



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

