

**WELCOMING REMARKS BY
MR. HOOKYU RHU, EXECUTIVE DIRECTOR,
THE SEACEN CENTRE
AT THE
SEACEN-DEUTSCHE BUNDESBANK COURSE ON
CONSOLIDATED SUPERVISION
*Brunei Darussalam, 19-24 May 2013***

Awang Haji Adi Marhain bin Haji Leman, Assistant Managing Director,

Autoriti Monetari Brunei Darussalam

Seniors Officials from Autoriti Monetari Brunei Darussalam

Distinguished Resource Speakers

Course Participants

Ladies and Gentlemen

Good morning.

On behalf of The SEACEN Centre, I would like to extend a very warm welcome to all of you to the **SEACEN-Deutsche Bundesbank Course on Consolidated Supervision**.

First of all, allow me to express our deepest appreciation to Awang Haji Adi Marhain bin Haji Leman, Assistant Managing Director, Autoriti Monetari Brunei Darussalam for officiating at this Opening Ceremony and delivering the Opening Remarks. We are grateful to Autoriti Monetari Brunei Darussalam for hosting this learning event and for their continuous support of SEACEN activities. Our heartfelt thanks go to Autoriti Monetari Brunei Darussalam's management, organising committee led by Ms. Hajah Rashidah binti Haji Sabtu and the Secretariat team for working closely with The SEACEN Centre months prior to this event. I am sure we can all testify to their meticulous and hospitable arrangements.

My special thanks go to our collaborator, Deutsche Bundesbank, and specifically to Mr. Jörn Flegler, Director, Banking Supervision Division and Mr. Christian Otto, Director, Head of Section "Off-site-Supervision 2" for their support and contribution to this learning event. We are fortunate to have with us other distinguished resource speakers who have travelled from far and near to share their wealth of knowledge,

expertise and professional experience with participants in this Course. They are, in the order of appearance:

- Mr. Michael J. Zamorski, Advisor, Financial Stability and Supervision, The SEACEN Centre
- Mr. Vijayakumar Nair, Deputy Director, Financial Conglomerates Supervision Department, Bank Negara Malaysia
- Mr. Chua Yang Leng, Deputy Director, Banking Department, Monetary Authority of Singapore
- Mr. Somboon Chitphentom, Senior Director, Prudential Policy Department, Financial Institutions Policy Group, Bank of Thailand
- Ms. Khoo Lian Kim, Director, Risk Analytics & Infrastructure, Group Risk, CIMB Group

With such a list of distinguished speakers, I am confident that our participants would learn much from this Course to enhance their knowledge.

Ladies and Gentlemen,

Nowadays, consolidated supervision is an essential tool of banking supervision. In simple terms, it is a response to the fact that banks very frequently carry on part of their business through subsidiaries and affiliates. Moreover, a bank may often belong to a holding company, and bank supervisors need to take into account the activities of the holding company and fellow subsidiaries of the bank.

Consolidated supervision therefore signifies a comprehensive approach to banking supervision which seeks to evaluate the strength of an entire group, taking into account all the risks affecting the bank, regardless of whether these risks are carried in the books of the bank or related entities.

Moreover, the Core Principles for Effective Banking Supervision were revised in September 2012 by the Basel Committee on Banking Supervision. One of the Core Principles requires that a banking supervisor should be able to supervise the banking groups on a consolidated and on-going basis.

While the increasing integration and drive toward financial conglomeration has opened up possibilities of greater efficiency through increased economies of scale, it has also generated major risks arising from complex structures which require the attention of supervisors. A few of these risks and concerns are as follows:

- 1) Contagion Risk, by which the financial difficulties encountered by a bank or non-bank member of a group could spread to other members of the group and endanger the financial stability of other affiliates or the overall group.
- 2) Counterparty Risk arising from extensions of credit to affiliated organisations. While such relationships are normal, problems can arise if the debtor affiliate runs into financial difficulties, and could destabilise the overall financial well being of the group.
- 3) Transparency. Complex structures, lack of access to information, or other opacities can impair supervisors' ability to assess and control risk in a financial conglomerate.
- 4) Governance. The recent financial crisis has exposed weaknesses in risk governance, surprisingly even in some large global financial conglomerates. The board of directors and senior management of these conglomerates were not sufficiently informed or engaged in fulfilling their oversight of the group's risk management functions.
- 5) Moral Hazard can arise if the management of a financial conglomerate or banking group perceives that government safety net arrangements will cover losses arising from excessive risk taking.

Therefore, it is pertinent that supervisors receive timely and complete information on a consolidated basis as well as for subsidiaries, so that they may critically analyse the information and follow up on any "red-flags" or potential concerns.

Ladies and Gentlemen,

Under the Basel framework, enterprise risk management, accounting consolidation and consolidated supervision approach all these, play a critical role in strengthening banks' risk management and resilience. As such, this learning event is highly relevant as it provides a conceptual framework and practical examples of supervisory tools and techniques that help a supervisory team "roll-up" various risk exposures and evaluate a banking organization on a consolidated basis.

This learning event, organised in collaboration with Deutsche Bundesbank, is a part of SEACEN's such efforts. The key learning objective of this course is to enable participants to assess the financial condition of, and risk to, banking groups using the qualitative and quantitative consolidated supervision approach in accordance with The Basel Framework and other best practices.

The importance and relevance of the topics in this Course is evident from the encouraging response we received to our invitation for nomination. It is a pleasure to inform that we have here with us today a total of 28 well-qualified and suitable participants representing 15 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. Furthermore, this event also provides a regional platform for sharing of knowledge and experiences 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. 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 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. Also, I hope that you will be able to find the time to enjoy the culture and beauty of Brunei Darussalam.

Allow me to conclude by thanking once again Autoriti Monetari Brunei Darussalam for hosting this event; the organizing committee and secretariat team for the excellent arrangements and warm hospitality; Deutsche Bundesbank, 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.