# Financial Stability: A Fine Balance between Pre-emptive Mitigation, Crisis Management and Resolution

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# Where we are today: Multiple responses to financial crisis

- Resilience – capital, leverage, liquidity, stress testing, risk culture, risk governance, recovery planning, business model analysis
- SIFIs – capital surcharge, supervision, recovery and resolution planning
- Financial stability – counter cyclical and system vulnerabilities (incentives, interconnectedness, size of financial sector, shadow banking)
- Supervision – intensity, intrusiveness, forward looking, proactive
- Cross-border – cooperation and collaboration
- Crisis management – deposit protection, central bank liquidity, resolution tools, crisis management groups (CMGs)

# Where we are today: Market developments

- Technological innovation – internet and mobile banking, crowdfunding and peer to peer lending, microfinance and microinsurance, blockchain, big data analytics, automated financial advice, biometric identification
- Technological threats – cyber attacks
- New entrants – from small challengers to players established in other fields
- Shifting structure of financial intermediation
- Low interest rates, profitability, growth

# Where we are today:
# Evolving landscape for financial supervision

- Fundamental focus of supervision is for financial stability

- UN Sustainable Development Goals and Addis Ababa Action Agenda - specify the need for effective supervision and accessible financial systems

- Broader focus:

    Ensure financial stability while promoting financial system development to support sustainable economic growth and lift people out of poverty

# 2030 UN Sustainable Development Goals

***Source https://sustainabledevelopment.un.org/sdgs***

# Sustainable infrastructure needs and environmental/climate challenges

The Global Commission on the Economy and the Climate and the New Climate Economy estimates re urbanization, energy, water and transport:

## 90 Trillion USD investment is needed within the next 15 years (more than existing stock)

- Replace aging structures in developed economies
- Meet needs of growth and increased weight of emerging and developing economies (EMDEs)

# Development agenda

- Role of the financial sector in facilitating sustainable growth and reducing poverty
- Financial inclusion – empowers the poor and marginalized including women and girls; promotes entrepreneurial activities and build financial sector diversity
- Gender equality and diversity – strengthens sustainable economic growth and poverty reduction for everyone when women and girls are valued and empowered
- Climate change – key source of substantial risks and potentially catastrophic losses for financial systems; opportunity for green finance and clean economic growth

# A fine balance to maintaining financial stability

- Understand what is happening – what are the potential impacts on the supervisor and on supervised firms?

- Consider the options for local implementation – no "one-size-fits-all" model for responding to market developments or implementing international standards

- Consider the requirements for risk-based supervision – to determine how well the firm manages its risks arising from market developments using its risk management framework

- Consider how any new or revised regulatory requirements will affect how firms are authorised, supervised and (where necessary) subject to supervisory intervention

# Common themes: Implications for supervisory authorities

- Leadership – positioning the supervisory authority in terms of mandate, objectives, strategy, risk appetite, accountability
- Resourcing – knowledge, skills, experience, staffing, IT, data implications and management e.g. sex-disaggregated data
- Judgement – increasing emphasis on qualitative considerations
- Organisational structure – efficiency and effectiveness in continuing, and new, tasks and responsibilities
- Relationship with other authorities (domestically and internationally)

# Common themes: examples

| | International standards | Impact on supervised firms | Impact on supervisory authority | | | | |
|---|---|---|---|---|---|---|---|
| | | | Leadership | Technical skills | Organisational structure | Cooperation with other authorities | Supervisory intervention |
| Recovery planning | Yes | Yes | Partly | No | No | Yes- international | Yes |
| Governance and culture | Yes | Yes | Partly | No | Possibly | Limited | Yes |
| Financial innovation | No | Yes | Yes | Yes | Possibly | Possibly | Possibly |
| Macro-prudential | Partly | Yes | Yes | Yes | Possibly | Yes - domestic | Possibly |
| Resolution | Yes | Yes | Yes | Yes | Possibly | Yes – domestic and international | Yes |

# Redux:
# A fine balance to maintaining financial stability

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# Some further aspects to consider

- Costs of new regulation (pre-emptive and resolution)
  - What is the tipping point where costs exceed benefits?

- Trade-off between resilience and resolution
  - If have effective resolution strategy, can this lower the need for resilience? or vice versa?

- Implications of meeting sustainable development goals
  - Should this be reflected in resolution and resilience requirements?

# Thank you

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