

Regulations of the bank are a form finance essay

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Introduction

The regulations of the Bank are a form of government instruction by the Bank of certain necessities, boundaries and guidelines. The bank regulations create a transparency relationship with those who carry out business between banking institutions and the individuals and companies. There are some general objectives of bank regulations, the one of the objective which is prudential; the bank regulation will reduce the bank creditors exposed chances to protect the depositors. Besides, the bank regulation will reduce systemic risk which mean lower down the risk of bank facing bankrupt. The bank regulation will prevent misuse of banks for criminal purpose for example crime of money laundering. The bank regulation also used to protect banking privacy and direct credit to preferential sectors. The banking regulations had created some rules concerning to treat customers equitable. There are some types of banking information, such as, the government safety net, restrictions on asset holdings, capital requirements, prompt corrective action, chartering and examination, assessment of risk management, disclosure requirement, consumer protection, restriction on competition and macro-prudential supervision. There are some important terms for bank regulation, like " Too Big To Fail" and " Moral Hazard". In 1984, the member of congress in United State created " Too Big To Fail" this term, which mean that a financial institution become so large and famous, it will indirectly affect their country, if the financial institution facing financial crisis it will influence the country's economy, so that, the government will giving support to avoid the financial institution breakdown. " Moral Hazard" can define as the party are willing to take risk because the party had

understood the risk will be face such as high potential costs. "Moral Hazard" normally happened when finish a financial transaction, one party start to harm another party for benefits. In United States, the bank regulators are numerous compare to other country. The United States' main federal regulators are Federal Reserve Board, Federal Deposit Insurance Corporation and Office of the Comptroller of The Currency. In previous year, there have some conflict between customer and bankers or misuse of bankers, therefore, some famous law had created for giving customer a fair service and avoid the banker misuse the tools. In history, Federal Reserve Act of 1913 had created the Federal Reserve system. In 1933, Banking Act is form to break up commercial banking from the securities industry. In the same year, Securities Act is created to required that shareholder accept financial information on securities offered. Bank Holding Company Act and Douglas Amendment of 1956 is form to gave the Federal Reserve regulatory responsibility for Bank Holding Company. In 1982, Depository Institutions Act of 1982 is allow depository institution to offer money market deposit accounts. Financial Institutions Reform, Recovery and Enforcement Act of 1989 had created to increase deposit insurance premiums and created the Office of Thrift Supervision to regulate savings. Federal Deposit Insurance Corporation Improvement Act of 1991 had form to limited brokered deposits and set requirements for corrective action immediately. Federal Deposit Insurance Reform Act of 2005 had created to raise deposit insurance on personal retirement accounts.

The Important of Bank Regulations

In this chapter we will discussed about the important of bank regulation. The bank of United States will be the main studying target. Banks in U. S. still remain to become the most heavily regulated entities in the U. S. economy whether it have facing the deregulation for past two decades (White, 1999). Banking regulation is the key elements in establishing the role of banks within the financial system throughout the U. S. history. Furthermore, it also developed in a unique fashion because the U. S. started as a confederation of constituent states which this was lead to a dual regulatory system in which the both states and the regulated banks and federal government charter (James R. Barth, 2009). According to Spong (2000), in U. S. banking system, if the regulation is found to be inadequate, they will try to change for new regulation structure that will bring a better benefit to the banks. For example the U. S. subprime mortgage market meltdown and the associated credit crunch that emerged in 2007 underscored the need to reform the current regulatory structure (James R. Barth, 2009). The regulatory system is still evolving in much significant way, this cause by the rapid change in the financial and technological innovation in the U. S. banking system. Banks was act as a central role in U. S. financial market through their lending, deposit-taking and other activities, and this allowed the banker have the power to become middlemen or principal agents in many financial transaction. Besides that, the bankers, regulators and general public were playing an important role in developing the present system of supervision and banking laws. As a result, banking regulation now have serve and provide many different needs of important function and provide many of guidelines and standard under which the banking system are provided to the <https://assignbuster.com/regulations-of-the-bank-are-a-form-finance-essay/>

public (Spong, 2000). According to White (1999), the most important category of bank regulation is safety-and-soundness (prudential) regulation, which it is a crucial element in which it is used to contributing to the health of the U. S. economy and also used to preserving the stability of the banking system in U. S. in the studies, we also found that the primary tools of the safety-and-soundness regulations are activities restrictions which it is used to prevents the banks from engaging in any risky activities that will bring harm to the bank. Besides that, it also can used to monitoring the honesty and competency of bank's operations and management, through this way, it can help to avoid the insolvencies due to minimum capital requirements and also incompetence which could diminish the value of the assets. From the studied we also found that, bank regulation is used to protect consumer interests in various aspect of a banking relationship (Spong, 2000).

Previously, the banking regulation is used to protect the consumer in several ways, and most probably is through promoting the competitive banking services and also the safeguarding to their deposits. There are many reasons to study banking regulation. This is because some of the knowledge may help us in carrying out transaction and also make us know more about how the banking system works. Furthermore, through bank regulation, we also can know how to judge the extent regulatory protection that being provided and we can ensure that the regulation both can fosters an efficient, provide competitive advantages and also to protects the public. The recently change in the industries area like electronic and internet banking, development of new and more complex financial system, improved of data processing system and communication, all this cause the benefits and the cost of banking regulation to getting more attention from publics. Moreover, these <https://assignbuster.com/regulations-of-the-bank-are-a-form-finance-essay/>

technology changes have made a closer the relationship between the bank and their customer. Through this, banks also can provide and expanding more services to their customer (Spong, 2000). Actually the banking regulations can extent to many aspects in banking system; for example, it can used to evaluate who can open banks, what products the bank can offer to the public, and how the banks can expand. In fact, most of the U. S. bank regulatory system has used to develop in responds to the political and history events and also financial crisis. Furthermore, the bank regulations are also used to serve the goal which will changed over the time or which in an occasion even been in conflict with one another. According to Spong (2000), the preventing of failure of individual banks is not the primary focus of the banking regulation. This is because, in case of failing of banks, the regulatory only will serve to protect those responsible for the bank's poor performance which is the stockholders and the management. This is because, in a dynamic banking system, bank regulation cannot help t prevents all banking failures, even though the failures can be prevents, but the last result will cause some sacrifice of the objective of regulation.

Consequences of bank regulations and deregulations

Bank regulations and deregulations have been changing dramatically over the decades causing significant effects to the financial industry, regardless whether it was by implementing new regulatory systems or reforming existing ones. The driving force of these changes were brought upon by technological changes and financial innovation throughout the years.

According to Kroszner and Strahan (2005), recent reforms, which removed many of the constraints binding on the banking industry since the 1930s or

before, have re-shaped the financial industry and, in turn, the economy. As they have argued, although the financial industry evolved to mitigate the costs of these regulations during the 1940s through the 1970s, their removal during recent years has led to a more efficient and competitive financial system, which in turn has helped improve economic performance and stability. However, within financial services, potential conflicts emerge in the large and complex financial conglomerates remain an important driver of regulatory change and adaptation. For example, the gradual implementation of the Basel II Capital Accord may alter bank risk-management and capital-adequacy policies. Although current law prohibit banks from owning and controlling non-financial companies, yet several large non-financial firms have set up Industry Loan Corporations (ILCs) that give them access to insured deposits. These ILCs have recently grown quite large and may lead to calls for re-regulation that will lessen the potential expansion of the deposit insurance safety net beyond the banking system. Concerns about potential for conflicts, expansion of the safety net, and maintaining a competitive and efficient banking system will play key roles in debates over future regulatory change. (Kroszner and Strahan, 2005). Furthermore, relaxing restrictions on banking activities may also encourage bank risk-taking by expanding a bank's range of activities. Yet relaxing restriction may also increase opportunities for bank diversification, and thereby reduce risk-taking. When these two contrary options are open, regulators will want to analyze bank risk-taking incentives because the ultimate consequence of expanding the range of activities allowed to banks will depend on these incentives. According to Gonzales (2005), he provides evidence that higher charter values of banks in countries with fewer regulatory restrictions are

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found to provide incentives for banks to reduce risk, although this effect is weakened when the country has good-quality legal system and enforceable private contracts. The contrary result is that banks in countries with stricter regulatory restrictions have lower charter values that do not provide risk-reducing incentives. What happens is when regulatory restrictions are lower, the lower charter values banks might possibly take on excessive high-risk actions that neither they could comprehend nor handle which would lead them to incur losses or go into default and causing financial crisis in the economy. Upon investigating the matter of deterrent of risk, regulators play an important role in controlling certain activities of banks to ensure the amount of high-risk actions involved, would not lead to problems like a bank panic. For example, setting capital requirements, deposit insurance and imposing return-contingent fines etc. helps in deterring risk. According to Marshall and Prescott (2004), failure to imply regulations such as deposit insurance causes a potentially lower level of expected output because it creates tastes for risk that reduces marginal incentives to exert screening effort. With regulators utilizing powerful state-contingent tools such as fines, it can induce optimal screening effort which economizing on the use of costly capital, if not, entirely eliminating it. For example, banks must follow strict procedures delegated by regulators regarding classification, management, and information disclosures related to their products to prevent serious losses.

The Examples of Failure of Bank Regulation

The failure of bank regulations will bring great losses and huge impact to the economy. The best example will be the subprime crisis in the year 2007-

2008. The crisis not only damaged the economic growth of United State but the whole world. After the crisis, Ameriquest, the largest subprime lender in United State forced to close its doors and laid off 3, 800 employees. In addition to the plunge in the housing market, Ameriquest made a \$325 million settlement with 30 states' Attorneys General over deceptive marketing and lending practices (Katalina, 2008). In addition, the whole stock market experienced serious dropped in share price. The other consequences will be discussed in detail in below. There were multiple parties which cause the subprime mortgage loan crisis. There were financial institutions, regulators, credit agencies, government housing policies, and consumers, and others. According to the experts and analysts, the crisis was combination of many factors and cause the chain reaction once it triggered by the burst of housing bubble. Start from the year 2001, the value for the real property had increased rapidly until unsustainable level at 2005. Yale economist (Robert Shiller, 2007) warning that home prices " appeared overvalued" and that the necessary correction could " last years with trillions of dollars of home value being lost." At the same time the Former Chairman of the Federal Reserve Board, Alan Greenspan, said in 2007 that " we had a bubble in housing." In the year of 2007 and 2008 the housing bubble burst. The value of the real estate starts to decline with unexpected rate. Other than the burst of housing bubble, the failure of banking regulations was the other reason behind all of this. During the house value rising, many banks and financial institution start lowered down the requirement and standard to give out loan in order to stimulate their business. This action was contradicted with the strict regulation that had been long practiced by the banking sector. The failure of the regulation was then resulted the crisis

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happened. Moreover, emerge of new kind of lender was the other reason which led to subprime mortgage crisis. These types of lenders are less regulated as traditional bank. Now, such lenders hold about 10 percent of the market. During 2001 to 2007, the share held by commercial banks had grown from virtually zero to approximately 40 percent of the market.

(Katalina, 2008) The regulations start to loss it control power over the loan market after enter of the new lender which eventually causes the disastrous impact. Some experts and analyst blame that the lack of consumer protection regulation was another indirect cause of subprime mortgage crisis. Generally the mortgage brokers are the one which obtained incentive or fee from the mortgage originator. In order to get the incentives, some of the mortgage broker lowered down their standard and even falsify the data of the borrower. According to the Financial Crimes Enforcement Network, suspicious activity reports (SAR) pertaining to mortgage fraud increased almost twentyfold between 1996 and 2005 (Joseph, 2009). Internal Revenue Service (IRS) states that the number of mortgage and real estate fraud convictions increased by almost 40 percent from 2009 to 2011 (Nicole F. S, Katherine B. C & James F. 2012). In the July 2008, the US government issued new rules under Regulation Z of the Truth in Lending Act to protect the costumers. As the consequence of the subprime mortgage crisis, the stock market in the world drop sharply. After the crisis Dow Jone had dropped below 13, 000, and the S&P had crossed into negative territory year-to-date. Everyday all the stock markets around the world was reporting negative the drops of stock price. Korea Composite Stock Price Index dropping about 7 percent in one day (Katalina, 2008). Other than that, the foreclosure in US increased to the peak level in the year 2007. Mortgage Bankers Association <https://assignbuster.com/regulations-of-the-bank-are-a-form-finance-essay/>

(MBA) reported that the percentage of all mortgages nationwide that started the foreclosure process jumped to a record high of 0.78 percent in the third quarter. Based on the definition of Investopedia, foreclosure means the situation in which a homeowner is unable to make repayment, so the lender can seize and sell the property as stipulated in the terms of the mortgage contract. In certain cases, the lenders will make some adjustment so that the homeowner can continue to retain the ownership. The increase of foreclosure reflects the rate of borrower default on the mortgage is high in the United States. After the crisis, it caused the prime borrower to face difficulties in obtaining loans. Most of the banks became stricter when approving loans after the crisis. This causes those borrowers to have bad records, facing higher financial stress due to the difficulty of obtaining loans. It wasn't a healthy phenomenon for the economy. By borrowing, the money demander can use it to carry out investment, buy property and run business activity. This is especially important in the sectors of real estate. The problem in obtaining loans led to a downturn in the real estate sectors in the US. A downturn in the real estate could threaten the economy because real estate contributes 10% of the total US economy's output (Kimberly A, 2006). Last but not least, the economy analyst agreed that the banking regulation played an important role in this event. However, the difficulties of implementing the rules and regulations are the main problem that needs to be solved. Moreover, there were still many weaknesses in the existing regulations; it had become an opportunity for those unethical business men. It stills a long way to go in order to fix the problems in the regulatory system in the banking sector.

The Recommendation and Suggestion

Nowadays, using regulatory and other policy measures to avoid systemic risk is not new idea and is hottest topic discuss by policy makers around the world for some time. They discuss about which type of Supervision system should be implement in bank in order to minimize the risk. There are different perspectives, some of them choose Macroprudential Supervision while some of them choose Microprudential Supervision. Before we step into choosing the Supervision system, we shall know how to differentiate the different between Macroprudential Supervision and Microprudential Supervision. There is a huge difference between Macroprudential and Microprudential Supervision with respect to their objectives, supervision method and approval of economic condition. (Chang-Lok, 2003). The objective of Macroprudential Supervision is to strengthen the stability of financial system by make sure the system's capacity respond properly to potential financial distress; while the objective of Microprudential Supervision is to protect their financial consumers from financial institution's bankrupts. The method used by Macroprudential Supervision is they will analyze the risk factor through the changes in macro-financial environment; while the method of Microprudential Supervision is they make timely adjustment through evaluate the management performance. In Macroprudential Supervision, the economic conditions are known as endogenous variables with relevance to the business operation by individual financial institution; while in Microprudential Supervision, the economic conditions are known as exogenous variables with no relevance to the business operation by individual financial institution. Now we have know clearly about the different between Macroprudential and Microprudential Supervision so is times to <https://assignbuster.com/regulations-of-the-bank-are-a-form-finance-essay/>

discuss about which Supervision system we should implement in order to reduces the risk of financial consumers. As what we know, Microprudential Supervision had standardized supervision criteria when there are various risk factors and this supervision ignore about the special characteristics of individual financial institutions. With this supervision system, a financial supervisory authority became very difficult to support the financial system's stability. If the financial system become instability, there will occurs enormous economic costs which happen from a common stock that bring impact in the entire financial system. In this situation, Microprudential Supervision system had a limitation to solve the financial instability problems due to there have standardized supervision criteria. Besides that, along with huge changes in global financial environment, the risks from financial system evolve faster. Thus, if a financial institution still implements Microprudential Supervision system, then the financial consumer will get higher risk. By preventing the risk from financial system evolves faster, we would recommend financial institution implement Macroprudential Supervision system. There are few reason why i recommend financial institution to implement Macroprudential Supervision. Firstly, Macroprudential Supervision system applies market-responsive supervision system. If there are any changes in Macro-financial environment, it will analyze the risk factors immediately thus financial customers no need worry about the risk will grow when there are any changes in financial environment. On the other hand, just now we discuss about when face financial instability, Microprudential Supervision will have limitation in solving it. If implement Macroprudential Supervision system, there will not have any limitation because this system will take consideration on the macroeconomic and financial environment

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changes, and this conduce to stable the management of financial institutions and preventing financial system instability. Generally there are 6 types of challenge and trends in consumer protection. First is increasing in life expectance and ageing population. Let's us use Malaysia as an example. Residents in Malaysia their expectancy life is about 76 years. Besides that, there is about a quarter of population in Malaysia is middle income level. The second is the transaction is without board and fictitious. The financial landscape is remodeling globally due to the emergence of electronic finance and this factor should be highlight for consumer protection review. Third is the diffusion and increase complication of financial products and services. It is necessary needed the ability to distinguish financial needed in order to achieve successful in management of personal finance. Besides that, young adult need financial education in order to have better approachability to credit. Fourth is the finance culture and increasing financial fraud. Consumers always overestimate their financial capability and cause the signification consumer significant and destroy incorruptness of economy. Fifth is the bargaining power imbalance. The consumer with financial literate will improve the competition by demanding products responsive for their needs. By this way the financial services provide will be stimulate to improve their quality and creative. Lastly is the financial markets regulatory reforms post global financial crisis. We needed consumer protection for canny regulation and reduce system risk. Now we will discuss about the regulatory focus on fair treatment of consumers throughout product life cycle. In first stage which the products are design in order to meet the need of consumer. It must be impartial in contract terms, fees and charges because they need to protect the consumers. Besides that, the language contract must be

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simple and make sure the consumer will not feel complicated. The second stages is the marketing and advertising. In this stage, the information given by financial institution must be clear and accurate in order to avoid unnecessary accident. The marketing material do not misleading and the staffs must be train to solve any problem they are facing. The products sold must be suitable for customers. Third stage is after sales services. After the product had been sold, we must make sure the services from financial institution is available to deal with enquiries timely. Besides that the financial institution must give a fair settlement of disputes. Lastly is the complaints handling. Complaint handling process is easy to access. All the complaints from consumer are addressed in equitable, objective & timely manner. Besides that, the financial institution must provide information on different dispute resolution avenue. Let's us discuss about the market conduct regulatory concerns. There are 5 regulatory should be concern. First is the sales and marketing practices. In this factors, there are not allow any misleading advertisement and there must contain an aggressive marketing. Besides that, there must not contain unsolicited product and credit advance. Second is the debt collection. Debt collectors are strictly not allowed to intimidate debtors. Besides that, debt collection will be charges and passed on to customer. Thirdly is data protection. Financial institutions are not allowed to customer information with external parties for the marketing purposes. This action will bring risk for the financial customers. Fourth is the consumer awareness. Sometimes, customers will lack of awareness of key term, relevant charges and penalties, so at this moment the financial institution should explain clearly for customers. Lastly is the lack of transparency. Same as consumer awareness, financial institution are

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responsible to explain the key term, relevant charges and penalties clearly to customers. Besides that, the term must be in plain language in order to make customers easy to understand. Lastly, in consumer protection, consumer must know that they have a basic right to fair treatment. For example, they can seek sufficient information from financial institution in order to make decision making. Secondly, consumer can voice out their suggestion or complaints about the financial management to financial services providers. This can encourage them to provide better services and full fill customers needed. Furthermore, every dealing between consumer and financial institution must be honest and ethical. Financial institution cannot because of want to gain profit and set a scam or provide any wrong information for their customer. From the previous chapters, we can see that how severe the damage brought by the failure of bank regulations to the whole financial system. Even though there was banking regulations exist but it does not work effectively due to the existence of loophole in current banking system. Based on our opinion, innovation is very important for the bank regulations. The banking system is a system that keeps on changing and growth. In order to maximize their profit, the financial institutions have strong incentives to avoid the regulatory system. It was a challenge for the regulators to take actions based on the out-dated rules and regulations. The regulations that implement in ten years ago may not applicable for the current banking systems. The financial institutions might find a loophole in the regulations and take advantage from it. We suggest that the regulators should always revised the rules and regulations so they can response rapidly to the new challenges and keep the banking system away from the risk. In addition, the current regulatory net was not large enough to cover the whole

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financial system. In the past, the traditional banking systems which funded by the deposits occupy the major part of banking system. This trend had been changed by the emerged of shadow banking system. The shadow banking system replaced the tradition bank lending by lending via the securities market. Compare to the traditional banking system, it is harder to regulate. The government should specifically form a committee to supervise on shadow banking system. At the same time, regulators should set up rules and regulations for them to follow strictly. Moreover, the regulators should try to restrict the expand of shadow bank system. Too big to fail is one of the practices that had been practiced for many years but now many was urge to stop this practice. The government and taxpayer were forced to pay for the failure of those firms for the past few years especially the failure of JP Morgan. However the efforts of rescuing such financial institution did not appreciate by those firms. Some of them continue to give out high paid and bonus to the board of directors. The tax payers in the United States were disappointed and feel anger for their irresponsible action. In order to solve the problem of too big to fail, the government should try to spilt the too big to fail institution to many smaller institution. This will make regulation and supervising process easier. There are some benefits which is only enjoyed by the too big to fail firms. They have bigger market power compare to small firm. Any move make by them will easily influence the market. The second benefits are they have the government and taxpayer back up them. Indirectly, it encourages such firms to take more risk compare to other smaller firms. The third indirect benefit is currently no any antitrust law which able to solve the problem of firms becoming too big to fail. The antitrust law is a law specifically for maintaining healthy markets against

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distortion from excessive aggregations of economic power. Many firms were trying to become too big to fail by merging and purchase the assets of other firm. This not a healthy phenomenon especially for those firms that expand by acquiring large amount of "poisonous assets". Government should make laws to governance and control it. At least the government needs to reduced the increase of too big to fail firms. The experts and analysts in United States have different perception when come to the ways of solve the problem of bank regulations. Some argued that discretionary approach are better than the implement of strict rule approach. The experts worried that the over regulation of bank sectors might harm the growth of economy. However, the other parties which have other opinions claimed that current regulations are too weak, it gave too many chance to the opportunist to take advantage on it. In the event of subprime mortgage loan, the mortgage brokers were driven by the incentive and do not move according the appropriate process. As a result of that, the mortgage fraud happen and eventually led to the subprime crisis. If everything progress followed the rules, such result will not happen. One of the way regulate bank is restrict the asset holding of the bank. However it has negative impact to the bank. The assets hold by the bank usually act as the cushion to absorb the risk. The reason behind of regulator set such rule is to reduce the risk taken by the banks. The more assets a bank hold, it will face more risk. Even though it act as a precaution step to keep the bank from excessive risk but when economic downturn, it will become a drawback to bank. The assets of bank hold might not sufficient to cover the losses that suffered by them. The suggestion given is use discretion approach when set the amount of asset holding. The regulators should set the limit of asset holding depends on the situation. During the <https://assignbuster.com/regulations-of-the-bank-are-a-form-finance-essay/>

crisis, the regulators should limit the risky asset hold by the bank but when the economy is in good condition, they should loose the restriction. In certain situation the risky asset will bring higher return to the bank. Banking system is a sector which highly regulated. The government will usually set barrier to restrict the entry of new competitors. Other than setting barrier to reduce the entry of foreign bank institution, the government or related regulators also set regulation to prevent high competition pressure among the banks. Increased competition will increase the moral hazard incentives for a bank to take more risk. If the profit earn reduced because of the increase of competition, the bank institutions may tend to take more risk to remain their profit. Thus, many countries will have strict rules to stop new bank from entering the country. (Mitchener, 2002) finds that state branching restrictions at the Great Depression may have increased the rate at which state banks failed. (Wheelock, 1992) finds that branch banking restrictions in the state of Kansas made unit banks vulnerable to local economic shocks. Basically the bank system in United States has 2 types of ways to restrict competition. The first is limit the branching activities. The banks are not allowed to increase their branch as they like. The second type is limiting the nonbank institution take part in banking activities. The restriction of competition in banking sectors is unhealthy for the banking sectors. Due to lesser competition, they may not provide efficient services to the customers. At the same time, the banks can charge the customer at higher rate of service fees as they are the only limited options to the public. The government should not blindly restrict the branching activities because these will not help to improve the banking sector in the country. Other than that, the government should open some banking activities to nonbank institution

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with proper regulatory. These may help to reduce the over dominate of the certain banks in the banking sectors. Certain degree of healthy competition will help the traditional banks have pressure to improve their services.

Information about the quality of bank institution is very important for the banking system. The depositors, creditors and investors need to make decision based on the information. Thus, the regulators required the bank institutions disclose their information to the public. Certain information such as interest rates, payment fees, the terms of contracts, offered to potential and actual clients of the regulated entities. Regulation can again dictate the form and frequency of these information flows, as well as their content.

(Claire G, 2009) As a suggestion, the regulators should set a guideline which list out all the information which may be the concern of the public. In addition, the regulators can assign certain well rated audit firms to audit the report to prevent falsifying and fraud happen. The accounting practice is one of the parts that always received critics. There are two types of accounting standard. The first is historical cost accounting and the second is market to market value accounting. Based on the explanation Investopedia, historical cost accounting is where the price of asset is recorded as the original price incur. The market to market accounting measure the value of asset based on the market indicator, it can change with time unlike the historical cost accounting. The mark-to-market rule of the FASB (FAS 157) had became effective in 2007 in United State. (Lita E, 2009) Lita had question that does the bank need to record the asset which suffered lost as zero after the subprime crisis. At the same time, Newt G (2008) feels that the government should suspend the market-to-market practice. Newt believes that the market-to-market accounting worsen the economic situation. As a

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recommendation, the government should change the accounting practice according to the situation. For an example, if today individual A purchase a house worth 1 million US Dollar through mortgage loan. However after the mortgage crisis, the individual A was unable to repay the loan to the firm. According to the contract, the firm will take over the ownership of the house. It was unreasonable for the firm to record the asset as zero because the firm acquires it according to the contract. This will cause the financial report become imbalance. Other than that, the value of the company might fluctuate in big range. This will cause the outsider confuse and hard to make decision during investment or deposit their money with the banking institution. Risk management is the other vital part for the banking institution. As an important bank institution, it should have a good risk management. The banking institution not only depends on the interest rate charge to generate income. They also involve in investment to increase their profit. They might make investment on stock markets or even holding some real estate. A good risk management will help the bank reduce the excessive risk when make investment. The risk management team in the banking institution should be independent and does not affect by the decision makers. In addition we suggest that the risk management team have enough power so that when there is any investment, they can question about it and give suggestion to postpone or reorganize the investment. As a conclusion, the current regulation system still has many spaces for improvement. The regulators should increase their speed in making the system become more perfect. Better policies and regulations should be implement in order to make the banking system more efficient. At the same time, it will prevent

the public from suffered due to certain irresponsible financial institutions which only look for profit.

Conclusion

Bank regulation had started since the 1910s. Banking Regulation is necessary for all bank and financial institution. It given a system of requirements, restriction and guidelines for bank to provide a fairly service for customer. Customers will confidence in banking system with banking regulation because banking regulation avoiding any unethical activities such as money laundering. Bank regulation assist ensure that banks loans, savings and other products and services are given based on the needed of customers. There have some positive and negative effect of bank regulation, it just based on how people judge it. Bank regulation will limited the bank or financial institution growth and innovation, for example, if a financial institution have a creative idea is benefit to bankers and customers want to publish, they should follow the banking rules and laws, it will limit or reject the idea and curtails the financial institution to make more profit. It seem like a negative effect, but the bank regulation just avoid the uncertainly and disagree the financial institution to bear the risk. Besides, the bank regulation avoid the misuse practices and make sure everyone will get fair treatment, it make the chances for lending to poor family and underserved civilization increase. This is the positive effect of bank regulations. The economy of the country will affect the importance of bank regulations. The numerous of banking rules and laws will cause the administrative costs for bank and profitability increases, the bank regulation indirectly influence the bank face bankrupt. So that, the country government should very clear

about their country economy then just set the suitable bank regulations. It will bring a big problem if regulators and government do not conscientious in their roles and fail to implement the necessary provisions, for example the subprime mortgage crisis of mid-2000. The government of country should clear and get the suitable balance between regulation and indulge the bank so as to the bank will bring a positive affect for the country's economy. The best bank regulation is walk in the middle road, agree to the banks growth and perform freedom, in other side, banks should maintain a strong and well money flow without abusive practices.