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Tuesday 29 September 2009

Panel III

Interview: The EFSA – One Size Fits All?

The interview was conducted by **Richard Banks (RB)**, Director Middle East, Euromoney Conferences; with interviewee **Dr. Ziad Bahaa El Din (ZBD)**, Chairman, EFSA. Below are excerpts from the session.

**RB:** First give us an overview of the EFSA including the structure, values, mission, vision, goal and structure of the authority?

**ZBD:** If I knew the answers to this question I would have been given this job more than a year ago, as it is I have only been working for the EFSA for 3 months, and these are exactly the questions we are trying to answer now. The new authority was only established last July and was set up by the non-banking financial supervisory authorities. The goal is to merge 3 entities; the EISA (the Egyptian insurance supervisory authority), the mortgage finance authority, and the capital market authority. As well as merging these 3 entities we will also be supervising non-bank financial services and financial leasing.

When we looked at the various merge models, one model that stood out was the Sigou model. This model keeps each function of the organization separate from the organizations other divisions, and has a board on top who oversee the running of the organization as a whole. This was the model that was chosen by group decision. We have started to separate the different arms of the authority, so we do already have some divisions, and anytime in the next 6 months to a year, the authority should be totally integrated.

**RB:** For those that the EFSA will be dealing with, how will they be regulated and what will your relationship with them be?

**ZBD:** We regulate entities, but they are not always customers. In fact for the most part we rarely consider these entities to be our customers. The authority is being run the same way as before, but we are gradually integrating the authority at the level of communications and regulation. Of course, the EFSA's job is to regulate the industry, but we do provide services as well. One thing that makes providing these services easier is that those requiring these services, are generally smaller entities. In this sense, this part of the authority will act as a one-stop shop that doesn't require heavy regulatory services; therefore these entities can be considered our customers. This part of the EFSA's job will be a large part of our day to day work. The EFSA's work will be divided by industry, but in the overall sense, the authority will be integrated.

**RB:** Regarding the EFSA's scope of work. We have seen difficulties in trying to pass regulations in our UFSA in the UK, because of its contradicting mandate. Rightly or wrongly, the UFSA has been blamed for the economic crisis, especially as we have something like 33 authorities governing the industry. Do you see any contradictions in the mandate of the EFSA and do you have a consumer investment protection law?

**ZBD:** We have an investment protection law but this does not really focused on the consumer. In general, there is not much difference between the 2 laws when considered from the perspective of market dimensions.

**RB:** I am not necessarily talking only about contradictions in your mandate, but there have been cases in the UK where mortgages and loans have been miss sold. Is part of your mandate to protect people or entities from facing these problems? Does part of your mandate focus on the stability of your regulatory services?

**ZBD:** Absolutely. We consider it to be very important that we protect the interests of all parties. I would however, like to emphasize, that there are two separate interests that we must protect; those of entities on the macro level, and those of entities on the micro level. So, part of our role is to protect the rights of the consumer and another part, is to protect those of investors. We are also working to develop the investment industry as a whole.

**RB:** Financial innovations are being highlighted as a key factor that contributed to the current economic crisis. What is your view on this with regards to the security of the Egyptian economy?

**ZBD:** We can't blame the economic crisis on innovation; this is part of human nature and is always something positive if utilized properly by investors and consumers. What we do have to do is ensure that there are no regulators behind the regulator.

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You have to have the right people working at the authority who have the same level of knowledge and skills as those who work in the market, and we have to work on bridging the gap, because a gap between the authority and the market still exists. Of course, in the private market, salaries are more attractive than in the authority, but the key point to remember is that we cannot stop innovation. So, what we really have to do is learn how to use it wisely.

**RB:** When a broker comes to you with an innovative idea, how do you evaluate its feasibility? What criteria must they meet in order for it to be considered beneficial to the Egyptian economy?

**ZBD:** Of course it would have to be legal, in fact, very legal. But, the most important factor is, it should be unique when weighed against the risks associated with the potential investment. We would also have to ask if there are guarantees or hedges that can be taken out against the investment, as well as whether there is awareness in the market. In the end, there is no rigid criterion. We evaluate investments on a case by case basis. It's all about finding the balance between innovation, risks and benefits.

**RB:** Recently, authorities have started to evaluate investments based on their social usefulness as well as their financial benefits. Will future innovations be evaluated on the basis of their social usefulness as well as their financial benefit, and do you see a need for Egypt to focus more on social usefulness?

**ZBD:** The approach we use is simple. We want to improve access to financing. That is why when the EFSA goes public we will be focusing more on SME's access to financing, as well as, improving their access to the stock market, insurance, real estate and all industries, which the authority regulate.

**RB:** As an authority your mandate requires that you both regulate and promote the investment industry. There are now questions as to whether these roles should be combined. Do you see these two roles as being contradictory, and do you think they should be combined?

**ZBD:** The two roles are very contradictory, but our mandate does not address this issue. The authority agreed with Mohieldin, that the authority should have a clear regulatory role, and a less promotional role. The Ministry of Investment will take a more proactive role in promoting investment opportunities, allowing the EFSA to be less involved in this. In the past, it was difficult to separate these roles, as we were only regulating 2 companies. Now, we have started to retract from the stock exchange and are no longer on its board.

**RB:** Qatar for example, has the QFSA, who also work in the QFSC and are very active in the QFSC; they are even on its board. It works as a regulator and a promoter do you see your role as being similar?

**ZBD:** I see our role to be helping expand the investment market, but not to market the investment industry. We, and the Minister, are also interested in working with NGO's, and we have a large number of NGO's who are very aware of their industries.

**RB:** In the case of the Mobinil, France Telecom and Orascom issue, what is your opinion? How do you interface with foreign markets and deal with them?

**ZBD:** The subject of the dispute is over an Egyptian company. The EFSA is only an arbitrator and therefore a third part. We are neutral but we have kept our French counterparts updated.

**Richard:** There has been talk of creating global regulatory authorities. Will this affect how international traders do business in Egypt? If there was a financial collapse who would regulate this?

**ZBD:** We have all learned from the past year. The impact on Egypt wasn't immediate, and it will be very difficult for everyone to meet the terms of the G20 agreement. Global regulatory authorities are distinguished by whether they use soft or hard laws. International law uses a standard set of soft laws that when not followed, prevent investors from working in the industry. We look forward to playing a role in this ongoing debate.

**RB:** My main interest is the way in which you monitor, investigate and enforce your regulations. You have more teeth than your predecessors. Have you sent anyone to jail yet?

**ZBD:** We don't have more teeth, they have just been transferred. My emphasis is on improving the role of the EFSA. It's people, who have to be aware of what happens in the market, and we have to create a whole culture of work for regulators, for this to happen.

**RB:** If you are going to empower regulators to work professionally, don't you have to work on cultural perspectives too? What about a woman working as the head of the authority?

**Ziad:** Culture is of course crucial, but we have to feel that these changes come through the system, rather than something that is being enforced.