The Impact of Government Policy and Regulation on Banking and The Financial Services Industry

Banking Regulation:

The most government regulated of all industries is commercial banking.

Overall, bankers need to do their activities within a climate of extensive federal and state rules when supplying loans, accepting deposits and providing other financial services to their customers in order to protect the public interest.

A popular saying among bankers is that the letters FDIC (Federal Deposit Insurance Corporation) really mean **Forever Demanding Increased Capital**!!!

For example in US, Banks or at least the FDIC and other bank regulatory agencies seem to be forever demanding something; more capital, more reports, more public service, and so on. In order to be equivalent for the system, the quality of a bank's loans and investments and the adequacy of its capital should be carefully reviewed in order to see the acceptance by the regulations have been set.

Pros of Regulations:

Embezzlement, fraud, or mismanagement.
Changes in the volume of money created by banks.
Providing individuals and businesses with loans that support consumption and investment spending. (discrimination problem)
Fair tax collection

LETS MEET WITH THE PARENT

THE LEGISLATIONS THAT CREATED TODAY'S BANK REGULATORS

The Federal Reserve Act (1913):

This Act created after the financial panic series in the 19^{th} and early 20^{th} centuries led to the creation of a second federal bank regulatory agency, the Federal Reserve System.

Role;

Serve as al lender of last resort
Providing temporary loans to depository institutions facing financial emergences
Helping in stabilizing the financial markets in order to preserve public confidence
Establishment of nationwide network to clear and collect checks
Control money and credit conditions to promote stability (monetary policy).

The Banking Act of 1933 (Glass-Steagall)

Between 1929 and 1933, more than 9.000 banks failed and many Americans lost confidence in the U.S. banking system. (Like what happened in North Cyprus in 2000). In order to shift the confidence and trust back a legislative response takes place.

Role;

Separating commercial banking from investment banking and insurance.
Prohibiting national banks from investing in stock and from underwriting new issues of ineligible securities which increases the risk of bank failures.
Make customers to buy a security bank were underwriting as a condition to getting a loan.

Establishing the FDIC under the Glass-Steagall Act

One of the Glass-Steagall Act's most important legacies was quieting public fears over the soundness of the banking system. The FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC) was created to guarantee the public's deposits up to a stipulated maximum amount (initially \$2.500; today up to \$100.000 per account holder).

Role;

Helping to reduce the potential bank runs in advance of a insurance premium to federal insurance system based upon its volume of insurance-eligible deposits and its risk exposure.

WHERE CAN THE KIDS PLAY

LEGISLATION AIMED AT ALLOWING INTERSTATE BANKING

The Riegle-Neal Interstate Banking Law (1994) By President Clinton in September 1994

In an effort of duplicating banking companies and personnel in order to cross state lines and to provide more convenient services to millions of Americans who cross state lines every day, both houses of Congress voted in August 1994 to approve two new banking-related bills.

Role;

Adequately capitalized and managed holding companies can acquire banks anywhere in the U.S.
Interstate bank holding companies may consolidate their affiliated banks acquired across state lines into branch offices and create an adequate volume of loans to support their local communities

Telling the truth and Not Stretching it- The Sarbanes-Oxley Accounting Standards Act (2002)

On the heels of the terrorist attacks of 9/11 came disclosures in the financial press of widespread manipulation of corporate financial reports and questionable dealings among leading corporations, commercial and investment bankers and public accounting firms to the detriment of thousand of employees and market investors.

Role;

Enforcing higher standards in the accounting profession and to promote accurate and objective audits of the financial reports of public companies.
Publishing false and misleading information about the financial performance and condition of banks and other publicly owned corporations is prohibited.
Top corporate must vouch for the accuracy for their company's financial statement.

Deregulation and the Key Issues Left Unresolved by Recent Legislation and Regulation

While most bank and thrifts now offer more services and expand over wider geographic areas than in the past, regulatory approval is still generally required before any new services can be offered. This is a problem because; if depository institutions cannot respond fast enough to the rapidly changing demands of the financial marketplace, they cold easily become outmoded and be overrun by their competition.

How long the safety-net situation will be effectively provided which is a form of government sponsored deposit insurance in today's rapid changing financial marketplace.

The Regulation of Nonbank Financial-Service Firms Competing with Banks

Regulating the thrift (saving) industry

Credit unions =National Credit Union Administration
Money market Funds = Securities and Exchange Commission (SEC) with the goal of keeping money fund share prices fixed at 1$ each. (Investment assets maturities no more than 397 days)
Life and Property/Causality Insurance Companies = State Insurance Commission

Source: Rose & Hudgins (2005) Bank Management & Financial Services; 6th edition. McGraw-Hill