

Derick Latibeaudiere: Maintaining healthy banking and financial systems

Opening remarks by Mr Derick Latibeaudiere, Governor of the Bank of Jamaica, at the Tenth Annual Assembly of the Association of Banking Supervisors of the Americas (ASBA), Montego Bay, 10 October 2007.

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Ladies and gentlemen

It is a pleasure for me to be here this morning to welcome you to the **Tenth Annual Assembly of the Association of Banking Supervisors of the Americas (ASBA)**. I am very pleased that this event is taking place in Jamaica and particularly delighted that we are meeting in our enchanting “second city” - Montego Bay. Montego Bay and especially Rose Hall, the estate on which this hotel now stands, has been a significant part of our Spanish/English colonial heritage about which I am sure you will hear over the next two days.

It is with a great deal of appreciation and support that I commend the Association for the work that it is doing to develop, disseminate, and promote sound banking supervisory practices throughout the Americas. The range of items on the Agenda is a clear indication of the continuing seriousness and strong commitment with which you have approached the task of ensuring that these objectives are met. The Bank of Jamaica is very pleased to be a part of this organization and we welcome the opportunity to be involved in organizing and hosting this Assembly.

I must extend a special welcome to the **Chairman of the Association, Paulo Sergio Cavalheiro** and to the other Board members of ASBA who met here yesterday for Board discussions. I trust that the environment contributed to productive deliberations. We look forward to hearing about the programmes that you have charted for the year ahead.

I would also like to welcome **Mr. Rudy Araujo, the Executive Director of ASBA** and the other members of the ASBA Secretariat who have travelled to Jamaica from Mexico. Permit me to thank them for their efforts in co-ordinating the arrangements for this Assembly, along with my BOJ team.

With us also, are a number of specially invited guests - representatives from non-member multilateral and regulatory organisations and from the private sector, who will be joining in the discussions over the next two days. I will not venture to name all of you, and so I say welcome all.

Mr. Chairman, one of the major lessons of the ten years since the start of these Assemblies has been the heightened recognition of just how important it is for us to maintain a healthy banking and financial system. A strong and healthy financial system is critical for the growth and development of any country. Throughout the long history of financial markets, there have been a number of banking and financial crises that have severely disrupted economies. There is no reason for us to believe that there will be an end to these disruptions in an era of continuing technological change and innovation.

What is therefore important is that we continually seek to prevent and mitigate future crises. This we can do with a blend of sharp analysis, keen judgment, practical experience and a rigorous understanding of the workings of financial markets in both normal and abnormal times. I believe that this is what defines effective banking supervision. It is also this rigorous understanding of the operations of financial markets that is of critical importance to the development of macroeconomic policy inclusive of monetary policy.

Mr. Chairman, over two and a half centuries ago, in the 18th century to be exact, Adam Smith wrote of the free-market system as the “invisible” hand that guides the market to achieve the public good. While that concept has today still not lost its resonance, the increase in the complexity of economic and financial affairs and the potential for instability

that this has fostered, has placed us in a new arena. An arena, whose sphere of influence is constantly changing and one that therefore requires close and integrated monitoring in order for us to understand and manage the risks that abound. The banking crises of the last quarter of a century and particularly those of the last ten years have had a damaging impact on economic activity and the repercussions have been devastating for a number of economies. There is therefore no room for countries in our region to be less than aggressive in ensuring a more careful, *integrated* and direct oversight of the financial system to complement at least, that “invisible hand” of which Adam Smith wrote. This is of course, what ASBA is trying to achieve.

I use the word *integrated* because in some of our jurisdictions, Jamaica for example, supervision is divided among institutions. In the Jamaican case we have over the years reduced the number of supervisory authorities in the financial sector to two. This has achieved positive results in terms of the efficiency of supervision. It is my view that we could achieve an even greater level of effectiveness by going one step further with the establishment of a single supervisory authority for the financial system as a whole.

I also believe that there are significant advantages to be derived from the integrated interplay between the roles of supervision and the effort to achieve financial and macroeconomic stability. I believe that the benefits from this interplay are best realized when the supervisory functions are integrated and placed in one umbrella organization such as the central bank - the most logical location, bearing in mind the synergies that I mentioned. In other words, in the Jamaican context, my preference is for an integrated and autonomous supervisory authority within the central bank.

Traditionally, the central bank’s main objective is the achievement of monetary and financial stability as a means to enhancing macroeconomic stability, growth and development. Financial stability has always therefore been an important aspect of central banking. In pursuit of its twin functions, the central bank closely monitors developments in the financial market, interacts regularly with its primary dealers and other market players and analyzes the risks to the financial system. Over the last ten years the central bank’s emphasis on financial stability has increased because of the increased potential for systemic risk. The transformation in the structure of financial markets and the continuing increase in volumes and products, have contributed to increasing the potential for risk and fuelled the need for a greater degree of interdependence in the pursuit of macroeconomic and financial stability.

We have seen the challenges that recent developments in financial markets have posed for central banks both here and abroad. Indeed, these developments point to the dynamic and intricate links between central banks and financial markets. The Northern Rock case certainly reinforces the importance of these links and points to the need for a more integrated approach to the analysis and management of financial market activities both from a central banking and supervisory point of view. This is especially important in an environment of continuing change and particularly relevant to emerging and vulnerable market economies such as Jamaica.

There is no doubt that the achievement of a strong and resilient financial system is enhanced by the continuous improvement in the analysis and management of risk. Indeed, that is the subject of the Basel II framework. But the achievement of a strong and resilient financial system is also augmented by sound and sustainable monetary and fiscal policies. The linkages are therefore critical.

Furthermore, and speaking from the perspective of the Bank of Jamaica, the ability to act effectively in a financial crisis is enhanced by the fact that the supervision of commercial banks resides in the central bank. Indeed, the Bank’s current supervisory function helps the central bank to obtain timely and reliable information regarding conditions in the banking sector and the payments system. But over the years the changing financial landscape has spawned a variety of institutions other than the traditional commercial banks. The Bank of Jamaica has no regulatory authority over these other institutions, which makes it difficult to

quickly gather and evaluate the necessary information to facilitate sound policy responses or avert crises.

I believe that our central banking activities, coupled with the access to information from an integrated supervisory authority under the umbrella of the Bank of Jamaica, would enhance the effectiveness of the central bank's ability to manage crises. At the same time the supervision of the financial sector as a whole would benefit from the results of central banking activities in the financial markets. The Bank's technical expertise in monitoring financial market developments would also be on hand to add value to prudential risk evaluation.

The Bank of Jamaica is very pleased that the Government has indicated its commitment to an independent Central Bank. We will be working towards this and in this context we will pursue the matter of an umbrella supervisory authority under the central bank. There are good reasons to believe that such an arrangement would significantly benefit the financial system as a whole. After all, price stability and financial stability go hand in hand, and prudence is as intrinsic to central banking as it is to financial stability and supervision.

Ladies and Gentlemen,

I believe that the Tenth Annual ASBA Assembly will serve to strengthen the bonds of banking supervisors within the respective regions and provide meaningful insights into approaches to current issues in banking supervision.

I know that your discussions over the next two days will produce valuable results and provide the direction for an even more robust administrative year for ASBA.

Thank you.