



# IMPACT OF THE REGIONAL INTEGRATION OF REGULATORY FRAMEWORKS ON FINANCIAL SERVICES

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# MEANING OF FINANCIAL INTERGRATION

The market is integrated whereby members:

- face a single set of rules when they decide to deal with those financial instruments and/or services;
- have equal access to financial instruments and/or services; and
- are treated equally when they are active in the market.

**FOCUS:** fairness, safety and efficiency



# FRAMEWORK OF REGULATIONS

 Banking services

 Non banking financial services

 Investment services

Rationale:

- Growing external assets and liabilities (but primarily liabilities: via FDI and debt inflows)
- Growing role of regional financial sector groups



# BROAD CLASSIFICATION OF THE REGULATORY FRAMEWORK RELATING TO THE FINANCIAL SERVICE SECTOR

- **Institutional regulations** : also known as structural regulations which call for a clear demarcation of activities of financial institutions meant to promote healthy competition among players.
- **Prudential regulations**: related to internal management of financial institutions and other financial services organisations, regarding capital adequacy, liquidity and solvency etc.
- **Investors regulations**: periodic guidelines on investor protection.
- **Legislative Regulations**: banking, insurance, securities and contract regulation meant for evolving rules, guidelines and regulations that govern micro aspects and operational issues.
- **Self-regulation**: Self imposed regulations by associations of Foreign Exchange Dealers, Bankers, Insurers and Brokers that govern their members.



# CHALLENGES

- Segmentation leading to diseconomies of scale
- Multiple and overlapping regional agreements (COMESA, IGAD, RIFF, SADC)
- Legal Frameworks: Variability in the maturity of the frameworks that govern financial markets in the region
- Limited risk-sharing and hedging mechanisms
- Differences in comprehensiveness and effectiveness of regulatory processes, across the region
- Inefficient regulatory schemes and excessive risk factors
- Legal and contract enforceability issues
- Disparity in the development of the financial sector



## A CASE FOR REGIONAL INTERGARTION OF REGULATORY FRAMEWORKS FOR FINANCIAL SERVICES

- Facilitate the smooth implementation of monetary policy and the balanced transmission of its effects throughout the region.
- Contribute to financial stability by creating larger, more liquid and competitive markets which offer increased possibilities for risk diversification and risk sharing.
- Foster economic growth and welfare because it is beneficial to the further development and efficiency of the financial system.



# INTERGRATION: Harmonization Consistency



- Improve comparability among regional peers, reduce administrative costs for regulators, and reduce compliance costs for investors.
- Enable a systematic review and evaluation of the performance of foreign subsidiaries and associates.
- International credibility: contradictions and inconsistencies in basic concepts will be reduced.
- Set a stage for a more competitive business environment (by removing impediments to market integration, barriers to financial services and regulatory arbitrage), improve product innovation and quality, increase market access and optimise the manner in which resources are valued, used and managed.
- Facilitate information sharing and surveillance to deal with fraud, money laundering etc..



# Key Considerations

**The path might be challenging –  
the benefits are worth the effort!**

**Sound Monetary and Fiscal Policies.**

**Functioning and Capable Market Economy**

**Political Stability**

**Rule of Law**



# Impact of Integration

## Potential benefits

- Risk Diversification
- Enhance Domestic Investment
- Increase Foreign Direct Investment
- Efficient allocation of capital
- Improved liquidity of markets and strengthened resilience to shocks
- Smooth operation of payment systems
- Enhanced information and competitiveness (e.g lending markets)
- Collateral benefits: financial sector development, institutional development and macro economic stability



# Impact of Integration

## Potential drawbacks

- Cross market contagion
- Risk of financial resources flowing to members with most viable investment options



Thank You

*“If everyone is moving forward together, then success takes care of itself”.*

*Henry Ford*

