

PFTAC Steering Committee

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Financial Sector Supervision

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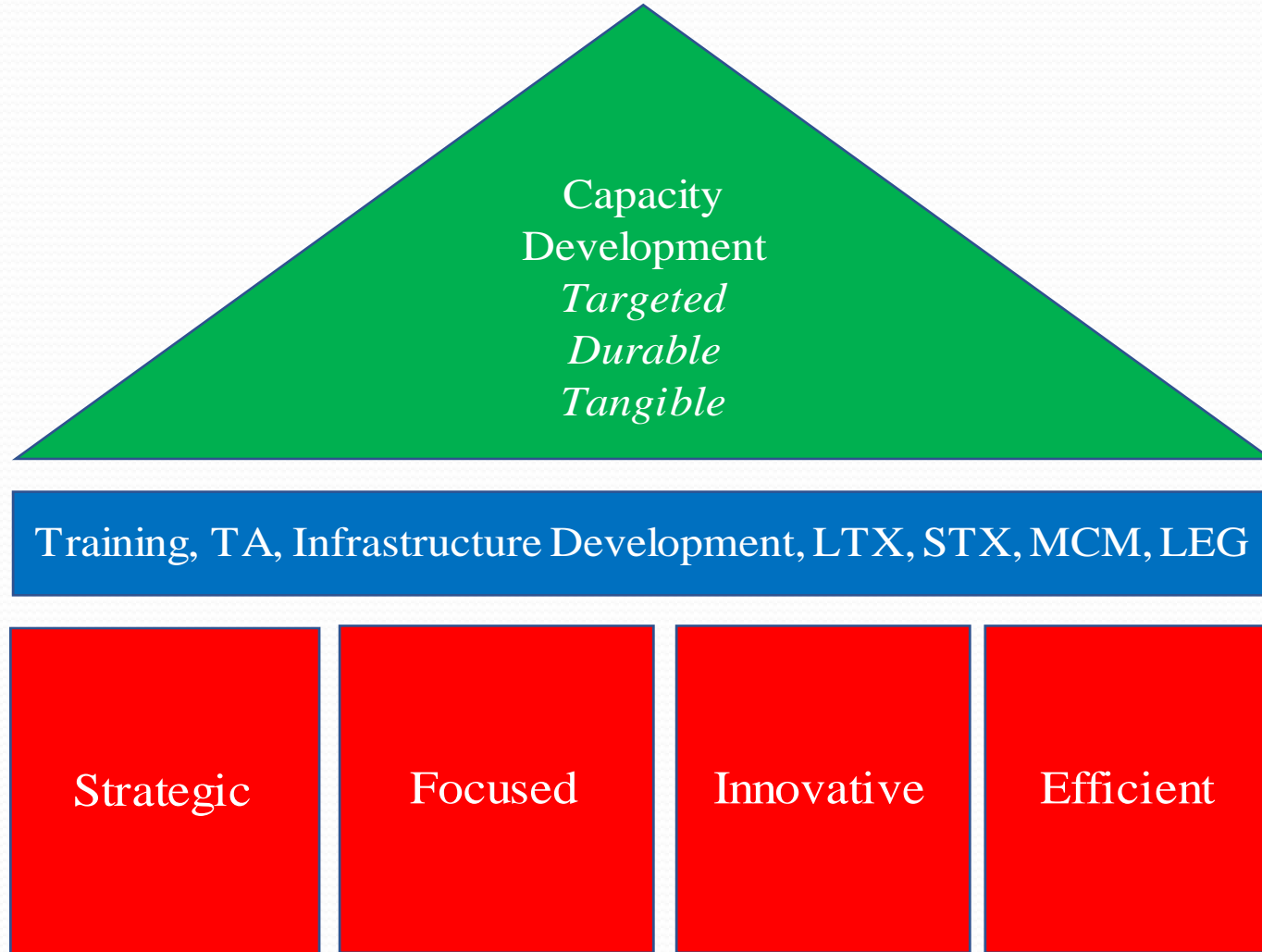
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Financial Sector Supervision (FSS) Program



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Financial Sector Supervision (FSS) Program

PFTAC FSS Projects



-  RBS Framework
-  Banking Regulation
-  Insurance Regulation
-  Supervision Development

Financial Sector Supervision (FSS) Program

PFTAC FSS Projects



-  RBS Framework
-  Banking Regulation
-  Insurance Regulation
-  Supervision Initiation

Supervision Framework Enhancement Program

- Initiated in 2017 as a medium term strategic approach to assisting PFTAC member countries enhance the structure and operational effectiveness of their financial sector supervision frameworks.
- Initial diagnostic missions and the establishment of enhancement strategies and technical assistance (TA) plans were completed in 2017 for the Cook Islands, Vanuatu, Papua New Guinea (PNG) and the Solomon Islands.
- Key findings of the diagnostics were:
 - Gaps in coverage of banking prudential standards
 - Underdeveloped and out of date on-site examination process and infrastructure
 - Lack of operating risk rating models
 - Lack of in-depth financial analysis (entity specific and industry wide)
 - Lack of risk-focused supervisory action planning processes



Benefits to Bank PNG

- 5 missions covering Risk Rating Model, Supervisory Action Planning, Financial Analysis and On-site Examination
- Capacity of staff are enhanced in shifting from compliance based supervision (use of CAMELS) to risk based supervision (introduction of risk rating model) which is forward-looking.
- Flexibility of project enabled expansion to include additional work on IT Risk and Market and Liquidity risk assessment
- Risk Rating Model development has aligned assessment structure with rating and supervisory action planning
- Project has been able to take advantage of PFTAC and MCM resources



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Benefits to Bank PNG

- Prudential standards for IT, Market and Liquidity risks recommended to be developed.
- IT risk onsite examination module developed and revised operational risk module. Modules are now easier to comprehend and complete, especially for new examiners.
- Work in progress towards revising Market and Liquidity risks modules.
- Role of operational risk analysts expanded to include IT risk assessment, supported with membership with ISACA, short term trainings of IT risk and working towards CISA certification for 3 supervisory staff.
- Foundation course on IT for all supervisory staff.
- Format of reports of examinations revised to be more exception based.



Benefits to Bank PNG

- Matters requiring attention from onsite examinations is clearly outlined based on severity of findings.
- Risk Rating Model called FIRRM (Financial Institutions Risk Rating Model) developed and work in progress to complete for all authorized institutions (AIs).
- FIRRM is aligned to the onsite examination modules, as apposed to the previous CAMELS system.
- Format of offsite financial analysis reports to be revised to include graphical presentations and be more exception based. To be enhanced once FIRRM has been rolled out.
- Financial analysis improving to be more in-depth and commentaries on market risk are now included. To be enhanced once additional data sets are included in the quarterly submissions from AIs.
- Work in progress in aligning supervisory action planning to risk assessment. To be enhanced once FIRRM has been rolled out.



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On-site Examination Assistance - RMI

Mr Sultan Korean – Commissioner
Republic of Marshal Islands Banking Commission

Presenting on PFTAC work.....

[Interview with RMI Banking Commissioner.mp4](#)



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Banking Regulatory Reform Project

- To commence this reform project PFTAC and IMF Legal Department (LEG) conducted a Regional Workshop for Palau, RMI and FSM (and Kiribati) in July 2017.
- The workshop:
 - provided information on international good practice on banking legislation and prudential standards;
 - facilitated a self-assessment of current legislation and standards; and
 - established a proposed regulatory reform strategy and technical assistance plan for each jurisdiction.
- The project continued in FY2019, with the first bilateral follow-up missions to Palau (May 2018), Marshall Islands (July 2018) and FSM (to be April 2019).
- The project will be expanded in FY2020 to include Kiribati



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Benefits to Palau

- Focus on Northern Pacific banking systems
 - Recognition of the Challenges Brought on by Lack of Central Banks and Use of US Dollar
- Bringing together lawyers and supervisors
 - Understanding the Required Minimum for Legal Standing and Combining the Framework with the Practical Supervisory Approach
- Additional Learning from Being a Multilateral Project
- Strategy and plan development assisted in focusing stakeholders on reform



Other points - Palau

- Use of IT for improved Prudential Reporting and off-site monitoring
 - Opportunity to learn what works from AFSPC Members
 - Collaborative effort to enhance understanding and reduce project costs
- Current challenges and concerns relating to IT / FINTech developments

On-site examination with Marshall Islands

- Full-scope onsite examination for Bank of Hawaii, Koror Branch
 - Palau FIC treats branches as stand-alone entities
 - Foreign examiners designated as “Agents of the Commission” and signed waivers
- Exam lead was FIC Senior Bank Examiner and Executive Commissioner



Other points - Palau

- Initial preparations involved two days of reviewing Palau's banking law and regulations, explaining the theory behind our approach, and matching regulatory actions to legal and regulatory basis of how and why we do
- Onsite work included:
 - Detailed reconciliation and verification of bank financials against prudential returns
 - Detailed loan reviews and sampling methods
 - Review on different classifications of assets and reasoning behind approach
- FIC provided both a detailed and mathematical approach to the training as well as a theoretical approach, explaining the key function of the exam process, and relating them to the law and BCP's.



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Supervision Development Project

- PFTAC provided assistance previously to Tuvalu MFED to review banking legislation and commence supervision
- Resource and capacity constraints proved to be prohibitive, limiting PFTAC's ability to provide meaningful assistance
- Supervision project, with direct supervision resource, proposed in late 2016
- Supervision project comprising of three components, confirmed in late 2017:
 - Supervision Expert – engaged by the MFED
 - PFTAC assist in developing the supervisory infrastructure
 - MFED staff be assigned to develop supervisory skills and experience by working with the Supervision Expert and PFTAC
- Project commenced in early 2018 with the engagement of the Supervision Expert



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Benefits to Tuvalu

- Commencement of operational supervision
- Provision of prudential assessment of banks
- Development of supervisory infrastructure
- Capacity development of MFED staff



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Thank you



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