

OPENING REMARKS BY
MR. HOOKYU RHU
EXECUTIVE DIRECTOR, THE SEACEN CENTRE
AT THE
SEACEN COURSE ON BANK STRESS TESTING
Singapore, 27 January – 1 February 2013

Ms. Jacqueline Loh
Assistant Managing Director
Policy, Risk and Surveillance Group
Monetary Authority of Singapore

Mr. Jörn Flegler
Director
Banking Supervision Division
Deutsche Bundesbank

Course Participants

Ladies and Gentlemen

Good morning and a very warm welcome to the **SEACEN Course on Bank Stress Testing**, hosted by the Monetary Authority of Singapore, in this vibrant city of Singapore.

First of all, I wish to express my deepest appreciation to the Managing Director of the Monetary Authority of Singapore, Mr Ravi Menon, for hosting this learning programme and for his continuing support to The SEACEN Centre.

I would also like to thank Ms. Jacqueline Loh, Assistant Managing Director for officiating this opening ceremony and delivering the opening remarks. My special thanks go to the MAS Academy and its secretariat team lead by Dr. Pei Sai Fan. The team has been working closely with The SEACEN Centre months before this event to ensure that excellent arrangements and warm hospitality are extended to the participants and resource speakers.

I would also like to record my sincere thanks to **Deutsche Bundesbank** for sharing their research and experience in the area of bank stress testing with the participants in this Course. Special thank goes to Mr. Jörn Flegler and Dr Philipp Koziol for travelling all the way from Germany to Singapore to share their knowledge and expertise with our participants. Similarly, I thank the other three speakers; namely,

Mr. Lawrence Antioch, Head of Model Validation, Risk Management Group, DBS; Ms Lily Chan, Lead Economist, Macroeconomic Surveillance Department, Monetary Authority of Singapore; and Mr. Zach Thor Meng Teck, Manager of the Banking Section, Financial Surveillance Department, Bank Negara Malaysia; for sharing your experience in this Course. With such an impressive combination of speakers, I am certain our participants would learn much from this Course which will help them to develop and enhance micro- and macro-prudential stress testing framework in their central banks.

Ladies and Gentlemen,

In this opening day of our learning program on bank stress tests, I would like to say a few words on what bank supervisors should understand about the real importance of bank stress tests.

Basically, stress tests are key instrument not only for assessing the resilience of individual banks in an adverse risk scenario but also for inducing rational responses from investors and market participants by the credibility of the tests in the event of an adverse risk scenario being realized.

If the recent global financial crisis taught anything, stress tests, whether conducted by banks or supervisors, must consider severe but plausible scenarios, including tail events with potentially highly adverse effects. In the period leading up to the global financial crisis, too many banks and regulators were skeptical of the possibility of a rapid and severe deterioration of intermediating functions of the financial system.

Also, good and integrated management-information systems are critical to the ability of banks to manage their risks. Many of the systemically important banks, during the episode of the US subprime mortgage crisis, were unable to quickly and consistently consolidate risk exposures across products, business lines, legal entities, and geographies.

I would also like to highlight the importance of having multiple inputs into the risk-assessment process. It is important not to become a slave to any one model or method of loss estimation. It is in many cases the combination of rigorous, data-driven analysis and considerate judgment that makes the stress tests successful.

More importantly, bank supervisors should have macro-prudential perspectives in assessing the result of stress tests which will allow them for a better understanding of interrelationship and systemic risks.

Ladies and Gentlemen,

SEACEN economies and their financial systems have shown the resilience during the recent global financial crisis thanks mainly to reforms continued since the Asian crisis in 1997. However, it is pertinent that central bankers and regulators in the region continue to keep themselves update with the latest issues, researches and developments in the area of micro- and macro-prudential stress testing while strengthening close co-operation among supervisory authorities to mitigate potential risks to the region in this highly globalised and interconnected economic and financial market environment.

While we recognise the critical need for both micro- and macro-prudential stress testing, we are also aware that there could be potential tensions and challenges in designing and implementing of stress tests due to the different motivations in conducting micro- and macro-prudential stress tests by the regulatory authorities in the context of different operating environment. Meanwhile, supervisory authorities and banks could also face problems in use of stress tests due to technical issues and non availability of data. In view of these, it is crucial to discuss both micro- and macro-prudential stress tests in our training course so that participants can grasp the full picture and appreciate the complementary nature of both approaches in strengthening financial stability.

With this in mind, I am pleased to inform that this training programme has been designed to provide the participants an opportunity to learn both approaches by applying sound practices of stress testing for an individual bank and the banking system as a whole from a banking supervisory point of view. It also aims to provide participants with a highly engaging learning experience through a dynamic mix of interactive case studies, exercises, discussions, presentations and development of action plan.

Therefore, the coverage of this learning event is timely and highly relevant for central bankers in this region. The importance and relevance of the topics to be discussed in this Course is evident from the overwhelming response received to our

invitation for nomination. It is a pleasure to inform that we have here with us today a total of 30 well-qualified and suitable participants representing 16 institutions. I am confident that the next five days will be a highly intensive time of learning. The SEACEN Centre believes that the interactions between participants and speakers would enrich their learning experience in this complex and evolving area of financial supervision. Furthermore, this event also provides a regional platform for sharing of knowledge and experience as well as fostering closer co-operation among central bankers and regulators.

Ladies and Gentlemen,

Allow me to say a few words about The SEACEN Centre. As approved by the Board of Governors in February 2011, our vision is “To be the Regional Learning Hub for Central Banks in the Asia-Pacific Region“. As a Learning Hub, SEACEN aspires to drive central bank excellence in learning for the region, by being a platform for collaboration for members to synergise efforts in central bank learning among themselves, and across SEACEN’s network base. The vision would be achieved through SEACEN’s mission in building capacity in central banking and fostering networking and collaboration. With strong commitments from our stakeholders as seen in this Course, we are confident that our vision will become a reality.

Coming back to the Course, I hope that the participants will find it both fruitful and rewarding. Above all, the interaction among participants and with the resource speakers will provide an opportunity to learn from one another and strengthen the bond of friendship and cooperation. I also hope that you will be able to find the time to enjoy the culture and beauty of Singapore.

Allow me to conclude by thanking once again the Monetary Authority of Singapore for hosting this event; organizing committee and the secretariat team of the MAS Academy for the excellent arrangements and warm hospitality; resource speakers and their respective institutions for the generosity and support; and finally to all our member central banks and associates for nominating suitable participants for this Course. I wish you a productive and rewarding learning experience. Thank you.