Shaping the character and effect of financial services regulation

Law

The Role and Influence of the Finance Industry and Financial Firms in Shaping the Character and Effect of Financial Services Regulation Institution:

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A finance industry refers to any institution that collects funds from the public or other institutions, and invests them in financial assets. The finance industry is one of the most important drivers of any economy, and their performance and strength are strong indicators of where a given economy is relative to the global economy1. The performance of this industry relies heavily on the laws and regulations that govern this industry in relation to its operations. This research paper seeks to examine the role and influence of the finance industry and financial firm in shaping the character and effect of financial services regulation.

The finance industry plays a critical role in shaping the economy of a given region. For instance, it provides credit to support growth, provides the liquidity needed for the economy to function, and offers the important risk management services2. In its role of credit provision, financial institutions have fueled economic activity by allowing businesses to invest beyond their cash at hand, household to purchase homes without necessarily saving the entire cost in advance, and also allow the government to smoothen out their spending by mitigating the cyclical pattern of tax revenues and to invest in infrastructure development3.

In its role of liquidity provision, financial institutions usually offer protection against unexpected need for cash. They are usually the direct providers of liquidity both through offering demand deposits that can be withdrawn any time and by offering lines of credit4. They are also at the core of the financial markets, offering to buy and sell securities and related products at need, in large volumes and with relatively modest transaction costs5. In its role of providing risk assessment services, financial institutions allow businesses and household to pool their risks from exposure to financial market and commodity price risks, which are usually provided though derivative transactions6. Even though they have often gotten a bad name due to excesses in the run-up to financial crisis, they still offer valuable risk management services through their core derivative activities.

Some activities and roles of financial institutions if remain unchecked can lead to excess funds that are created by these institutions. This necessitated the need for financial regulation. Financial regulation is simply a form of supervision, which subjects financial institution to certain requirements, restriction, and guidelines with the aim of maintaining the integrity of the financial system7. Regulation has greatly influenced the structure of the banking sector, reduced the borrowing costs, and even increased the variety of financial services available. Finance experts often design these regulations. This has the advantage of accumulating a wealth of knowledge in a form of laws, which when adhered to, has the positive effect of spurring growth in the economy8. The downside of experts, however, is the problem of manipulation of some of them. If manipulated, these experts often design laws that will just favor a few only to the liking of some interest groups. Regulatory capture usually happens when occurrences of manipulation results. This is a form of corruption where a regulatory authority created to serve public interest opts to advance the commercial or special concerns of interest group that dominate the industry or even governmental mandarins9. Regulatory capture is, therefore, a form of government failure, which is not good for any economy as firms start to behave in ways that are injurious to the public.

In conclusion, cooperate social responsibility is one of the remedies to regulatory capture as the financial institutions will try to enter themselves to the public to try to attract more clients. In the process, they will also try to offer better services. Financial institutions, therefore, have a role in financial regulation by trying to channel out their trusted lieutenants who design the regulatory laws.

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