What Makes Supervisors Effective?

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What makes regulatory regimes effective?

Effective regulation requires a mix of:

– Tough rules
– Effective Supervision
What makes supervisors effective?

We are not alone. Everyone is asking this question.
Hi, Lars... what's up?

Oh, not much... just out to continue my research on how your species handles its economic crisis.

Why? It sounds really boring.

We went through the same thing on our planet, so we're curious to see what solution humans come up with.

Oh... how'd you guys solve it?

Hop in, I'll show you.
...very strict banking regulations

Oh, my dad would love living here...

CRUNCH CRUNCH
What makes supervisors effective?

To be truly effective supervisors need the right:

– Mandate
– Methodology
– Organization structure
– People
The right mandate

The supervisor’s mandate must support effective supervision

– Clear mandate, no conflicting objects
– Effective intervention tools
– Independence
– Authority to intervene early
The right methodology

The methodology must support effective supervision

- Principles and judgement based
- Truly risk based, focused on the mandate
- Approach must be flexible
- Monitoring leads to On-site work
- FI-specific and benchmarking work
- Must be forward looking if you want to PREVENT problems from occurring
- Use, but don’t rely on, the work of control functions
The right organization structure

The organization structure must support effective supervision

- Challenge and learning culture
- Delegated accountability, shared decision making
- Clear partnership roles for generalists and specialists
- Flexible work planning
- Quality Assurance through Internal Audit and management review
The right people

Supervisors need the technical skills and competencies to be effective
- Experience as a supervisor and on the street
- Communication and listening skills
- Conceptual thinking

To change behaviour in FIs, supervisors need credibility
- Sound judgement
- Focus on what’s important
Seven habits of highly effective supervisors

1. Supervise like you mean it
   - **It’s not only about the rules.** Tough rules combined with ineffective supervision is not a safe and sound system. We need tough rules and effective supervision
   - **This is important work.** Depositors and policy holders depend on us
Seven habits of highly effective supervisors

2. Remember Job 1
   - **Clarify your mandate.** Avoid conflicting objects
   - Be focused
   - Be risk based
     - Know what the big issues are, and focus on them. The little issues will take care of themselves
Seven habits of highly effective supervisors

3. It takes a strong team:
   - This is complicated work
   - The judgements required of supervisors are complex, require experience and a variety of inputs. Encourage constructive challenge
   - **Be flexible.** Plans are out of date as soon as the battle begins
Seven habits of highly effective supervisors

4. An ounce of prevention is worth a pound of cure
   - Be forward looking, anticipate problems before they occur, and act effectively
   - **Don’t stand there, jump to a conclusion.** Supervisors need to be able to extrapolate, based on scarce evidence. If they wait for irrefutable evidence, it will be too late
   - Beware of icebergs
   - **Keep digging, don’t stop**
Seven habits of highly effective supervisors

5. Forget trying to make everyone happy:
  – This is not a popularity contest. If you have problems saying ‘no’, you are in the wrong business
  – Senior management, will go through the 5 stages of grief: denial, anger, bargaining, depression and acceptance
    • skip the first 4, get on with fixing the problem
  – Take the punch bowl away
Seven habits of highly effective supervisors

6. Ask how they are paid
   – If you want to understand why people behave the way they do, ask how they are paid

Corollary:
   – If you want to change their behaviour, change the way they are paid
Seven habits of highly effective supervisors

7. Take it to the top, before it’s too late
   - Directors and senior management are responsible for risk governance, not supervisors
   - **Directors need to be risk literate**, so make sure they are
   - Now is the time to be fixing risk systems as the seeds of the next crisis are already sown
WARNING

DO NOT TRY THIS AT HOME!
WE ARE TRAINED PROFESSIONALS,
YOUR RESULTS MAY VARY.

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