



Speech of **Mr Yandraduth Googoolye,**
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At the opening of the
Seminar on Core Elements of Banking Supervision
organized by AFRITAC South

Ebène
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Ladies and Gentlemen,

Good morning.

It is a pleasure for me to be with you today for the opening of this seminar on Core Elements of Banking Supervision. I have to thank Mr Abdoul Aziz Wane, the Director of AFRITAC South, and Mr Ravi Mohan, Resident Adviser, for their invaluable contribution and unflinching commitment in organising such instructive seminars.

I am glad to see that this room is filled with an enthusiastic audience, who has set high expectations on this seminar. To all participants, I advise you to learn as much as you can from the experts you will be meeting during the next two weeks. Please do not hesitate to also question the conventional and make the seminar as interactive as possible.

Ladies and gentlemen, over the past few years, I have been a regular speaker at events organized by AFRITAC South. My past speeches have covered topics such as AML/CFT, challenges of supervision, and ongoing work at the level of the Bank of Mauritius in the field of supervision.

This year, I shall depart from the common issues that you may surely have come across at the work-place or through experience. I shall focus on one important aspect that is often overlooked and generally not covered during training. The topic is: “What does it take to make a good supervisor?”

I believe that is very important for young supervisors, who, on the cusp of a career in central banking, need to be aware of these defining attributes. Supervisors should always stand guided by these principles to be on the right track.

Supervisors have a unique role. It is a role that entails hefty responsibilities. Supervisors are the custodians of the safety and soundness of financial institutions and of the financial system in general. They perform the duties of financial fire fighters when the situation so warrants. Above all, supervisors are the first ones to be vilified whenever an institution

runs into difficulty, no matter what the cause could be. This being said, I view bank supervision as a public good, as its benefits trickle down to financial and macroeconomic stability.

Ladies and gentlemen, as a supervisor you have the privilege of being present during the birth, life and, sometimes unfortunately, even at the death of a financial institution. You have to license it, monitor it, set out the regulatory perimeter, provide guidance as appropriate, take action for any observed breach, and step in should it fail. And your role is less complex to fulfil if you have a sound grasp of the key qualities a supervisor should possess.

Let me now turn to the crux of my speech. As you are aware, banking is a constantly evolving field and the supervisor needs to be fully aware of the latest developments so that the different risks can be well understood and regulation and supervision tailored for the new products, business processes and emerging risks. And one of the most indispensable tools in achieving this is reading and keeping abreast of supervisory developments.

I therefore encourage you to pick up reading financial articles and consult the websites of the main central banks, international organisations—such as the World Bank, the IMF, the BIS and other standard setters—to remain at the forefront of ongoing advances in the regulatory and supervisory field. Some of these contemporaneous developments are central bank digital currencies, implications of climate change for the financial world, greater emphasis on risk assessment, etc.

As seniors, we can provide you with the necessary guidance and facilities. For instance, at the Bank of Mauritius, we have set up a Knowledge Management Centre that houses a range of periodicals, financial magazines, books and journals. An effort is required on your part as well. You will have to make use of the opportunities that are made available to you and devote some time to reading on a daily basis. This will:

- enhance your overall knowledge,
- equip you to better understand the tools and methodologies that you have to apply as supervisors,
- improve your ability to face the ever-growing complexity of the financial, regulatory and supervisory world, and
- help you to face challenges.

As far back as 2010, the IMF released a paper on ‘The Making of Good Supervision: Learning to say “No”’. As you are relatively new staff in the supervisory arena, I am of the opinion that this paper provides invaluable guidance and is a must read for you. I will cover a snapshot of this paper in the subsequent part of my remarks. I advise all of you to find some time to enjoy this interesting paper.

Ladies and gentlemen, your central banks surely have a policy in place for imparting training to staff. However, it is also important to ensure that every training is effective and that knowledge acquired is being diffused throughout the organization. At the Bank of Mauritius, we have re-engineered our approach to training. As from this year, all officers proceeding on training are being required to make a presentation to their colleagues in their division on the knowledge gained and the application of the knowledge and new techniques to the job.

Let me also emphasize on how networking is crucial during your training. You will have the opportunity to interact with fellow supervisors from other jurisdictions and share expertise and resources. Therefore, my advice to you is do keep in touch.

Now, allow me to briefly describe the five attributes of a good supervisor as highlighted by the IMF.

1. You need to be intrusive, if you are not already so. But a word of caution here – I am not telling you to get involved in the daily routine of the bank or its micromanagement. What I mean is that you should be perfectly aware of all the aspects of the bank you are supervising—such as its corporate structure and governance, business model and strategy, decision-making process and risk profile.
2. Good supervision has to be sceptical but proactive. In essence, it means that the supervisors should identify the emerging risks, probe about the riskiness of complex products and ensure that the banks' boards are fully aware of and understand the risks. A further attribute of good supervision is that it should be comprehensive. Here, the supervisors would need to have a holistic picture of the whole group as opposed to only the regulated entities within the system.
3. Being adaptive and conclusive are the other qualities of good supervision. This means having the capacity to adapt to the changing environment and continuously assessing the risk profile of the institution. By being conclusive, the supervisors need to come up with logical conclusions following their assessments, including cooperating and coordinating with other supervisors through information sharing to avoid regulatory arbitrage.
4. Apart from the above attributes, the IMF has also shared its experience on two elements of good supervision, namely the ability to act and having the will to act. The ability to act is enshrined in the law and affords the supervisor the authority to be intrusive and authority to challenge management's judgement in a proactive way.
5. The willingness to act is judged in terms of having a clear and unambiguous mandate, operational independence, accountability, a healthy relationship with the industry among others.

The above attributes need to be entrenched in your supervisory practices for the effective discharge of your responsibilities. You will need to identify the institutions that pose the highest risk to the system and whose potential failure will have the biggest impact on financial stability. Both qualitative and quantitative elements will form the basis of your assessment and will have to be supplemented with forward-looking elements.

On that front, at the Bank of Mauritius, we have embarked on the implementation of a full-fledged risk based supervisory (RBS) framework since 2018. The implementation of the RBS framework will result in a more systematic risk assessment of our banks. This has been a challenging task for both the regulator and banks in terms of human resource, systems and processes in view of the data intensive requirements.

As at date, the ML-TF risk models use 225 indicators, the credit risk models use 78 indicators, and the liquidity risk models rely on 97 indicators to risk rate the different banks. In each quarter, depending on the size and activities of banks, around 14,500 data points are required for ML-TF risk, 15,500 for credit risk and 66,500 for liquidity risk. Three modules, namely AML-CFT, credit and liquidity, are currently being tested through on-site examinations. The templates on operational risk (including IT risk) will be issued shortly to banks. In view of the importance of AML/CFT and cyber-security, these components are factored in our approach. We expect to roll out the complete framework by next year.

Technology is extensively applied in the supervisory approach today. It significantly enhances data analysis and helps identify risks and deficiencies. The benefits are multiple, ranging from heightened effectiveness, flexibility and lower costs. To harness technology in regulatory oversight, supervisors are no longer required to have only finance, accounting, economics or legal background, but also to be highly conversant with technology. Nonetheless, even with data analytics applications, supervisory expertise and judgement remain essential to complement the digital results.

While you continue to hone your skills and acquire the attributes of a good supervisor, it is important to note that strong supervision has to be complemented with strong financial

safety nets: an effective bank resolution regime, a deposit insurance scheme and a clear and transparent emergency liquidity framework.

Work in these areas have already reached an advanced stage at the Bank of Mauritius. The banking laws are being reviewed and an IMF Technical Assistance Mission is forthcoming for finalizing the legislation, including the part on crisis resolution. As from March last year, the Mauritius Deposit Insurance Scheme Act was voted by the National Assembly. We are now in the process of operationalizing the Deposit Insurance Scheme.

Ladies and gentlemen, let me conclude with these two key takeaways:

1. Supervision is not only about the task of implementation, monitoring, and enforcement of the regulations. It is more about assessing whether an institution's risk management controls are adequate, and whether the institution's culture and its appetite for risk significantly increase the likelihood of solvency and liquidity problems. Here, I would like to remind you that supervision only cannot save an institution if its board and top management are not up to the mark. The board and top management are the first line of defence: if they fail in their duties, the existence of the whole institution is in jeopardy!
2. Technological disruption is altering the type of risks faced by financial institutions, besides the added benefits it brings to their customers. We are witnessing a technological revolution. Terms such as machine learning, artificial intelligence, cloud computing, SupTech, and RegTech are now part of our normal vocabulary. Branchless banking is increasingly becoming common. Banks are making greater use of technology to offer services and products to customers.

In today's world, cyber-risks are assuming growing significance. Our regulatory and supervisory approach needs to cover cyber-risks. Supervisors have a key role in this fast-evolving area. They need to be well equipped to apply the right tools and techniques to identify, assess and monitor existing as well as emerging risks. I would

also urge all of you present here to work towards a cyber-risk framework for your respective regulatees, setting out the minimum standards that should be in place.

On this note Ladies and Gentlemen, I wish you all a successful seminar. To our participants from overseas, have a very pleasant stay in Mauritius.

Thank you.

References:

Vinals, J., and Fiechter, J., 2010, "The Making of Good Supervision: Learning to Say 'No'", IMF Staff Position Note, 2010 SPN/10/08.