end goal is clear, we aim to promote, harmonise and negotiate till we are all agreed. Whatever we do it is always to enhance existing regulations that will eventually enhance systems in cross border trade (SSA Financial and Regulatory Authority Member 1).

…have got to be careful over-regulation and the impact of over-regulations, because not only does it have cost implication but I think including unnecessary complexity into a regulatory environment makes it incredibly difficult to do business (SSA Financial and Regulatory Authority Member 2).

…one of the things we strive for and a lot of countries are doing that, is striving for financial stability in our markets. So in order to get that kind of stability and also to support a free and transparent economy, I think consistency in regulatory principles is important (SSA Financial and Regulatory Authority Member 2)

c) Levelling the playing field:

Standardisation

…find the commonality in the law, why this was done. We adopt the regulations in comparison to that which works for you, but until you have a uniformed customer risk management approach of a single view, you will always be faced with challengers (SA Bank Member 5).

…there is already a regulation in Mozambique which has been introduced some years back, the essential banks supervision has not been that good in following up on that with us, and that's sort of resulted in companies like Bank X where I feel that the head office regulations are stricter than the country regulations, we simply just start to follow head office regulations, because as group you have got to have a standard and if your standard is higher than the country, then obviously that’s the standard you have got to apply across the board (SSA Bank Member 4).

…the key is to standardise across the board, which is an easy word to say, standardise, but to me we need to start talking the same requirements across everything, across the borders and including America and Europe, have one standard for everyone which I think is virtually impossible to do because everybody wants their own interpretation of it and has to put their own emphasis on certain things etc., that just makes it a bit more difficult when dealing with the multiple geographies as to know what is the standard and what is different to say Angola (SSA Bank Member 4).

…so that to me is the tricky thing, compliance in the SADC is trying to get everybody onto the same standard, that everybody agrees and everybody police’s it in the same way, in other words all the regulators have got to be on the same page because if they are not on the same page, you are going to get water flowing to where it’s easiest in this whole process, and that gives us some idea of what I think are the problems coming in to SADC (SSA Bank Member 4).

Integration

…certainly in an emerging societal trend over the last 20 years, people in society that integrate themselves into certain units, take their sovereignty extremely importantly and I think if you look at some of the fall out of the EU over the last few years you see a state where in fact you can’t aggregate against too wider a dispersed area, there are limits to the degree of aggregation that you are going to do and I think if you look at the rise of nationalism across a lot of societies and countries, you will realise that at certain levels you can’t re-aggregate in terms of commonality (SSA Bank Member 1).

…a proposed state of ideal regulations or ideal inclusions for all of the various countries to actually be able to, according to their own resources and their own issues in those countries and their own processes, to be able to incorporate those proposed set of legislations or proposed inclusions in their legislations to try and create a highway across all the myriad of legislations, to be able to create a tract which is cut straight across and even if’s not going to be mapped out word for word but in terms of the spirit and tenor of the legislation you are going to find that it’s going to at least be something that’s not diametrically opposed to another piece of legislation in another country because obviously the intention of this thing is to come up with some sort of regional integration (SA Financial and Regulatory Authority Member 3).

APPENDIX 2: RESEARCH QUESTION TWO QUOTES

a) Regulatory development:

…there are opportunities for us to change our business to get ahead with some of these stuff, become market leaders from some of these things, to make money from some of these things. In some of these areas there are win win situations in terms of growing our business and influencing Government policy that we are not doing enough of, because we often feel quite reluctant (SA Bank Member 2).

…whenever there are any changes or proposed changes to policy or legislation, we are involved in the discussions or the engagement process in terms of providing feedback and so forth in the areas which we are involved in and even from a broader perspective in the SSA region we are now starting to participate (SA Financial and Regulatory Authority Member 3).

…have a very consultative relationship but they need to be more engaging and listen more to the problems of African countries that are behind the curve (SSA Financial and Regulatory Authority Member 1).

…the Reserve Bank has agreed to work with SADC in the regional integration project to identify factors that can be applied across banking in the region (SSA Financial and Regulatory Authority Member 1).

b) Implementation:

…why is it we got fined. We got fined because we don't adhere to our own policy (SA Bank Member 2).

…you need people qualified to help implement. So all of those count for efficiency and effectiveness of your implementation (SA Bank Member 3).

…even though regulations had not been published, you need to start training around what you know is likely to be implemented, so that when it is actually implemented, we are not starting from day (SA Bank Member 3).

…implementation always works when all stakeholders are involved in the drawing up process and implementation process irrespective of jurisdictions. There needs to be buy in from everyone as well as a common understanding (SA Financial and Regulatory Authority Member 2).

…language can sometimes be a barrier. SADC has 3 working languages. English, French, Portuguese. Translation of documentation can be slow as that skill might not always be readily available and more importantly the commercial use of a language. i.e. banking language (SSA Financial and Regulatory Authority Member 1).

…I think that their biggest challenge when implementing this, this is going to be resources and the ability to do this and I think also they have to apply, it's difficult because countries just have such varying cultures, some countries may take a very liberal view to policy and regulations and so they hold more risk, they are not as risk adverse as others, so it's difficult, it's difficult to say how does one implement, what approach should they take, it depends largely on that countries culture towards regulations (SSA Financial and Regulatory Authority Member 2).

…Lesotho has only just started to roll out foreign identification as an ID. They only just developed and implemented a national identification system, so you could get a passport in Swaziland but you didn't have the equivalent of our green bar coded ID and barcode book, so how then do you implement a regional standard, it's very difficult (SSA Financial and Regulatory Authority Member 2).

…lack of capacity or lack of skills, lack of regulatory bodies that has any sort of clout, complexity in our regulatory environment in SA, SA have highly complex regulations, you have got all of these different pieces of legislation that regulate the same entity, that regulates the same industry, and they potentially don't speak to each other so yes the ambiguity could devise from the complexity of the regulatory environment (SSA Financial and Regulatory Authority Member 2).

APPENDIX 3: RESEARCH QUESTION THREE QUOTES

a) Regulatory pressure:

Culture

…I don't think the problem is with control. The problem is the culture. And the problem is do we have the right rewards and incentives in play to reward the right culture and the right kind of decision making or not (SA Bank Member 2).

…we are always looking for loop holes and we are always trying to find the way out of it, so that we basically sub-verse the intent behind it, all that happens is that you get more and more regulations. And I think that is to some extent what is happening in South Africa particularly around credit regulations (SA Bank Member 2).

…if the rest of the industry is bad, the rest of the industry doesn't comply; if one or two of the industry don't comply we are all painted with the same brush. So we have to be industry leaders (SA Bank Member 2).

…we are still amongst the top corporate governance in the world; we are like 2 and 3 in the rankings. The point is that if you can get your culture right, if you can sort out the basics, if people follow the law, if we had to get the culture right we would not need to be over regulated; just as a company, if the culture is created in a company, the company does not need a myriad of policies, you can just have your basic policies and people would know what to do (SA Financial and Regulatory Authority Member 3).

Engagement

…we have got a business model internally which really lessens the impact of the regulations but it's still happening too fast so we need the regulatory authorities to slow down and prioritise what's important (SA Bank Member 3).

…it is always boxed in time. You get told and then you get told when. That is it and you have no leeway. So all the questions that you ask, can sometimes impact scope, becomes tough, just get this done. So time is essential, scope management increases but the boxed in time never changes (SSA Bank Member 5).

…the challenge was not Lesotho, the challenge was SA because our regulations are so stringent and conservative, and so there has been a lot of work and a lot of engagement with the SARB on this side, to try and get them to relax some of the requirements (SA Financial and Regulatory Authority Member 2).

…we need to keep things simple and when regulatory changes happen we need to consult with the regional team. Why is it that SA banking regulations are so rigid but banks are fined millions? Or is it enforcement and execution? Are the requirements so complex that it is difficult to implement (SSA Financial and Regulatory Authority Member 1)?

Standardisation

…one has got to recognise the regulations themselves are not necessarily homogenous or consistent, there are conflicts, there are ambiguities and in some cases the conflicts are quite stark or they might be geographically different, so what works in one country is expected to be applied in a second because of the group requirement Whereas from a national perspective, it places a bank, which is part of a bigger group at a competitive disadvantage potentially (SA Bank Member 4).

Legacy system challenges

…the bank has got multiple systems; I don't think anyone, whom you are dealing with in the bank, will say we are aligned or adaptable (SA Financial and Regulatory Authority Member 1).

…legacy systems being introduced over the years are creating operational inefficiencies and increasing operational risks generally so just as the business grows, as we try and introduce new requirements into these systems notwithstanding that we are trying to put in new generation systems, the stuff we have in place is operationally inefficient and creates operational risks as it is, when you start putting additional regulatory requirements on top of that, either in the terms of changing a way a process needs to work, or in terms of providing additional reporting requirements or additional surveillance requirements, you are already putting additional demands on a very creaky system so I think our, I don't think it's unique to us, I think the more complex a bank the more wide spread its footprint, the more it has acquired, more it has grown by acquisitive growth as opposed to organic growth, the more we have had short term tactical decisions made around systems, the harder it is for us to deal with the additional regulatory requirements now (SA Bank Member 4).

Pace of regulatory change

…as a bank you always have your own roadmap of programs to run and when regulatory changes take place or new directives come up, they have their own deadlines that don't take into account current bank deadlines. These changes sometimes touch on projects you are currently running hence may impact on the overall roadmap and implementation or projects because its affecting some system or you have to bundle both regulatory and non-regulatory changes or postpone implementation of non-regulatory requirement projects. Banks put their views on the table but it's sometimes not considered (SSA Bank Member 2).

b) Costs:

…it is a continuous journey and because there are so many regulations and changes required, it impacts all people, process and systems and at the end of the day the profit margins. Change fatigue is a common word being used because there are so many changes, before you complete one project, more changes may come down the line which you may have not even budgeted for (SA Bank Member 1).

…it's the cost of change, project management time, the cost of salaries in the business unit to implement in the business unit, system changes and upfront training and ongoing… the indirect costs are that you are having to prioritise implementation of regulatory changes as appose to implementing that that's supposed to make you money (SA Bank Member 3).

…the sheer complexity of the regulations, it's just another way that they would contribute to the cost of embedding and adopting (SA Bank Member 4).

…in Bank Y, I do not think we have the maturity, and the bank that I came from, me being able to fight the negative NPV of what the costs were for development of the system, for the process procedure, for the marketing campaign, for all that, that was all quantified in the bank Z (SA Bank Member 5).

…in its most eloquent form, banking can be described as the ability to facilitate the transfer of funds between people and entities, and if you then devolve it to the implementation of compliance requirements, what actually happens is while you might see the dynamic expansion of resources in a direct compliance function, you need a number of resources that are required across virtually all elements, you need more people in HR because you are supporting more compliance people, you need more people in IT because of the systems you require, you need more people to review those so you need more internal auditors, you need more people in your accounting and finance side because there are financial reporting implications, you need more people to support your sustainability reporting as well so there is a whole integrated element and I think that debate has not been held (SSA Bank Member 1).

…the practical implementation unfortunately is sometimes rather esoteric and it's going to be extremely costly to implement (SSA Bank Member 1).

…the impact at the end of the day is the bottom line, it means we need bigger areas, we need more people, we need more skilled people, your costs go up (SSA Bank Member 4).

…employing the right people, the infrastructure required to keep these people, reverses the reputational risks that you run and the business by not doing it and those are hard to measure, reputational risks are hard to measure (SSA Bank Member 4).

…I think any regulatory project is a grudge purchase and this is why you have to present it up front as opposed to trying to ask the questions later. Once you have done that and know you must comply, you can bite the bullet and go do it. It is not an easy process because you would rather spend money on revenue generating stuff (SSA Bank Member 5).

…there is a cost associated with the growing regulatory burden, as more analytical staff and IT resources are required with every new rule (SA Financial and Regulatory Authority Member 1).

…you can't run a business without considering bottom line and what the impact is going to be on revenue and profitability. Whether it's going to be something that's going to make business much more untenable and much more difficult to do business, something that could potentially have a reputational risk on the business; something that's going to impact on strategy (SA Financial and Regulatory Authority Member 3).

…I think that systems cost lots of money and the cost of time as well is high but that doesn't mean it is wrong. Just because our legacy systems are so bad and our IT infrastructure is so bad, and we have under-invested in it over the years and our systems are held together with cellotape where we battle to manage change and adapt to the changing environment, it is not Government's problem. And it is not the consumer's problem; it is our problem (SA Bank Member 2).

…it's difficult to evaluate the cost, and I doubt whether you will get an honest quantitative answer. The cost is not limited to a bank, or the banking industry. It's a financial stability question (SA Financial and Regulatory Authority Member 1).

APPENDIX 4: NEW EMERGING FINDINGS

a) Structure

…some of the structures that support compliance with regulations are absent in our industry, an example is a central counterparty to support common monetary zones and convergence in the region (SA Financial and Regulatory Authority Member 1).

…in the banks, there's usually a regulatory and compliance area, a replica in each country who deal with similar regulations (SSA Bank Member 3).

…an area for improvement, you sometimes find that regulatory changes impact multiple areas and jurisdictions in the bank and there's no single forum or responsible area that identifies financial and non-financial impact of these changes (SSA Bank Member 2).

…we were designed for projects; we were designed to build customers satisfaction, and use the best and quickest method and get it out the door. Compliance tends to monitor and watch the transactions; do certain things in a different manner that is outside of the processing environment. So I think the conflict of structural design is very much where the concern is. It is actually when we start hitting the ground, and then we told to do x and then we are like oops, what now (SSA Bank Member 5).

…we are facing with our in own internal management and government structures; our ability as a group, what are our obligations, what are the boards obligations as a group board in terms of requiring minimum standards to be met with through subsidiary boards, I wish there was greater clarity on that, that is something that is a bit of a hot potato, it keeps getting thrown from one person to the next, it's not a unique regulatory problem, it's also just a bank governance problem (SA Bank Member 4).

…the important factor is implementation and execution related roles must never sit in compliance and risk, it must be independent, it must sit in a business or global strategy function, and that function draws in the capabilities from each specialist area (SA Bank Member 5).

…when we engage at industry levels, a key function is to mobilise SME's who have to take these regulatory developments to the relevant business areas. A potential gap is we are not discussing these with our jurisdictional colleagues therefore we don't have a good understanding of what's happening in country or vice versa. We should have an integrated forum to discuss these developments and projects so that we can identify gaps and similarities with our broader African colleagues for effect planning and execution (SSA Bank Member 2).

b) Leadership

…the regional integration project impacts on exchange control rules because our systems and requirements are complex that we are battling to integrate into the central system. Talks of monetary union will further have a huge impact on EXCON rules because of a potential shift or change in currency and cross border trade agreements with our SSA partners. Will it be a free trade agreement within the region or continent, we have to wait and see, what does that do to our systems and monitoring rules, processes and documentation (SSA Bank Member 3).

…leadership is about decisions but you need to make sure that you have the process that allows the most appropriate decision to be made and that's the consultative process and I think in SA we are quite fortunate around some aspects of that as well (SSA Bank Member 1).

…it was evident that the maturity level of regulators in Sub-Saharan Africa is at different levels, mainly depending on their implementation of Basel I and II requirements and adhering to international best practice (SSA Bank Member 3).

…most important thing is probably the appreciation and standardisation of culture across an organisation and how effectively it manages to embed it's culture and values and ethics across its employee database (SSA Bank Member 1).

c) Decision making

…also internal decision making structures differ across the industry (SSA Financial and Regulatory Authority Member 1).

…you are seeing an expansion in resources allocated to compliance function but I think the debate that has not really been had effectively is the impact of what it is doing on business, so in fact you are starting to see more and more functionality been embedded into business front-line functions which in effect are supporting legal and compliance functions so you have to put in certain levels of review methodologies, and exception reporting which must be undertaken at an operational level, not a compliance level (SSA Bank Member 1).

…the legacy of decisions made five or ten years ago about our IT are playing out now. So Bank C doesn't have these challenges because it is a new bank. It doesn't have legacy systems. So you can't go and lobby as an industry to say don't do this, or we need 2 years to implement this, because it is Bank A's problem. It is not Bank C's problem. It is not the industry's problem as a whole (SA Bank Member 2).

…any one regulatory requirement that I see, or that’s imposed on me and I require bank resources to deliver on, that pushes someone else to the back of the queue and often pushing someone else to the back of the queue, the way things stand at the moment, almost everyone in the queue has a regulatory requirement so you are not pushing non-regulatory requirements to the back, not to say that they are less important but basically we are shuffling a regulatory pipeline and de-prioritising or re-prioritising regulatory requirements so I think the support, the resources are limited as simple as that and I don't know whether the bank, and banks generally have gotten to the point where they are accepting that they have to invest significantly over a period of time, incur additional costs over that period of time thereby lowering returns in order to meet the regulatory requirements so this thing of lower returns translating to a safer financial sector, I don't know whether they have made that call and I don't know who has got the guts to make that kind of a call (SA Bank Member 4).

…when you bring the subject matter experts out of the product world, where they are busy with revenue generating products, to deliver some value into a regulatory project, you will impact on your revenue generation . So we need to mobilise the project team to deliver on this (SSA Bank Member 5).

d) Strategy

…well I think regulatory change should not be in compliance. I think as a bank we should have a better change management capability (SA Bank Member 2).

…any policy or standard that’s set at an organisation central level; there is a degree of consultation to make sure as far as possible the principals that’s in place are acceptable to stakeholders in all of your operations, but the critical thing about the principals is how they are executed on the ground in the local jurisdictions and that is something that I think often doesn’t receive enough attention (SSA Bank Member 1).

…my view is that we have not been designed to deal with all the regulatory changes. If I had the power, I would probably look at how to re-design some of the enabling processes and functions, so that I can separate the processing from compliance related stuff. So the problem is there are too many reporting systems being built for whatever requirement and you need to have separate teams going around to develop it. So if I could capture that in one line I would say a design for reporting and a design for processing (SSA Bank Member 5).

…Group Strategy works strategically and independently to make money for shareholders. You make money for all the participants. Strategy will always prioritise the agenda of the bank (SA Bank Member 5).

…now that they have a fine; the prioritisation is part of strategic focus and it must always be included in regulatory planning (SA Bank Member 5).

APPENDIX 5: INTERVIEW SCHEDULE

The following questions will be asked during the interview process to banking and regulatory bodies in an unstructured format.

Your view on the importance / reasons of regulatory requirements
Describe your relationship with banks in South Africa
Describe your relationship with regulators and banks in Sub-Saharan Africa and how do you manage that relationship
What do you consider the biggest challenge to implementing regulatory requirements in SA and SSA
Describe decision making process related to regulatory requirements and implementation (with regulators and internal bank stakeholders) - what worked and what failed
How frequent do you experience regulatory change requirements in SA and SSA
What is the cost impact of implementation
What do you consider the reason for having frequent regulatory amendments or new requirements to regulations
How adaptable or easy was it to implement regulatory projects in SSA considering the jurisdictional requirement and challenges
Describe the extent to which legacy “operational processing” (people, process and systems) is aligned to meet new and existing regulatory requirements
Can you explain how adaptable are SA banking regulations to SSA
What is your support structure when challenges arise
Describe strategic intentions curtailed due to priority, given the cost of implementing regulatory requirements in Sub-Saharan African countries
Is the application of regulatory requirements across banks consistent and aligned
Do the SA regulator and SSA regulators consult during regulatory development?
Is SA enforcing regulations in SSA?
What is the perception of SA banks and regulations in country?
Are SA bank regulations impacting on competitive advantage and ease of doing business in SSA?

What are some of the threats SA banks face when doing business in SSA
Describe the relevant skills or subject matter experts (SME's) that are responsible for monitoring of the relevant regulatory requirements

APPENDIX 6: INFORMED CONSENT LETTER

Informed Consent Letter

Dear Sir / madam

Permission request and confidentiality agreement

As part of the GIBS MBA program, I am conducting research on the impact of regulatory changes on banks profit. The information obtained is aimed at understating how banks can proactively assess and manage the rate of regulatory changes and compliance thereof.

There are no costs for participation in the interviews or survey, except for the cost of time to participate in the interview. The duration of the interview is one hour. Your participation is voluntary and you can withdraw at any time without penalty. All data and information will be kept confidential and only submitted to the GIBs Faculty for assessment purposes. By completing the survey, you indicate that you voluntarily participate in this research. Extracts from this research may be used as a contribution towards academic journal articles, books, etc.

If you have any concerns, you may contact me on any of the details provided below. Your kind co-operation would be greatly appreciated in this regard.

Researcher: Kubashnee Venkatraman

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0823256100

Supervisor: Dr Adrian Saville

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0827729933

Signature of participant: ____

Date: ____

Signature of researcher: ____

Date: ____

APPENDIX 7: THEMES, CATEGORIES AND CODES

Category	Codes	Respondents	Response
Theme 1: Regional Integration			
Changing environment	Pace of change Engagement Responsiveness Threats Understanding Transparent Culture	SA Bank Member 2	…there is so much planned in the last two and a half years, there has been 1.2 regulatory changes every week, coming out from Government in South Africa
		SA Bank Member 3	…the key is to understand your regulatory landscape and who has the right relationships and making sure your keep them informed, being transparent and making sure there are no surprises
		SA Bank Member 4	…it's changed over the last few years, from one of mutual respect and understanding to a greater scepticism and less tolerance on the part of the regulator so they have become harder in a sense in the last 2 years and that's not only in terms of the type of regulation, it's also in terms of the way they interact with us …Basel guidance note 3 on risk data aggregation and risk data reporting, basically has as one of its principles, that one needs to have adaptable and flexible systems, They set it out as a principle under which one must comply and so the regulators are recognising their own demands are placing more and more requirements on the banks and that they therefore have set a principle that the banks need to set up their infrastructure in such a way that they are capable of responding to adhoc regulatory requests
		SA Bank Member 5	…work is placed directly on the monetary areas and Namibia, Botswana. Lesotho and Swaziland, they fall directly in the ambit of every business decision we make, including other SSA countries that participate … and people are struggling with exactly the same question, as to how do I get the Bank X to work effectively together as one entity
		SSA Bank Member 1	…it's happening all the time, a degree of dynamic attention is created because essentially a lot of financial institutions are becoming as if it were agents for government implementation, and that obviously complicates the process because there's costs, education, it's all of these things and I think majority of the time the financial institutions are willing participants to the

Category	Codes	Respondents	Response
			process but there are huge costs involved in implementing these and a clear understanding of what is the conflict between profit generation of private enterprise and executors of government policy on the other, I think it's' a challenge, especially for top executives of financial institution
		SSA Bank Member 2	…when we engage at industry levels, a key function is to mobilise SME's who have to take these regulatory developments to the relevant business areas. A potential gap is we are not discussing these with our jurisdictional colleagues therefore we don't have a good understanding of what's happening in country or vice versa. We should have an integrated forum to discuss these developments and projects so that we can identify gaps and similarities with our broader African colleagues for effect planning and execution
		SSA Bank Member 3	…in the Excon environment major changes happen every three to four years but Excon circulars to communicate new requirements or to change existing requirements are issued on a monthly basis, sometime weekly basis
		SSA Bank Member 4	…there is an initiative run by SARB's payments area called SIRESS to create an RTGS type Rand payment area in the SADC region. Currently all the SADC countries outside the common monetary area can still trade in all their own currencies preventing one to call it a "common monetary region". No directive has been given yet on that. Also the current exchange control rules and regulation reporting makes straight through processing impossible and always requires manual stop-start intervention …even a lot of South Africans are opening accounts elsewhere, especially if they have multiple businesses in cross multiple geographies, it can become a lot easier to open something in another country, and simply by-pass SA in the process. Once it's in SADC, they bring it into SA …we getting new changes on a regular basis, you mustn't forget Moz is quite far behind a lot of countries so every year there is more and more changes to the law

Category	Codes	Respondents	Response
		SSA Bank Member 5	…the fundamental pillar of banking is trust, the unfortunate thing is that in an environment that we are seeing more and more changes we really need to make sure that were able to adapt,
		SA Financial and Regulatory Authority Member 1	…in general we are satisfied with the levels of bilateral cooperation in the region …the pace of change and introduction is historically high. However it is important to note that a current initiative of the committee focuses on simplification, transparency and consistency in the complete framework …it is interesting to note that the US and EU often postpone implementation to a period that suits domestic circumstances even when they contributed to, or defined the original implementation timing. Political process is a common reason for their delays
		SA Financial and Regulatory Authority Member 2	…get the mobile network operators into the play as well because mobile phones outnumbers banks by, it's like hundreds to 1, it's like literally the penetration rate of mobile phones versus banking infrastructure is chalk and cheese
		SSA Financial and Regulatory Authority Member 2	…we find outside of SA in some of the growing SSA economies, there is either a lack of regulation, or there is regulation, not as much as SA, I don't think I have ever seen as much as in SA but these financial markets are not really sophisticated as SA. You have to consider that from a supply side if you do regulate the industry, what is the ability of the industry to respond to regulations and the changing regulatory landscape
Macroeconomic environment	Risk and investment Integration Politics Barriers Commonality Standardisation Strategic planning	SA Bank Member 3	…regulators are having to step up their game and they are all now having to comply to stricter regulations around the world. They can't be seen to be risky because investors will not go there. If you take Kenya, there are certain pockets of regulations where the level is really high compared to here, because they need to have it and be able to transfer the information from one country to the next and if you don't have the laws in place as strong as the United States and the UK, then you are not allowed to take certain information and transfer anywhere else. So why is that important, well if you want to be seen as a market leader and attract investors, they want to know their information is protected,

Category	Codes	Respondents	Response
		SSA Bank Member 1	…ensure there is policy that is accepted from an economic rather than a political agenda, quite frankly and avoid policy making decisions that's agnostic or politically driven as possible but to ensure that one is meeting a social imperative, because generally if you do meet the social imperative appropriately you will not meet the economic imperative …I think one's got to differentiate between what appears consolidation from a geographic convenient perspective and what is actually applicable more from a political socio-economic and cultural perspective, not just because one's in geographic proximity. Actually means that there are similarities or commonality between people and interest groups and I think that's something politicians do have to be cognisant of, however there is a lot to be said for facilitating trade and working on normative values that don't compromise individual cultural values and I think that differentiation needs to be made …if your investment and trading partners or people you do business with are seeing an economy or principals and laws being enacted, that is seeming to accommodate sub-optimal policies from a regional perspective; that in fact is not going to be well-perceived outside of the region and it's not going to be good for growth of the local economy
		SSA Bank Member 2	…let's look at foreign investment; people will go where money flows the easiest or where it's easier to do business. By having a regional payments system it becomes easier to do business in less complex environments and the integrated payments landscape makes it much easier for money to flow. What does that mean for trade and export and FDI in the region, who gets ahead and who is left at a disadvantage …on the 15th September, the SADC regional payments system goes live and there will be a central banking platform for payments across jurisdictions. A bank that does not have geographic presence does not have to worry that much because of the central payments systems. Therefore as a bank, we need a new strategy to align to these regulatory changes because the geographic competitive advantage may be eroded and we may be looking at a common monetary zone sooner than we think

Category	Codes	Respondents	Response
		SSA Bank Member 3	…imposing some SA regulations into "less" regulated areas will restrict growth and trade in these areas …the regional integration project impacts on exchange control rules because our systems and requirements are complex that we are battling to integrate into the central system. Talks of monetary union will further have a huge impact on EXCON rules because of a potential shift or change in currency and cross border trade agreements with our SSA partners. Will it be a free trade agreement within the region or continent, we have to wait and see, what does that do to our systems and monitoring rules, processes and documentation
		SSA Bank Member 4	…standardisation makes a country easier to do business and increases foreign investment which is what we need right now
		SSA Bank Member 5	…the systemic impact on any country, and impact of its stability to attract foreign investment is high so the fundamentals are, that you have got to have a sound business practice and if it is not regulated properly, and you don't have proper recovery plans you will find that the country index in terms of popularity and investment will drop.. FDI flows become a factor and will be impacted. So we need to understand that we need to plan for both in SA and the African continent or even in a small country on the outskirts of Africa or a small place in the world, but you have to play the game that we play internationally and play the governing rules…we have multiple requirements, which need to be done at the same time. There are various authorities who will come down with their own view of the world because there isn't any regulated framework out there, twin peaks, FATCA, POPI balance of payment, all come at the same time. And all of them are responding to threats in the environment, and so you can understand why they come up at the same time
		SA Financial and Regulatory Authority Member 1	…Eurocentricism is increasingly prevalent in developing regulations, little recognition of integrational factors associated with other jurisdictions and especially non emerging markets or Africa …some of the structures that support compliance with regulations are absent in our

Category	Codes	Respondents	Response
			industry, an example is a central counterparty to support common monetary zones and convergence in the region
		SA Financial and Regulatory Authority Member 3	…the regional payments integration project appears to have the apparent backing of the powers that be in each of the countries so you look at the which is a very important factor., if it doesn't have political will (in the form of support from all the key stakeholders) it can be obstructed
		SSA Financial and Regulatory Authority Member 1	…in SADC the end goal is clear, we aim to promote, harmonise and negotiate till we are all agreed. Whatever we do it is always to enhance existing regulations that will eventually enhance systems in cross border trade …we need uncomplicated regulations that impact on cross border activity that eventually impact on the economy which is against the objective of regional integration …SA is seen as the corridor to the region but they are the most expensive. This is impacting on trade across the region and slowing down mobility across the region
		SSA Financial and Regulatory Authority Member 2	…looking at rural finance where we focus on small farmers, not commercial farmers at all, looking at small scale farming and value chain in farming including the finance elements of that and how we can support that so that there is improved growth in that small scale farming sector …have got to be careful over-regulation and the impact of over-regulations, because not only does it have cost implication but I think including unnecessary complexity into a regulatory environment makes it incredibly difficult to do business …we assess proposals, its capacity, empowerment and skills transfer. So how will that company do in a particular country and contribute to that process as part of the work that they do for us. So whether that be providing training, for local drafters or building capacity for members of national treasury provided by our steering committee and our technical teams; so we are quite big on the empowerment side …one of the things we strive for and a lot of

Category	Codes	Respondents	Response
			countries are doing that, is striving for financial stability in our markets. So in order to get that kind of stability and also to support a free and transparent economy, I think consistency in regulatory principles is important
Levelling the playing field	Standardisation Integration Partnership Politics Commonality Culture	SA Bank Member 1	…we do not have that entrenched partnership with regulators in SSA. We are always reactive in SSA. There is a huge disconnect where we Bank X has robust systems but trying to integrate into our systems in Africa is a major challenge
		SA Bank Member 3	…there will be challenges in the integration because it's going to be a "my currency is stronger than yours" and why must we go with that currency etc
		SA Bank Member 4	…I think the need for regulations is multiple needs, one is around a level playing field or an appropriately differentiated playing field whether it's across geographies or across types of activities but basically trying to treat the same things in the same way so I think the need for regulation is around the levelling of playing fields so that's probably a case of saying there is a regulation, let's ensure that it reinforces level playing fields rather than introducing anomalies
		SA Bank Member 5	…find the commonality in the law, why this was done. We adopt the regulations in comparison to that which works for you, but until you have a uniformed customer risk management approach of a single view, you will always be faced with challengers
		SSA Bank Member 1	…certainly in an emerging societal trend over the last 20 years, people in society that integrate themselves into certain units, take their sovereignty extremely importantly and I think if you look at some of the fall out of the EU over the last few years you see a state where in fact you can't aggregate against too wider a dispersed area, there are limits to the degree of aggregation that you are going to do and I think if you look at the rise of nationalism across a lot of societies and countries, you will realise that at certain levels you can't re-aggregate in terms of commonality

Category	Codes	Respondents	Response
		SSA Bank Member 4	…there is already a regulation in Mozambique which has been introduced some years back, the essential banks supervision has not been that good in following up on that with us, and that's sort of resulted in companies like Bank X where I feel that the head office regulations are stricter than the country regulations, we simply just start to follow head office regulations, because as group you have got to have a standard and if your standard is higher than the country, then obviously that's the standard you have got to apply across the board …the key is to standardise across the board, which is an easy word to say, standardise, but to me we need to start talking the same requirements across everything, across the borders and including America and Europe, have one standard for everyone which I think is virtually impossible to do because everybody wants their own interpretation of it and has to put their own emphasis on certain things etc., that just makes it a bit more difficult when dealing with the multiple geographies as to know what is the standard and what is different to say Angola …so that to me is the tricky thing, compliance in the SADC is trying to get everybody onto the same standard, that everybody agrees and everybody police's it in the same way, in other words all the regulators have got to be on the same page because if they are not on the same page, you are going to get water flowing to where it's easiest in this whole process, and that gives us some idea of what I think are the problems coming in to SADC
		SA Financial and Regulatory Authority Member 1	…Eurocentricism is increasingly prevalent in developing regulations, little recognition of integrational factors associated with other jurisdictions and especially non emerging markets or Africa
		SA Financial and Regulatory Authority Member 2	…regulations standardise the playing fields amongst competitors

Category	Codes	Respondents	Response
		SA Financial and Regulatory Authority Member 3	…a proposed state of ideal regulations or ideal inclusions for all of the various countries to actually be able to, according to their own resources and their own issues in those countries and their own processes, to be able to incorporate those proposed set of legislations or proposed inclusions in their legislations to try and create a highway across all the myriad of legislations, to be able to create a tract which is cut straight across and even if's not going to be mapped out word for word but in terms of the spirit and tenor of the legislation you are going to find that it's going to at least be something that's not diametrically opposed to another piece of legislation in another country because obviously the intention of this thing is to come up with some sort of regional integration
		SSA Financial and Regulatory Authority Member 1	… consultative relationship with the aim to agree on a common framework …the region is moving toward joint platforms and common currency. If your systems and regulations are too complex, how do you expect to be part of the integration program, how do you expect other countries in the region to work with you
		SSA Financial and Regulatory Authority Member 2	…major focus is on financial inclusion and regional perspectives across SADC but also looking at integration and harmonisation so how do countries in SSA, harmonise policy, regulations, processes, systems …SA sees themselves as potentially first world economies and I think there's a sense of arrogance that comes with that as South Africans and some of the other countries don't like that …we don't necessarily propose that the global standards are applied rigidly, we look at it but we also look at those and we say how do these standards or how do these recommendations; 1, fit into our context, 2, support financial inclusion; do they support it, do they act as a barrier or are they prohibitive for financial inclusion, because convergence is an issue in our region, so we want to look at it in relation to that, so what may come out for example, we may make a recommendation that says that this is the FATF recommendation and CDD, we find that countries at varying levels, firstly in their interpretation of that particular

Category	Codes	Respondents	Response
			recommendation, but also some countries will apply it very conservatively that results in a barrier for financial inclusion
Theme 2: Banking Landscape			
Regulatory development	Innovation Engagements Consultative Process Interpretation	SA Bank Member 2	…there are opportunities for us to change our business to get ahead with some of these stuff, become market leaders from some of these things, to make money from some of these things. In some of these areas there are win win situations in terms of growing our business and influencing Government policy that we are not doing enough of, because we often feel quite reluctant
		SA Bank Member 4	…engagements are happening where the group governance function is providing training so that the local in country board gets to understand the context or the regulations, the governance environment within which the group operates and how it should or could affect them in country
		SA Bank Member 5	…new legislation is a lot less in our country; it is about change of existence legislation, and impact of implementing it
		SSA Bank Member 1	…interestingly enough in SA we are quite progressive in that there is a lot of participation from interest groups in contributing to passing of law and I think that participation program works quite well, articulated and understood …leadership is about decisions but you need to make sure that you have the process that allows the most appropriate decision to be made and that's the consultative process and I think in SA we are quite fortunate around some aspects of that as well
		SSA Bank Member 2	…most regulatory changes is a process and in some instances takes years before promulgated
		SSA Bank Member 3	…what is important is for banks to be awarded an opportunity to provide input or even to participate in workshops before the regulatory requirements are issued. In some Sub-Saharan countries this is a big challenge because requirements are sometimes issues with retrospective implementation dates or new legislation

Category	Codes	Respondents	Response
			contradicts existing legislation or circulars issued are back dated, which makes implementation a challenge
		SSA Bank Member 5	…we are probably over regulated, and the reason for that is probably that we fail to self-regulate and execute what we need to …my view is that we have not been designed to deal with all the regulatory changes. If I had the power, I would probably look at how to re-design some of the enabling processes and functions, so that I can separate the processing from compliance related stuff. So the problem is there are too many reporting systems being built for whatever requirement and you need to have separate teams going around to develop it. So if I could capture that in one line I would say a design for reporting and a design for processing
		SA Financial and Regulatory Authority Member 1	…occasionally banks affected by cross-border operations host supervisory colleges in South Africa at which the regulators of non-South African operations meet together with us to discuss the performance and trending risk profile of the consolidated institution and the variances between our regulatory standards
		SA Financial and Regulatory Authority Member 2	…we are seen as the leader and as such, other African regulators look to us for some form of guidance in certain areas. We also offer training to African regulators including SSA
		SA Financial and Regulatory Authority Member 3	…whenever there are any changes or proposed changes to policy or legislation, we are involved in the discussions or the engagement process in terms of providing feedback and so forth in the areas which we are involved in and even from a broader perspective in the SSA region we are now starting to participate …it is important that the bank's interpretation of regulatory requirements are in line with and reflect the intention of the regulator because implementing regulatory requirements comes at a huge cost, especially from a system perspective. Meeting timelines from a reporting perspective, especially from a system point of view, given the development and testing phases can also be a challenge

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			…whether it's in SA or Zimbabwe, you are always going to have concerns on the kind of infrastructure and the type of things like addresses and so forth. One needs to look at the ratio of urbanised versus non-urbanised and connectivity, and then be able to look at that as feeding into regulatory development decisions such as AML laws and so forth
		SSA Financial and Regulatory Authority Member 1	…have a very consultative relationship but they need to be more engaging and listen more to the problems of African countries that are behind the curve …the Reserve Bank has agreed to work with SADC in the regional integration project to identify factors that can be applied across banking in the region
		SSA Financial and Regulatory Authority Member 2	…so one of the things we bet on is building capacity within that country so we don't want to come in and import skills and do everything and then leave so we encourage our confidence in those countries to be a part of the process, we also strongly encourage them to make financial contributions to the regulatory reform so that they have ownership of it. We don't want to, I think, we see it a lot of countries, this hand-out mentality, we need to shift that and say okay what are you bringing to the table and even if it's small in the grand scheme of things, slightly insignificant but it's still the principal of encouraging partnerships and not just getting hand-outs
Implementation challenges	Language and interpretation Execution Skills development Engagement	SA Bank Member 1	…language barrier is huge. We don't always interpret their regulations correctly and our policies may come across as too complex because many of our SSA colleagues are not as fluent in English
		SA Bank Member 2	…what is also supposed to happen, but it is not happening enough, is we are supposed to find ways to look for the overlap in different regulatory requirements for example where TCF and POPI overlaps, so that we could have one control that helps you comply with both. We are not really getting that right yet. So there is still a lot of scope to save the bank money …why is it we got fined. We got fined because we don't adhere to our own policy

Category	Codes	Respondents	Response
	Standardisation Timelines Resources Culture	SA Bank Member 3	…you need people qualified to help implement. So all of those count for efficiency and effectiveness of your implementation …even though regulations had not been published, you need to start training around what you know is likely to be implemented, so that when it is actually implemented, we are not starting from day
		SA Bank Member 4	…I think our one big challenge, a challenge for any bank is to take these regulations and translate them into practical readily accessible either checklists or material that can be readily referred to and in as many cases as possible, wherever possible, to actually systematise it so that there are system controls that would flag or escalate an issue, I think it's physically impossible to expect the average staff member to understand the complexity of the regulations and quite honestly I don't think our governance framework helps
		SSA Bank Member 1	…the consultation around the content is probably quite robust, I think the consultation around the implementation is less so, and I am not sure there is enough of a connection that connects between the practicalities and the implementation on the principles of legislation
		SSA Bank Member 2	…working on the changes in isolation and not including all impacted stakeholders may also impact on the interpretation of the requirements and overall implementation across jurisdictions because of a lack of understanding of process, system and regulatory gaps or overlaps
		SSA Bank Member 3	…in Sub-Saharan African countries, most Regulators expect internationally active banks with operations in their jurisdiction to comply with the local requirements and regulations as a minimum, but will hold them to higher standards, expecting them to implement international best practice standards that their parent banks are required to adhere to. This is a major challenge because of poor infrastructure and connectivity. Managing that information becomes difficult from a central or integrated view because of cross border transfer of information which in some countries don't allow for it

Category	Codes	Respondents	Response
		SSA Bank Member 4	…you are having to invest a lot of time and money in building people up so to me the biggest obstacle in managing the regulatory and compliance I would say is skills. I would say that's the same for quite a chunk of the region
		SSA Bank Member 5	…we were designed for projects; we were designed to build customers satisfaction, and use the best and quickest method and get it out the door. Compliance tends to monitor and watch the transactions; do certain things in a different manner that is outside of the processing environment. So I think the conflict of structural design is very much where the concern is. It is actually when we start hitting the ground, and then we told to do x and then we are like oops, what now
		SA Financial and Regulatory Authority Member 1	…mutual understanding between regulators and regulated institutions. Global implementation timelines for implementing new standards are occasionally ridiculous
		SA Financial and Regulatory Authority Member 2	…implementation always works when all stakeholders are involved in the drawing up process and implementation process irrespective of jurisdictions. There needs to be buy in from everyone as well as a common understanding …a challenge in SSA where there is a huge skills shortage to implement and monitor such requirements
		SSA Financial and Regulatory Authority Member 1	…language can sometimes be a barrier. SADC has 3 working languages. English, French, Portuguese. Translation of documentation can be slow as that skill might not always be readily available and more importantly the commercial use of a language. i.e. banking language

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		SSA Financial and Regulatory Authority Member 2	…I think that their biggest challenge when implementing this, this is going to be resources and the ability to do this and I think also they have to apply, it's difficult because countries just have such varying cultures, some countries may take a very liberal view to policy and regulations and so they hold more risk, they are not as risk adverse as others, so it's difficult, it's difficult to say how does one implement, what approach should they take, it depends largely on that countries culture towards regulations…Lesotho has only just started to roll out foreign identification as an ID. They only just developed and implemented a national identification system, so you could get a passport in Swaziland but you didn't have the equivalent of our green bar coded ID and barcode book, so how then do you implement a regional standard, it's very difficult…lack of capacity or lack of skills, lack of regulatory bodies that has any sort of clout, complexity in our regulatory environment in SA, SA have highly complex regulations, you have got all of these different pieces of legislation that regulate the same entity, that regulates the same industry, and they potentially don't speak to each other so yes the ambiguity could devise from the complexity of the regulatory environment
Theme 3: Competitive Environment			
Regulatory pressures	Culture Engagement Deadlines Legacy system issues Standardisation Pace of regulatory change	SA Bank Member 1	…the balance between prescribing and consulting is a fine line for example, in some instances the SARB would literally give a few months to implement major system changes which is not doable. Hence banks have to increase costs i.e. additional resources and tactical systems have to be implemented to meet these sometimes unrealistic deadlines …it comes back to culture. It is ethical culture. If we really believe and we really build our culture and our reward system,…you don't need regulations

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	Competitive environment	SA Bank Member 2	…we are always looking for loop holes and we are always trying to find the way out of it, so that we basically sub-verse the intent behind it, all that happens is that you get more and more regulations. And I think that is to some extent what is happening in South Africa particularly around credit regulations …I don't think the problem is with control. The problem is the culture. And the problem is do we have the right rewards and incentives in play to reward the right culture and the right kind of decision making or not …if the rest of the industry is bad, the rest of the industry doesn't comply; if one or two of the industry don't comply we are all painted with the same brush. So we have to be industry leaders
		SA Bank Member 3	…are they needed to the extent that it is competitively challenging or difficult to come on board is a bit of a discussion point. I think what's happening is that it's almost seen as a knee-jerk reaction and you are getting regulators around the world picking up their game in a shorter space of time than managing it appropriately over past 10 years …we have got a business model internally which really lessens the impact of the regulations but it's still happening too fast so we need the regulatory authorities to slow down and prioritise what's important
		SA Bank Member 4	…one has got to recognise the regulations themselves are not necessarily homogenous or consistent, there are conflicts, there are ambiguities and in some cases the conflicts are quite stark or they might be geographically different, so what works in one country is expected to be applied in a second because of the group requirement Whereas from a national perspective, it places a bank, which is part of a bigger group at a competitive disadvantage potentially …legacy systems being introduced over the years are creating operational inefficiencies and increasing operational risks generally so just as the business grows, as we try and introduce new requirements into these systems notwithstanding that we are trying

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			to put in new generation systems, the stuff we have in place is operationally inefficient and creates operational risks as it is, when you start putting additional regulatory requirements on top of that, either in the terms of changing a way a process needs to work, or in terms of providing additional reporting requirements or additional surveillance requirements, you are already putting additional demands on a very creaky system so I think our, I don't think it's unique to us, I think the more complex a bank the more wide spread its footprint, the more it has acquired, more it has grown by acquisitive growth as opposed to organic growth, the more we have had short term tactical decisions made around systems, the harder it is for us to deal with the additional regulatory requirements now
		SSA Bank Member 1	…the debate of course between social equity and pure financial gain I guess is on the way but it's difficult to actually articulate just where your non-financial benefits exceed, hopefully, which should be the intention of any properly crafted piece of legislation that actually exceeds the financial benefits because there are other societal add on benefits for that
		SSA Bank Member 2	…the deadlines are not discussed, it's given. It's sometimes 6 months but can be longer based on the project or changes required …as a bank you always have your own roadmap of programs to run and when regulatory changes take place or new directives come up, they have their own deadlines that don't take into account current bank deadlines. These changes sometimes touch on projects you are currently running hence may impact on the overall roadmap and implementation or projects because its affecting some system or you have to bundle both regulatory and non-regulatory changes or postpone implementation of non-regulatory requirement projects. Banks put their views on the table but it's sometimes not considered …banks have lots of legacy systems. What we are putting on the table now is to redesign the system architecture so that enforcement of system specific rules is centralised so we don't have to change

Category	Codes	Respondents	Response
			rules on 10 or 20 different systems. Our systems are not fully integrated and get complicated when trying to achieve a preferred outcome …the legacy of decisions made five or ten years ago about our IT are playing out now. So Bank C doesn't have these challenges because it is a new bank. It doesn't have legacy systems. So you can't go and lobby as an industry to say don't do this, or we need 2 years to implement this, because it is Bank A's problem. It is not Bank C's problem. It is not the industry's problem as a whole
		SSA Bank Member 4	…when you get something new coming in, you get other things, you get country regulation and then you get like American regulation that affects us, European regulation that affects us, so you are getting all that coming in, so it's not just a country regulation or a SADC regulation, it's what's happening in America, FATCA is the latest one coming into play, that affects us as well and what is the latest thing out of Europe, that also affects us, so you are getting regulation from quite a lot of countries, whereas Africa doesn't affect America in our regulation, their regulation affects us, so that's why I say there are far more changes than people think you get …skills is a challenge because we don't have historical culture of compliance in Africa, we don't have a lot of people that have studied in it, worked in it, have experience in this particular field …to know that you've protected the brand, you've protected the reputation of the business and you have set the bank to sustain for a long time, than going for short term quick profit and credit
		SSA Bank Member 5	…we need to build and embed into our culture so that these tasks don't become burdensome …it is always boxed in time. You get told and then you get told when. That is it and you have no leeway. So all the questions that you ask, can sometimes impact scope, becomes tough, just get this done. So time is essential, scope management increases but the boxed in time never changes

Category	Codes	Respondents	Response
		SA Financial and Regulatory Authority Member 1	…the bank has got multiple systems; I don't think anyone, whom you are dealing with in the bank, will say we are aligned or adaptable
		SA Financial and Regulatory Authority Member 2	…the challenge was not Lesotho, the challenge was SA because our regulations are so stringent and conservative, and so there has been a lot of work and a lot of engagement with the SARB on this side, to try and get them to relax some of the requirements …as the economic landscape especially with the regional integration projects taking place, changes and new and innovative ways of doing business emerge; the regulations need to be adapted to take account of this. If the regulations do not evolve to make room for this, they will be ineffective and could lead to market arbitration. This is currently proving to be difficult because of infrastructure, skillset (language is part of it) and connectivity challenges. It does impact on the collaboration process which needs to be continuously worked on
		SA Financial and Regulatory Authority Member 3	…we are still amongst the top corporate governance in the world; we are like 2 and 3 in the rankings. The point is that if you can get your culture right, if you can sort out the basics, if people follow the law, if we had to get the culture right we would not need to be over regulated; just as a company, if the culture is created in a company, the company does not need a myriad of policies, you can just have your basic policies and people would know what to do
		SSA Financial and Regulatory Authority Member 1	…focus on being more innovative and focus on their core business than trying to interpret but the regulations are saying. That is in no way helping the growth of the economy. It is creating more admin and less room for core business activities to take place…we need to keep things simple and when regulatory changes happen we need to consult with the regional team. Why is it that SA banking regulations are so rigid but banks are fined millions? Or is it enforcement and execution? Are the requirements so complex that it is difficult to implement

Category	Codes	Respondents	Response
		SSA Financial and Regulatory Authority Member 2	…we have observed in some countries there is no regulation around mobile players entering the financial sector and that's a risk to the economy, it's a risk to their consumer base, opens up all sorts of risks but those countries deem that, they don't see it as a problem
Cost of compliance	Opportunity costs Value add Skills Systems Processes Strategic planning Infrastructure Business expansion	SA Bank Member 1	…business has to ensure that they show value to our stakeholders and this can only be done through increasing their income thus their resources are focused on doing exactly this and regulatory requirements very seldom increase income. It is not seen as a value add to the business income statement …our deadlines to get things done are not always aligned to SSA priorities and they sometimes feel imposed on. Our procedures are written according to SA regulatory requirements which do not necessarily fit in line with SSA legal entities and to implement SA requirements may be costly for the SSA banks because they sometimes don't even have the infrastructure to build these requirements …it is a continuous journey and because there are so many regulations and changes required, it impacts all people, process and systems and at the end of the day the profit margins. Change fatigue is a common word being used because there are so many changes, before you complete one project, more changes may come down the line which you may have not even budgeted for
		SA Bank Member 2	…cost are huge, I mean some of the costs first of all would be opportunity costs. The bank spends its time on looking how to comply rather than looking at innovation and coming up with things that could be good for our customers and good for our shareholders …I think that systems cost lots of money and the cost of time as well is high but that doesn't mean it is wrong. Just because our legacy systems are so bad and our IT infrastructure is so bad, and we have under-invested in it over the years and our systems are held together with Sellotape where we battle to manage change and adapt to the changing environment, it is not Government's problem. And it is not the

Category	Codes	Respondents	Response
			consumer's problem; it is our problem
		SA Bank Member 3	…it's the cost of change, project management time, the cost of salaries in the business unit to implement in the business unit, system changes and upfront training and ongoing… the indirect costs are that you are having to prioritise implementation of regulatory changes as appose to implementing that that's supposed to make you money
		SA Bank Member 4	…the sheer complexity of the regulations, it's just another way that they would contribute to the cost of embedding and adopting
		SA Bank Member 5	…in Bank Y, I do not think we have the maturity, and the bank that I came from, me being able to fight the negative NPV of what the costs were for development of the system, for the process procedure, for the marketing campaign, for all that, that was all quantified in the bank Z …now that they have a fine; the prioritisation is part of strategic focus and it must always be included in regulatory planning
		SSA Bank Member 1	…in its most eloquent form, banking can be described as the ability to facilitate the transfer of funds between people and entities, and if you then devolve it to the implementation of compliance requirements, what actually happens is while you might see the dynamic expansion of resources in a direct compliance function, you need a number of resources that are required across virtually all elements, you need more people in HR because you are supporting more compliance people, you need more people in IT because of the systems you require, you need more people to review those so you need more internal auditors, you need more people in your accounting and finance side because there are financial reporting implications, you need more people to support your sustainability reporting as well so there is a whole integrated element and I think that debate has not been held …the practical implementation unfortunately is sometimes rather esoteric and it's going to be extremely costly to

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			implement
		SSA Bank Member 2	…if you looking at it from a rand perspective, you would look at technology costs; what are the costs of changing IT systems to support the requirements. Also need to look at areas of change management to educate and train staff. Cost of learning and training is another contributor to cost of implementation. Need to update learning materials and travel all over country to ensure compliance to the changes. People need to sometimes be pulled out of their jobs for training. The few conversations I was party too in terms of cost was said to be a competitive thing and people see it as collusion therefore don't discuss these things in any open banking forum
		SSA Bank Member 3	…important that the bank's interpretation of regulatory requirements are in line with and reflect the intention of the regulator because implementing regulatory requirements comes at a huge cost, especially from a system perspective
		SSA Bank Member 4	…the impact at the end of the day is the bottom line, it means we need bigger areas, we need more people, we need more skilled people, your costs go up …employing the right people, the infrastructure required to keep these people, reverses the reputational risks that you run and the business by not doing it and those are hard to measure, reputational risks are hard to measure
		SSA Bank Member 5	…I think any regulatory project is a grudge purchase and this is why you have to present it up front as opposed to trying to ask the questions later. Once you have done that and know you must comply, you can bite the bullet and go do it. It is not an easy process because you would rather spend money on revenue generating stuff …when you bring the subject matter experts out of the product world, where they are busy with revenue generating products, to deliver some value into a regulatory project, you will impact on your revenue generation . So we need to mobilise the project team to deliver on this

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		SA Financial and Regulatory Authority Member 1	…there is a cost associated with the growing regulatory burden, as more analytical staff and IT resources are required with every new rule …it's difficult to evaluate the cost, and I doubt whether you will get an honest quantitative answer. The cost is not limited to a bank, or the banking industry. It's a financial stability question
		SA Financial and Regulatory Authority Member 3	…you can't run a business without considering bottom line and what the impact is going to be on revenue and profitability. Whether it's going to be something that's going to make business much more untenable and much more difficult to do business, something that could potentially have a reputational risk on the business; something that's going to impact on strategy