Proportionality in Bank Regulation: Evidence and Inspiration From a Survey on North American Credit Unions

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Session 4. A focus on demonstrating the case for proportionality

EBA Workshop: “The application of the principle of proportionality in the context of Institutional and Regulatory Reforms”

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LUMSA Università

CERBE

Center for Relationship Banking and Economics

Outline

1. Talk about proportionality without “true” data

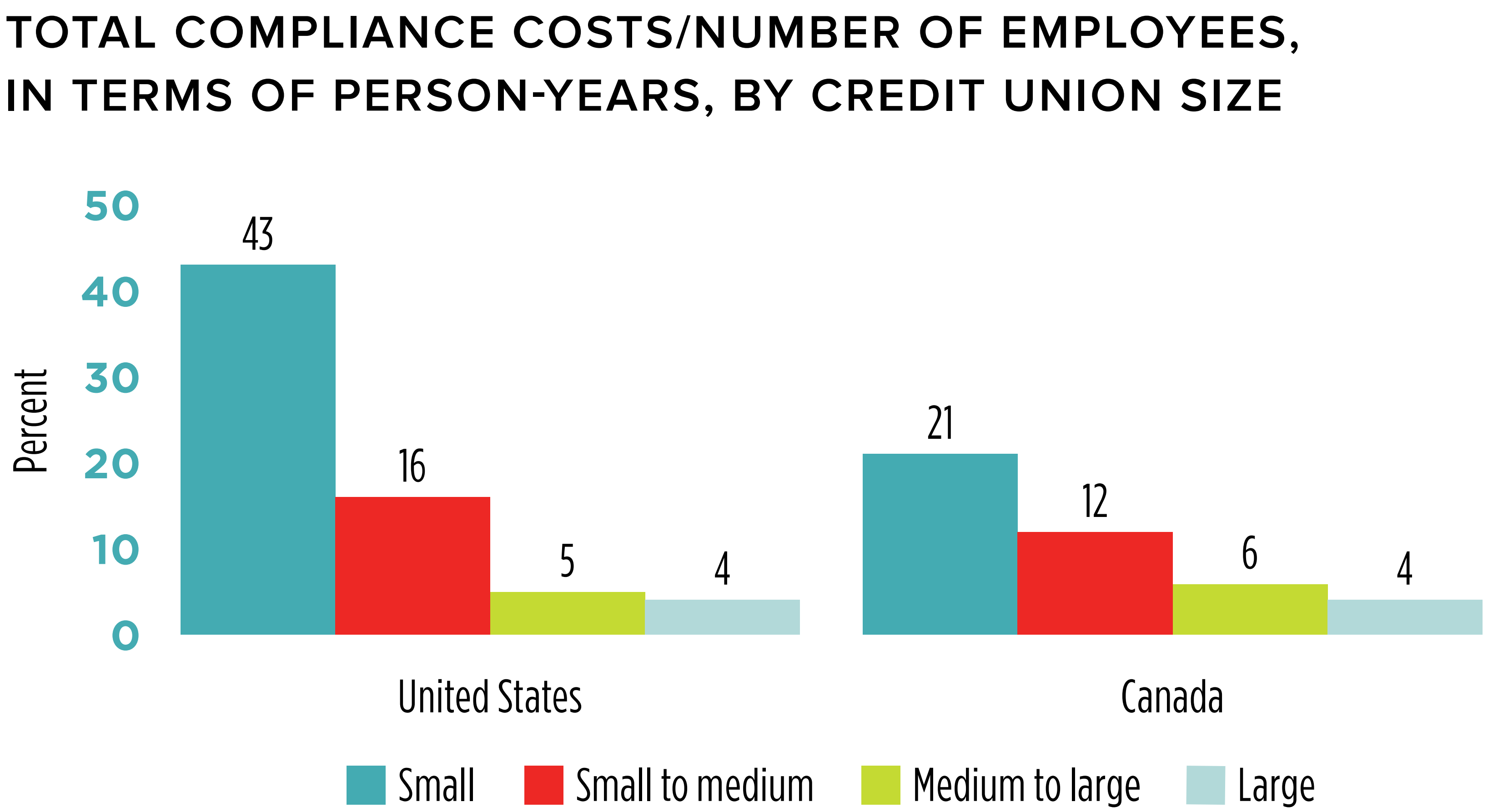
2. Evidence from the main findings of an ad-hoc survey on Credit Unions in the U.S. and Canada

3. Inspiration from the data on possible ways to address the issue of proportionality

- We talk a lot about proportionality but there is a dearth of actual data
- Ferri & Kalmi [Only Up: Regulatory Burden and Its Effects on Credit Unions, Filene Research Institute Report, 2014] ran a detailed survey in U.S. and Canada

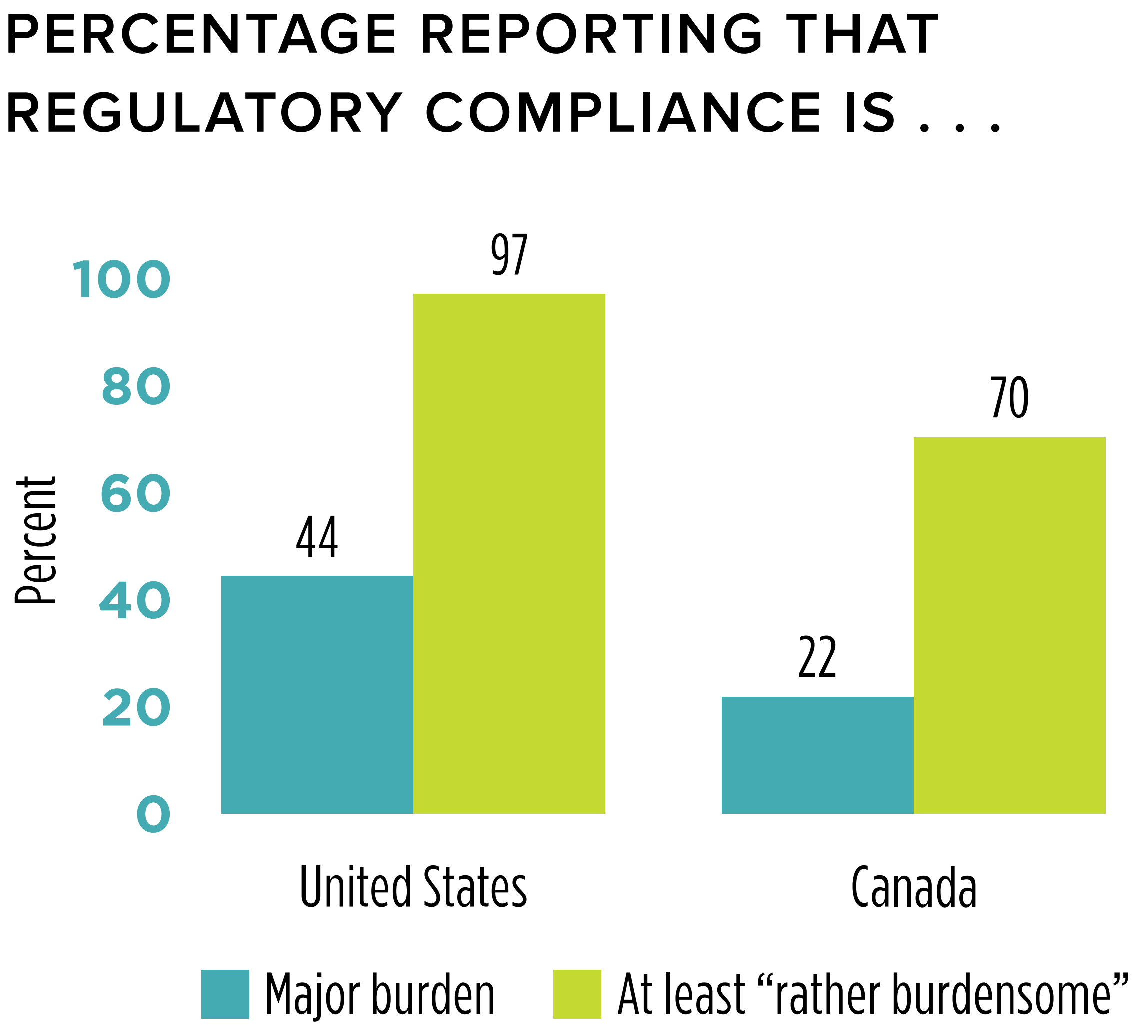
2. Evidence from the main findings on Credit Unions – 1

- Cost of regulatory compliance (Total compliance costs/No. employees) drops severely from 1st to 4th quartile by Credit Union size: 43 to 4% in the U.S., 21 to 4% in Canada



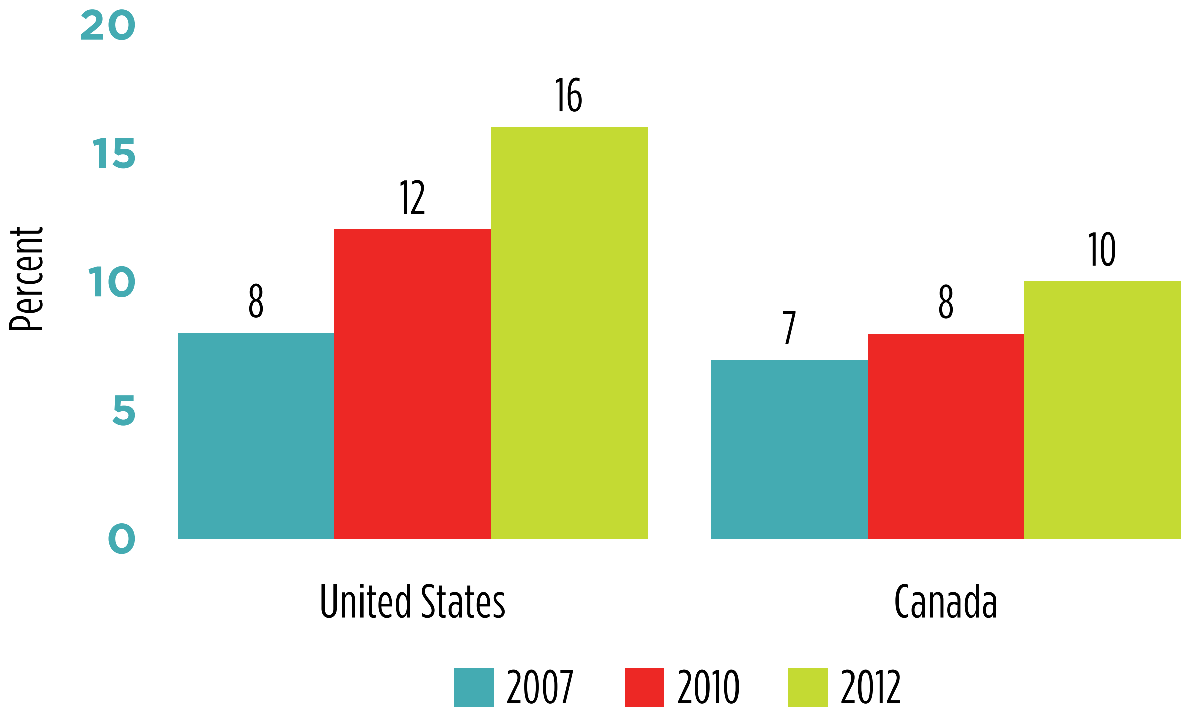
2. Evidence from the main findings on Credit Unions – 2

- In the U.S. (Canada) 44% (22%) of CUs say regulatory compliance is “the major burden” while 97% (70%) say it is at least “rather burdensome”



2. Evidence from the main findings on Credit Unions – 3

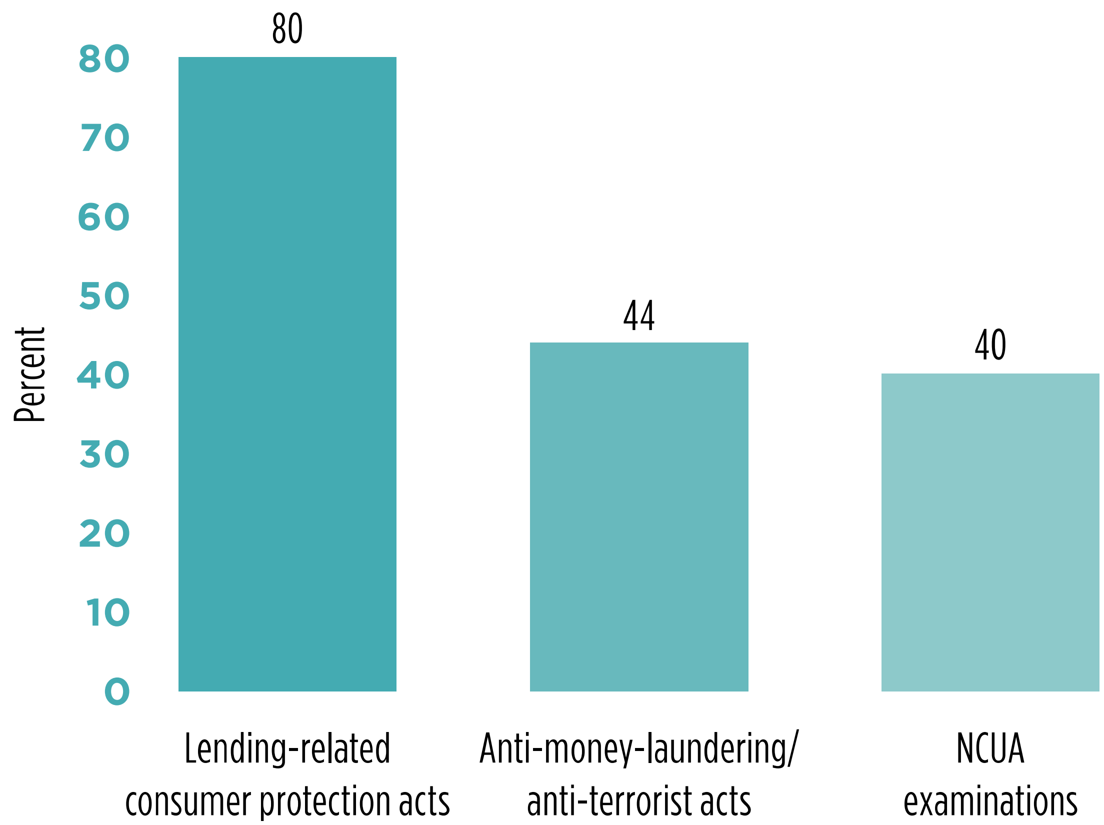
- From 2007 to 2012 the No. of FTEs devoted to regulatory compliance rose on average by 70% (94%) in the U.S. (Canada), over four (three) times the increase in average number of employees



2. Evidence from the main findings on Credit Unions – 4

- In the U.S. the three top items behind the regulatory burden are: i) Lending-related consumer protection acts (80%); ii) Anti-money-laundering/anti-terrorist acts (44%); iii) NCUA examinations (40%)

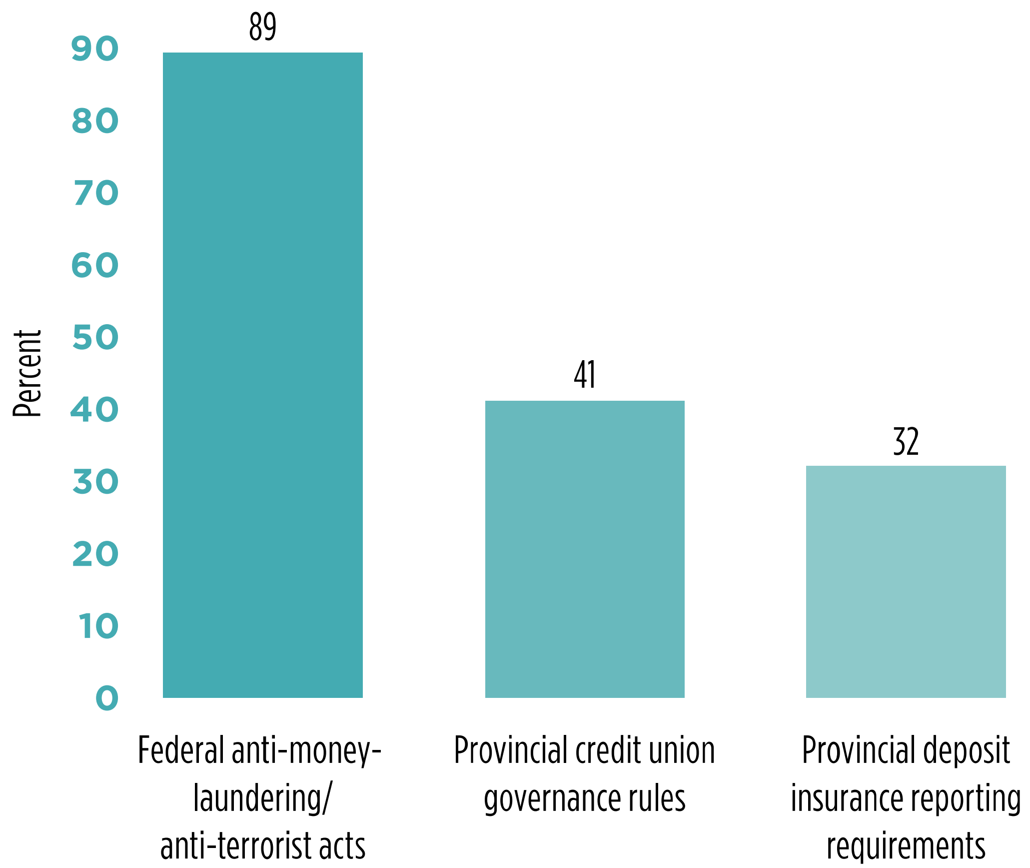
THE THREE TOP ITEMS BEHIND THE REGULATORY BURDEN: UNITED STATES



2. Evidence from the main findings on Credit Unions – 5

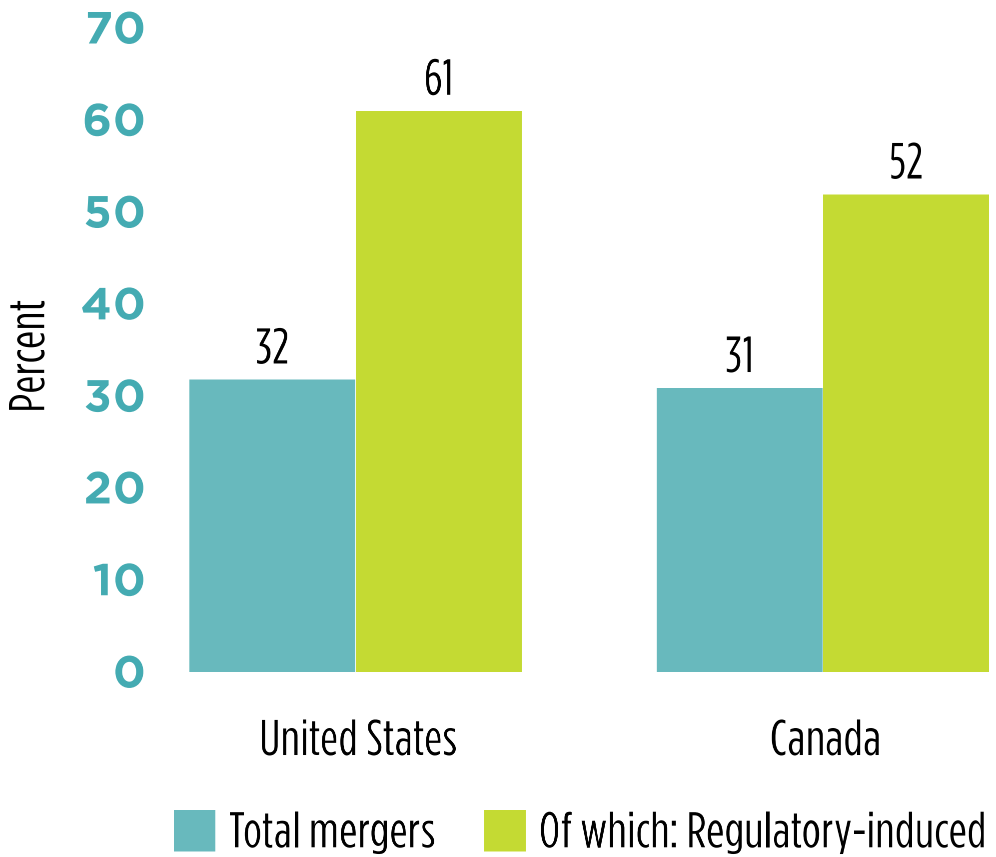
- In Canada the three top items behind the regulatory burden are: i) Federal anti-money-laundering/anti-terrorist acts (89%); ii) Provincial credit union governance rules (41%); iii) Provincial deposit insurance reporting requirements (31%)

THE THREE TOP ITEMS BEHIND THE REGULATORY BURDEN: CANADA



2. Evidence from the main findings on Credit Unions – 6

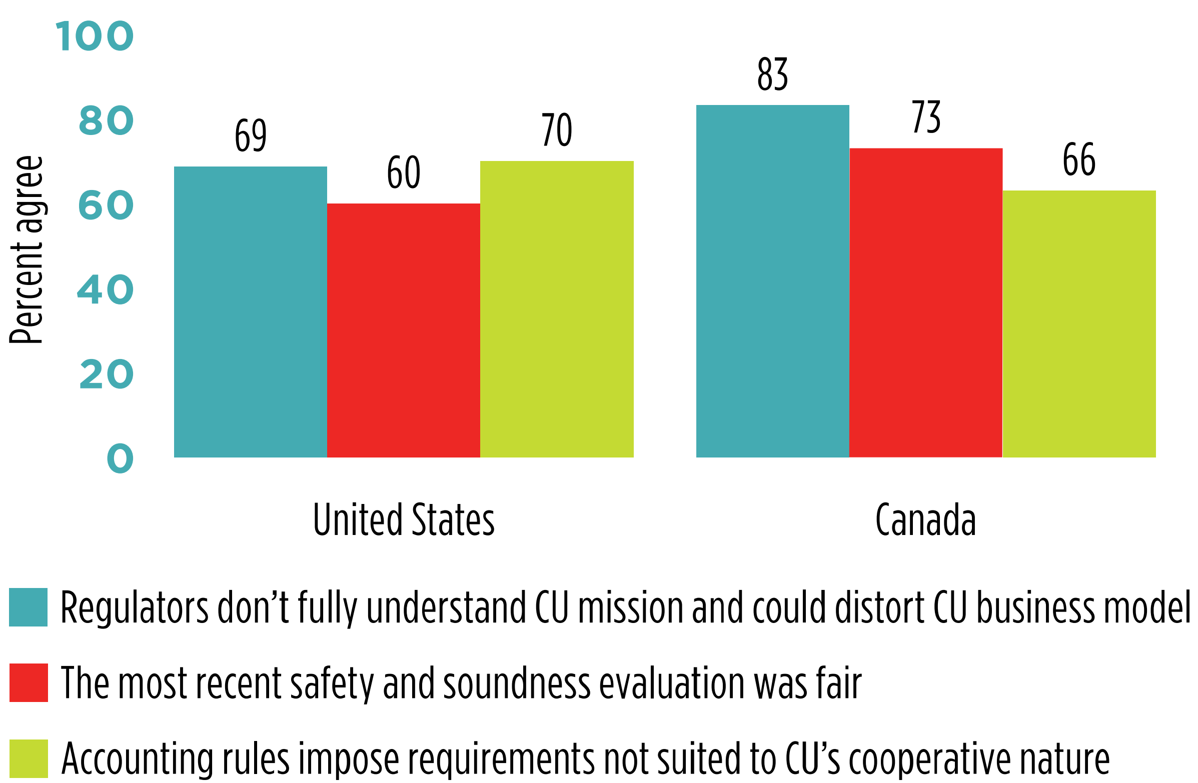
- U.S. (Canada) CUs report 61% (52%) of the M&As in the past five years as "regulatory induced"



2. Evidence from the main findings on Credit Unions – 7

- 69% (83%) of the CUs in the U.S. (Canada) report that “Regulators don’t fully understand CU mission and could distort CU business model”
- 70% (66%) of the CUs in the U.S. (Canada) report that “Accounting rules impose requirements not suited to CU’s cooperative nature”

INCIDENCE OF PERCEIVED PROBLEMS/ APPROPRIATENESS OF REGULATORS



3. Inspiration on possible ways to address proportionality

- The evidence suggests that applying a one-size-fits-all regulation, rather than levelling the playing field, builds artificial economies of scale that are regulatory induced
- The big question is: are the most burdensome rules justified by the underlying risks?
- Are those risks—e.g., lending-related consumer protection, anti-money-laundering & anti-terrorism—lower at small-sized stakeholder-oriented (cooperative & savings) banks than at the other banks?
- If so, there would be scope for removing or softening some regulatory requirements for the smaller-sized stakeholder banks without significantly raising risks