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Evaluation of the Non-Banking Regulatory Authorities' Merging in Egypt

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Abstract

When talking about merging anything in general it is important and inevitable to differentiate between "integration" and "unification". To be specific, talking about "integrating" regulatory authorities together, means grouping these authorities in one authority newly created, to regulate different entities supervised by each authority separately. But "unification" means that an already existing authority will add to its duties and job description to regulate two or three activities only, in order to making disappear the original authorities regulating it. Like what happened in Egypt, when the Egyptian Financial Supervisory Authority (EFSA) is created to regulate the capital market, insurance, and mortgage sectors, together with taking the responsibility of supervising the leasing, factoring, and securitization activities from the General Authority for Investment "GAFI).

Keywords*: Non-Banking Regulatory Authorities, Egypt*

1. Reasons behind merging regulatory authorities in Egypt

Five years ago, in 2007, Egypt started to talk about merging regulatory authorities regulating the non-banking financial sector, represented by the Egyptian Insurance Supervisory Authority (EISA), the Capital Market Authority (CMA), and the Mortgage Finance Authority (MFA). And in 2009, the law no. 10/2009 has been issued in July.

2. Some of the main reasons that may be led to think about merging regulatory authorities are:

- Improving the performance of the regulatory bodies with respect to the financial system.
- Addressing the problems resulting from the lack of communication and cooperation among regulatory bodies.
- Filling the regulatory system gaps.
- Facilitating the process of restructuring the regulatory bodies.
- Overcoming the weaknesses regarding the quality of supervisory performance as a whole.

- Activating and strengthening the relationship between EFSA and other regulatory authorities, including the exchange of practical, technical, and scientific experiences in areas of mutual interest.

3. Problems and obstacles to the process of integrating regulatory bodies:

There are some problems or obstacles that may hinder the establishment of an integrated regulatory authority, for example:

- The need to amend some articles of the law and legislation so that the new body can operate and carry out its mission effectively, and with respect to such sources of financing, assets ownership, agreements with other parties, imposing sanctions on the market, and modifying some articles in order to increase the consumer's protection.
- Retirement of some experienced employees and/or dispersion of the new authority's employees as a result of the delay in determining the final shape of the authority and the employees' feeling of instability.
- Delay of integrating the IT and infrastructure of the merged bodies and its consequences of setting goals, action plan, and identifying each unit's responsibilities together with the responsibilities of the administrative apparatus.
- Financial problems regarding the lack of funding to complete the integration steps.

There are many examples for integrated bodies, such as what the United Kingdom did by unifying the control and supervision process by integrating all regulatory bodies, either the one that monitors banks (Bank of England, which represents the Central Bank in the country) or other regulatory authorities for different financial organizations and entities, creating the Financial Services Authority (FSA) which represents the only financial regulator in the Kingdom, and thus, became the most powerful financial controller in the world.

But in 2010, the Chancellor announced the intention to replace the FSA with two new successor bodies:

- The Prudential Regulation Authority (PRA), as a subsidiary of the Bank of England, and
- The Financial Conduct Authority (FCA), regulating conducting retail, wholesale, financial markets, and the infrastructure supporting those markets.

May be the reason behind the separation of financial sectors, such as insurance and capital market, is to be under the control of a single body and the banks under the control of the Central Bank is that the risk in banking lies in the assets side while for the insurance industry lies in the liability side.

Because practical experience says that there is no uniform model to be the best ever, each country follows its model which harmonizes the structure and objectives of the regulatory body, however, there are problems and challenges. The selection of the format that corresponds with the regulatory system is considered as finding the best suiting the country at a specific time, and is activated through knowledge of weaknesses and finding appropriate solutions to remedy them. In addition to that, the changing in the regulatory structure does not guarantee overcoming the regulation disadvantages, while formation can help changing.

One of the most important success factors of regulation in its new form is the presence of employees who are able to identify problems and have enough experience and ability to make decisions and deal with whatever they face.

One of the most important matters to keep in mind while integrating the regulatory authorities is to continue the developing process as well as customer's protection, and maintaining the stability of the market, because the stability of the country's financial situation and economy is one of the factors that must be considered when beginning the merging process. As well as trying to avoid completing changes in the organizational structure at the time in which the financial sector could be facing difficulties if possible (or even the time in which the financial sector is facing prices' increase), because this financial stability is one of the factors that affects the degree of public's acceptance or even employees' acceptance for any new occurring changes.

Whether the countries merged their authorities or not, this does not mean eliminating or reducing the importance of any ministry or any other entity and its role, like the Ministry of Finance, the Central Bank, the Ministry of Investment, taking into consideration that the country failure in developing and improving the integrated authorities, and its legislative and supervision framework leads to the authority's non-success in achieving its potential, so it becomes just like an umbrella gathering below a number of bodies with a single unified name and logo, but each remains working according to its laws and regulations.

4. Merging in Egypt - Egyptian financial sector's structure:

The Egyptian financial sector is divided into two subsectors:

- Banking financial sector: Including national and/or foreign banks, supervised by the Central Bank of Egypt (CBE).
- Non-banking financial sector: including (till the year 2009):
  - Insurance supervised by the Egyptian Insurance Supervisory Authority (EISA).
  - Capital Market and securities supervised by the Capital Market Authority (CMA).
  - Mortgage finance supervised by the Mortgage Finance Authority (MFA).

As mentioned above, in 2007, Egypt Government started to think about merging authorities supervising the non-banking financial sector. And this start actually was suddenly decided to be achieved in July 2009. So, how was these authorities merged and became the Egyptian Financial Supervisory Authority (EFSA)?

The start was by creating the Merging Committee affiliated to the ministry of Investment, and was headed by the Minister’s friend, who became EFSA chairman after that (till 2011). It was supposed that this committee worked and studied well how to merge such important authorities safely without least troubles, which was an unrealized dream. Because if this committee had well done its job, the integration operation would be realized later than July 2009, in a more organized way, due to the following:

The mission	Approximate expected period of time
Determining the final structure of the new authority	Two years
Mission, vision, aims, responsibilities, legal framework	One year six months
Action plan including goals, strategies, and necessary steps to achieve this	One year two months
Unification of the authorities' IT systems	one year one month
Resettling employees and identifying their roles	nine months
Financial regulations special procedures	eight months
Resettling and appointing managers in new departments	seven months

According to the above table, it was supposed that the integration operation steps would long between two years and two years six months. But in fact, the decision was taken suddenly and all the above steps were completely done after issuing the law no. 10/2009, without any steps to make the employees accept their integration, establishing EFSA, regulating all three non-banking financial sectors, and controlling leasing, securitization, and factoring activities.

But to be realistic and fair, we must say that each of the three authorities was separate with its specific laws, regulations, legislations, and rules. And thinking about this matter leads us to understand that the integration means subordination of all the three sectors' companies to only one regulator and legislator, so it was rather preferred creating a new law codifying how to regulate the non-banking financial sector in Egypt all together and not to keep each activity regulated by its own separate law.

5. Integration advantages and disadvantages in Egypt:

If we are going to talk about the integration advantages and disadvantages, it is very important to remember the late Mr. khairy selim, EISA's ex-chairman till 2004, who refused this idea and tried his best in order not to apply, Taking his power from his strong character as a regulator who understands regulation and insurance field very well. May be that's why, once hired, the Minister of investment, at that time, decided to relieve him of his duties and started to arrange integration steps by Government direct orders.

Out of this matter that every decision has its advantages and disadvantages, or positive and negative points, the same applies to merging.

- Certain departments were united into only one department instead of three each existing in an authority such as financial, legal, human resources, research, IT, customer services, public relations, administrative, and training departments.

This last department – training – is very crucial, and is supposed to carry the burden of training employees and creating capable new cadres. This step for unifying the common departments would reduce the number of employees, addressing employees' weaknesses or lack of performance – if any – because working together creates some sort of experiences' exchange, leading consequently to a healthy competition's atmosphere on both personal and practical levels. In addition to the unification of these departments' work system, instead of having different systems applied separately by each before integration.

This was supposed to be organized before merging steps, but actually in the Egyptian experience, most of this was done after the merging which led to lots of problems between employees, personally and financially.

- On the technical level, there are lots of employees who were technically good in their authorities before integration, but after, they did not gain any new experiences as they were expecting. But, on the contrary, they are totally marginalized.

- Concerning the applied regulatory systems, it was supposed to unify them, but actually this was not done, and each regulatory department follow its system and law.

- Also, the salaries' amendments didn't take place except after approximately two years from integration, this caused lots of polemics and troubles between employees, because each authority's employees were comparing their salaries with other employees' ones, which was not fair, because every authority had its employees' salaries' special system.

- One of the integration's advantages is the diversity of the three authorities' financial resources, these sources were grouped together, with the possibility of increasing supervision fees for companies, and this could improve supervision system in a way or another.

6. Merging deficiencies:

In addition to the integration process positives and/or negatives, there are some deficiencies that must not be neglected:

- The fact that the time factor was not well organized or exploited, and also the employees' dispersion due to financial differences between them.
- There is no regulatory unified handbook with EFSA's current laws, regulations, and legislations.
- The tardiness in issuing important laws and legislations in insurance such as bancassurance, health insurance, takaful insurance, actuaries' rules or law organizing their work in the authority or in the companies, to avoid conflict of interest. In addition to tardiness in amending the mortgage, capital market, leasing, existing laws, in an earlier time after integration, because this tardiness nowadays is doubled due to political situation in the country.
- The lack of social communication between employees, except in work. They are all applying the "only work relations" principle. Though if the social relations are introduced a bit, there will be a better team work.
- Practically, there will always be a problem in hiring EFSA's chairman, because if he is well experienced in a field, he will lack the others, so he will concentrate by nature in what he understands. That's not fair for insurance field, because this field needs lots of

experience and is not easy to understand or practice. In Egypt the culture of "to be expert in a field with knowledge in other fields" does not exist.

This last point was the problem facing insurance activity after integration, due to its special nature which needs lots of efforts to be understood, and may be this was the reason why the insurance sector in Egypt is not improving although the current political and economic circumstances in the country represent a good chance and base to insurance diffusion and promulgation, so that it can improve its share in supporting the economy.