Improving Supervisory Intensity and Effectiveness in Dealing with SIFIs

by

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Two Good papers on supervision in 2010


- *Intensity and Effectiveness of SIFI Supervision: Recommendations for enhanced supervision* by FSB in consultation with the IMF
What happened?

Crisis of 1997-1999 (Thailand)
- High GDP growth / High inflation
- High interest rates
- High capital inflow
- Asset price bubbles
- High credit growth / loosening underwriting standard
- Lax supervision
- House price fell by 40%
- NPL rose
- Estimated damage = 25.7% of GDP (2002)

Global Financial Crisis of 2007-2009
- Low interest rates
- Complex products using residential mortgage lending as underlying
- Loosening credit underwriting standard
- Lax supervision
- House price fell
- Confidence evaporated
- Liquidity seized up
Are there any similarities between the 2 crises with the interval period of around 10 years?

If there were to be any similarities, they are

- One – Bankers did not know the risks they took on to themselves
- Two – Supervisors did not see the risks in the banks
What factors do we need to improve our supervisory system?

- Agreed that “the ability to act” and “the will to act” are crucial.
- “The will to act” is almost country-specific in the sense that alignment of organizational structure, work process, skill sets, and morale of supervisors are essential.
Where does the difficulty lie in finding and retaining good supervisors?

- Supervision is about an ongoing process of operation, i.e. analysis, monitoring, and on-site examination. It is not about presentation of anything new.

- Skill and experience of a good supervisor is not normally shown in times of peace, but will be shown probably in times of war. This might be because skill and experience cannot be counted. Very often, they are overlooked and ignored.
  - When things are good, we do not need to take much care of them.
  - When things are bad, we do not know where to find them since they have shifted their careers to do something else.
Conclusion

- Two combining factors to let loose a crisis
  - Bankers not knowing what risk they are facing
  - Supervisors not knowing what banks are doing
- Regulations useful if and only if strong and proper supervision is in place
- Both the ability to act and the will to act are important and crucial.

Internal mental aspect of supervisors need to be fostered and nurtured.
Thank You