

**WELCOMING REMARKS OF
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FOR
55TH SEACEN–FED COURSE ON
RISK-FOCUSED SUPERVISION AND RISK ASSESSMENT
*Colombo, Sri Lanka, 6–11 April 2014***

Dr. P. Nandalal Weerasinghe
Deputy Governor
Central Bank of Sri Lanka

Mr. Ajay Badyal
Officer and Head
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Federal Reserve Bank of New York

Senior Officers of Central Bank of Sri Lanka

Distinguished Resource Persons

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 **55th SEACEN–Federal Reserve System Course on Risk-Focused Supervision and Risk Assessment**, organised in collaboration with the Board of Governors of the Federal Reserve System, and hosted by Central Bank of Sri Lanka.

Allow me to begin this ceremony, by thanking our gracious host, Central Bank of Sri Lanka for the excellent arrangements and warm hospitality in organising the Course. The SEACEN Centre is deeply grateful to Deputy Governor Dr. P. Nandalal Weerasinghe for taking time from his busy schedule to officiate the Opening Ceremony. We also wish to thank the members of the secretariat team under the guidance of Mr. C.P.A. Karunatilake, Director, Centre for Banking Studies who have been working in partnership with SEACEN several months before the Course starts to ensure that the learning event is well planned and well delivered.

As you may be aware, this collaborative effort of SEACEN and the Federal Reserve System was to enhance knowledge and skills of central bankers in this region. On behalf of SEACEN members and associate central banks, I wish to thank the Board of Governors of the Federal Reserve System for its continuing support in SEACEN training activities. My special thanks go to Mr. Sarkis Yoghourtdjian, Assistant Director, Board of Governors of the Federal Reserve System for his support towards this collaborative effort.

Ladies and Gentlemen,

Over the last few decades, we have witnessed the rapid expansion of banking activities as a result of economic liberalization, financial sector deregulation, diversification of banking activities, and technological and financial product innovations. Financial products and services have become more complex; banks have become providers of increasingly universal financial services; and banking systems have become more concentrated with the emergence of systemically important banks at all three levels: domestically, regionally and globally. On one hand, these changes have brought about benefits such as improving efficiency in the financial sector and satisfying the public's increasing appetite for diverse as well as innovative financial products and services. On the other hand, these developments within the financial industry have also created potential challenges to bank supervisors and regulators in ensuring soundness of banks and stability of the banking system.

There are numerous lessons to be drawn from our experience in the lead –up to the GFC. Regulators in many advanced nations are criticized for their failure to read the warning signs, failure to correct misaligned incentives in the mortgage securitization market, failure to stop the build-up of risk in the financial system. They also naively kept a light touch approach to prudential supervision, and were generally slow and timid in the implementation of the policy changes needed to support the Basel II reforms, while relying too much on the 'presumed' self-correcting power of financial markets. Nevertheless, despite regulatory convergence under the Basel framework, some countries, like Canada and Australia, were able to withstand the GFC relatively unscathed, and these countries are believed to be significantly benefited from an effective exercise of risk-based prudential supervision.

The essence of risk-based supervision is that supervisory resources are allocated where they are needed most, based on the supervisor's explicit assessment risk. Every supervisor must make choices about how to best deploy its limited supervisory resources to those areas that represent the greatest risk to the financial stability. However, in practice, it is not easy to practice a risk-based approach due to uncertain financial environments. It requires more

imaginative way of thinking, more of a problem-solving mindset, and practical techniques to reliably detect new and emerging potential risks and assess their significance.

Hence, understanding current issues and challenges in supervision and improving required skills for handling these challenges prudently have become critical competencies for banking supervisors in this region. We especially need to ensure that our finite human resources in prudential supervision are allocated to detecting and mitigating the most significant risks that could undermine banks' soundness, or even create systemic problems. In this regard, I am pleased to note that The SEACEN Centre, as the learning hub for central banks in this region, has taken some initiatives to support our member central banks by organizing learning events to provide relevant knowledge and skills as well as high-level meetings to promote regional collaboration on matters pertaining to supervision.

Ladies and Gentlemen,

The objective of this learning event is to enhance the capability of the participants to assess the soundness of a financial institution by applying a Risk-Focused Supervision Framework through completing case study and exercises. In achieving the learning objective, participants will learn to:

- 1) Identify skills and responsibilities regarding risk-focused supervision principles
- 2) Explain processes for identifying and measuring inherent risk for critical risk areas
- 3) Apply examination techniques to review high-risk areas identified through the risk-assessment process
- 4) Analyze relevant information from bankers to develop a final institutional risk profile
- 5) Recommend a supervisory plan for on-site examination and off-site monitoring

I am pleased to inform that we have here with us today a total of 25 well-qualified and suitable participants representing 11 central banks in the Asia Pacific region. I am confident that the next five days will be a highly intensive time of learning and the interactions between participants and speakers would enrich your learning experience in this area of supervision. 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.

I am confident, with the expertise in the resource persons, that participants would learn much from this Course to enhance their supervision skills. In view of this, I would like to take this opportunity to thank all the resource persons and their respective institutions for the support and invaluable contribution towards this Course.

Ladies and Gentlemen,

Allow me to say a few words about The SEACEN Research and Training Centre. Our new 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 Sri Lanka, and Colombo in particular.

Allow me to conclude by thanking once again Central Bank of Sri Lanka for hosting this event; the secretariat team of Central Bank of Sri Lanka for the excellent arrangements and warm hospitality; Federal Reserve System, resource persons 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.