The SEACEN Centre

SEACEN CEMLA Conference

"Post-Crisis Strategies to Enhance Prudential Supervision and Regulation to Promote Financial Stability"

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Michael Zamorski
SEACEN Adviser

Outline

1. GFC causal factors related to prudential supervision
2. Global standard-setters' efforts to address GFC causal factors
3. Prudential supervision re-focusing
4. Changing risk environment impacting supervisory methods
5. Benefits of proactive supervision and regulation
6. Achieving "real time" supervision in practice and enhancing supervisory effectiveness

1. GFC Causal Factors Related to Prudential Supervision

- Excessive bank leverage
- Inadequate frequency and scope of on-site examinations
- Improper implementation of risk-based supervision
- Inadequate supervisory assessments of bank risk management capabilities
- Overemphasis on banks' past performance
- Limitations of off-site supervisory methods
- Failure to assess risk posed by new products and services

2. Global Standard-Setters Efforts to Address GFC Causal Factors

- Basel III: “Back to Basics”
- Basel Committee’s Revised “ Core Principles of Effective Supervision”

3. Prudential Supervision Re-Focusing

- Critical importance of on-site examinations: understanding risk appetite, risk controls, risk management capabilities
- Proper implementation of risk-based supervision
- Forward-looking supervision: identifying potential vulnerabilities
- Off-site supervision methods are an important tool, but not a substitute for on-site activities

4. Changing Risk Environment Impacting Supervisory Methods

- Technology, financial innovation, interconnectedness
- “Proactive supervision” : Speed of changing bank risk necessitates development of supervisory methods that allow detection, measurement and monitoring of bank risks as close to “real time” as possible

5. Benefits of Proactive Supervision and Recognition

- Earlier detection of excessive risks enables faster regulatory risk mitigation efforts
- Accelerated policy development related to emerging issues and changing risks
- Reduced opportunities for regulatory arbitrage
- Prevent proliferation of unsound practices and inappropriate risk selection

6. Achieving "Real Time" Supervision in Practice and Enhancing Supervisory Effectiveness

- Thematic reviews
- Supervisory authorities facilitating in-house discussion of emerging/ changing risks
- Informing supervisory team of new developments
- Emphasizing bank directors' key oversight role and fiduciary/legal responsibilities in ensuring adequate risk-control
- "Forward looking" regulatory risk ratings
- Vehicles and forums dedicated to advancing supervisory methods
- Timely information-sharing among supervisors
- Formal examiner credentialing and continuing professional development

Thank You