

# **Presentation to Costa Rican Financial Industry - February 3rd 2017**

PROPIEDAD DE LA SUPERINTENDENCIA  
GENERAL DE ENTIDADES FINANCIERAS  
DE COSTA RICA  
Considerations for Successful Implementation  
of Risk Based Supervision – Medium and Long  
Term  
Prohibido su uso sin autorización

James Bruce

Advertencia: Está prohibido el uso o reproducción de este material sin autorización expresa de la  
Superintendencia General de Entidades Financieras de Costa Rica

**LEY N° 6683 DE DERECHOS DE AUTOR Y DERECHOS CONEXOS**

## Considerations for Successful Implementation of RBS

- Oversight of financial institutions (FIs)
  - FI's governing body – board of directors
  - FI's external auditors
  - FI's supervisory body - SUGEFI
- Like three legs of a stool  
*Un trío de silla sin autorización*
  - Stool collapses if one of the legs is no good
  - Focus on strengthening three legs

## **Considerations for Successful Implementation of RBS**

### **- Governing Bodies of FIs**

- Industry buy-in**

- FIs need to support switch to RBS
- Convinced change from compliance-based is good
- Aware of benefits
- Implement cultural change at FIs

- Effective communication is key**

- To industry by SUGEF
- To staff by Board & Senior Management

## Considerations for Successful Implementation of RBS

### - External Auditors of FIs

- **Improved supervisor relationship with external auditors**

- EA charged with
  - Conducting financial audits
  - Opining on fairness of financial statements
- Need to share findings – EA and SUGEF
- SUGEF meets EA association to discuss trends
- SUGEF moves towards reliance on EA's findings
- SUGEF moves away from redoing financial audits
- SUGEF focuses on risk and risk management

## **Considerations for Successful Implementation of RBS**

### **- Supervisor of FIs - SUGEF**

- **Adequate training and retention of supervisory staff**
  - Training in risk based model
  - Training in specific risk areas – skill upgrades
  - Training in interview skills to probe risk management functions
  - Consider need for developing/hiring specialists
- Upgraded staff will be valuable to industry
  - Need to pay commensurate with skills or risk losing best employees
  - Consider alternative funding model in long term

## **Considerations for Successful Implementation of RBS**

### **- Supervisor of FIs - SUGEF**

- Continued senior management commitment**

- Needs to think, talk and act risk based
- Reinforce change in culture – principles based supervision
- Create/ maintain reliable infrastructure to support effective decision making
- Support macro planning to allocate resources to areas of greatest need
- Low risk areas will receive less attention
  - Things will go wrong
  - Supervisor not blamed if follow RBS model

## **Considerations for Successful Implementation of RBS**

### **- Supervisor of FIs - SUGEF**

- Develop Supervisory Risk Appetite Framework**

- Always some risk that FIs will fail (less with RBS)
- Supervisor should accept that some risks/failures are inevitable
- Need to consider what risks are unacceptable and move to what failures/losses would be “acceptable”
- Helps with resource allocation decisions
- What activities/FIs should get less attention from SUGEF

## **Considerations for Successful Implementation of RBS**

### **- Supervisor of FIs - SUGEF**

- **Ensure robust quality assurance processes**
  - Supervisors follow RBS processes/model
  - Line management reviews and challenges work
  - Sound functioning of Consultative and Rating Committees
    - Consistent ratings between FIs
    - Assessments and ratings appropriately documented
    - Intervention actions appropriate
  - Quality Assurance function conducts supervisory process reviews
    - cover key components of core supervisory process (analysis, strategy, planning, monitoring, on-sites, risk assessment, reporting, intervention and follow-up)

## **Considerations for Successful Implementation of RBS**

### **- Supervisor of FIs - SUGEF**

- **Maintain/Enhance forward looking inclination**
- RBS advantage is focus on material risks and mitigation of those risks
- Properly applied RBS considers existing risks and impact of possible future events/trends
- Supervisors to enhance focus on possible future outcomes
- Stress testing and scenario testing key measures
- Results to be built into FIs processes (“Use test”)
- Establish process for identifying and dealing with emerging risks

## **Considerations for Successful Implementation of RBS**

### **- Supervisor of FIs - SUGEF**

- Review and update supervisory processes and RBS model**
  - Led by Practices group
  - Periodic benchmarking reviews to update inherent risk rating of products
  - Benchmarking reviews to assess industry risk management techniques and identify “best practices”
  - Obtain feedback from supervisors and consider necessary changes

## Considerations for Successful Implementation of RBS

### - Supervisor of FIs - SUGEF

- Push towards more robust data and data rationalization
  - Quality data paramount for effective supervision
  - Needs to be comprehensive, timely and accurate
  - “Encourage” adequate filings by FIs (consequences)
  - Eliminate data collection re legacy compliance monitoring
  - Clarify data sharing arrangements with central bank

## Considerations for Successful Implementation of RBS

### - Supervisor of FIs - SUGEF

- **Push for necessary legislative changes**

- *Consolidated supervision*
  - RBS needs to be conducted on consolidated basis
  - Need access to group information to assess risk (subsidiaries of FI and up control chain of FI)
- *Legal protection for supervisors*
  - Supervisors make decisions based on information available
  - No guarantee will be correct
  - Will postpone/not take action if no legal protection
  - Leads to larger losses & negative perception of industry

## **Considerations for Successful Implementation of RBS**

### **- Supervisor of FIs - SUGEF**

- **Adequate coordination between supervisory agencies (SUGEF, SUGESE, SUGEVAL, SUPEN)**
  - RBS models should be consistent
  - Sharing of information, as necessary
  - Clear communication between supervisors where necessary to support consolidated supervision

## **Considerations for Successful Implementation of RBS**

PROPIEDAD DE LA SUPERINTENDENCIA  
GENERAL DE ENTIDADES FINANCIERAS  
**Thank-you**  
Prohibido su uso sin autorización

Advertencia: Está prohibido el uso o reproducción de este material sin autorización expresa de la  
Superintendencia General de Entidades Financieras de Costa Rica  
**LEY N° 6683 DE DERECHOS DE AUTOR Y DERECHOS CONEXOS**