M R Pridiyathorn Devakula: Achieving financial system stability

Welcoming remark by Mr M R Pridiyathorn Devakula, Governor of the Bank of Thailand, at the Conference on Banking Sector Issues: Weak Banks and Systemic Crises, Bangkok, 18-20 February 2004.

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Distinguished panelists,
Honorable guests and participants,
Ladies and Gentlemen,

On behalf of the Bank of Thailand, I would like to warmly welcome you to the city of Bangkok and this BIS/FSI Conference. My sincere thanks to our overseas speakers and guests who have followed through with your commitment to share your expertise at this international conference despite the recent outbreak of the bird flu. It is my sincere hope that you will take the opportunity to see more of our country beyond the conference hall and enjoy your stay here in Thailand.

At the outset, I would like to say I am honoured to have this opportunity to address a distinguished audience of bank supervising experts from all corners of the world. The conference has adopted the theme: Banking Sector Issues: Weak Banks and Systemic Crises, a timely subject - appropriate and critical to bank supervisory authorities, since risk management is inherent in all commercial activities. I would like to suggest that this is a commonly faced challenge to us all, regardless of borders or stages of socio-economic development. I hope that over the course of this two-and-a-half days' conference, the deliberations, emerging from the experts and audience on a wide array of supervision-related issues, will shed more light on how best to deal with weak banks and systemic crisis.

All banking supervisors and central bankers seek the “Holy Grail” aspiration for a stable financial system which is resilient and capable of returning to a balance after a shock. To fulfill this common goal, let me repeat a golden principle of sound banking supervision - **prevention** is fundamental to avoiding a banking crisis. We all know that handling a crisis is always very difficult and painful; therefore, supervisors and bankers have a shared responsibility and accountability to prevent banking problems. Supervisors must create a sound framework, foster a robust and effective system, and establish clear procedures to identify and deal with weak banks. This means the supervisors must be equipped with the **legal power** to effectively carry out their duties and have the necessary **tools**, **resources and capacity** to solve the problems. These are the necessary infrastructure or building blocks of a sound and stable financial system. Equally important, the Board and management of individual banks must shoulder the responsibility of monitoring and addressing bank weaknesses. They cannot fail in their oversight and risk managerial duties, just as supervisors cannot fail in their on-site and off-site supervision.

In this respect, I am a strong believer that **good governance** is the corner stone of a stable financial sector. We must create a banking community that does not tolerate imprudent business practices and lax systems and control. These are the sins of the past. Thailand, for instance, is carefully fostering a new business culture with the right values. On our part, the Bank of Thailand has since March 2002 announced guidelines supporting the practice of good corporate governance of banks' Board and management to ensure that they look after the interests of their stakeholders in an effective manner. These rules are not ground-breaking; they are just simple common sense. But we need to communicate clearly to the private sector what our expectations are and what the consequences are if the efforts fail.

Ladies and Gentlemen,

The cost of financial restructuring in Thailand was, after all, too enormous in figures and too painful in real terms to allow us to continue with our old way. In addition to changing the corporate culture, we are also amending a few **key laws** to solidify the foundation of our financial infrastructure. The new Financial Institutions Businesses Act will empower banking authorities with the necessary power to supervise financial institutions on a consolidated basis and to take appropriate actions against weak banks, with the provisions of prompt corrective actions. The Deposit Insurance Act will support a deposit insurance system to limit the loss of public money and reduce the moral hazard inherent in the current guarantee system. We must ensure that when a bank failure does occur, despite all preventive measures and utmost efforts to prevent it, depositors are taken care of fairly, and the bank's shareholders accept their due share of burdens. Moreover, we have drafted the **Financial Sector Master Plan** to foster an efficient, stable, and competitive financial sector, guiding the development of the financial sector over the medium term.

All these initiatives were undertaken with the objective of providing the right framework for effective supervision in order to develop a sound and strong banking sector. In this regard, I trust that the discussions in the next two and a half days will be very constructive, providing more insights on these issues, as well as other controversial debates - such as the role of governments and lender of last resort.

Allow me to say a few words on the substantial progress made by various international bodies in crisis prevention. The IMF has taken a leading role, revamping its own approach and sharpening its focus on crisis prevention, management, and resolution. Standards and codes of best practices have been introduced - the work coordinated by the IMF, World Bank, BIS, OECD and other international experts, underpinned by the Financial Sector Assessment Program. The Basel Committee has introduced the New Basel Capital Accord, the evolutionary supervisory framework. Supervision is directed away from rule-based guidelines to a more comprehensive risk-based calculation of capital adequacy, methodologies on operational risk, supervisory review process, and market discipline. These are just a few examples of the important work accomplished by the international financial institutions and various experts. Your presence here at this Conference is the best testament to how the solutions and ways for crisis prevention are still evolving, situations being reassessed, and tools being refined.

Ladies and Gentlemen,

There has been a saying that "every crisis is a new crisis" - we don't have the same kind of crisis twice - and this indeed is a scary thought. We can come up with a how - to book on solving banking problems and crisis resolution, but the challenges are still enormous. I would like to reiterate the point made earlier that prevention is key because once a weak bank explodes into a full-blown crisis, the depth and complexity of problems could be of the magnitude that is unimaginable. It is with these thoughts in mind that I would have to sum up with this simple message: a supervisor can never be complacent.

Ladies and Gentlemen,

The Asian crisis started from Thailand slightly over six years ago, and it induced a train of international coordination programs and discussions to prevent a recurrence and means to manage it. I hope this conference will add to our knowledge of supervisory tools that can aid participating supervisors to better meet the challenges of weak bank resolution and systemic crisis regardless of the stages of economic development and forms of financial system. I am happy that Thailand is the venue of, and is host to, this conference - a commendable international effort to bring us all closer to our aspiration of a sound and stable financial system. May I take this opportunity to thank the FSI and BIS for allowing us to take part in this event and for the excellent cooperation over the years. Our compliments to Mr. Jason George and his team for their very efficient organization of this event. I wish you all a successful conference.

Thank you.